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Inside real life. A 360° view.

2015 Annual Report

Bank Pekao

Member of UniCredit

In order to truly understand people's needs, we have to be close to their real life. This approach drives all activities taken in Bank Pekao. That way we are well prepared to find sustainable solutions in the world of rising expectations and constantly changing needs.

For us, helping customers fulfill the basic necessities of modern life is just as important as offering the very best banking products to finance complex projects.
We are providing a complete range of services to support families and businesses, to increase life standards and to expand their businesses. We are fully aware that responding to their needs builds a sustainable future for everyone.

It's a 360-degree approach that we call Real Life Banking.

Because the drive to build a better future is what keeps people going.
And what keeps us going is helping people.

Bank Pekao Member of UniCredit

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Highlights of Bank PekaoS.A. Group

	2015	2014	2013	2012	2011	2010
INCOME STATEMENT CONTINUED OPERATIONS – SELECTED ITEMS (*)						(in PLN million)
Operating income	7,059	7,346	7,494	7,790	7,567	7,022
Operating costs	(3,220)	(3,286)	(3,331)	(3,445)	(3,497)	(3,518)
Operating profit	3,839	4,060	4,162	4,345	4,070	3,503
Profit before income tax	2,831	3,360	3,433	3,619	3,519	3,047
Net profit for the period attributable to equity holders of the Bank	2,293	2,715	2,767	2,906	2,842	2,488
Net profit in 2015 excluding one-off charges (**)	2,504	–	–	–	–	–
INCOME STATEMENT (IN PLN MILLION) – SELECTED ITEMS						(in PLN million)
Operating income	7,059	7,346	7,565	7,953	7,808	7,340
Operating costs	(3,220)	(3,286)	(3,376)	(3,529)	(3,583)	(3,609)
Operating profit	3,839	4,060	4,189	4,424	4,225	3,731
Profit before income tax	2,831	3,360	3,454	3,664	3,593	3,102
Net profit for the period attributable to equity holders of the Bank	2,293	2,715	2,785	2,943	2,899	2,525
Net profit in 2015 excluding one-off charges (**)	2,504	–	–	–	–	–
PROFITABILITY RATIOS						
Return on average equity (ROE)	9.7%	11.5%	12.0%	13.3%	14.2%	13.1%
Net interest margin	2.8%	3.1%	3.4%	3.7%	3.7%	3.5%
Non-interest income / operating income	40.0%	38.3%	39.6%	37.3%	40.6%	43.1%
Cost / income	45.6%	44.7%	44.6%	44.4%	45.9%	49.2%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS						(in PLN million)
Total assets	168,786	167,625	158,522	150,755	146,590	134,090
Net loans and advances to customers (***)	122,055	114,978	103,937	97,559	95,679	80,840
Amounts due to customers	128,868	125,609	119,797	107,993	108,437	99,807
Debt securities issued	2,903	3,857	3,064	4,759	3,044	1,177
Equity	23,424	24,046	23,514	23,264	21,357	20,257
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS						
Net loans / total assets	72.3%	68.6%	65.6%	64.7%	65.3%	60.3%
Securities / total assets	13.2%	15.0%	22.2%	19.5%	20.4%	23.4%
Deposits (***) / total assets	78.1%	77.2%	77.5%	74.8%	76.0%	75.3%
Net loans / deposits (****)	92.6%	88.8%	84.6%	86.5%	85.8%	80.1%
Equity / total assets	13.9%	14.3%	14.8%	15.4%	14.6%	15.1%
Total capital ratio (Basel III) (*****)	17.7%	17.3%	18.3%	18.1%	17.0%	17.6%
EMPLOYEES AND NETWORK						
Total number of employees	18,327	18,765	18,916	19,816	20,357	20,783
Number of outlets (Bank Pekao S.A. and PJSC UniCredit Bank)	975	1,034	1,001	1,040	1,051	1,073
Number of ATMs (Bank Pekao S.A. and PJSC UniCredit Bank)	1,759	1,825	1,847	1,919	1,910	1,910

(*) As financial data of the year 2015 and 2014 don't include results of PJSC UniCredit Bank – sold on July 16, 2013. In order to ensure comparability, the section "Income statement continued operations – selected items" was added where for the previous periods only results of continued operations, i.e. excluding PJSC UniCredit Bank, are reported.

(**) One-off charge to the BGF in relation to bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin and one-off contribution to the Borrowers Support Fund.

(***) Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.

(****) Deposits include amounts due to customers and debt securities issued.

(*****) The total capital ratio for the period 2012 – 2015 is calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 in force since January 1, 2014. The total capital ratios (previously capital adequacy ratios) for the period of 2010-2011 were calculated in accordance with the methodology which were in force before January 1, 2014.

Note: Since 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result (and thus in operating income, operating profit and respective ratios). In order to ensure comparability, data for the period 2010 – 2012 have been restated in comparison to those previously published.

In relation to changes in accounting policy in 2013 (for description refer to the Note 5 to the Consolidated Financial Statement of Bank Pekao S.A. Group for the period ended on December 31, 2014) data for the period 2012-2015 have been presented in accordance with the new rules. Data for earlier periods remain unchanged.

Since 2014 the financial data include data of Spółdzielcza Kasa Oszczędnościowo Kredytowa named Mikołaj Kopernik in Ornontowice, took over by Bank Pekao S.A. following decision of The Polish Financial Supervision Authority on December 5, 2014.

Supervisory Board and Management Board of Bank Pekao S.A.

Supervisory Board

Jerzy Woźnicki	Chairman
Roberto Nicastro	Deputy Chairman
Leszek Pawłowicz	Deputy Chairman
Alessandro Decio	Secretary
	Members
Dariusz Filar	
Katarzyna Majchrzak	
Laura Penna	
Wioletta Rosołowska	
Doris Tomanek	

Management Board

Luigi Lovaglio	President of the Management Board, CEO
	Vice Presidents
Diego Biondo	
Andrzej Kopyrski	
Adam Niewiński	
Grzegorz Piwowar	
Stefano Santini	
Marian Ważyński	

Chairman's Message to the Shareholders

"Bank Pekao is well prepared to cope with the challenges facing the banking sector."

Jerzy Woźnicki
CHAIRMAN OF THE SUPERVISORY BOARD

Dear Ladies and Gentlemen,

The Supervisory Board has made an assessment of the Bank's situation in the year 2015 in compliance with requirements of the law and corporate governance rules set forth in the "2016 Code of Best Practices for WSE Listed Companies" adopted by the Warsaw Stock Exchange in Warsaw.

The Supervisory Board has assessed the economic and financial situation of the Bank as good. The Bank meets all requirements for safe functioning and capital adequacy, ensuring the safety of entrusted funds.

The assessment of the Bank is justified by its good financial results, consistent strengthening of its market position in key areas of activity, and maintenance of a high standard of risk management and operational efficiency. The strong capital and liquidity position of the Bank, resulting in clear competitive advantages, also merits attention. The Bank's position has additionally been reinforced by the positive consequences of its historic decision not to grant retail mortgage loans in CHF.

Strong fundamentals, a flexible business model, the high quality of offered services and consistent investments in innovative solutions ensure the sustainable development of the Bank and confirm its ability to absorb the impact of unforeseen external events.

The Supervisory Board positively assessed the results achieved by the Bank and the Bank Pekao S.A. Group for the year 2015, which allowed the Group to achieve an ROE of 9.7%, while maintaining a safe level of solvency with a Core Tier 1 capital ratio amounting to 17.7%, simultaneously maintaining a high dividend payout ratio. Consolidated net profit amounted to PLN 2.3 billion, which was achieved in conditions of further interest rate decreases, reduction of interchange fees, higher contributions to the Bank Guarantee Fund and extraordinary one-off costs associated with the bankruptcy of the Cooperative Bank for Crafts and Agriculture in Wołomin.

The Bank continued its strategy of sustainable growth and significantly increased lending and strengthened its market position in its strategic areas of activity. The volume of key loans, both for retail and corporate customers, increased at a double digit rate, by around PLN 10 billion, increasing the Bank's loan portfolio to the amount of PLN 128 billion.

The Bank continued the development of new business initiatives, like the "Program for enterprises" and "Kartomania", widening its product offer and implementing innovative solutions. Thanks to this, the Bank has acquired 333,000 new customers, and the number of customers served exceeded 5 million persons. Already almost 2.9 million customers make use of internet banking and one million use mobile banking.

The Bank is focused not only on business activity, but also actively supports numerous social initiatives in the field of culture and art, and pro-social projects, such as working for years with the Great Orchestra of Christmas Charity and supporting Bank Pekao S.A.'s Dr Marian Kanton Foundation.

In addition to the execution of its development strategy and strong business activity, tight cost control and a high quality of its loan portfolio remain one of the Bank's priorities. Last year, thanks to further automation of processes and optimisation of operational efficiency, the Bank reduced operating costs by a further 2% y/y. Portfolio quality improved by 7.4% and the cost of risk decreased to 0.49%.

The Supervisory Board performed an analysis and assessment of the internal control and risk management systems functioning in the Bank and in the Pekao Group.

In the opinion of the Supervisory Board, the internal control system performs correctly, providing adequate, effective and efficient control of executed processes. The internal control system, which includes all regulations, procedures, and all organizational units of the Bank and its subsidiaries, is adjusted to the organizational structure. Internal control is continuous and is performed by statutory bodies, individual organizational units of the Bank, persons in charge of supervision and all employees at all levels of the organizational structure of the Bank. The internal control system is characterized by a thorough and holistic approach. Dedicated structures fully cover the most important areas of risk. Control functions in relation to the subsidiaries are performed through the Bank's representatives in the supervisory boards of these companies.

The Supervisory Board positively assessed the operating system of risk management. The system is comprehensive and consolidated, covering all units of the Bank and all its subsidiaries, and it is adjusted to the Bank's operations and organizational structure, to the complexity of the business activity carried out, to the size and profile of risks. Risk management strategy in the form of ICAAP procedure was adopted by the Management Board of the Bank in accordance with regulatory requirements and was approved by the Supervisory Board.

The high quality of the Bank's management, its relative resilience and financial strength are confirmed by its high ratings assigned by the leading rating agencies. Among the banks rated by these agencies in Poland, the Bank has the highest Viability Rating assigned by Fitch Ratings, the highest Stand-alone rating assigned by Standard and Poor's Ratings Services and the highest Baseline Credit Assessment grade, as well as the highest short and long-term counterparty credit risk ratings assigned by Moody's Investors Service. The Bank also remains the company with the highest capitalization in Poland.

The Supervisory Board is convinced that Bank Pekao is well prepared to cope with the challenges facing the banking sector. The Bank remains a stable and modern financial institution, capable of competing effectively on the market, setting trends for development and creating long-term value for all stakeholders of the Bank.

On behalf of the Supervisory Board, I would like to thank all Customers and Stakeholders of the Bank for their demonstrated trust. I also thank the Management Board and Staff of the Bank and the companies from our Capital Group for their commitment, hard and effective work and contribution to the achievement of good results in a year full of challenges.

Warsaw, April 2016.

Jerzy Woźnicki
Chairman of
the Supervisory Board

CEO's Letter to the Shareholders

"The high level of requirements we set for ourselves, and continuous focus on the best way to fulfil customer needs."

Luigi Lovaglio
PRESIDENT OF THE MANAGEMENT BOARD, CEO

Dear Shareholders,

Pekao S.A. Group has completed its eighty sixth year of operation, delivering once again one of the highest values for all its stakeholders. The reported net profit amounted to nearly PLN 2.3 billion, which if adjusted for extraordinary one-off costs associated with the bankruptcy of a co-operative bank in the Group would reach PLN 2.5 billion, in line with our plans. We continued our policy of supporting the economy and Polish families, increasing volumes in key retail and corporate lending areas at a double digit pace, reaching PLN 128 billion in total loans. Additionally, our customers entrusted us with PLN 132 billion in total deposits. The number of customers who showed us their trust and use our services exceeded 5 million. We are recognized as one of the most attractive employers in the country and we consistently support a number of social programs.

The year 2015 was a turbulent year, full of challenges in the world economy. A downturn in the European economy, the debt crisis in Greece, the deepening slowdown in the major emerging market economies, the migrant crisis in Europe, the unstable situation in Ukraine and the growing conflict in the Middle East, as well as high volatility in the currency and commodities markets, have created uncertainty for future trends for most economies and markets.

Despite such a difficult environment, the Polish economy managed well and continued its upward trend. GDP growth accelerated to 3.5%, the situation on the labour market improved and exports from Polish companies were doing well. Private consumption remained the main driver of growth, supported by a high investment level.

The good macroeconomic situation, which stimulated volume growth in the banking sector and further improvement of asset quality, was however not reflected in financial results. It was a year full of challenges for the banking sector. A further reduction of historically low interest rates and the cumulative effect of further interchange fee rate reduction, increased contributions to the Bank Guarantee Fund and a decrease in the Lombard rate, led to declining of the financial result of the sector, despite ongoing strong economic growth. In addition, as a result of the bankruptcy of the Cooperative Bank for Agriculture and Crafts in Wołomin, banks suffered high and unexpected costs associated with the provision of payments of guaranteed deposits to customers of the bank.
In addition, a significant appreciation of the CHF put pressure on the sector, increasing systemic sector risk as well as the costs and capital requirements for banks with exposure to mortgages in that currency.

Continuing its strategy of sustainable growth and avoiding temptation to focus on short-term profits Pekao Group once again reinforced the business plan it set out.

Public discussion of the situation of the banking sector has been dominated since February 2016 by the issues of a possible solution for mortgage loans in foreign currencies problems and a decision on taxation of the banking sector, leading to a significant decline of banks' shares prices. Bank Pekao share price was much less affected, thanks to the strong fundamentals of the bank and a responsible decision in the past not to grant foreign currency mortgage loans to retail customers.

Pekao Group continued its strategy of sustainable growth, assuring an attractive level of profitability and further strengthening its market position. The key to our success has been the effectiveness of our operations, the high level of requirements we set for ourselves, our ability to adapt quickly to changes, resulting in a continuous focus on the best way to fulfil customer needs.

We worked on further efficiency improvement, systematically investing in innovation, retaining our position as a a modern and professional organization looking forward to the future with optimism. This strategy has allowed us to maintain a high level of profitability with nominal ROE reaching 10%, while maintaining a high level of Core Tier 1 capital ratio at 17.7%.

For a consecutive year the Bank remained a growth leader, providing financing to Polish families and supporting the development of Polish enterprises. We are proud that we can participate in the development of the Polish economy and the improvement of Poles' lives.

We continued focusing on financing the areas which we found the most attractive, increasing stock of our key loans by almost PLN 10 billion, including a PLN 5 billion increase in PLN mortgages and consumer loans.

Each year we expand our offer with new, innovative solutions and implement new initiatives focused on increasing market share in areas with high growth potential. We continued the "Agromania" program addressed to the clients in the agriculture and food sector. Thanks to this initiative we acquired more than six thousand customers in this sector and provided PLN 6 billion financing. We initiated two further programs, the "Program for enterprises" and the "Kartomania" program, which allowed for further growth in attractive business areas.

We treat investments in innovation as a necessary condition for continued growth, and growth is an essential condition for funding investment in innovations. We continue our constant development of distribution channels, consistently expanding the functionality and convenience of the solutions we offer. As a result, we have seen an increase in the number of customers using these channels. Over 3 million customers use our internet platform and almost 900,000 use our mobile application. We are a pioneer in mobile payments and were the first to offer convenient mobile payments based on HCE technology.

Systematic rationalization of the processes and effective cost management enabled us to reduce operating costs by 2.0% y/y. The quality of our portfolio remains the benchmark in the sector while our cost of risk is among the lowest.

As the leading institution in Poland, we feel responsible for the development of the country, not only in economic terms but also in social terms. We want to actively participate in the lives of our clients, employees and business partners. We do this by sponsoring and promoting art, culture, social and environmental projects. We are the long term partner of "The Great Orchestra of Christmas Charity" and continued supporting the Kanton Foundation which we initiated.

The challenges facing the sector will require good preparation, a proven business model, operational flexibility and determined people. I strongly believe that Pekao Group meets all these requirements. I am convinced that success in the banking sector is determined not only by the strategy adopted, but above all, by execution and delivery. Banking means listening to customers every day and fulfilling their financial needs in a simple, fair and transparent way. The final effects are visible only after a long period of time. The year 2015 was a perfect example, confirming this simple truth.

On behalf of the Management Board, I would like to thank our Clients and Shareholders for their trust and loyalty, the Supervisory Board members for their professional support. I address my special thanks to our Employees. Their commitment, energy and hard work are priceless. I feel happy to work with such committed people, building the future of our organization together.

Luigi Lovaglio
President
of the Management Board, CEO

Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2015 amounted to PLN 2,292.5 million after the extraordinary one-off charge of PLN 234.0 million to the BGF in relation to bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SBRiR in Wołomin) and one-off contribution of PLN 26.5 million to the Borrowers Support Fund.

Net profit of Bank Pekao S.A. Group for 2015 excluding the extraordinary charges described above would amount to PLN 2,503.5 million, lower by PLN 211.2 million, i.e. 7.8% in comparison to 2014 with strong growth of loan and deposit volumes in key strategic areas, further costs optimization and lower cost of risk enabling to offset negative impact of regulatory constraints (i.e. the maximum interest rate on loans, interchange rates reduction, higher BGF cost).

Thanks to the effective commercial activity of the Group in 2015 a significant growth in loan volumes was reported both in the area of retail loans (an increase of 9.5% year on year) as well as in the area of corporate customers' financing (an increase of 3.0% year on year). Such substantial increase in lending was largely financed by higher volumes of retail deposits growing 14.2% year on year.

The strength of the liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 92.6% at the end of December 2015. The return on average capital (ROE), excluding the extraordinary charges described above, at the level of 10.6% was achieved with a strong capital base reflected by TCR at 17.7% (Basel III).

Main P&L items

In 2015, the Group's operating income amounted to PLN 7,058.6 million, a decrease of PLN 287.1 million, i.e. 3.9% in comparison to 2014 with the following trends:
- total net interest income, dividend income and income from equity investments in 2015 amounted to PLN 4,232.3 million and was lower by PLN 300.5 million, i.e. 6.6% compared to 2014 affected by the reduction of interest rates, in particular the maximum rate applicable to loans,
- the Group's net non-interest income in 2015 amounted to PLN 2,826.3 million, an increase of PLN 13.4 million, i.e. 0.5% in comparison with 2014 thanks to higher net other operating income and expenses supported by compensation under an insurance contract. Net fee and commission income was lower by 1.9% compared to 2014, mainly due to negative impact of interchange rates' reduction.

Thanks to further improvement of operational efficiency the operating costs amounted to PLN 3,219.7 million in 2015. They were lower by PLN 66.0 million, i.e. 2.0% as compared with the previous year.

Guarantee funds charges in 2015, amounted to PLN 274.4 million, an increase of PLN 134.6 million, i.e. 96.3% in comparison with 2014 mainly due to the higher BGF rates introduced in 2015.

In 2015, the Group additionally incurred one-off charges related to the contribution to the BGF for the purpose of payments of the funds guaranteed to the depositors of the bankrupt Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SBRiR in Wołomin) and the cost of provision for the obligatory sector-wide contribution to the Borrowers Support Fund in 2015 in total amounting to PLN 260.5 million.

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 517.5 million in 2015, a decrease of PLN 42.1 million, i.e. 7.5% as compared with 2014.

Volumes

As at the end of December 2015, the total amounts due to the Group's customers and debt securities issued amounted to PLN 131,770.9 million, an increase of PLN 2,304.9 million, i.e. 1.8% in comparison to the end of December 2014.
- the total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 63,865.3 million at the end of December 2015, an increase of PLN 7,930.7 million, i.e. 14.2% in comparison to the end of December 2014. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 16,702.5 million at the end of December 2015, a decrease of PLN 412.6 million, i.e. 2.4% in comparison to the end of December 2014,
- the total volume of corporate deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 67,905.6 million at the end of December 2015, a decrease of PLN 5,625.8 million, i.e. 7.7% as compared to the end of December 2014 following actions aimed at optimization of liabilities structure.

As at the end of December 2015, the volume of total customers' financing amounted to PLN 128,008.6 million, an increase of PLN 6,815.8 million, i.e. 5.6% in comparison to the end of December 2014.
- as at the end of December 2015, the volume of retail loans amounted to PLN 53,944.6 million, an increase of PLN 4,680.6 million, i.e. 9.5% in comparison to the end of December 2014,
- the volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities increased by PLN 2,135.2 million, i.e. 3.0% as compared to the end of December 2014 and amounted to PLN 74,064.0 million at the end of December 2015.

As at December 31, 2015, the ratio of impaired receivables to total receivables amounted to 6.3% and was better by 0.5 p.p. in comparison to the end of 2014.

External Activity Conditions

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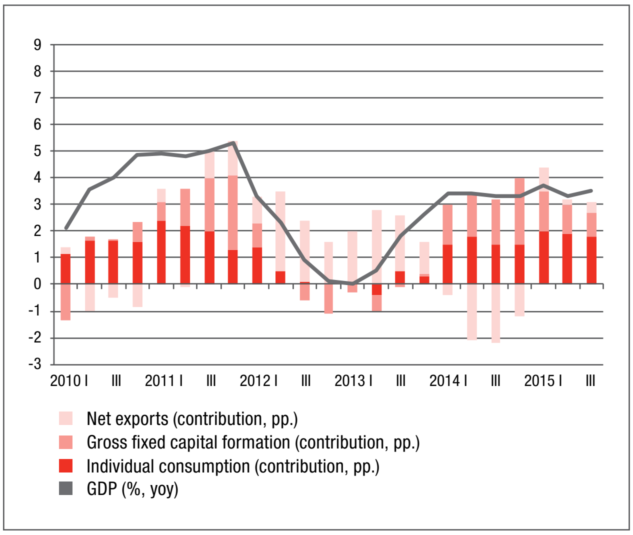
External Activity Conditions

Economic Growth

Poland's economic growth in 2015 is estimated at ca. 3.6 % as compared with the GDP growth of 3.3% in 2014. The economy continued recovery that gained firmer ground in the course of 2014 and the annual growth was above 3% in all quarters of last year. Domestic demand remained the main engine of economic growth, however its expansion was slower than in 2014 as a consequence of less dynamic fixed investments growth (6.1% vs 9.8% in 2014). Positive labour market conditions and declining prices during 2015 facilitates further acceleration of households consumption growth – 3.1% from 2.6% in 2014. Economic growth was supported by foreign trade and the positive contribution of net exports to the GDP growth in 2015 amounted to 0.3 p.p. vs. a negative contribution of 1.5 p.p. reported in 2014.

In 2016, the GDP growth is expected to accelerate slightly to ca. 3.7%. The domestic demand will be, among others, supported by the "Family 500+" Program (PLN 500 a month subsidy per child) estimated at PLN 16 billion, what should enable further acceleration of households consumption growth this year. Investments activity will depend on the investment decisions of the enterprise sector and the timing of effective beginning of projects financed with the EU funds within the financial perspective for the years 2014-2020. Increasing uncertainty linked, among others, with signals of deteriorating economic conditions in China, which might potentially negatively impact global growth and the performance of Poland's exports market, will weigh down on economic prospects.

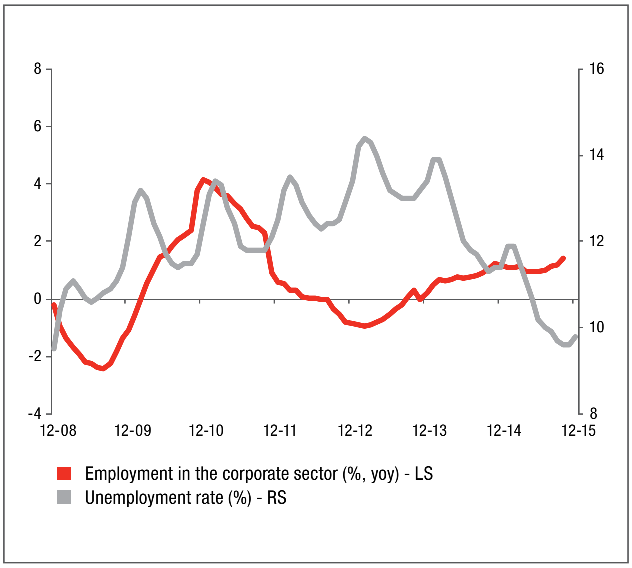


Labour Market

Average employment in the Polish corporate sector amounted in December 2015 to 5,626 thousand, i.e. by 77 thousand more than in December 2014. The increase in employment in 2015 was a continuation of the trend, which began in mid-2013. In the first half of the year job creation slowed down slightly, but significantly accelerated in the second half of the year. The most number of job in 2015 were still, as in the previous year, in the manufacturing sector and trade and services, while job cuts dominated in the construction sector (the fourth consecutive year) and the mining industry (the domestic mining sector remains in a deep crisis).

In 2015, it was observed a continuation of the downward trend in unemployment rate, which in December 2015 was at 9.8% compared to 11.4% in December 2014. It is expected that in 2016 the downward trend will be continued, though at a much slower pace than in the last two years due to the emerging constraints of labour supply.

Wage pressure in the Polish corporate sector in 2015 remained at a moderate level, as in the previous year, which was supported by low inflation expectations of households in the deflationary environment. The average wage in the corporate sector increased in 2015 by 3.5% compared with an increase of 3.8% in the previous year. As a result, wage bill in the corporate sector increased in 2015 in nominal terms by 4.7% vs. 4.4% in 2014, which after adjusting for deflation resulted in an increase in real terms by 5.6% in 2015 compared to 4.5% in 2014.



Inflation and Monetary Policy

According to data of the Central Statistical Office in Poland, the average consumer price inflation in 2015 was -0.9%, while in 2014 it amounted to 0.0%. Consumer price index since February 2013 has been below the lower limit of the range of acceptable deviations from the NBP inflation target, the center of which is defined at 2.5% and the range is from 1.5% to 3.5%. In December 2015 the CPI reached -0.5% year on year.

The biggest impact on the continuing low inflation came from decline in prices of transport, clothing and footwear. Starting from the third quarter of 2014 consumer price index recorded declines year-on-year. In 2015, there was a decline in core inflation (excluding food and energy prices) to 0.3% from 0.6% in 2014. Besides decline in consumer price index in 2015, there was also a decline in prices of sold industrial output. It resulted primarily from a decline in global commodity prices.

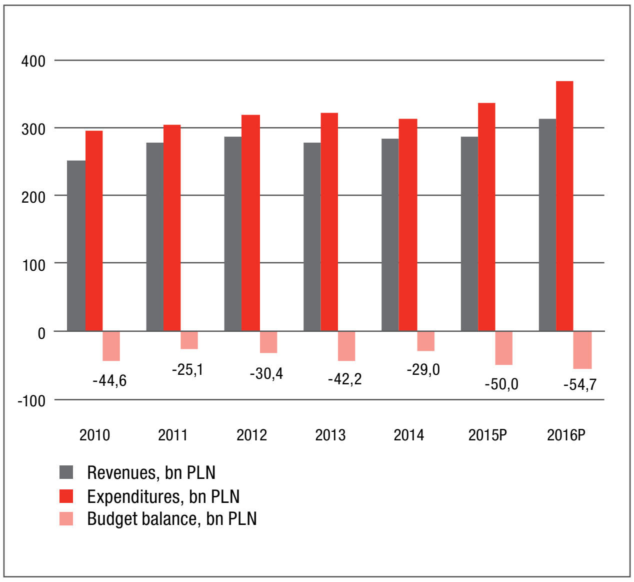
The low level of inflation prompted the Monetary Policy Council in March 2015 to lower the reference rate by 50 basis points to 1.50%, the Lombard rate by 50 basis points to 2.50% and the deposit rate to 0.50%.

In 2016, it should be expected a slight increase in the CPI inflation. It will be mainly the result of higher food prices. In the second half of the year an increasingly important role in shaping inflation will be played by demand factors. However, it is estimated that by the end of 2016 inflation will not return to the NBP inflation target.

Fiscal Policy

The state budget deficit after November 2015 amounted to PLN 36.1 billion i.e. 78.4% of the annual limit envisaged by the 2015 budget act (PLN 46.1 billion) and was lower than PLN 41.3 billion deficit assumed in the budget execution schedule. Despite that, the Polish government decided to amend the 2015 budget in order to avoid expenditure cuts and expand the fiscal space in 2016. The main cause for such a decision was a substantial shortfall of revenues (about PLN 13 billion) from the value added tax (VAT) vs. the level assumed in the budget act and low probability of obtaining proceeds from digital dividend (sale of LTE frequencies worth about PLN 9 billion). In the amended budget act the deficit limit was raised to PLN 50 billion. The draft budget for 2016 envisages the state budget deficit at PLN 54.7 billion.

In 2014, the general government deficit amounted to 3.2% of the GDP (the deficit was revised up to 3.3% of the GDP afterwards). Even though the deficit was above the 3% of the GDP threshold set in the Stability and Growth Pact, on June 19, 2015 the European Council abrogated the excessive deficit procedure imposed on Poland in July 2009. The Council took into account the costs associated with 1999 pension reform, which in the period of January to July was estimated at 0.4% of the GDP. The new fiscal path (higher deficit in 2015, high and based on rather optimistic macroeconomic assumptions deficit planned in 2016) means that the general government deficit will likely remain above 3% of the GDP and the excessive deficit procedure may be imposed on Poland again already in mid-2016. After the changes conducted in February 2014, in the mid 2014 the Polish pension system no longer fulfills conditions of the "systemic pension reform". Therefore the fiscal assessment will no longer take into account the fiscal cost of second pillar functioning as the capital pillar no longer meeting "mandatory" and "broad coverage" conditions.



Foreign Sector

The National Bank of Poland data indicate that in the period January-November 2015 the current account deficit amounted to EUR 0.3 billion vs. EUR 7.3 billion in the corresponding period of 2014, which translates into a decrease in 12-month relation to the GDP to 0.3% from 2.0%.

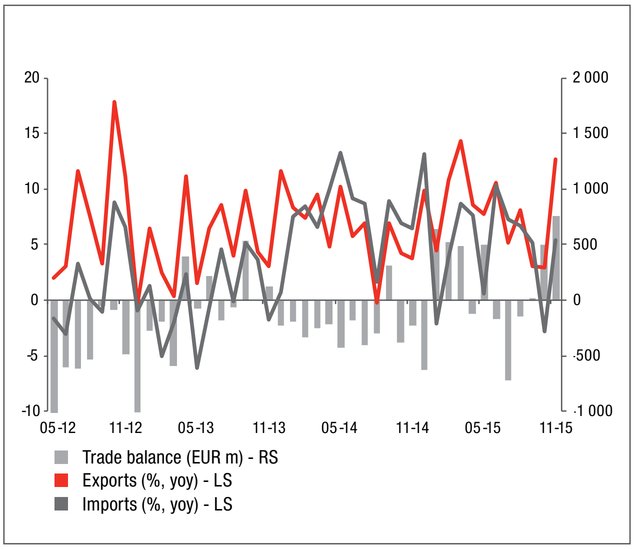
A clearly lower deficit of the current account was primarily a result of improvement of the balance of trade account which in the period January-November 2015 recorded a surplus of EUR 2.3 billion vs.

External Activity Conditions

a deficit of EUR 2.6 billion in the corresponding period of 2014. The trade surplus, in turn, resulted from a significant slowdown in imports growth (4.6% year on year vs. 8.0% year on year in 2014), among others, due to weakening of investment growth and a strong decline in oil prices, while simultaneously there was a slight acceleration of exports growth (8.0% year on year vs. 6.2% year on year in 2014). The current account balance improved also thanks to a higher surplus of the services account (EUR 9.0 billion vs. EUR 8.0 billion a year ago) as well as a lower deficit of the primary income account (EUR 11.1 billion vs EUR 12.4 billion in 2014). The deficit on the secondary income account deepened slightly (EUR 0.4 billion vs. EUR 0.3 billion in 2014).

As for the financing side, there was a considerable decrease in foreign direct investment (FDI) – in the period January-November 2015 the FDI inflow was at EUR 7.1 billion vs. EUR 12.8 billion in the same period of 2014. The inflow of portfolio investments also slowed down (to EUR 2.6 billion from EUR 3.5 billion in 2014), which resulted mainly from capital outflows from the stock market (outflow of EUR 0.5 billion vs. inflow of EUR 3.2 billion in 2014), while the domestic debt market recorded a solid inflow of funds (EUR 3.1 billion vs. EUR 0.3 billion in 2014). An important source of financing for the current account deficit was still the inflow of the EU capital transfers, despite the fact that in the period January-November 2015 it declined slightly compared to the corresponding period of 2014 (EUR 7.0 billion vs. EUR 8.1 billion in 2014).

In 2015, moderate increase in the Treasury's foreign debt was recorded. According to the Ministry of Finance, at the end of October 2015 the Treasury' foreign debt amounted to PLN 291.8 billion, which means an increase by ca. PLN 15.0 billion in comparison to December 2014 (by 5.4%). The growth of the Treasury's foreign debt was partially caused by the weakening of the złoty against foreign currencies, in which it is denominated.



Capital Market

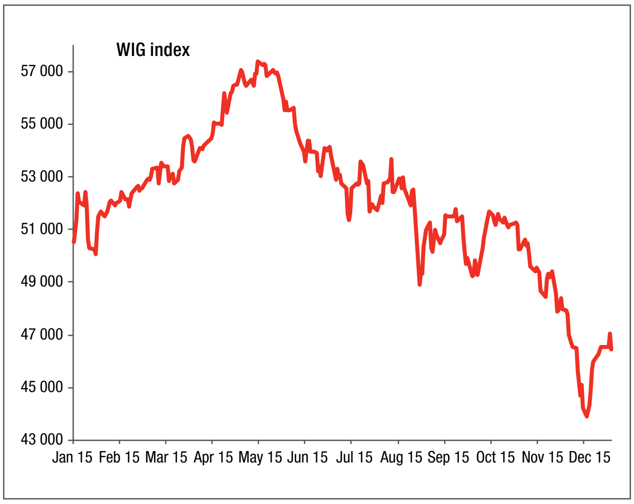
In 2015, financial markets were volatile last year due to growing concerns about the outlook for global economy in the context of continuing declines in commodity prices, first of all oil prices and the continuing risk of consolidating inflation at record low levels. Despite improving situation on the U.S. labor market, that allowed the Federal Reserve to start monetary tightening cycle in December 2015, main stock indices in the U.S. recorded a slight declines year on year. It should be noted however that valuations remained at historically high levels most of the period. Some main indexes in Europe outperformed U.S. equities (German DAX rose by 9.6%, while French CAC grew by 8.5%), meanwhile Japan Nikkei 225 rose by 9.1%. There was increased volatility in China which recorded a deep sell-off after strong rally in the first half of the year. Increasing fears about the outlook for Chinese economy and the impact of the slowdown for global economy influenced highly on increase of the risk aversion at the end of the year.

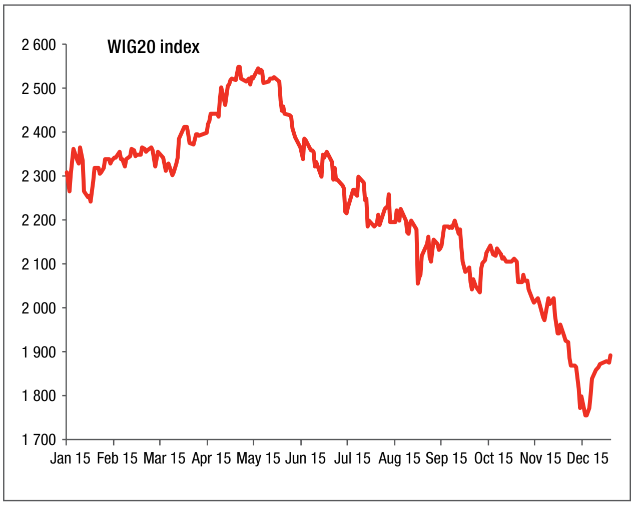
Investment sentiment on the capital markets caused systematic decrease in share prices of companies listed on the Warsaw Stock Exchange in the second half of the year. As a result the balance was negative for the broad market and the biggest companies. WIG index lost 9.6% and the index of blue chip (WIG20) fell by 19.7%. Whereas the sWIG80 and mWIG40 outperformed main indices and went higher by 9.1% and 2.4% respectively during the year. Investors were selling liquid assets, which resulted in significantly underperformance of large companies. Moderate optimism regarding the economic situation in Poland was unable to neutralize concerns about global outlook and capital outflows from emerging markets due to the Fed's rate hikes. Changes in Polish political map added an extra portion of uncertainty and foreign investors remained more cautious regarding domestic assets.

In 2015, 30 new companies joined the main market and 13 companies left the stock exchange. Capitalization of domestic companies decreased to PLN 516.8 billion from PLN 591.2 billion in 2014. Capitalization of foreign companies decreased by over 14% to PLN 566.1 billion from PLN 661.8 billion. The value of turnover on the stock market amounted to PLN 225.3 billion and was lower than in the previous year (PLN 232.9 billion).

In 2015, investment funds assets increased by ca. 20.0% to a record level of PLN 252.2 billion, of which over PLN 25 billion was a change in December resulting in funds injection to several non-public assets funds. The net inflows amounted to ca. PLN 11.3 billion (excluding rapid changes in case of two Investment Funds in December). The vast majority of funds provided equity, cash and mixed funds. Debt funds noted a withdrawn during this period by ca. PLN 2.4 billion.

It cannot be ruled out that the situation on the Warsaw Stock Exchange will remain extremely volatile in the near future. Persistent investors' concerns about slowing Chinese economy, the scale of interest rate hikes in the USA and consequently the possible capital outflow towards USD nominated assets, may limit an upward potential of the listed companies. On the other hand, markets priced-in the risks of possible adverse scenarios, including, in particular, worse perspectives for banking and energy sectors. Thus expectations of upturn in the stock market are not unfounded, as long as global market sentiment will improve and economic growth in Poland will consolidate at a level above 3.5% year on year.





Banking Sector

Although in 2015 economic growth remained solid, which contributed among others to improvement of the situation on the labor market, financial results of banks worsened significantly. This was due to a decrease in interest income (a result of another interest rate cut by the MPC) and a significant increase in costs, particularly those associated with the functioning of the deposit guarantee system as well as the cost of risk.

According to the NBP data, the pace of growth of monetary financial institutions assets was moderate, as at the end of December 2015 amounted to 3.6% year on year (compared to 8.1% year on year in 2014). Customer deposits of monetary financial institutions increased in this period by 8.9% year on year (8.1% year on year in 2014) and loans by 7.1% year on year (7.3% year on year in 2014).

In terms of main deposit categories, in 2015 the following developments were noted:[1]

- an increase in household deposits – 9.2% year on year as at the end of 2015 (compared to 8.8% year on year in 2014) resulting mainly from improving financial situation of households and limited propensity to invest in more risky assets (e.g. investment funds units, shares),
- an increase in corporate deposits – 10.4% year on year as at the end of 2015 (9.4% year on year in 2014) resulting from good financial performance of corporates and reduced expenditures for raw materials associated with declining global prices of commodities. The level of corporate deposits was also influenced by flows of funds within international corporations (those flows were related to optimization of financial income as well as investment plans),
- an increase in other deposits – 3.7% year on year as at the end of 2015 (1.3% year on year in 2014).

As at the end of December 2015 household deposits accounted for 64.9% (64.7% as at the end of 2014), corporate deposits accounted for 25.0% (24.7% as at the end of 2014), and other deposits accounted for 10.1% (10.6% as at the end of 2014) of all deposits.

In terms of main receivables categories, in 2015 the following developments were noted:

- an increase in household receivables – 6.6% year on year as at the end of 2015 (5.5% year on year in 2014). Faster pace of growth in this category was mainly due to the stronger Swiss franc (after the release of its exchange rate in January 2015), which led to rising PLN value of loans denominated in that currency,
- increase in corporate receivables – 8.8% year on year as at the end of 2015 (8.7% year on year in 2014) resulting from strong investment activities of corporates,
- an increase in other loans – 4.8% year on year as at the end of 2015 (by 13.5% year on year in 2014) resulting mainly from solid growth in loans to non-monetary financial institutions.

As at the end of December 2015 loans to households accounted for 58.8% (59.0% at the end of 2014), corporate loans accounted for 30.1% (29.7% at the end of 2014) and other loans accounted for 11.1% (11.3% at the end of 2014) of all loans.

In terms of loan portfolio quality, in 2015 the following developments were noted:

- gradual decline in the share of NPLs in the portfolio of corporate loans. As at the end of November 2015, non-performing loans accounted for 10.3% of the portfolio, while as at the end of 2014

[1] Segment data for deposits and receivables are based on NBP monetary statistics

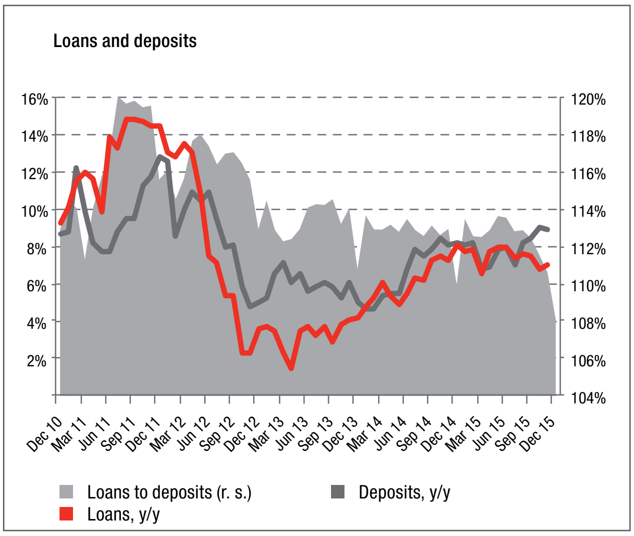
External Activity Conditions

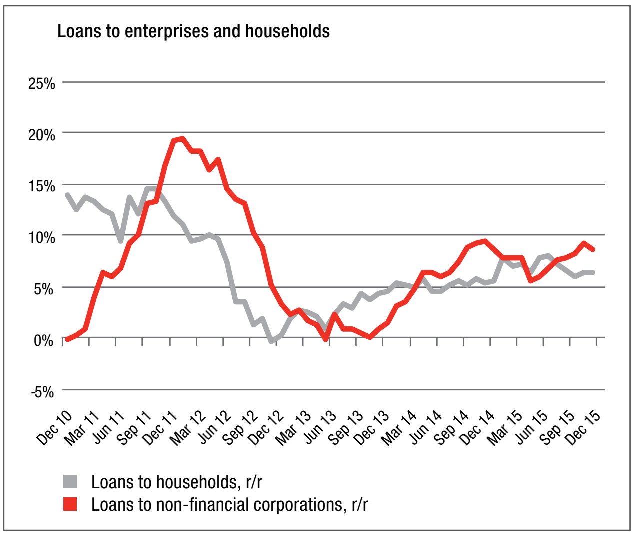
they stood at the level of 11.2%. Decrease in share of non-performing loans was visible mainly in loans to large corporates (7.5% in November 2015 vs. 9.0% at the end of 2014). In the SME segment it was much smaller (12.4% in November 2015 vs. 12.7% at the end of 2014),

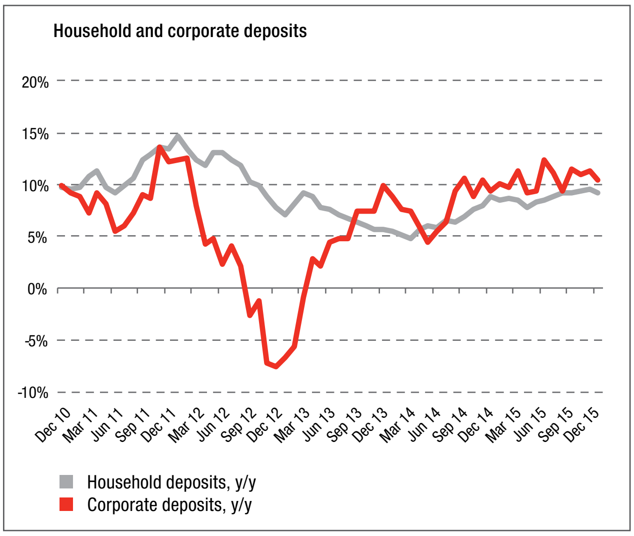
– stabilization of NPL ratio in case of loans to households – 6.4% in November 2015 compared to 6.5% at the end of 2014. Both, in case of housing loans as well as non-housing loans the rate changes in 2015 were relatively small. For housing loans the ratio did not change vs. December 2014 (3.1%) and for non-housing loans it went down to 11.4% from 11.8% at the end of 2014.

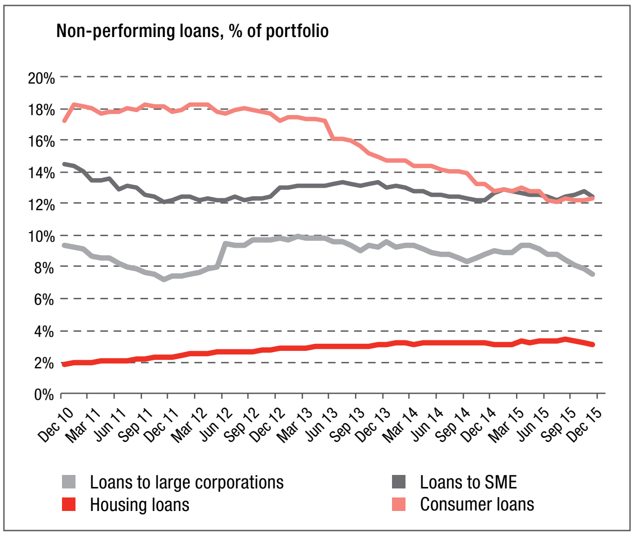
In January-November 2015, decline in banking sector net profit was reported as compared to corresponding period of 2014. According to the NBP data in that period net profit was equal to PLN 10.8 billion (-29.5% year over year). The strong result deterioration was due to a fall in net interest income (-5.5% year on year), increase in bank operating costs (by 10.8% year on year, mainly a consequence of higher costs associated with the functioning of the Bank Guarantee Fund) and costs related to asset write-downs and provisions (+12.1% year on year).

As far as regulatory environment is concerned important events in 2015 were, among others, establishment of the Borrowers Support Fund (financed by the banks). Also rescue processes of some credit unions and the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin had tremendous impact on bank results in 2015. The impact was visible in much higher yearly contribution to the Bank Guarantee Fund as well as one-off payment to cover the outlays of insured deposits of SK Bank clients. For the consecutive time it was another reduction of interchange fee rates in the area of cards transactions that negatively impacted on fee and commission income on cards.









Running a business is an endless journey

Let’s talk about comprehensive solutions.

Marek runs his own clothing company. First, he designed T-shirts for his friends, and today his collections can be found in boutiques throughout Europe. At work, he’s basically on the move all the time – he must negotiate with new partners and present his products at European fashion fairs. Marek is looking for the fastest, most convenient and most profitable solutions related to transactions made in other currencies.

He often learns that he must travel somewhere at the last moment. For him, the Multi-currency MasterCard Business debit card is a very convenient solution. With the card, he doesn’t need to worry about the currency in which he pays for his hotel room or a business dinner – the appropriate amount is debited automatically from foreign currency accounts connected to his card. Also, he doesn’t waste time on currency exchange. He can do this electronically on very good terms in the Dealing Module. Each payment made during such a trip, even a small one, is not subject to any additional commissions for non-cash transactions.

That’s why, if Marek begins his week in London and finishes it in Milan, he won’t have to worry about currency conversions and additional costs of payments in foreign currencies. He’ll be able to make all his payments with a single card.

But that’s not all. Even when traveling, he can manage all his finances without restrictions and have access to our complete product offering through the PekaoBiznes24 electronic banking system. The system offers functionalities that facilitate settlements with business partners, database management and the exchange of information with accounting and financial systems.

Our efforts to develop better and better solutions never end...

Important Events and Achievements

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Important Events and Achievements

Changes within the Group

The composition of Bank Pekao S.A. Group is presented in the Note 2 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December, 2015.

The most significant changes concerning the Group occurred in 2015 are presented below.

Acquisition of the company

On January 1, 2015, the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. On January 14, 2015, the name of UniCredit CAIB Poland S.A was changed to Pekao Investment Banking S.A. Pekao Investment Banking S.A. specializes in transactional advisory, in particular referring to mergers and acquisitions, public and private offering, as well as securities trading on secondary market. As a result of the acquisition, the Group extended the offer of services provided to the customers from corporate banking segment.

Sale of shares of Krajowa Izba Rozliczeniowa S.A.

On July 15, 2015 the Bank sold 3,125 shares of Krajowa Izba Rozliczeniowa S.A. As a result of the transaction, the Bank's share in the share capital and the votes in the General Meeting of the Company was reduced from 34.44% to 5.74%.

Information on effect of disposal is presented in the Note 33 of the Consolidated Financial Statements of Bank Pekao S.A. for the period ended on December 31, 2015.

Liquidation of the company

In the current report no. 1/2015 dated January 23, 2015, the Management Board of Bank Pekao S.A. informed that it received a ruling of the Local Court for the Capital City of Warsaw in Warsaw concerning the deletion as at January 8, 2015 from the National Court Register of the Bank's subsidiary, Pekao Telecentrum Sp. z o.o. in liquidation. The Bank informed of the winding-up of Pekao Telecentrum Sp. z o.o. in the current report no. 34/2013 dated December 2, 2013.

On April 30, 2015, the Management Board of Bank Pekao S.A. informed in the current report no. 11/2015 that on April 30, 2015 the Extraordinary Shareholders Meeting of Pekao Leasing Holding S.A., which the Bank is the only shareholder, took resolution on winding-up of the company and starting liquidation procedure of the company within the date the resolution was taken. Decision on the liquidation of holding company aims at simplification of organization structure in the Group as well as governance of leasing and as a consequence rationalization of operating costs.

Changes in the Statutory Bodies of the Bank

Supervisory Board

On April 28, 2015, the Management Board of Bank Pekao S.A. informed in the current report no. 6/2015 about resignation from the position of Member of the Supervisory Board of the Bank as at the end of April 30, 2015 by Mrs. Małgorzata Adamkiewicz, due to new professional duties and by Mr. Paweł Dangel due to new professional duties outside Poland.

On April 30, 2015, the Management Board of Bank Pekao S.A. informed in the current report no. 9/2015 that the Ordinary General Meeting of Bank Pekao S.A. on 30 April 2015 appointed Mr. Dariusz Filar and Ms. Katarzyna Majchrzak as Members of the Supervisory Board of the Bank effective May 1, 2015 for the current, common term of office of the Supervisory Board of the Bank. The Management Board of the Bank informed that the Supervisory Board, having performed the assessment, gave its opinion that Mr. Dariusz Filar and Ms. Katarzyna Majchrzak meet the requirements for individual and collective suitability as required from Members of the Supervisory Board of the Bank.

Composition of the Supervisory Board:

31.12.2015	31.12.2014
Jerzy Woźnicki Chairman of the Supervisory Board	Jerzy Woźnicki Chairman of the Supervisory Board
Roberto Nicastro Deputy Chairman of the Supervisory Board	Roberto Nicastro Deputy Chairman of the Supervisory Board
Leszek Pawłowicz Deputy Chairman of the Supervisory Board	Leszek Pawłowicz Deputy Chairman of the Supervisory Board
Alessandro Decio Secretary of the Supervisory Board	Alessandro Decio Secretary of the Supervisory Board
Dariusz Filar Member of the Supervisory Board	Małgorzata Adamkiewicz Member of the Supervisory Board
Katarzyna Majchrzak Member of the Supervisory Board	Paweł Dangel Member of the Supervisory Board
Laura Penna Member of the Supervisory Board	Laura Penna Member of the Supervisory Board
Wioletta Rosołowska Member of the Supervisory Board	Wioletta Rosołowska Member of the Supervisory Board
Doris Tomanek Member of the Supervisory Board	Doris Tomanek Member of the Supervisory Board

Management Board of the Bank

The Management Board of Bank Pekao S.A. informed in the current report no. 10/2015 that the Supervisory Board of the Bank appointed, effective from April 30, 2015, Mr. Adam Niewiński as Vice President of the Management Board of Bank Pekao S.A. for the current, common term of office of the Management Board of the Bank. The Supervisory Board of the Bank gave its opinion, that Mr. Adam Niewiński meets the requirements of the individual and collective suitability as required from Members of the Management Board of the Bank.

Composition of the Management Board:

31.12.2015	31.12.2014
Luigi Lovaglio President of the Management Board, CEO	Luigi Lovaglio President of the Management Board, CEO
Diego Biondo Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Andrzej Kopyrski Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Adam Niewiński Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Grzegorz Piwowar Vice President of the Management Board	Stefano Santini Vice President of the Management Board
Stefano Santini Vice President of the Management Board	Marian Ważyński Vice President of the Management Board
Marian Ważyński Vice President of the Management Board	

Members of the Management Board of the Bank are appointed for a joint three-year term of office.

Members of the Management Board are appointed and removed from office by the Supervisory Board. Vice Presidents and Members of the Management Board of the Bank are appointed and removed from office upon the request of the President of the Management Board of the Bank. Appointment of two Members of the Management Board, including the President of the Management Board, is subject to approval by the Polish Financial Supervision Authority. The body which applies for the approval is the Supervisory Board.

The Management Board of the Bank runs the Bank's affairs and represents the Bank. The scope of activities of the Management Board of the Bank includes all matters which, pursuant to the provisions of law or the Bank's Statute do not fall within the scope of competence of other bodies. The rules and procedures governing the activities of the Bank's Management Board are stipulated in the Rules of Procedure for the Management Board of the Bank.

Members of the Management Board of the Bank coordinate and supervise the activity of the Bank in accordance with the division of powers enacted by the Management Board of the Bank and approved by the Supervisory Board.

Mr. Luigi Lovaglio, President of the Management Board of the Bank, coordinates the activities of the Members of the Management Board of the Bank, supervising also, in particular the following areas of the Bank's activity: internal audit, compliance, and corporate communication, including investor relations.

Mr. Luigi Lovaglio heads the Management Board, convenes and presides over the Board meetings, presents its stance to other governing bodies of the Bank and in relations with third parties, in particular with the State authorities, and issues internal regulations.

Mr. Diego Biondo, Vice President of the Management Board of the Bank supervises the activity of the Risk Management Division.

Mr. Andrzej Kopyrski, Vice President of the Management Board of the Bank supervises the activity of the Corporate Banking and MIB Division.

Mr. Adam Niewiński, Vice President of the Management Board of the Bank supervises the activity of the Private Banking Division.

Mr. Grzegorz Piwowar, Vice President of the Management Board of the Bank supervises the activity of the Retail Banking Division.

Mr. Stefano Santini, Vice President of the Management Board of the Bank supervises the activity of the Finance Division.

Mr. Marian Ważyński, Vice President of the Management Board of the Bank supervises the activity of the Logistics and Procurement Division.

Organizational Changes

In 2015, there were organizational changes in the Bank.

The network of Corporate Banking and MIB Division was re-organized. In order to better exploit the potential of the market and the geographical coverage, 10 Corporate Banking Macroregions (instead of the current 5) were launched, consisting of Macroregional Corporate Centers and Corporate Centers located in the operation area of the given Macroregion.

During 2015, in the Bank's Head Office were also made changes aimed at, among others, integration of processes in specialized units, better use of resources and improving management, involving the transfer:

– to Central Back Office tasks related to after-sales service of corporate customers,
– to Corporate Sustainability & Events Office tasks related to management of sponsoring, cultural, artistic initiatives and social events and to Brand Management Department tasks related to marketing activities carried out by the business divisions units,
– to Credit Risk Management & Control Department tasks related to the preparation of policies and procedures for risk management, the development of tools and IT systems administration used to manage the risks and risk reporting,
– to Special Credit – Large and Strategic Files Department tasks related to conducting the restructuring of selected credit exposures of the Bank in terms of commercial real estate financing.

Important Events and Achievements

Awards and Distinctions

Global Finance: Bank Pekao S.A. Innovator of the Year in transactional banking
Bank Pekao S.A. was awarded with the title of "Innovators 2015 – Transactions Services" in the international ranking organized by Global Finance magazine. Independent experts appreciated platform EDI Finansowanie which is a pioneering initiative on the Polish corporate market. This solution enables corporates to initiate debt financing in the Bank in the place where they exchange orders, invoices and confirmations of supply, i.e. in the accounting system that is integrated with Comarch EDI.

Integration of the Pekao Biznes24 Internet banking system with the country's largest EDI platform serving 30 thousand users from 30 countries to exchange commercial documents in electronic form, was implemented in co-operation with company CA Consulting S.A belonging to Comarch Group. The combination of both tools allows companies to full supply chain service, i.e. submission and execution orders and invoicing as well as debt financing management within the frame of eFinancing and Kredyt Zaliczka service on one common platform adapted to the technological level of small, medium and large companies.

Global Finance: Bank Pekao S.A. Best Trade Finance Bank 2015
Bank Pekao S.A. was awarded with the title of Best Trade Finance Bank 2015 in Poland by Global Finance magazine in the category "Trade and supply chain finance". The Global Finance experts appreciated the transaction volumes of the Bank, the scope and cover of the rendering services, the level of customer service as well as applied technological solutions and price of offered products and services.

Euromoney: Bank Pekao S.A. Best Trade Finance Provider 2015
Bank Pekao S.A. was awarded with the title "Best Trade Finance Provider 2015" according to the survey organized by EUROMONEY magazine.

Over 2 thousand international companies chose the best solutions in trade finance and banks in which they use trade finance products. In Poland, Bank Pekao S.A. received the most votes which confirms the customers' satisfaction from comprehensive range and quality of transactional banking services and products offered by the Bank.

Global Finance: Bank Pekao S.A. Best Sub-Custodian Bank in Poland
Bank Pekao S.A. for the fourth consecutive year won the title of the best custodian Bank in Poland "Best Sub-Custodian Bank in Poland 2015" in the ranking organized by the Global Finance magazine what confirms professional and comprehensive approach of the Bank to custodian services.

The Global Finance magazine in co-operation with experts selected winner among the institutions that provide the best custodian services on local and international markets. The considered criteria include: customer relations, quality of service, competitive pricing, applied technology, business continuity plans and knowledge of local regulations and practices.

Krajowy Punkt Kontaktowy ds. Instrumentów Finansowych Programów Unii Europejskiej: title "Lider Rynku Instrumentów Finansowych Unii Europejskiej w Polsce"
During the ceremony organized in December 2015 dedicated to the 10th anniversary of launching in Poland EU financial instruments, Bank Pekao S.A. received statuette of "Lider Rynku Instrumentów Finansowych Unii Europejskiej w Polsce" (Leader of the Market in EU Financial Instruments in Poland). Since 2007, the Bank in co-operation with the European Investment Fund implemented several EU guarantee programs addressed primarily to micro and small companies. So far the Bank granted preferential financing in the amount of over PLN 2.5 billion under these programs.

Eurobuild Awards 2015: "Financing Provider of the Year" title for Bank Pekao S.A.
Bank Pekao S.A. was honored for the fifth consecutive time with the title "Financing Provider of the Year, Poland 2015" by jury of competition organized by Eurobuild magazine which is one of the most influential specialized magazine on commercial real estate sector in CEE. Among the winners in their respective categories were also projects financed by the Bank.

Jury composed of representatives of the major commercial real estate companies: real estate developers, investors, consultants, legal advisory companies and banks have selected the winners based on the size, quantity and type of finalized agreements as well as on the reputation of the company. Control over the correctness of winner selection and voting was exercised by KPMG.

Global Finance: Private Banking of Bank Pekao S.A. as Best Private Banks 2015 in Poland
Private Banking of Bank Pekao S.A. is on the top of the international ranking conducted by Global Finance magazine in the category the best institution in the country.

The ranking is one of the most comprehensive studies which classifies banks offers for the wealthiest clients. Institutions have been evaluated according to criteria such as market assessment, surveys of independent analysts as well as opinions of customers using solutions offered by banks.

The Banker and Professional Wealth Management magazine: "The Best Private Bank in Poland" title for Bank Pekao S.A.
Bank Pekao S.A. was honored with the title "The Best Private Bank in Poland" granted by prestigious magazine The Banker which belongs to

Financial Times group and Professional Wealth Management magazine. International jury appreciated the Bank's innovative product solutions (among others, prestigious multicurrency debit card and dedicated investment products) for the wealthiest customers, high level of customer service, increase in the number of Private Banking customers and increase in value of assets under management.

The Best Private Bank Award is granted since 2009 in 36 categories, thereof in 29 categories presenting the best representatives of different countries where Private Banking services are at a high level and are subjected to high competition.

Najwyższa Jakość QI: emblem of Najwyższa Jakość Quality International 2015 for the multi-currency debit card World Elite Debit MasterCard and credit card Pekao World Elite MasterCard
Bank Pekao S.A. was awarded with the prestigious title of Najwyższa Jakość Quality International 2015 in the category QI PRODUCT for introduction to the offer the multi-currency debit card World Elite Debit MasterCard and credit card Pekao World Elite MasterCard. The Chapter of the Program held under the auspices of the Ministry of Economy, Polish Agency for Enterprise Development and Polish Forum ISO 9000 highly assessed the World Elite Debit MasterCard and honored activities related to the card implementation, as well as promoting the idea of quality in all aspects in the Bank, especially in the field of card products.

Title Najwyższa Jakość Quality International and the Certificate signed by the patrons are confirmation of the highest quality and emblem QI is a measurable value in building a positive image of the company.

Warszawska Izba Przedsiębiorców: Bank Pekao S.A. winner of the 2nd "AS" competition
Bank Pekao S.A. was the winner of the II Edition of "AS" competition organized by Warszawska Izba Przedsiębiorców for the multi-currency debit card MasterCard Business, which enables execution of transactions in PLN and foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card's connection with corresponding currency accounts.

The aim of the competition is to build and strengthen relationships between companies, banks and financial institutions in order to promote innovative products and services, which support development and increase in competitiveness of the Polish companies.

VIII Central European Electronic Card Conference: application for multicurrency payment card settlements recognized as the best in Poland
System for multicurrency MasterCard Debit settlements won in the contest for the best in 2015 IT application for servicing card systems in Poland. The competition was one of the events accompanying the VIII Central European Electronic Card Conference, the largest conference dedicated to payment cards in Poland.

Bankier.pl and Money.pl: first and the second place for mobile banking of Bank Pekao S.A.
The Pekao24 mobile application together with the PeoPay payment system took the first place in the ranking of mobile banking application prepared by the Internet portal Bankier.pl and the second place for the best mobile banking in 2015 in the ranking of Internet portal Money.pl.

Moreover, contactless mobile payments PeoPay with HCE technology was recognized as the most innovative banking product in the sixth edition of on-line contest "Złoty Bankier" ("Golden Banker") for the best banking products and services in 2014.

Bank Pekao S.A. is the first bank in Poland and one of the first in Europe offering to its customers HCE mobile payments technology. New technology allows to make payments without necessity to use a specific mobile operator.

"Contactless Intelligence" conference: the title "Business Leader of the Year" for Bank Pekao S.A. for contactless payments market development
Bank Pekao S.A. received the title "Business Leader of the Year" at the conference "Contactless Intelligence" in London, dedicated to contactless payments which is one of the most important events in the sector.

"Contactless Intelligence" conference were organized for the eighth time. In the competition Contactless & Mobile Awards held during the conference, were distinguished these solutions, which permanently contributed to the development of non-cash payments market in Europe and in the world.

Bankier.pl: MDM mortgage loan of Bank Pekao S.A. took the first place in the ranking of "Apartment for the Young" (MDM) loans
MDM mortgage loan of the Bank took the first place in the ranking of mortgage loans "Apartment for the Young" in November 2015 conducted by Bankier.pl portal.

Bank Pekao S.A. actively participates in the government program "Apartment for the Young" supporting the persons in acquisition of a new apartment. MDM mortgage loan of Bank Pekao S.A. is the most popular choice of loan on the market. Since April 2015 "Apartment for the Young" loan of Bank Pekao S.A. held top positions in the rankings organized by Bankier.pl portal.

BANK magazine: Two awards for Bank Pekao S.A. during "Horyzonty Bankowości 2015"
Bank Pekao S.A. took the second place in the main ranking "50 largest banks in Poland" and took the second position among banks offering consumer loans in category Consumer Finance in the competition organized by BANK financial magazine.

Important Events and Achievements

At the gala ceremony during "Horyzonty Bankowości 2015" the results of the 20th anniversary edition of the one of the most prestigious competitions were announced. The position of the bank in each category is determined by objective financial data evaluated by independent analysts.

CEE Capital Markets Awards: BEST IR DEPARTMENT 2015 Award for Bank Pekao S.A.
Bank Pekao S.A. received BEST IR DEPARTMENT 2015 Award in the 1st edition of international competition CEE Capital Markets Awards. The goals in organizing the competition is to, among others, encourage global investors attention on dynamic economies of the CEE region and highlight top entrepreneurs and managers of publicly-listed companies on CEE capital markets.

The total of 126 nominations were received from, among others, Poland, Romania, Ukraine, Hungary and awards in 18 categories were given to representatives from 83 companies.

Warsaw Commodity Clearing House: "Rozrachunek specjalny za rok 2014" ("Special Settlement for 2014") award for Bank Pekao S.A.
Bank Pekao S.A. received a distinction for its contribution in creation of Nowy Model Rozrachunku Giełdy (New Settlement Model). The award "Rozrachunek specjalny za rok 2014" (Special Settlement for 2014) is a recognition for the most active participants on markets settled by IRGiT (Warsaw Commodity Clearing House).

UniCredit Up Award: Bank Pekao S.A. winner in the category Products and Services
Bank Pekao S.A. was the winner of UniCredit Up Award contest in the category Products and Services (UniCredit Real-Life Banking Achievement), which is dedicated to examples of best product solutions offered to customers throughout the UniCredit Group. Multicurrency payment card of Bank Pekao S.A. was awarded.

Association of Individual Investors: brokerage entities of Bank Pekao S.A. Group best in the ranking organized by Ogólnopolskie Badanie Inwestorów SII 2015

Centralny Dom Maklerski Pekao S.A. (CDM) and Dom Maklerski Pekao (Dom Maklerski) won in the brokerage houses ranking of Ogólnopolskie Badanie Inwestorów (National Investors Survey) organized by Stowarzyszenie Inwestorów Indywidualnych (Association of Individual Investors) and took the first and the second place respectively. CDM received the highest score in the category of direct customer service and professionalism of its employees while Dom Maklerski received the highest score in the category of IT platform.

The aim of the National Investors Survey is to establish individual investor profile and the survey results are crucial for brokerage houses to adjust its offer to customer needs, expectations and preferences when making investment decisions.

Association of Individual Investors is the largest organization of individual investors in Poland, which operates since 1999 and belongs to the European organizations Euroshareholders and Euroinvestors as well as to World Federation of Investors Corporation (WFIC).

Foundation for the reputation of the brand "Premium Brand": Company of High Reputation title for Pioneer Pekao TFI
Pioneer Pekao TFI was the winner of the tenth edition of Premium Brand and received the title of Company of High Reputation Premium Brand 2015 in nationwide survey of public opinion on a group of Polish consumers. Pioneer Pekao TFI has received this honor for the third time. The assessment of the reputation conducted in five areas: references, media atmosphere around the brand, social commitment, perception of the company as an employer and company as a business partner.

"Laur Klienta 2015" for Pioneer Pekao TFI
Pioneer Pekao TFI took the first place in the XI edition of nationwide popularity poll "Laur Klienta 2015" in the category "Towarzystwa Funduszy Inwestycyjnych". The award is granted to companies selected in a telephone survey.

Due to the fact that Pioneer Pekao TFI S.A. was a three-time winner in the survey it received also Laur Klienta Grand Prix 2015.

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Information for the Investors

The Bank's Share Capital and Share Ownership Structure

As at December 31, 2015, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and remained unchanged until the date of submitting the report. The share capital of the Bank consisted of 262,470,034 shares of the following series:

137,650,000	Series	A	bearer shares with a par value of PLN 1 per share
7,690,000	Series	B	bearer shares with a par value of PLN 1 per share
10,630,632	Series	C	bearer shares with a par value of PLN 1 per share
9,777,571	Series	D	bearer shares with a par value of PLN 1 per share
373,644	Series	E	bearer shares with a par value of PLN 1 per share
621,411	Series	F	bearer shares with a par value of PLN 1 per share
603,377	Series	G	bearer shares with a par value of PLN 1 per share
359,840	Series	H	bearer shares with a par value of PLN 1 per share
94,763,559	Series	I	bearer shares with a par value of PLN 1 per share

All the existing shares are ordinary bearer shares. There are no special preferences or limitations connected with the shares, or differences in the rights attached to them. The rights and obligations related to the shares are defined by the provisions of the Polish Commercial Companies Code and other applicable law.

The shareholders of Bank Pekao S.A. owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the General Meeting of Bank Pekao S.A. are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT		AS AT DECEMBER 31, 2015		AS AT DECEMBER 31, 2014	
UniCredit S.p.A.	131,497,488	50.10%	131,497,488	50.10%	131,497,488	50.10%
Other shareholders (below 5%)	130,972,546	49.90%	130,972,546	49.90%	130,972,546	49.90%
Total	**262,470,034**	**100.00%**	**262,470,034**	**100.00%**	**262,470,034**	**100.00%**

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2015, UniCredit S.p.A. held 50.10% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders and the remaining shareholders' 49.90% share. Since none of the remaining shareholders holds more than 5% of the total vote at the Bank's General Meeting of Shareholders, they are not required to disclose information on their holdings in Bank Pekao S.A.'s shares.

The Bank has not received any other notifications regarding changes in the ownership structure in accordance with par. 69 of the Act of July 29, 2005 on Public Offerings and Conditions Governing the Introduction of Financial Instruments to an Organized System of Trading, and on Public Companies.

Polish open-end pension funds (OFE) constitute to the group of financial investors holding significant equity interests in the Bank. Based on their publicly available financial reports, as at December 31, 2015 OFE held in aggregate 13.8% of the Bank's shares.

The Polish open-end pension funds' holdings in Bank Pekao S.A.:

SHAREHOLDER	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM
	DECEMBER 31, 2015		DECEMBER 31, 2014	
Aviva OFE Aviva BZ WBK	10,709,906	4.08%	11,620,872	4.43%
OFE PZU „Złota Jesień”	5,836,563	2.22%	5,641,651	2.05%
ING OFE	4,715,432	1.80%	5,464,868	2.08%
AXA OFE	3,020,824	1.15%	2,873,652	1.09%
OFE MetLife (*)	2,801,190	1.07%	3,307,948	1.26%
Aegon OFE	2,103,268	0.80%	1,742,820	0.66%
Allianz Polska OFE (**)	1,863,768	0.71%	1,824,961	0.70%
Generali OFE	1,852,089	0.71%	2,212,642	0.84%
Nordea OFE	1,653,909	0.63%	1,685,090	0.64%
PKO BP Bankowy OFE	1,039,288	0.40%	2,199,597	0.84%
OFE Pocztylion	732,676	0.28%	797,022	0.30%
Total	**36,328,914**	**13.84%**	**39,371,123**	**15.00%**

Source: OFE Reports – annual structure of open-end pension funds assets; closing share price of Bank Pekao S.A. as at end of the period.
(*) On September 12, 2014 OFE Amplico changed its name to MetLife OFE
(**) Assets presented as a total of Allianz Polska OFE and OFE Warta. On September 19, 2014 OFE Warta assets were transferred to Allianz Polska OFE

Performance of Market Valuation of Bank Pekao S.A.'s Stock

The shares of Bank Pekao S.A. have been listed on the Warsaw Stock Exchange since June 1998 and they are one of the most liquid equities in Poland and Central and Eastern Europe. Since 2000, the Bank maintains Global Depositary Receipts (GDR) program. The Bank's GDRs are traded on London Stock Exchange and on the over the counter market in the USA.

The Bank's market capitalization as at December 31, 2015 amounted to PLN 37.7 billion and making the Bank a company with the highest market capitalization on the Warsaw Stock Exchange. Given the high capitalization and liquidity the Bank's shares are a part of many important stock indices maintained by domestic and foreign institutions including Polish blue chips index – WIG20. Since December 19, 2011, the shares of Bank Pekao S.A. are included in the CEERIUS Sustainability Index at Vienna Stock Exchange.

With the average daily turnover volume at the level of 363 thousand and the worth of trading at PLN 15.3 billion in 2015, the share of the Bank's stock in trading on the WSE amounted to 7.49%.

The share price of Bank Pekao S.A. reached PLN 143.5 at the end of December 2015 comparing to PLN 178.7 a year earlier. Share price drop in 2015 was mainly driven by the announcement of introduction of regulatory changes adversely affecting the profitability of the banking sector. Pekao share price dynamic was better than WIGBanks index by 3.8 p.p.

Performance of Bank Pekao S.A.'s shares and WIGBanks Index in year 2015.

Information for the Investors

Dividend Payment History

In 2015, the Bank paid dividend for 2014 in the amount of PLN 10.00 per share. Dividend yield amounted to 7.0%.

The dividend payments for the years from 2003 to 2014 are presented below:

DATA	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Dividend for the year (in PLN million)	748	1,065	1,234	1,504	2,517	–	761	1,785	1,412	2,202	2,614	2,625
Dividend per 1 share (in PLN)	4.50	6.40	7.40	9.00	9.60	–	2.90	6.80	5.38	8.39	9.96	10.00

Investor Relations

The Bank's activity in investor relations area is focused on providing transparent and active communication with the market through active co-operation with investors, analysts and rating agencies, as well as fulfilling disclosure requirements within the frameworks of applicable law regulations.

The Bank's representatives regularly hold a lot of meetings with investors in Poland and abroad, and take part in most of the regional and sector dedicated investors conferences. Financial results of Bank Pekao S.A. Group are presented quarterly at conferences that are simultaneously transmitted via Internet.

The Bank's financial results and its activity are regularly monitored by analysts representing Polish and foreign brokerage entities. In 2015, 25 analysts published reports and recommendations on the Bank.

The main activity of the Bank's investor relations is to enable to make a reliable evaluation of the Bank's financial situation, its market position and business model effectiveness in the context of banking sector conditions and macroeconomic situation in the domestic economy as well as on international markets.

Relevant information for the investors about the Bank is available on the Bank's website http://www.pekao.com.pl/information_for_investors/. The Bank publishes also on-line annual report available on the Bank's website, where is also posted "Information Policy of Bank Polska Kasa Opieki Spółka Akcyjna regarding communication with investors, media and customers".

Bank Pekao S.A. Financial Credibility Ratings

Bank Pekao S.A. co-operates with three leading ratings agencies: Fitch Ratings, Standard and Poor's Ratings Services, and Moody's Investors Service. In the case of the first two agencies, the ratings are provided on a solicited basis under relevant agreements, and with respect to Moody's Investors Service, the ratings are unsolicited and they are based on publicly available information and review meetings.

As at December 31, 2015, Bank Pekao S.A.'s creditworthiness was rated as follows:

FITCH RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating (IDR)	A-	A-
Short-term rating	F2	F2
Viability rating	a-	–
Support rating	2	–
Outlook	Stable	Stable
STANDARD AND POOR'S RATINGS SERVICES	**BANK PEKAO S.A.**	**POLAND**
Long-term rating	BBB+	A-
Short-term rating	A-2	A-2
Stand-alone credit profile	bbb+	–
Outlook	Negative	Positive
MOODY'S INVESTORS SERVICE LTD. (UNSOLICITED RATING)	**BANK PEKAO S.A.**	**POLAND**
Long-term foreign-currency deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa1	–
Long-term counterparty risk assessment	A1(cr)	–
Short-term counterparty risk assessment	Prime-1(cr)	–
Outlook	Stable	Stable / Negative*

(*) Stable for Poland's economy and Negative for the Polish banking sector.

Bank Pekao S.A. has the highest Viability rating assigned by Fitch Ratings, the highest Stand-Alone Credit Profile rating assigned by Standard & Poor's Rating Services and the highest Financial strength rating assigned by Moody's Investors Service among banks rated by these agencies in Poland.

On January 15, 2016. Standard and Poor's Ratings Services ("Standard & Poor's") downgraded the ratings Poland to the following levels:
– Long-term rating in foreign currency from A- to BBB+,
– Long- and short-term rating in national currency – accordingly to A- and A-2,
– Outlook for both the local and foreign currency ratings changed to Negative.

On January 19, 2016 Rating agency Standard & Poor's Ratings Services reviewed and confirmed the ratings of Bank Pekao S.A. at unchanged levels.

Fitch Ratings agency assigned the "A" rating to the covered bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A. It is the highest rating ever awarded to the Polish debt securities issued by a private company. The reasons underlying the Agency's decision included the high rating assigned to Pekao Bank Hipoteczny S.A. (A-), legal regulations pertaining to the covered bonds collateral register, and the excess of collateral over the volume of bonds in issue, as declared by the bank. The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity.

Activity of Bank Pekao S.A. Group

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Activity of Bank Pekao S.A. Group

Important Factors Influencing the Group's Activities and Results

In 2015, the Group's activity was to a large extent determined by the macroeconomic situation in Poland and abroad as well as by the trends observed in the banking sector.

Polish economy, despite difficult external environment, continued its upward trend. GDP growth rate accelerated to 3.6%, comparing to 3.3% in 2014 amid persistent deflation. Private consumption remained the main driver of growth supported by a high level of investments and a positive contribution of net exports, despite the difficult situation in Ukraine, the Russian embargo on Polish food and a slowdown in China, a major emerging markets economy.

Monetary Policy Council, following the decisions of key central banks easing monetary policy and due to persistent deflation, decided in March to cut rates by 50 bps to a record low level. The reference rate was reduced to 1.5% and the Lombard rate to 2.5% negatively impacting net interest margin and net interest income of the banking sector.

The economic recovery in the historically low interest rates environment fostered lending activity growth. Household lending growth rate accelerated to 6.6% year on year from 5.5% year on year a year ago. The dynamic was partially distorted by the significant appreciation of the Swiss franc. Double-digit growth in the sales of PLN mortgage loans was fostered by low interest rates and systematic improvement of labour market situation. Demand for corporate loans remained high due to the economic recovery, high capacity utilization and investments. Lending growth in small and medium-sized enterprises was supported by the government program COSME, thanks to BGK guarantees. Corporate lending growth was at the similar level as at the previous year's level and amounted to 8.8% year on year.

Household deposits growth accelerated and amounted to 9.2% year on year vs. 8.8% year on year in the previous year. Interest in alternative forms of investing, including investment funds still remained low. The large uncertainty on the capital market due to growing geopolitical risks, falling commodity prices and growing intervention of politicians in some sectors of the economy were neither supportive for stock market indices nor for demand for investment products. Corporate deposits growth was at the level of 10.4% year on year vs. 9.4% year on year in 2014 due to the good financial results of enterprises.

Good situation in economy did not translate into an increase in the banking sector results due to the interest rates cut and additional burdens imposed on the sector. Bank Guarantee Fund rates almost doubled in 2015, increasing to 23.9 bps. In addition the interchange fee was cut to 20-30 bps.

Moreover, due to the setup of Borrowers Support Fund for mortgage borrowers in the stressful situation were obliged to finance the fund in the amount of PLN 600 million. Banks' contribution to the fund depends on their share in the total amount of overdue above 90 days mortgage loans.

Furthermore, due to the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin, banks paid additional PLN 2 billion to cover payments of guaranteed deposits to the customers of this bank.

In connection with the January Swiss Central Bank decision concerning the release of the franc against the euro, franc strengthened considerably compared to PLN, resulting in deterioration of retail clients with CHF mortgage loans. As a result, the banks with significant CHF mortgage loans portfolios have been obliged to prepare support packages for their customers and to maintain higher capital buffers assigned individually.

The capital requirements for the banking sector were tightened due to the implementation of EU regulations. In November the Financial Supervisory Authority decided to increase the capital buffers. Total capital ratio (TCR) was increased from 12% to 13.25%, while core capital ratio (CT1) from 9% to 10.25.

Competition in the sector remained high, especially in the most attractive areas, translating into additional pressure on margins.

Banks continued investments in innovative solutions and new technologies, including remote channels of contact, especially in Internet and mobile banking as well as mobile payments.

Favourable economic conditions and labour market improvement supported assets quality, improving steadily.

Major Sources of Risk and Threats

Risk management

Effective risk management is a prerequisite for maintaining a high level of security of the funds entrusted to the Group, and for achieving a sustainable and balanced profit growth.

The key risks material for the Group include credit risk, liquidity and market risks and operational risk. Moreover, business, real estate, financial investment, model, macroeconomic, reputation, compliance, leverage and bancassurance risks are also recognized.

The Group has adopted a comprehensive and consolidated approach to risk management. It extends to all units of the Group. Risks are monitored and controlled with respect to profitability and the funds necessary to cover the exposure.

The Management Board is responsible for achieving the strategic risk management goals, while the Supervisory Board oversees whether the Group's policy of taking various risks is compliant with the overall strategy and financial plan. The Credit Committee plays an important role in the credit risk management, the Asset, Liability and Risk Committee and Liquidity and Market Risk Committee in market and liquidity risk management, and management of the operational risk falls within the scope of responsibility of the Operational Risk Committee.

The rules of managing each of the risks are defined in internal procedures and are subject to the assumptions of the credit and investment policies and the Operational Risk Strategy and Policy accepted annually by the Management Board and approved by the Supervisory Board.

Credit, liquidity, market and operational risk reports analyzing details of their development are presented to the Management Board and the Supervisory Board.

The rules and instruments of managing each of the risks are described below. Information on the risk exposure is included in Note 6 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2015.

Credit risk

Managing credit risk and maintaining it at a safe level is vital for the Bank's financial performance. In order to minimize credit risk, special procedures have been established, pertaining in particular to the rules of assessing transaction risk, collateralization of loan and lease receivables, credit decision powers, and restrictions on lending to certain types of businesses.

Lending activities are subject to limits following both from the Banking Law and the Bank's internal standards, including limits concerning exposure concentration ratios for individual sectors of the economy, limit on the share of large exposures in the Bank's loan portfolio and limits of exposures to countries, foreign banks and domestic financial institutions.

The credit decision powers, lending restrictions as well as internal and external prudential standards, pertain to loans and guarantees as well as derivative transactions and debt instruments. The quality of the loan portfolio is also protected by periodic reviews and ongoing monitoring of the timely servicing of loans and the financial standing of customers.

Under the guidelines of UniCredit Group, the Bank has continued to work on further rationalization of the credit process with an aim to obtaining better efficiency and security, including in particular enhancement of the procedures and tools for risk measurement and monitoring.

Credit risk concentration limits

According to the Banking Law the total exposure of a bank to the risks associated with the single borrower or a group of borrowers in which entities are related by capital or management may not exceed 25% of a bank's equity. In 2015, the maximum exposure limits set forth in the Banking Law were not exceeded.

Sector exposure concentration

In order to mitigate credit risk associated with excessive sector concentration the Bank employs a system for monitoring the sector structure of its credit exposure. The system involves setting concentration ratios for particular sectors, monitoring the loan portfolio and procedures for exchanging information. The system is based on the lending exposure in particular types of business activity according to the classification applied by the Polish Classification of Economic Activities (Polska Klasyfikacja Działalności – PKD).

Concentration ratios are determined on the basis of the Bank's current lending exposure to the particular sector and risk assessment of each sector. Periodic comparison of the Bank's exposure to particular sectors with the current concentration ratio allows for timely identification of the sectors in which the concentration of sector risk may become excessive. In case such situation occurs, an analysis of the economic situation of the sector is performed considering the current and forecasted trends and the quality of the current exposure to that sector. These measures enable the Bank to develop policies that reduce sector risk and allow for a timely reaction to a changing environment.

Liquidity and market risks

The management of liquidity and market risks is a vital element of the Group's risk management policy, which aims at optimizing the structure of assets and liabilities and off-balance sheet items, taking into account the assumed relation of risk to income and a comprehensive approach to all types of risk taken by the Group in its business activities.

The Asset, Liability and Risk Committee supports the Management Board in advising and recommending the appropriate action assuring proper realization of the Management Board policy. The Asset, Liability and Risk Committee is responsible, among others, for structural risk management of the Group's statement of financial position resulting from the liquidity gap between assets and liabilities, interest rate and exchange rate gap and other aspects of market and liquidity risk. The Committee monitors and controls the capital adequacy and the exposure to liquidity and market risks against the external limits imposed by supervisory authorities and internal limits adopted by the Group. The Liquidity and Market Risk Committee supports and advises the Asset, Liability and Risk Committee and Management Board on ongoing monitoring of liquidity and market risks.

Activity of Bank Pekao S.A. Group

The liquidity and market risk management process is based on a three-tier control system, which conforms to international best banking practice, as well as recommendations issued by the regulators. The market risk management process and procedures reflect the division into the trading book and the banking book.

Liquidity risk

The overall objective of liquidity risk management is to ensure and maintain the Group's ability to meet its current and future planned obligations, taking into account the cost of liquidity, avoid crisis situations, and define contingency solutions to be employed in the event of a crisis.

The Group invests primarily in treasury securities issued by the Polish government characterized by high liquidity. Being highly liquid instruments or instruments to be pledged, they constitute a regularly monitored liquidity reserve for the Group, which should allow the Group to overcome potential crisis situations.

Intraday liquidity, including assets that can be liquidated immediately, is monitored on an ongoing basis. Short-term (operational) liquidity including transactions executed on financial markets and the available amount of liquid securities – marketable or eligible as collateral when borrowing from central banks is monitored on a daily basis. Additionally, the structural liquidity encompassing the whole time horizon of the Group's balance sheet, including its long-term liquidity is monitored on monthly basis.

The Group's liquidity is managed by monitoring, setting the limits on, controlling and reporting to the management a number of liquidity indicators calculated for both the Polish zloty and the main foreign currencies, as well as on an aggregate basis. In accordance with the relevant recommendations by the financial supervision, the Group has introduced internal liquidity indicators, defined as the ratios of adjusted maturing assets to adjusted maturing liabilities of up to one month and up to one year. The Group has introduced coverage ratios determining ratios of adjusted maturing liabilities to adjusted maturing assets over 1, 2, 3, 4 and 5 years for: the total balance, the total balance of foreign currencies as well as balances of the main currencies.

The Group has contingency procedures in place, protecting it against an increase in its liquidity risk exposure and against any substantial deterioration in its financial liquidity. The contingent liquidity management policy to be employed in the event of deterioration in the Group's liquidity involves daily monitoring of certain early-warning indicators capturing both systemic and Group-specific risks and four levels of liquidity risk depending on the level of early-warning indicators, the Group's situation as well as overall market situation. It defines also a source for covering of estimated cash inflows. Additionally, it defines the procedures for monitoring the liquidity levels, the procedures for emergency measures, the organizational structures of taskforces charged with restoring liquidity, and the scope of the Management Board's responsibility for making decisions necessary to restore the required liquidity level.

Scenario-based stress analyses, covering the Bank and selected subsidiaries, constitute an integral part of the Group's liquidity monitoring process, launched under the conditions of crisis affected by financial markets or caused by internal factors, specific to the Group.

Market risk

In its activities, the Group is exposed to market risk resulting from changes in market factors.

Market risk is the risk that the Group's net profit or capital will decrease due to changes in market conditions. The key market risk factors are related to interest rates, exchange rates, equity prices and commodity prices.

In connection with its exposure to market risk, the Group operates a market risk management system, which provides an organizational and methodological procedural framework designed to shape the statement of financial position structure and off-balance-sheet items in agreement with the strategic objectives. The main objective of market risk management is to optimize financial results assuring the implementation of financial goals of the Group, while keeping the exposure to market risk within the risk appetite defined by risk limits approved by the Management Board and the Supervisory Board.

Trading book market risk

In the process of trading book market risk management the Group seeks to optimize its financial results as well as quality of services within the limits approved by the Management Board and the Supervisory Board.

The key tool for assessing the market risk of the trading book is the Value at Risk (VaR) model. VaR represents the value of a one-day loss that might be realized with a probability not exceeding 1%. VaR is determined using historical simulation method based on two years observation of dynamics of market risk factors. The model is subject to statistical verification on an ongoing basis, which involves comparing the VaR value with the actual and revaluation results. The analyses for 2015 have confirmed the model's adequacy.

Sensitivity measures, ongoing monitoring of the economic performance and stress tests are additional tools of trading book market risk measurement.

Banking book interest rate risk
In managing the banking book interest rate risk, the Group aims to maximize the economic value of capital employed and to achieve the planned interest result within the accepted limits. The financial position of the Group in relation to changing interest rates is monitored through the interest rate gap (revaluation gap), VaR analysis, simulation analyses and stress testing.

Foreign Exchange risk
The foreign-exchange risk is managed jointly for the trading and banking book. The objective of foreign-exchange risk management is to create a currency profile of assets and liabilities and off-balance sheet items, which will remain within external and internal limits. The Group's exposure to foreign-exchange risk is measured by means of the Value at Risk (VaR) model.

Operational risk

Operational risk is defined as the risk of losses resulting from inadequacy or failure of internal processes, people, systems or external events. It includes law risk, whereas business risk, strategic risk and reputation risk are separate risk categories.

Operational risk management is based on internal procedures which are in compliance with the Banking Law, the Regulation No 575/2013 of the European Parliament and the EU Council of June 26, 2013, the Recommendation M and also UniCredit Group standards. Operational risk management embraces identification, assessment, monitoring, mitigation and reporting. The risk identification and assessment is performed with the analysis of internal and external factors, which could have significant influence on the achievements of the Group. The main tools used in identification and assessment of operational risk are internal operational events, external operational events, key risk indicators, scenario analysis and risk's self-assessment. Advanced Measurement Approach (AMA) is also used for assessment of operational risk of the Group. The method is used also for capital adequacy assessment purposes. Monitoring actions are carried out on three control levels: operational control (all employees), risk management control (Financial and Operational Risk Management Department) and internal audit (Internal Audit Department). Operational risk mitigation includes, among others, internal control system, protective actions, business continuity plans, contingency plans as well as insurance policies.

Business risk

Business risk is defined as adverse, unexpected changes in business volume and/or margins that are not due to credit, market nor operational risks. One of the elements of business risk is strategic risk that is the risk of incurring losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of response to changes in business environment, such as economic cycle trend shift.

Earnings at Risk concept is used in business risk calculation. This concept enables the calculation of unexpected negative deviation in the realized financial result from the level assumed in the financial plan.

Real Estate risk

Real Estate Risk is defined as potential losses in market value resulting from market fluctuations of the Group's own real estate portfolio. Real Estate Risk does not include real estate being collaterals.

Real estate risk is calculated in one-year time horizon using the Value at Risk model and standard method of determining capital requirements.

Financial investment risk

Financial investment risk is defined as unexpected, adverse changes in value of equity holdings (shares and stocks) in companies not belonging to the Group.

Financial investment risk is assessed based on Value-at-Risk method.

Model risk

Model risk is defined as the risk of implementing improperly constructed (defined) models, improper use of models or lack of their necessary updates. It is also the risk of inadequate control and monitoring during the model operation. Model risk covers the risks of: data, assumptions, methodology and model administration.

Model risk is subject to quality assessment on the basis of the data used, assumptions, methodologies etc. An additional element of model risk assessment is scenario analysis enabling assessment of the impact of potential irregularities in the model on its results. Based on the aggregated results, a capital buffer to cover model risk is assessed.

Macroeconomic risk

Macroeconomic risk (also called risk of changes in macroeconomic conditions) is defined as the risk of changes in macroeconomic conditions, which may have an impact on future capital requirements or net assets level.

Estimation of capital buffer to counter the macroeconomic risk is made on the basis of the impact of economic downturn scenario analysis on the economic capital.

Reputation risk

Reputation risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators. The risk is hard to measure and is subject to qualitative assessment. The Group strives to improve its reputation through continuous development of solid relationship with stakeholders.

Leverage risk

Leverage risk means the risk of excessive increase in credit exposures relative to own funds (Tier 1). In the event of financial crisis accompanied with high volatility of asset prices, big leverage can cause liquidity problems or losses of the. The risk is mitigated by proper, balanced management of assets and liabilities.

Bancassurance risk

Bancassurance risk is defined as the risk resulting from the activity of offering insurance products. It is subject to qualitative assessment and is protected against with potential capital coverage within other risk types (credit and operational risks).

Compliance risk

The purpose of the compliance risk management is to ensure the compliance of activities of the Bank and its employees with the applicable norms, including in particular provisions of the law, the Bank's internal regulations, recommendations issued by supervisory and control bodies, best practices and ethical standards as well as the standards of UniCredit Group.

Compliance Policy of Bank Pekao S.A. establishes the Bank's assumptions on compliance risk management process and compliance program, encompassing, among other things, identification, assessment, control, monitoring and reporting, consistent at all organizational levels of the Bank. The Policy defines also the basic rules of conduct the Bank and its employees should follow in this area.

Implementation and application of the compliance risk management standards are key factors in creating the enterprise value, reinforcing and protecting the Bank's reputation, and winning public trust in the Bank's activities and its standing.

Compliance risk management takes place at three separate levels:
– management staff, responsible for ensuring compliance,
– risk management function, carried out by dedicated Bank's entities not engaged in the business activity,
– internal audit, responsible for carrying out an independent assessment of internal control system functioning and for monitoring post-control activities.

The responsibility for co-ordination of the Bank's activities in the scope of compliance risk management lies with the Compliance Department. The tasks of the Department include identification, assessment, control and monitoring of compliance risk of the Bank's activity with the law, internal regulations and market standards and presentation of reports in this scope as well as carrying out tasks related to the counteracting of the use of the Bank's activity for purposes of money laundering and terrorism financing.

The Bank uses a dedicated methodology for the compliance risk assessment (CRA) and conducts second level controls, which enable assessment of the selected Bank's processes in terms of effectiveness and compliance with the key regulations concerning the banking business. The assessment of compliance risk and second level controls contribute to improvement of internal control system in the Bank and as a consequence to limitation of the compliance risk related to its activity.

CRR / CRD IV Package

In 2013 European Parliament accept CRR/CRD IV Package which constitute on following regulations:
– Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012,
– Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

Regulation 575/2013 entered into force on 1st January 2014 while Directive was introduced through Act on macro-prudential supervision over financial system and crisis manuyagement in financial system dated 5th August 2015. Bank has made necessary changes for calculating capital requirements and the own funds resulting from the introduction of the abovementioned European regulations.

Capital Adequacy

Capital ratios are the basic measure applied for the measurement of capital adequacy according to Regulation of the European Parliament and of the Council (EU) No 575/2013 of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, (which entered into force since January 1, 2014) together with further amendments as well as Commission Implementing Regulations or Delegated Regulations (EU).

Capital ratios, capital requirements and own funds have been calculated in accordance with the above mentioned Regulation using national options defined in Banking Act, article 171a as well as recommendations of Polish Financial Supervision Authority (KNF). In particular, this applies to the risk weights for claims secured by mortgages and number of ratios regulating method of own funds calculation.

The minimum Total Capital Ratio required by law cannot be lower than 8% while according to recommendation of European Banking Authority (EBA) and KNF total capital ratio must be not lower than 12% and Tier I capital ratio not lower than 9%.

Starting from 2016 the minimum capital ratios recommended by KNF increases to 13.25% in case of and 10.25% in case of Tier I capital ratio. At the end of December 2015 the total capital ratio of Pekao Group amounted to 17.7% and was more than twice the minimum value required by the law and significantly higher than the level recommended by the EBA and the KNF.

The table below presents the basic data concerning the Pekao Group capital adequacy as at December 31, 2015 and December 31, 2014 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	31.12.2015	31.12.2014
Credit risk	8,202,427	7,937,365
Exceeding large exposure limits	0	0
Market risk	63,578	192,563
Counterparty credit risk including CVA	325,240	442,446
Operational risk	564,787	705,781
Total capital requirement	9,156,032	9,278,155
OWN FUNDS		
Common Equity Tier I Capital	20,209,595	20,063,716
Own funds for total capital ratio	**20,209,595**	**20,063,716**
Common Equity Tier I Capital ratio (%)	**17.7%**	**17.3%**
Total capital ratio (%)	**17.7%**	**17.3%**

Total Capital Ratio at the end of December 2015 compared with December 2014 increased by 0.4 p.p. Total capital requirement decreased during this period by 1.3% and own funds increased by 0.7%.

Total capital requirement decreased in 2015 as a result of decrease of capital requirements for operational risk, market risk and counterparty risk partially offset by increase of capital requirement for credit risk.

The strengthening of the Group's capital base in 2015 is the effect of different value of unrealised gains and losses from debt and capital instruments classified as available for sale, which can be included in own funds and Bank Pekao S.A. Annual General Meeting decision on the allocation of the PLN 37.6 million of net profit from 2014 to the Bank's own funds.

Activity of Bank Pekao S.A. Group

Bank Pekao S.A. on the Polish Banking Market

Bank Pekao S.A. is a universal commercial bank providing a full range of banking services to individual and institutional clients, mainly in Poland. Bank Pekao S.A. Group includes financial institutions operating in banking, asset management, pension funds, brokerage services, transactional advisory, leasing and factoring markets.

Distribution channels

The Bank offers to its clients a broad distribution network with ATMs and outlets conveniently located throughout Poland.

	31.12.2015	31.12.2014
Total number of outlets	975	1,034
Total number of own ATMs	1,759	1,825

The Bank's clients can also make commission-free cash withdrawals from the European network of the UniCredit Group ATMs.

As at the end of December 2015, the Bank maintained 5,314.4 thousand PLN-denominated current accounts, 309.9 thousand mortgage loan accounts and 576.0 thousand consumer loan accounts.

(in thousand)

	31.12.2015	31.12.2014
Total number of PLN current accounts (*)	5,314.4	5,214.3
of which packages	3,961.1	3,873.8
Number of mortgage loans accounts (**)	309.9	287.9
of which PLN mortgage loans accounts	273.8	249.7
Number of consumer loan accounts (***)	576.0	593.8

(*) Number of accounts including accounts of pre-paid cards.
(**) Retail customers accounts.
(***) "Pożyczka Ekspresowa" (Express Loan).

Individual clients

In 2015, Bank Pekao S.A. consequently realized the strategy of growth in retail customer segment providing services for individual clients and small and micro enterprises.

The total value of new key loans (Express Loan, mortgage loans) granted to individual clients amounted to ca. PLN 14 billion and was higher by 12% in comparison with 2014.

The value of retail deposits placed in the Bank increased by the amount of PLN 8.0 billion which resulted in an increase in the total balance of retail deposits by 14.7% in comparison with 2014.

Bank Pekao S.A. is one of the leaders in payment services in Poland. In 2015, the Bank strengthened its position in this area issuing to its customers 614 thousand new debit and credit cards ensuring twofold increase in sales in comparison with 2014. In 2015, the Bank's offer was extended by new payment cards with innovative functionalities: multicurrency cards, Flexia credit card with the opportunity to reschedule selected payments and multifunctional electronic student card with the payment function.

In 2015, the number of customers with an access to the mobile banking exceeded 1 million and the number of active customers using mobile banking increased more than twofold. In the area of PeoPay mobile payment system, the Bank was focused on promotion of contactless payments in HCE technology which the Bank introduced in 2014 as the first bank in Poland and one of the first in the world. The second important area of development of PeoPay mobile payments was the extension of acceptance points on e-commerce market where thanks to use of QR codes in the process of transactions authorization, PeoPay became one of the fastest and most convenient payment methods.

In the Bank's offer dedicated to young customers are, among others, such products as packages of Eurokonto Kieszonkowe (Eurokonto Pocket Money), Eurokonto Intro, Eurokonto Mobilne, Mój Skarb account (My Treasure account), student loans, multcurrency card, mobile banking, PeoPay and mortgage loans in the framework of government program "Mieszkanie dla Młodych". In 2015, the Bank conducted two editions of marketing campaign dedicated to person under 30 years of age, promoting individual accounts, cards and PeoPay payments. The Bank focused on local activities, mainly in schools and universities, promoting innovative services and banking products. Within the framework of the Academy of Finance of Bank Pekao S.A., over 1,000 actions were realized throughout Poland. The Academy aims to provide students with the most important rules of the bank day-to-day services, secure management of savings and knowledge of the innovative banking products.

Savings and investment products

Thanks to a wide range of deposit products and dedicated commercial actions, in 2015 there was noted an increase in deposits volume of retail customers. The most popular among the customers were the Internet deposits (e-lokata) and negotiable deposits.

In 2015, the Bank continued development of the Premium Personal Banking under which the Bank provides to its customers the highest standards of service, opportunity to adjust selected parameters of the offer to the customers individual needs and expectations and assistance of qualified Premium Personal Advisers.

In 2015, the Bank introduced to its offer new investment funds and structured products which ensures 100% capital protection at the end of investment:

– Strefa Inwestycji Premium – investment-insurance product of TU Allianz which allows acquisition of selected funds managed by Pioneer TFI, TFI Allianz, ING TFI, Union Investment TFI, Schroders, Franklin Templeton Investments and J.P. Morgan Asset Management,

– fund Pioneer Wzrostu i Dochodu Rynku Amerykańskiego – product of a mixed nature of assets, investing in the US stocks and bonds market,
– fund Pioneer Alternatywny – Globalnego Dochodu investing in different assets class on the global market,
– fund Pioneer Alternatywny – Absolutnej Stopy Zwrotu investing in different assets class on the global market in order to achieve a positive return regardless of the economic situation,
– Structured Certificates of Deposit (6 issues) based on volatility of exchange rate of CHF/PLN and EUR/PLN,
– IKE pension program and program of regular savings PAK extended by 10 new Pioneer funds,
– program of regular savings Moja Perspektywa extended by new portfolio – Portfel Globalny consisting of the following funds of Pioneer: Strategii Globalnej, Alternatywny – Globalnego Dochodu, Pieniężny Plus,
– Super Basket program extended by new portfolios Strategii Globalnej and Zrównoważony Azjatycki,
– IKZE program within the Portfel Indywidualny extended by 28 new funds.

Lending products
The Bank offers to its individual clients a wide range of lending products, including first of all PLN mortgage loans and consumer loans Express Loan (Pożyczka Ekspresowa). In 2015, the Bank consequently realized the strategy of strengthening its position on housing and consumer goods financing market.

Mortgage loans
In 2015, value of PLN mortgage loans granted by the Bank amounted to PLN 7.4 billion and was higher by 10% in comparison with 2014. The Bank's share in new sale of mortgage loans amounted to 19.1% in 2015 vs. 18.2% in 2014.

The Bank is the leader in mortgage loans granting under the government program "Mieszkanie dla Młodych" ("Apartment for the Young") supporting the persons aged up to 35 in acquisition of the first new apartment. In 2015, the Bank's market share in the sale of these loans amounted to 39%.

The mortgage loans offer of the Bank was adjusted and updated to changing market conditions and customer needs and mortgage loans granting process was adopted to the Recommendation U. The Bank conducted also local and country-wide promotional activities of mortgage loans, including promotional campaigns in the Internet and internal channels of marketing communication as well as participated on a regular basis in real estate fairs organized all over the country.

Consumer lending
In 2015, the value of cash loans granted amounted to PLN 6.5 billion and was higher by 14% in comparison with 2014.

The Bank provides transparent and attractive offer of the Express Loan (Pożyczka Ekspresowa) and focus its activities on strengthening the relationship with customers, among others, through preparation of individual loan offers with the use of CRM tools as well as electronic channels including website dedicated to consumer loans, the Pekao24 system and mobile application.

In 2015, the Bank introduced new, fast cash loan granting process through the Internet "Klik Gotówka" ("Cash Click") in the Pekao24 system for the selected customers of the Bank. Loan disbursement is automatically processed after approval of agreement in the Pekao24 system. The offer was also extended by the opportunity to buy credit card.

The Bank unified the maximum loan period of the Express Loan for all customers and adjusted process of insurance sale to the Recommendation U of the Financial Supervision Authority on good practices in bancassurance addressed to the banking sector.

In 2015, the Bank continued marketing activities to promote loans offer through such communication channels as website dedicated to consumer loans, the Pekao24 system, mobile application and conducted promotional campaign on TV.

Payment cards
In 2015, the bank's offer in the area of payment cards for individual customers was extended by multicurrency debit card MasterCard Debit FX and Flexia credit card.

Multicurrency debit card MasterCard Debit FX is the first card on the Polish market with innovative multicurrency functionality that enables execution of transactions in PLN as well as foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card's connection with corresponding currency accounts. Supplementation of offer for multicurrency debit card holders is an offer of foreign currency exchange available in the Pekao24 system.

Flexia card is an innovative solution, that combines the advantages of a credit card with the ability to reschedule selected payments. The customer has opportunity to select transactions that will repay in installments and does not have to decide on repayment in installments at a time of purchase. Such a decision may be taken at any time during settlement period. Repayment may be fixed by the customer in the Pekao24 system as well as through Call Center or in the Bank's outlet.

At the Woodstock Music Festival, Bank Pekao S.A., in co-operation with the Great Orchestra of Christmas Charity, prepared for the consecutive time a payment card with the image of the largest music festival in Poland. During the Festival the Bank promoted non-cash payments providing opportunity to execute payments using payment cards and the PeoPay mobile application.

On the occasion of the 23rd edition of the Pekao Szczecin Open tennis tournament, special and limited edition of debit card was issued to Eurokonto account with the image of the tennis tournament.

Activity of Bank Pekao S.A. Group

Additionally, the Bank in co-operation with partners of the Discount Program Galeria Rabatów prepared an offer of special rebates for purchases and services executed with the use of payments card with the image of the tennis tournament.

In 2015, in the framework of cards development, payment card which combines functionality of student and library card with the payment function was introduced to the Bank's offer. The first university with which the Bank signed an agreement on co-operation was Katolicki Uniwersytet Lubelski (The Catholic University of Lublin).

Moreover, the Bank's customers were provided with ability to customize image of credit and debit cards to their individual preferences by selecting card image from several proposals available in the catalogue. It was highly appreciated by the customers, now every second customer uses this opportunity.

Brokerage activity

Bank Pekao S.A. Group offers a wide range of capital market products and services through retail brokerage entities: Dom Maklerski Pekao (Dom Maklerski), a subsidiary Centralny Dom Maklerski Pekao S.A. (CDM) and associated entity Dom Inwestycyjny Xelion Sp. z o.o. (Xelion).

At the end of 2015, the brokerage entities maintained 346.1 thousand investment accounts and offered to its clients an electronic service of investment accounts allowing to buy and sell all instruments listed on the Warsaw Stock Exchange (WSE) and on the BondSpot market via the Internet. At the end of 2015, the Group's brokerage entities serving 181.8 thousand accounts with an active access to services through remote channels.

As of December 31, 2015, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 22.4 billion.

In the third quarter of 2015, activities of the Group's brokerage entities were focused on new customers acquisition and development of tools to improve the quality of customer service via remote channels. The Pekao24 mobile application with brokerage module that allows customers of Dom Maklerski to realize orders and transactions as well as to view listings is available for the operational systems of iOS, Android and Windows Phone.

Electronic banking for individual clients

The Pekao24 electronic banking system for individual clients allows to manage funds on accounts through the Internet, mobile application and phone. The Bank's individual clients are provided with the Internet electronic banking system that enables to execute almost all operations available in the Bank's outlet. The mobile application, which is one of the most advanced application on the market, allows to execute majority of operations available in the Internet system and access to additional functionalities such as geo-location of ATMs, branches and rebate points as well as to track market information.

The Pekao24 Internet banking system and mobile application additionally allow the individual clients to manage funds on brokerage accounts held by Dom Maklerski.

In 2015, the Bank introduced in the Internet system and the Pekao24 mobile application the opportunity to conclude a cash loan agreement with credit card and simultaneous loan disbursement on the customer's account immediately after approval of documents ("Klik Gotówka").

Moreover, the Bank introduced in the Pekao24 Internet system the opportunity to sign agreement on foreign currency account, saving account for customer or a child and debit card issuance. The legal representatives of minors were also provided with an access to minors' accounts in the Pekao24 system.

Within the scope of payment service development the Bank offers to its clients convenient and secure system of mobile payments PeoPay that allows, among others, payments execution in all terminals accepting contactless payments in Poland and worldwide, fast online payments, immediate payments to system users on telephone number and cash withdrawal from the Bank's ATMs without payment card.

Since 2015, the customers using the Pekao24 electronic banking system when executing the payments online can realize prompt payments up to PLN 100 without necessity to log on to the Internet banking through the PayU Express service.

As at the end of December 2015, the number of individual users with an access to the Pekao24 system amounted to 2,899.4 thousand. In the fourth quarter of 2015, 1,576.8 thousand individual users logged in to the electronic banking services.

As at the end of December 2015, the number of individual users with an access to mobile banking amounted to 1,014.6 thousand. In the fourth quarter of 2015, 509.2 thousand of individual users logged in to the mobile service m.pekao24.pl, the Pekao24 mobile banking application or the PeoPay application.

(in thousand)

	31.12.2015	31.12.2014
Number of individual users with an access to electronic banking Pekao24 as at the end of period	2,899.4	2,661.2
Number of individual users actively using electronic banking Pekao24 (*)	1,576.8	1,448.4
Number of individual users with an access to mobile banking as at the end of period (**)	1,014.6	595.9
Number of individual users actively using mobile banking (***)	509.2	229.9

(*) User actively using electronic banking is a user who logged in to the system at least once during the last quarter.
(**) User actively using at least one of the following mobile solutions: the mobile service m.pekao24.pl, the Pekao24 mobile banking application or the PeoPay application.
(***) User actively using mobile banking is a user who logged in to the mobile service m.pekao24.pl or the Pekao24 mobile banking application or the PeoPay application at least once during the last quarter.

Private Banking
Bank Pekao S.A. is the leader on the Private Banking market in terms of assets under management. Customer service model is based on the professional care of dedicated advisers who provide customers with product solutions customized to their individual needs and market situation. The group of advisers consist of experienced employees holding certificates of qualification of reputable institution European Financial Planning Association. The advisers are supported by assistants and product specialists teams what combined with a unique experience and knowledge of local market and global know-how of UniCredit Private Banking allows to maintain high level of services and to develop an offer for most demanding customer segment.

In 2015, activities in the Private Banking area focused on developing of the Bank's offer as well as on initiatives aiming at attracting new customers and strengthening relations with existing ones. These activities translated into nearly 5% increase in the number of customers and 14% increase in assets under management in comparison to 2014.

The prestigious payment cards offer was further expanded by the World Elite package. Within the framework of product offer modification, the previous credit card Pekao MasterCard World Signia was replaced by the Pekao MasterCard World Elite with a personalized set of services. Prestigious cards offer was extended by multicurrency debit card World Elite Debit MasterCard connected with Eurokonto Prestiż. The World Elite Debit MasterCard is the first card on the Polish as well as European market with innovative multicurrency functionality that enables execution of transactions in PLN and foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card's connection with corresponding currency account. The card provides the attractive package of additional services, including domestic insurance. Both, debit and credit cards are available in unique design with the option to choose black or white plastic. The prestigious payment cards offer and sale supporting actions with the simplified loan granting procedure for selected group of customers contributed to doubling cards sale (increase by 117% as compared to 2014).

In September 2015, the new service of investment advisory was implemented to the offer, which is based on providing individual investment recommendations that take into account the needs and situation of the client. Recommendations can be implemented using a wide range of deposit and investment solutions, available in the Bank and through the Centralny Dom Maklerski Pekao S.A.(CDM). The aim of the service is to adapt the client's investment portfolio to the specific, individually prepared investment profile, called Reference Portfolio. The service of investment advisory ensures a personalized approach to the client, global diversification of investment instruments selection and access to the knowledge of the Bank's experts. The service covers also financial instruments that are not listed on regulated market i.e. units of open-ended investment funds, as well as insurance-investment solutions, including structured products and insurance-investment products.

Within the framework of investment offer, the clients were offered through CDM Pekao S.A. with certificates of the three closed-end investment funds. Moreover, open-end investment funds offer was expanded by new sub-funds.

In 2015, five subscriptions of structured deposits "Indeks na Zysk" were conducted. Four of them were based on PLN exchange rate vs other currencies. The remaining type of deposit was linked to the European banks stock index, with the expectation that its value would go up within two years. As interest rates were continually going down, Indeks na Zysk deposits proved to be very popular among clients.

Changes in insurance and investment products were implemented as a result of the Recommendation U on good practices in bancassurance directed by the Financial Supervision Authority to the banking sector as well as fees for life insurance service connected with insurance capital funds Plan Inwestycyjny Prestiż were optimized. In addition, the list of available capital insurance funds was also extended by the selected solutions offered by Union Investment TFI SA.

Moreover, the Private Banking clients were provided with the opportunity to use free-of-charge advice of intergeneration financial and wealth planning expert within the scope of the latest trends in management of private assets. The expert provides a consultancy-advisory service in financial matters which may be helpful in analyzing of the various asset components and factors relevant in succession planning process.

In 2015, during the meetings organized by the Bank for customers, experts from the Bank and selected investment funds discussed investment directions and trends on the financial markets.

Private Banking customers benefited from the opportunity to participate in the events such as Gala Paszporty Polityki, Filharmonica della Scala concert, Łódzkie Spotkania Baletowe, tennis tournament Pekao Szczecin Open, Champions League football tournament and prestigious meeting associated with Forbes magazine announcement of a list of 100 Polish billionaires in 2015.

Small and micro enterprises (SME)

In 2015, the Bank continued activities focused on strengthening its market position in the area of small and micro enterprises, including also AGRO sector, enrichment and promotion of products offer and acquisition of new customers.

The Bank introduced to its offer new products, among others, Pożyczka Expresowa Biznes (Business Express Loan) for financing expenses related to business activity without the need to indicate the loan purpose as well as working capital loans to finance contracts with extended maturity date up to three years and investment loan for refinancing capital expenditures.

Activity of Bank Pekao S.A. Group

The offer for agri-food sector customers was extended by a new solution giving opportunity to diversify amount of repayment addressed to farmers whose activity is subject to seasonality.

In addition, the loan offer was extended by "Unia" loan due to launching of the first programs financed by EU within the budget for 2014-2020. "Unia" loan is a working capital loan dedicated to customers applying for EU grant.

In the offer of preferential loans (The Agency for Restructuring and Modernisation of Agriculture – ARMA) the Bank started implementation of ARMA preferential loans with subsidized capital and interest for farmers and companies from food processing sector.

In the fourth quarter of 2015, the Bank signed two agreements with Bank Gospodarstwa Krajowego on co-operation regarding loan for technological innovations and portfolio guarantees under the UE program COSME.

In 2015, the Bank's offer was enriched by new Mój Biznes packages. Apart from the standard packages for all groups of customers, specified groups of customers, i.e. farmers and enterprises of agri-food sector, communities and housing associations as well as non-profit organizations were provided with dedicated accounts.

In 2015, the Bank introduced to its offer new payments cards for small and micro enterprises: debit card Visa Business, multicurrency debit card MasterCard Business that enables execution of transactions in PLN and foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card's connection with corresponding currency accounts and credit card Visa Business which allows for modern and flexible execution of payments for goods and services purchased by a company and usage of Pakiet Trwałych Korzyści by credit card holders, i.e. attractive discounts and special offers from the Bank's business partners.

In 2015, the Bank as the first bank in Poland introduced to offer an innovative program of benefits for farmers and their families. It is a unique formula that combines benefits dedicated to farmers, their families, farms and enterprises from agri-food sector. The main products are cards Agrar of Bank Pekao S.A. The customer using Agrar cards are provided with a discount in purchase of plant protection products, fuel, spare parts, maintenance of agricultural machinery and new cars. Debit and credit Agrar MasterCard can be issued to business or individual account.

In 2015, the number of POS terminals with the Internet connection, introduced for sale in the second quarter of 2015, significantly increased. In the second half of 2015, the share of the terminals in new sale accounted for nearly 50% of all devices for payment cards acceptance.

The Bank at a conference held in Warsaw presented the fifth edition of report "Raport o sytuacji mikro i małych firm" (Report on the situation of SME clients). The report has been prepared based on nearly 7 thousand interviews conducted with the enterprises' owners employed up to 49 persons. The special subject of this edition were innovations in micro and small companies.

Electronic banking for SME clients

SME customers of the Bank use the PekaoBiznes24 system with extensive Internet banking and fully transactional mobile application while the Pekao24 system for entrepreneurs is dedicated to self-employed customers. Both systems are an integral part of Pakiety Mój Biznes (My Business Package).

The business clients accepting payments through the POS terminals are provided by Bank Pekao S.A. with modern mobile solutions PeoPay mPOS. The application is installed in mobile phone and allows to receive payments executed by the customer through PeoPay application.

As at the end of December 2015, 247.6 thousand business users had an access to the electronic banking systems, of which 164.6 thousand were active users. The number of business users with an access to the electronic banking systems increased by 7.0 thousand compared to the end of December 2014.

(in thousand)

	31.12.2015	31.12.2014
Number of business users (SME) with an access to the electronic banking systems as at the end of period	247.6	240.6
Number of business users (SME) actively using electronic banking systems (*)	164.6	159.5

(*) User actively using electronic banking is a user who logged in to the systems at least once during the last quarter.

As at the end of December 2015, 17.8 thousand business users had an access to the mobile banking application, of which 10.7 thousand were active users. The number of business users with an access to the mobile banking application increased by 5.1 thousand compared to the end of December 2014.

(in thousand)

	31.12.2015	31.12.2014
Number of business users (SME) with an access to the mobile banking as at the end of period	17.8	12.7
Number of business users (SME) actively using the mobile banking (*)	10.7	8.6

(*) User actively using mobile banking is a user who logged in to the system at least once during the last quarter.

Corporate customers

In 2015, Bank Pekao S.A. maintained leading position on the market of corporate clients financial servicing. The Bank's activities were focused on enriching product offer according to the clients' needs and expectations.

The Bank consistently realizes strategy of financing economic development, actively supporting projects of the Polish companies and corporations. Thanks to the financing of infrastructure and key industries the Bank is the undisputed leader of the entities actively engaging in the development of local communities and improvement the quality of life in Poland.

In 2015, the Bank was a financing entity and partner of many prestigious projects of the largest companies and public sector entities.

The Bank realized also initiatives aiming at sales increasing and strengthening relationships with corporate customers and products offer development and optimization of service processes contributed to the maintaining of leader position in transactional banking.

Transactional services

The Bank holds leading market position in a comprehensive offer of services and products for the clients of transactional services and awards granted by independent assessment institutions confirm the high quality of services.

In 2015, the Bank extended product offer responding to expectations of corporate customers and intensified activities to support clients in the area of secure usage of electronic banking solutions.

In the area of payment cards two new cards were offered to the clients. Multicurrency debit card MasterCard Corporate Debit FX Pekao that enables execution of transactions in PLN and foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card's connection with corresponding currency accounts. The multicurrency card was distinguished in the contest "Najlepszy w 2015 roku system/aplikację/urządzenie IT do obsługi systemów kartowych w Polsce" (2015 Best system/application/IT device for servicing card systems in Poland) during VIII Conference Central European Electronic Card. Credit card MasterCard Corporate Credit Pekao, which in contrast to existing cards with deferred repayment, allows customers to reschedule repayment and make transfers from the credit card.

In addition, the Bank's offer was extended with a new product Open Escrow Housing Account for developers (escrow account). The main feature of this product is to protect the funds of purchasers collected for housing purposes and disbursement in stages in favour of developers in accordance with schedule of investment realization and after control conducted by the Banking Supervisory Inspector.

In 2015, the clients were also provided with opportunity to process foreign transfers in express mode allowing the customers to manage settlements with counterparts flexibly and settle foreign transfers in ten currencies at the value date. Overall the Bank performs transactions in 136 currencies.

In the area of depository and custodial services, in 2015, the Bank's clients assets increased significantly thanks to the acquisition of assets of one of the largest foreign custodial banks. Additionally, in 2015, the Bank started to process netting, i.e. settlement of customer transactions in an aggregate form, ensuring simplified settlement process.

Trade finance

In the area of trade finance, Bank, as in previous years, maintained high market position.

Within the scope of trade finance, thanks to implementation of new models of chain supply with entire control of debtors over invoices, the Bank strengthened its position of supporting partner for customers' counterparties. In 2015, the number of invoices in the eFinancing service increased by over 6% in comparison to 2014 and the Bank's market share within the scope debt financing reached the level of 20%. The Bank started the unification process of the service model for eFinancing and Kredyt Zaliczka to improve process of transactions monitoring and increase security of debt financing portfolio.

Full range of trade finance products offered by the Bank are also available in electronic banking system PekaoBiznes24. In 2015, the number of transactions ordered through electronic channels for import L/Cs, for the consecutive time exceeded 90%. Customers eagerly use dedicated trade finance modules on the PekaoBiznes24 platform such as PekaoTrade and Gwarancje OnLine which contributes to significant reduction of operational risk and acceleration of transaction process.

International transactional banking

In the area of International transactional banking, the Bank implemented a new channel for realization of SEPA transfers. From the first quarter of 2015, SEPA transfers can be processed through the EuropeanGate Target Location service that allows international customers to manage the accounts of subordinated entities in one system through selected bank belonging to UniCredit Group.

The SEPA transfer processing expanded the EuropeanGate transactions package, which include domestic transfers, thereof transfers to tax office and ZUS (Social Insurance), SORBNET transfers, direct debits and foreign payments.

Electronic banking

The electronic banking system PekaoBiznes24 that offers a wide range of services, the highest standards of security and flexibility in management of user access is dedicated to large companies, corporations and local government units.

In 2015, the Bank's offer for corporate customers within the scope of electronic banking was extended, among others, by:

- PekaoBiznes24 Mobile application, which allows the use of wide range of functionalities of the system, in particular processing of all types of payments via mobile phones and other mobile devices,
- new variants for processing transactions for standing orders and automatic settlements that allow flexible management of deadline and frequency of payment orders,

Activity of Bank Pekao S.A. Group

- opportunity to use SEPA XML format of import orders which is particularly significant for international clients. XML format complies with ISO 20022 and starting from October 1, 2016 will be compulsory according to implementation of "SEPA END DATA" regulation.

The Bank enables remote management of users privileges and electronic banking services. In 2015, over 97% applications were processed fully automatically that confirms active usage of this solution by the customers.

In 2015, it increased the number and volume of both incoming and outgoing foreign payments, in particular SEPA transfers increased by 30% as compared to 2014 which confirms the increasing popularity of this type of settlement and the attractiveness of the Bank's offer in respect of efficient settlements, convenient cut-off times and the functionality of electronic banking system.

Investment banking, structured financing and commercial real estates

In 2015, the Bank actively supported the Polish economy in all of its sectors through financing development of key enterprises on the market. The Bank participated, among others, in the following projects:

- financing of development one of the most dynamic retail chain, amount of financing accounted for PLN 1.3 billion,
- financing of nationwide retail chain, amount of financing accounted for over PLN 500 million,
- co-operation in financing of a leading company from energy sector, syndicated loan, in which the Bank's share accounted for PLN 500 million,
- financing of modernization and development of a company from transportation sector, the amount of loan accounted for PLN 350 million,
- financing of one of the leading company from fuel industry, amount of financing accounted for PLN 300 million,
- financing of a company from fashion segment, amount of financing accounted for over PLN 200 million,
- financing of investment associated with foreign expansion of Polish company, the amount of loan accounted for PLN 120 million,
- syndicated financing of wind farm, the Bank's share accounted for nearly PLN 90 million,
- financing of investment of leading developer, the amount of loan accounted for nearly PLN 70 million,
- financing of innovative concept of shopping centers, amount of financing accounted for EUR 14 million.

Financial markets and commercial debt instruments

The Bank extended its offer of hedging products by Commodity Hedge, i.e. transactions that enable the customers to reduce the risk of changes in commodity prices, e.g. petrol, gas, metal or agricultural products. In 2015, the Bank as active participant on OTC market began co-operation with LCH Clearnet clearing house allowing the Bank to settle this type of transactions through so called central counterparty. The Bank was not only one of the first banks on the Polish market which started to settle the interest rate derivatives transactions through new KDPW_CCP clearing house but participated also in the project of its creation co-operating in development of functioning standards of the clearing house.

The Bank adjusted also internal regulations to the Volcker Rule (part Dodd-Frank Act) act regarding transactions with US related entities.

In the area of commercial debt securities issues, the Bank conducted, among others, the following issues of the medium term bonds:

- 5-year bonds for the total amount of PLN 1 billion for one of the leading group operating in energy sector in Poland,
- 5-year covered bonds for the amount of PLN 300 million for a company, which is a leading hotel operator in Poland and the region,
- 5-year bonds for the amount of PLN 200 million for entity belonging to the international capital group that offers consumer loans,
- 5-year bonds for the amount of PLN 100 million for listed company operating in housing contractor sector,
- 7-year bonds with fixed rate for the total amount of PLN 125 million for domestic stock exchange of financial instruments,
- 5-year bonds for the amount of PLN 100 million for one of the largest wholesale distributors of pharmacies in Poland.

The value of middle term bonds issued through the Bank and traded amounted to ca. PLN 14 billion as at the end of 2014. In addition, the Bank signed 19 new agreement on debt securities issues for local government units for the amount of nearly PLN 376 million.

Comprehensive services for the public finance sector

In 2015, the Bank consequently continued strategy of maintaining a leader position of local budget infrastructure financing projects and the leading bank financing the Polish local budgets. In 2015, the total volume of new transactions financing local budget infrastructure projects, budget of the Polish cities and voivodeships as well as local utility companies amounted to over PLN 2 billion.

The Bank provide financing for 8 Polish airports, including development of infrastructure of the largest airport in a form of bonds issuance for the amount of PLN 600 million and development one of the largest local domestic airports that confirms strong position on the market of airport infrastructure financing in Poland. The Bank successfully completed significant transactions of structured financing relating to waste utilization (PLN 300 million) and regional and local public transport of the largest cities in Poland (PLN 400 million). Moreover, the Bank financed the technological and industrial parks, academic infrastructure and infrastructure for stimulation and development of IT society.

As in previous years, the Bank granted loans and organized bonds issues for financing local budgets in Poland (total amount of PLN 660 million) and conducted current servicing for the Polish largest cities and 5 voivodeships.

Co-operation with international and domestic financial institutions
The Bank maintains correspondent relations with 2.3 thousand foreign and domestic banks (by number of swift keys).

At the end of 2015, the Bank maintained 68 nostro accounts in 28 countries and 49 banks. The Bank kept 292 loro accounts and current accounts for foreign and domestic financial entities, including 219 loro accounts for 207 foreign customers (banks and other financial institutions) in 48 countries and 41 current accounts for 39 foreign financial institutions.

The Bank intermediates in execution of transactions for customers of other domestic banks, keeping 32 loro accounts for 11 Polish banks and maintaining 6 nostro foreign currency accounts in 1 Polish bank used for clearing of securities transactions and other custodial operations.

The Bank renders also services for the Polish banks and branches of foreign banks in Poland related to purchase and sale of foreign and domestic currencies.

In 2015, the Bank enhanced product offer for correspondent banking customers and clearing services for the banks holding loro accounts.

According to requirements of Basel III, the Bank implemented modification for formatting MT910 messages (Confirmation of Credit) which allow customers effective reporting of transactions and liquidity management.

The Bank achieved a high level of STP rate (Straight Through Processing) of processing customers and interbank transactions which resulted in receiving awards from nostro correspondents.

Financing projects co-financed from EU funds for the years 2014 – 2020
In 2015, the Bank's offer were extended by "Unia" loan and loan for technological innovation. These products allow to finance projects co-financed by EU funds within the budget for 2014-2020.

"Unia" loan is financing all types of EU projects while loan for technological innovation is the Bank's proposal addressed to customers implementing innovative technologies and launching production of new or significantly improved products, processes and services based on these technologies.

Thanks to commitment in co-operation with international financial institutions and product offer adjustment to EU funds under budget for 2014 – 2020 Bank Pekao S.A. is one of the leaders in financing enterprises using EU funds.

Major Areas of Activities of the Group's Subsidiaries

Bank Pekao S.A. is one of the leading providers of banking services and groups together a number of financial institutions active in the asset management, pension funds, brokerage services, transactional advisory, leasing and factoring markets.

Dom Maklerski Pekao (Dom Maklerski), Centralny Dom Maklerski Pekao S.A. (CDM) and associated entity Dom Inwestycyjny Xelion Sp. z o.o. (Xelion) are specialized entities rendering brokerage services within the Group, which provide retail customers with a wide range of products and services on the capital markets.

Below are described the areas of operations of the Group's key companies from the financial sector.

Banking activity

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny
In 2015, Pekao Bank Hipoteczny, as a specialized mortgage bank, continued to pursue its strategy focused on the creation of a secure loans portfolio, strived to maintain competitive position on the market of commercial properties, as well as loans for purchase, construction, refurbishment or modernization of housing loans to individuals.

At the end of 2015, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 2,063.5 million, an increase by PLN 316.3 million, i.e. 18.1% in comparison to 2014. Loans granted to corporates and local governments represent 56.0% and loans granted to individual clients represent 44.0% of loan portfolio structure.

In 2015, within the framework of a strategy focused on co-operation with Bank Pekao S.A., the volume of new commercial real estate loans accounted for 81.5% of total loan sales.

In 2015, within the second Program of Covered Bonds to bearer, bank successfully conducted two public issuances of covered bonds denominated in foreign currency. The total value of liabilities due to covered bonds amounted to PLN 1,293.0 million as at December 31, 2015.

Assets management

Pioneer Pekao Investment Management S.A. – PPIM
As at December 31, 2015, the net asset value of investment funds of Pioneer Pekao TFI S.A. (a company managed by Pioneer Pekao Investment Management S.A. in which the Bank holds a 49% share), amounted to PLN 16,702.5 million, a decrease of PLN 412.6 million, i.e. 2.4% as compared to the end of 2014 due to difficult situation on the capital markets.

Activity of Bank Pekao S.A. Group

Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. – Pekao Pioneer PTE
Pekao Pioneer PTE activity is the management of an open-end pension fund (Pekao OFE), in which pension contributions are pooled and invested with the aim of their distribution to unit holders after they reach retirement age and voluntary pension fund (Pekao DFE) which allows collecting of additional funds with a number of advantages of this form of saving.

As at the end of 2015, the value of the pension fund's net assets was PLN 2,046.5 million and Pekao OFE held 1.5% share in the market of open-end pension funds, i.e. on the similar level in comparison to 2014.

Leasing activity

Pekao Leasing Sp. z o.o. – Pekao Leasing
Pekao Leasing provides financial services supporting purchases and sale of fixed assets, i.e. vehicles, plant and equipment, and office space, both in the form of operating and finance leases.

In 2015, the Company concluded 9,636 new agreements. The value of leased assets increased in comparison to 2014 by 8.7% and amounted to PLN 2,023.8 million, of which 61.6% were vehicles, 32.9% – plant and equipment, 0.3% – real estates and 5.2% – others.

Under the program of co-operation between Pekao Leasing and Bank Pekao S.A. in the area of sale, the value of assets leased via the Bank's branches amounted to PLN 1,366.7 million, i.e. 67.5% sales of the Company and increased by 11.4% in comparison to 2014.

Factoring activity

Pekao Faktoring Sp. z o.o. – Pekao Faktoring
The Company, besides the full range of factoring services (recourse and non-recourse factoring), offers additional services, such as collecting information on debtors' standing, payments collection, debt recovery, settlements accounting and monitoring of payments on an ongoing basis. Additionally, the Company offers settlement of mass transactions, financial advisory and consulting services regarding selection of business financing methods, as well as extending factoring-related loans. The Company co-operates with Bank Pekao S.A. in developing new sales channels and enhancing sales through the existing ones.

The Company is ranked the fourth on the Polish factoring market, with 10.8% of market share.

Transactional advisory

Pekao Investment Banking S.A. – PIB
Pekao Investment Banking S.A. operates as brokerage house, focusing on institutional and corporate clients service. The scope of services provided by PIB include in particular receiving and transferring financial instruments to buy or sell orders, execution of these orders on the account of orders provider, offering financial instruments, advisory for corporates within capital structure, corporate strategy or other issues related to such structure or strategy.
PIB offers also advisory and other services related to mergers, demergers and corporates acquisition.

PIB acts also as animator both on equities as well as on derivative instruments market, being one of the most active animators.
As at the end of 2015, PIB was the animator for 25 companies.

In 2015, PIB acted as an entity offering shares of three entities on the WSE and acted as the entity offering retail bonds issued by a leading developer of commercial real estate in Poland (three series of bonds were issued and introduced to trading on the regulated market). PIB successfully provided its advisory in processes of sale of the companies (including, among others, from financial sector in CEE) and mergers of companies (among others in energy and services sectors).

Other financial services

Centrum Bankowości Bezpośredniej Sp. z o.o. – CBB
Centrum Bankowości Bezpośredniej Sp. z o.o. offers services of a financial intermediary, as well as comprehensive services through alternative channels of communication for clients from non-banking sector.

CBB supports the Bank Pekao S.A., as a major customer, in the use of online banking, cards and call center products. The company in its operations serves customers through alternative channels of communication, including, above all, by phone and mailing (both traditional way and electronic). The main channel of communication are the phone calls – in 2015 CBB handled 12.7 million calls (an increase of 6% compared to 2014).

The company runs with the Bank a number of projects aimed at developing communication with customers of Bank Pekao using mobile banking.

Pekao Financial Services Sp. o.o. – PFS
Pekao Financial Services Sp. z o.o. outsourcing services to financial institutions in the field of operational solutions and technology, use of fund participants, as well as independent distribution of the funds. Operational and technological solutions are focused on providing customers with services of the highest quality and safety.

PFS being the Transfer Agent, specialises in registers of participants in mutual and pension funds.

Among the clients served by the PFS there are companies with established market position. At the end of December 2015, the company maintained its leading position in the funds OFE using the services of external Transfer Agent.

Centrum Kart S.A. – CK S.A.

The Company renders comprehensive services that include, among others, maintenance of payment card management systems, authorization of transactions and card personalization.

In 2015, CK S.A. continued realization of important IT projects allowing the extension of a range of products offered by Bank Pekao S.A.

The main projects realized in 2015 included implementation of multicurrency payment cards and payment cards with personalized image as well as extension of DCC service for all service provider.

I'd rather play basketball...

Let's talk about your investments.

Zuzia's father thinks his daughter has a future as a ballet dancer. But, it seems, she has a completely different career plan. Today, she imagines herself on a basketball court, and tomorrow she can see herself on stage... The girl changes her mind about the future every day, but, at her age, it's perfectly normal.

For Zuzia's dad one thing is certain – he wants to secure her financial future, no matter what she does in a dozen or so years. That's why, he signed up for the Investment Advisory Service for Private Banking clients of Bank Pekao S.A.

We are aware that each client expects an individual approach to their investments and, at the same time, would like to be free to make key decisions. Our advisors are professionals with many years of experience in the financial sector. They recommend solutions tailored to their client's needs and the prevailing market situation, taking into account the client's financial or life situation.

Zuzia can attend ballet lessons today, play basketball tomorrow, and go to singing lessons two days later... Owing to her father's shrewd investments, all her decisions are good choices.

Statement of Financial Position and Financial Results

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Statement of Financial Position and Financial Results

Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 31 December, 2015 and 2014 respectively is presented in the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015.

The Report on activities of Bank Pekao S.A. Group for 2015 includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements are discussed.

Structure of the Consolidated Statement of Financial Position – Short Form

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of December 2015, the total assets of Bank Pekao S.A. constitutes 98.2% of the total assets of the whole Group.

The table below presents the Group's statement of financial position – short form.

	31.12.2015		31.12.2014		
ASSETS	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Cash and due from Central Bank	7,881.6	4.7%	9,226.3	5.5%	(14.6%)
Loans and advances to banks (*)	7,319.0	4.3%	7,175.9	4.3%	2.0%
Loans and advances to customers (**)	122,054.9	72.3%	114,978.1	68.6%	6.2%
Securities (***)	22,308.5	13.2%	25,161.2	15.0%	(11.3%)
Investments in associates	149.0	0.1%	184.2	0.1%	(19.1%)
Property, plant and equipment and intangible assets	2,097.4	1.3%	2,171.2	1.3%	(3.4%)
Other assets	6,975.2	4.1%	8,728.1	5.2%	(20.1%)
Total assets	**168,785.6**	**100.0%**	**167,625.0**	**100.0%**	**0.7%**

(*) Including net investments in financial leases to banks.
(**) Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.
(***) Including financial assets held for trading and other financial instruments at fair value through profit and loss.

	31.12.2015		31.12.2014		
EQUITY AND LIABILITIES	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Amounts due to Central Bank	0.9	0.0%	1.0	0.0%	(10.0%)
Amounts due to other banks	5,958.4	3.5%	5,344.7	3.2%	11.5%
Amounts due to customers	128,867.7	76.4%	125,609.0	74.9%	2.6%
Debt securities issued	2,903.2	1.7%	3,857.0	2.3%	(24.7%)
Other liabilities	7,631.2	4.5%	8,767.6	5.3%	(13.0%)
Total equity, including	23,424.2	13.9%	24,045.7	14.3%	(2.6%)
non-controlling interests	16.0	0.0%	28.0	0.0%	(42.9%)
Total equity and liabilities	**168,785.6**	**100.0%**	**167,625.0**	**100.0%**	**0.7%**

Assets

Changes in the structure of assets

Loans and advances to customers and securities represent items of the largest value under assets. As at the end of 2015, they accounted for 72.3% and 13.2% of the total assets respectively in comparison with 68.6% and 15.0% respectively as at the end of 2014.

Cash and due from Central Bank

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
Cash and due from Central Bank, including:	**7,881.6**	**9,226.3**	**(14.6%)**
Cash	2,951.4	3,399.3	(13.2%)
Current account at Central Bank	4,930.0	5,826.8	(15.4%)
Other	0.2	0.2	0.0%

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
Loans and advances at nominal value	**127,116.3**	**120,293.6**	**5.7%**
Loans (*)	110,026.2	104,108.3	5.7%
Retail	53,944.6	49,264.0	9.5%
Corporate	56,081.6	54,844.3	2.3%
Non – quoted securities	12,336.9	10,399.6	18.6%
Reverse repo transactions	4,753.2	5,785.7	(17.8%)
Other (**)	536.8	347.7	54.4%
Nominal value adjustment	244.1	107.2	>100%
Impairment losses	**(5,842.3)**	**(5,770.4)**	**1.2%**
Total net receivables	**122,054.9**	**114,978.1**	**6.2%**
Securities issued by non-monetary entities (***)	892.3	899.2	(0.8%)
Total customers' financing (****)	**128,008.6**	**121,192.8**	**5.6%**

(*) Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.
(**) Including interest and receivables in transit.
(***) Securities issued by non-monetary entities being loans equivalents.
(****) Total customers' financing includes loans and advances at nominal value and securities issued by non-monetary entities.

As at the end of December 2015, the volume of total customers' financing amounted to PLN 128,008.6 million, an increase of PLN 6,815.8 million, i.e. 5.6% in comparison to the end of December 2014.

As at the end of December 2015, the volume of retail loans amounted to PLN 53,944.6 million, an increase of PLN 4,680.6 million, i.e. 9.5% in comparison to the end of December 2014.

The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities increased by PLN 2,135.2 million, i.e. 3.0% as compared to the end of December 2014 and amounted to PLN 74,064.0 million at the end of December 2015.

Statement of Financial Position and Financial Results

Receivables and impairment losses (in PLN million)

	31.12.2015	31.12.2014	CHANGE
Gross receivables (*)	**127,431.0**	**120,458.0**	**5.8%**
Not impaired	119,459.0	112,255.8	6.4%
Impaired	7,972.0	8,202.2	(2.8%)
Impairment losses	(5,842.3)	(5,770.4)	1.2%
Interest	466.2	290.5	60.5%
Total net receivables	**122,054.9**	**114,978.1**	**6.2%**

(*) Including debt securities eligible for rediscounting at Central Bank, net investments in financial leases to customers, non-quoted securities, reverse repo and buy-sell-back transactions.

As at December 31, 2015, the ratio of impaired receivables to total receivables amounted to 6.3% and was better by 0.5 p.p. in comparison to the end of 2014.

Impairment losses as at the end of December 31, 2015 amounted to PLN 5,842.3 million.

Loans and advances to customers by currency (*)

	31.12.2015		31.12.2014		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Denominated in PLN	105,732.7	82.7%	99,594.0	82.5%	6.2%
Denominated in foreign currencies (**)	22,164.5	17.3%	21,154.5	17.5%	4.8%
Total	**127,897.2**	**100.0%**	**120,748.5**	**100.0%**	**5.9%**
Impairment losses	(5,842.3)	x	(5,770.4)	x	1.2%
Total net	**122,054.9**	**x**	**114,978.1**	**x**	**6.2%**

(*) Including interest and receivables in transit.
(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish złoty; as at the end of December 2015, their share was 82.7%.

The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (61.1%), CHF (22.9%) and USD (15.6%).

Loans and advances to customers by contractual maturities (*)

	31.12.2015		31.12.2014		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Current and up to 1 month	17,404.5	13.6%	18,848.8	15.6%	(7.7%)
1 to 3 months	4,363.2	3.4%	3,368.6	2.8%	29.5%
3 months to 1 year	13,375.8	10.5%	11,347.1	9.4%	17.9%
1 to 5 years	39,562.3	30.9%	38,136.7	31.6%	3.7%
Over 5 years	52,654.6	41.2%	48,699.6	40.3%	8.1%
Other	536.8	0.4%	347.7	0.3%	54.4%
Total	**127,897.2**	**100.0%**	**120,748.5**	**100.0%**	**5.9%**
Impairment losses	(5,842.3)	x	(5,770.4)	x	1.2%
Total net	**122,054.9**	**x**	**114,978.1**	**x**	**6.2%**

(*) Including interest and receivables in transit.

Loans and advances with maturity over 5 years represents 41.2% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Information on loan concentration is included in the Note 28 and 29 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2015.

Liabilities

Changes in the structure of liabilities

Amounts due to customers were the main item under the Group's liabilities and equity. As at the end of 2015, amounts due to customers and debt securities issued totaled PLN 131,770.9 million, and their share in the total assets was 78.1%, compared with 77.2% as at the end of 2014. The share of total shareholder's equity in the total assets was 13.9% as at the end of 2015, compared with 14.3% as at the end of 2014.

External sources of financing

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
Amounts due to Central Bank	0.9	1.0	(10.0%)
Amounts due to other banks	5,958.4	5,344.7	11.5%
Amounts due to customers	128,867.7	125,609.0	2.6%
Debt securities issued	2,903.2	3,857.0	(24.7%)
Total external sources of financing	**137,730.2**	**134,811.7**	**2.2%**

The deposit base is widely diversified and the deposits sourced from retail and corporate customers. In addition, the Group uses also funds borrowed on the interbank market. The Group is not dependent on any single customer nor group of customers.

As at the end of 2015, the geographical structure of deposits acquired through the Bank's domestic branches was as follows:

REGION	% OF TOTAL DEPOSITS
Warszawski	41.5%
Mazowiecki	11.0%
Małopolski	9.2%
Południowo-Wschodni	9.0%
Centralny	9.0%
Zachodni	4.7%
Wielkopolski	4.4%
Dolnośląski	3.8%
Śląski	3.7%
Pomorski	3.7%
Total	**100.0%**

Total customer savings

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
Corporate deposits	**60,738.8**	**64,490.7**	**(5.8%)**
Non-financial entities	47,225.8	49,142.8	(3.9%)
Non-banking financial entities	7,903.2	9,138.8	(13.5%)
Budget entities	5,609.8	6,209.1	(9.7%)
Retail deposits	**63,254.4**	**55,275.7**	**14.4%**
Repo and sell-buy-back transactions	**4,467.8**	**4,976.3**	**(10.2%)**
Other (*)	406.7	866.3	(53.1%)
Amounts due to customers	**128,867.7**	**125,609.0**	**2.6%**
Debt securities issued, of which	**2,903.2**	**3,857.0**	**(24.7%)**
Structured Certificates of Deposit (SCD)	257.7	203.7	26.5%
Certificates of Deposit	1,393.1	2,594.7	(46.3%)
Pekao Bank Hipoteczny S.A. covered bonds	1,227.4	1,029.3	19.2%
Interest	25.0	29.3	(14.7%)
Amounts due to customers and debt securities issued, total	**131,770.9**	**129,466.0**	**1.8%**
Investment funds of Pioneer Pekao TFI	**16,702.5**	**17,115.1**	**(2.4%)**
Bond and money market funds	11,366.4	11,162.0	1.8%
Balanced funds	2,780.5	3,163.9	(12.1%)
Equity funds	2,555.6	2,789.2	(8.4%)
including distributed through the Group's network	16,363.6	16,669.7	(1.8%)

(*) Other item includes interest and funds in transit.

As at the end of December 2015, the total amounts due to the Group's customers and debt securities issued amounted to PLN 131,770.9 million, an increase of PLN 2,304.9 million, i.e. 1.8% in comparison to the end of December 2014.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 63,865.3 million at the end of December 2015, an increase of PLN 7,930.7 million, i.e. 14.2% in comparison to the end of December 2014. The value

Statement of Financial Position and Financial Results

of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 16,702.5 million at the end of December 2015, a decrease of PLN 412.6 million, i.e. 2.4% in comparison to the end of December 2014.

The total volume of corporate deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 67,905.6 million at the end of December 2015, a decrease of PLN 5,625.8 million, i.e. 7.7% as compared to the end of December 2014 following actions aimed at optimization of liabilities structure.

Amounts due to customers by currency (*)

	31.12.2015		31.12.2014		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Denominated in PLN	106,548.1	82.7%	106,221.9	84.6%	0.3%
Denominated in foreign currencies	22,319.6	17.3%	19,387.1	15.4%	15.1%
Total	**128,867.7**	**100.0%**	**125,609.0**	**100.0%**	**2.6%**

(*) Including interest and amounts due in transit.

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of December 2015 amounted to 82.7%. The majority of amounts due to customers denominated in foreign currencies were in EUR (59.2%) and USD (35.9%).

Amounts due to customers by contractual maturities

	31.12.2015		31.12.2014		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Current accounts and overnight deposits	67,564.5	52.6%	59,847.4	48.0%	12.9%
Term deposits	60,896.5	47.4%	64,895.3	52.0%	(6.2%)
Total deposits	**128,461.0**	**100.0%**	**124,742.7**	**100.0%**	**3.0%**
Interest accrued	220.1	x	194.6	x	13.1%
Funds in transit	186.6	x	671.7	x	(72.2%)
Total	**128,867.7**	**x**	**125,609.0**	**x**	**2.6%**

Off–balance sheet items

Statement of Off-balance sheet items

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
Contingent liabilities granted and received	56,968.3	54,257.2	5.0%
Liabilities granted:	45,008.7	41,585.2	8.2%
financial	30,935.9	27,376.5	13.0%
guarantees	14,072.8	14,208.7	(1.0%)
Liabilities received:	11,959.6	12,672.0	(5.6%)
financial	285.1	496.5	(42.6%)
guarantees	11,674.5	12,175.5	(4.1%)
Derivative financial instruments	226,692.6	251,602.9	(9.9%)
interest rate transactions	133,104.3	147,004.1	(9.5%)
transactions in foreign currency and in gold	92,934.2	102,912.9	(9.7%)
transactions based on commodities and equity securities	654.1	1,685.9	(61.2%)
Total off-balance sheet items	**283,660.9**	**305,860.1**	**(7.3%)**

More detailed information on off-balance-sheet items is included in the Notes 27 and 48 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015.

The Structure of the Net Profit

The structure of the net profit of the Group is presented in the table below:

(in PLN million)

	2015	2014	CHANGE
Net profit of Bank Pekao S.A.	**2,290.4**	**2,662.3**	**(14.0%)**
Entities consolidated under full method			
Pekao Leasing Holding S.A. w likwidacji (*)	61.4	1.0	>100%
Pekao Leasing Sp. z o.o.	53.9	54.6	(1.3%)
Centralny Dom Maklerski Pekao S.A.	44.2	42.4	4.2%
Pekao Faktoring Sp. z o.o.	9.3	8.2	13.4%
Pekao Financial Services Sp. z o.o.	8.0	7.2	11.1%
Pekao Investment Banking (**)	6.8	–	x
Pekao Bank Hipoteczny S.A.	5.0	10.0	(50.0%)
Pekao Pioneer PTE S.A.	2.9	15.4	(81.2%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	2.7	2.4	12.5%
Centrum Kart S.A.	0.6	2.6	(76.9%)
FPB "Media" Sp. z o.o.	0.2	(0.1)	x
Pekao Fundusz Kapitałowy Sp. z o.o.	0.2	0.3	(33.3%)
Pekao Property S.A. (***)	(0.2)	(0.9)	(77.8%)
Pekao Telecentrum Sp. z o.o. w likwidacji (****)	–	0.1	x
Entities valued under the equity method			
Pioneer Pekao Investment Management S.A.	44.6	51.8	(13.9%)
Krajowa Izba Rozliczeniowa S.A. (*****)	5.5	10.0	(45.0%)
Dom Inwestycyjny Xelion sp. z o.o.	2.0	1.5	33.3%
Exclusions and consolidation adjustments (******)	**(245.0)**	**(154.1)**	**59.0%**
Net profit of the Group attributable to equity holders of the Bank	**2,292.5**	**2,714.7**	**(15.6%)**

Note: lNet profit of Bank Pekao S.A. and net profit of Pekao Bank Hipoteczny S.A. in 2015 include extraordinary one-off charge to the BGF in relation to bankruptcy of SBRiR in Wołomin and one-off contribution to the Borrowers Support Fund

(*) The result of Pekao Leasing Holding S.A. for 2015 mainly include the dividend received from Pekao Leasing Sp. z o.o. On April 30, 2015, the Extraordinary Shareholders Meeting of Pekao Leasing Holding S.A., which the Bank is the only shareholder, took resolution on winding-up of the company and starting liquidation procedure of the company within the date the resolution was taken.

(**) On January 1, 2015, the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. On January 14, 2015, the name of UniCredit CAIB Poland S.A was changed to Pekao Investment Banking S.A.

(***) On September 26, 2014, the merger of Pekao Property S.A. and Property Sp. z o.o. w likwidacji was accomplished.

(****) On January 8, 2015, the Bank's subsidiary Pekao Telecentrum Sp. z o.o. w likwidacji was removed from the National Court Register.

(*****) Krajowa Izba Rozliczeniowa S.A. was consolidated till June 30,2015. On July 15, 2015 the Bank sold 3,125 shares of Krajowa Izba Rozliczeniowa S.A. As a result of the transaction, the Bank's share in the share capital and the votes in the General Meeting of the Company was reduced from 34.44% to 5.74%.

(******) Includes, among others, transactions within the Group (including dividends from subsidiaries for the previous year) and net profit attributable to non-controlling interest.

Statement of Financial Position and Financial Results

The results of Bank Pekao S.A.

The main items from the Bank's income statement in presentation form are as follows:

(in PLN million)

	2015	2014	CHANGE
Net interest income	4,039.6	4,334.5	(6.8%)
Dividend income	210.6	153.6	37.1%
Total net interest income and dividend income	4,250.2	4,488.1	(5.3%)
Net non-interest income	2,541.8	2,546.6	(0.2%)
Operating income	**6,792.0**	**7,034.7**	**(3.5%)**
Operating costs	**(2,992.6)**	**(3,086.6)**	**(3.0%)**
Gross operating profit	**3,799.4**	**3,948.1**	**(3.8%)**
Net impairment losses on loans and off-balance sheet commitments	(514.0)	(541.4)	(5.1%)
Net operating profit	**3,285.4**	**3,406.7**	**(3.6%)**
Net result on other provisions	(28.6)	(1.4)	>100%
Guarantee funds charges	(273.1)	(136.7)	99.8%
One-off charges related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund	(256.0)	–	x
Net result on investment activities	63.9	1.5	>100%
Profit before tax	**2,791.6**	**3,270.1**	**(14.6%)**
Net profit for the period	**2,290.4**	**2,662.3**	**(14.0%)**
Net profit excluding one-off charges in 2015 related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund	***2,497.8***	***2,662.3***	***(6.2%)***

Net profit of Bank Pekao S.A. for 2015 amounted to PLN 2,290.4 million after the extraordinary one-off charge of PLN 234.0 million to the BGF in relation to bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SBRiR in Wołomin) and one-off contribution of PLN 22.0 million to the Borrowers Support Fund.

Net profit of Bank Pekao S.A. for 2015 excluding the extraordinary charges described above would amount to PLN 2,497.8 million, lower by PLN 164.5 million, i.e. 6.2% in comparison to 2014 with strong growth of loan and deposit volumes in key strategic areas, further costs optimization and lower cost of risk enabling to offset negative impact of regulatory constraints (i.e. the maximum interest rate on loans, interchange rates reduction, higher BGF cost).

The main Bank's financial information are as follows:

	31.12.2015	31.12.2014	CHANGE
Total gross loans in PLN million (*)	106,326.0	100,330.6	6.0%
Impaired receivables to total receivables in %	6.1%	6.6%	(0.5,p.p.)
Total deposits in PLN million (*)	124,400.3	120,279.7	3.4%
Repo and sell-buy-back transactions in PLN million	4,467.8	5,253.4	(15.0%)
Structured Certificates of Deposit in PLN million	257.7	203.7	26.5%
Certificates of Deposit in PLN million	1,393.1	2,594.7	(46.3%)
Total assets in PLN million	165,784.7	164,322.8	0.9%
Investment funds distributed through the Bank's network in PLN million	15,388.9	15,660.9	(1.7%)
TCR (Basel III) in %	18.2%	17.1%	1.1,p.p.

(*) The nominal value.

The volume of gross loans of the Bank's clients as at the end of December 2015 amounted to PLN 106,326.0 million, increased by PLN 5,995.4 million, i.e. 6.0% as compared to the end of December 2014. At the end of December 2015, the total volume of retail loans amounted to PLN 53,024.7 million and volume of corporate loans amounted to PLN 53,301.3 million.

The total amounts due to the Bank's customers (including customer deposits, repo and sell-buy-back transactions, Structured Certificates of Deposit, Certificates of Deposit) amounted to PLN 130,518.9 million and increased by PLN 2,187.4 million, i.e. 1.7% compared to the end of December 2014.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. and distributed by the Bank's network decreased by PLN 272.0 million, i.e. 1.7% as compared to the end of December 2014.

Results of the Bank's major related entities

Pekao Leasing Sp. z o.o. – Pekao Leasing
In 2015, Pekao Leasing reported a net profit of **PLN 53.9 million** compared with PLN 54.6 million in 2014. The result for the company's core business has been developed thanks to the increase in leased assets (+8.7% compared to 2014), improving the quality of the leasing portfolio and cost optimisation.

Pioneer Pekao Investment Management S.A. – PPIM
In 2015, consolidated net profit of PPIM amounted to PLN 91.1 million compared with PLN 105.7 million in 2014.

The Bank's share in the company's profit was **PLN 44.6 million**. The result of 2015 were negatively affected by less favorable conditions on capital markets and by changing customer preferences in terms of the level of acceptable risk (transfer toward a more secured funds).

Centralny Dom Maklerski Pekao S.A. – CDM
In 2015, net profit of CDM amounted to **PLN 44.2 million** compared with PLN 42.4 million profit earned in 2014. Company worked out the better results due to higher turnover on the WSE and increased revenues on mutual funds sales.

Pekao Faktoring Sp. z o.o. – Pekao Faktoring
In 2015, Pekao Faktoring reported a net profit of **PLN 9.3 million** compared with PLN 8.2 million in 2014. Improvement of the results was generated due to higher volumes of factoring transactions i.e. 15% year on year.

Pekao Financial Services Sp. z o.o. – PFS
PFS made a net profit in the amount of **PLN 8.0 million** in 2015, in comparison to a profit of PLN 7.2 million in 2014. The increase of the profit was thanks to introduction of optimisation both the revenue (diversification of the customer portfolio) and on the side of operating costs.

Pekao Investment Banking S.A. – PIB
In 2015, PIB reported net profit of **PLN 6.8 million**. The entity's results are consolidated since January 1, 2015, i.e. since the acquisition date.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny
In 2015, Pekao Bank Hipoteczny reported a net profit of **PLN 5.0 million** compared with PLN 10.0 million in 2014, being under negative impact of external factors, mainly lower interest rates, higher charges to the BGF (including contribution to the BGF for the purpose of payments of the funds guaranteed to the depositors of the bankrupt Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin) and the cost of provision for the obligatory sector-wide contribution to the Borrowers Support Fund.

The Consolidated Income Statement – Presentation Form

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2015 amounted to PLN 2,292.5 million after the extraordinary one-off charge of PLN 234.0 million to the BGF in relation to bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SBRiR in Wołomin) and one-off contribution of PLN 26.5 million to the Borrowers Support Fund.

Net profit of Bank Pekao S.A. Group for 2015 excluding the extraordinary charges described above would amount to PLN 2,503.5 million, lower by PLN 211.2 million, i.e. 7.8% in comparison to 2014 with strong growth of loan and deposit volumes in key strategic areas, further costs optimization and lower cost of risk enabling to offset negative impact of regulatory constraints (i.e. the maximum interest rate on loans, interchange rates reduction, higher BGF cost).

Thanks to the effective commercial activity of the Group in 2015 a significant growth in loan volumes was reported both in the area of retail loans (an increase of 9.5% year on year) as well as in the area of corporate customers' financing (an increase of 3.0% year on year). Such substantial increase in lending was largely financed by higher volumes of retail deposits growing 14.2% year on year.

The strength of the liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 92.6% at the end of December 2015. The return on average capital (ROE), excluding the extraordinary charges described above, at the level of 10.6% was achieved with a strong capital base reflected by TCR at 17.7% (Basel III).

Statement of Financial Position and Financial Results

The consolidated income statement – presentation form

(in PLN million)

	2015	2014	CHANGE
Net interest income	4,166.6	4,461.3	(6.6%)
Dividend income and income from equity investments	65.7	71.5	(8.1%)
Total net interest income, dividend income and other income from equity investments	**4,232.3**	**4,532.8**	**(6.6%)**
Net fee and commission income	2,005.5	2,043.7	(1.9%)
Trading result	662.7	679.5	(2.5%)
Net other operating income and expenses	158.1	89.7	76.3%
Net non-interest income	**2,826.3**	**2,812.9**	**0.5%**
Operating income	**7,058.6**	**7,345.7**	**(3.9%)**
Operating costs	**(3,219.7)**	**(3,285.7)**	**(2.0%)**
Gross operating profit	**3,838.9**	**4,060.0**	**(5.4%)**
Net impairment losses on loans and off-balance sheet commitments	(517.5)	(559.6)	(7.5%)
Net operating profit	3,321.4	3,500.4	(5.1%)
Net result on other provisions	(28.8)	(2.7)	>100%
Guarantee funds charges	**(274.4)**	**(139.8)**	**96.3%**
One-off charges related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund	(260.5)	–	x
Net result on investment activities	**73.4**	**1.8**	**>100%**
Profit before tax	**2,831.1**	**3,359.7**	**(15.7%)**
Income tax expense	(537.6)	(634.6)	(15.3%)
Net profit	**2,293.5**	**2,725.1**	**(15.8%)**
Attributable to equity holders of the Bank	**2,292.5**	**2,714.7**	**(15.6%)**
Attributable to non-controlling interest	1.0	10.4	(90.4%)
Net profit attributable to equity holders of the Bank excluding one-off charges in 2015 related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund	***2,503.5***	***2,714.7***	***(7.8%)***

Operating income

In 2015, the Group's operating income amounted to PLN 7,058.6 million, a decrease of PLN 287.1 million, i.e. 3.9% in comparison to 2014 mainly due to lower total net interest income, dividend income and income from equity investment. Total net interest income, dividend income and income from equity investments in 2015 amounted to PLN 4,232.3 million and was lower by PLN 300.5 million, i.e. 6.6% compared to 2014 affected by the reduction of interest rates, in particular the maximum rate applicable to loans. In 2015, average WIBOR 3M rate stood at the level of 1.7% and was lower by 0.8 p.p. than in 2014, while the NBP Lombard rate stood at the level of 2.5% at the end of December 2015 as compared to 3.0% in December 2014.

Total net interest income, dividend income and income from equity investments

(in PLN million)

	2015	2014	CHANGE
Interest income	5,456.4	6,225.3	(12.4%)
Interest expense	(1,289.8)	(1,764.0)	(26.9%)
Net interest income	**4,166.6**	**4,461.3**	**(6.6%)**
Dividend income	13.6	8.3	63.9%
Income from equity investments	52.1	63.2	(17.6%)
Total net interest income, dividend income and income from equity investments	**4,232.3**	**4,532.8**	**(6.6%)**

Net non-interest income

(in PLN million)

	2015	2014	CHANGE
Fee and commission income	2,388.5	2,536.2	(5.8%)
Fee and commission expense	(383.0)	(492.5)	(22.2%)
Net fee and commission income	**2,005.5**	**2,043.7**	**(1.9%)**
Trading result	662.7	679.5	(2.5%)
of which gains on disposal of AFS assets	229.6	253.5	(9.4%)
Net other operating income and expense	158.1	89.7	76.3%
Net non-interest income	**2,826.3**	**2,812.9**	**0.5%**

The Group's net non-interest income in 2015 amounted to PLN 2,826.3 million, an increase of PLN 13.4 million, i.e. 0.5% in comparison with 2014 thanks to higher net other operating income and expenses supported by compensation under an insurance contract.

The Group's net fee and commission income in 2015 amounted to PLN 2,005.5 million and was lower by PLN 38.2 million, i.e. 1.9% in comparison with 2014 mainly due to negative impact of interchange rates' reduction on fee and commission income on cards.

The table below presents the Group's net fee and commission income divided according to the main areas of the activity.

(in PLN million)

	2015	2014	CHANGE
Net fee and commission income	**2,005.5**	**2,043.7**	**(1.9%)**
on loans	486.2	486.0	0.0%
on cards	370.7	403.6	(8.2%)
on mutual funds	298.0	295.4	0.9%
other	850.6	858.7	(0.9%)

Operating costs

Thanks to further improvement of operational efficiency the operating costs amounted to PLN 3,219.7 million in 2015. They were lower by PLN 66.0 million, i.e. 2.0% as compared with the previous year.

(in PLN million)

	2015	2014	CHANGE
Personnel expenses	(1,908.5)	(1,905.1)	0.2%
Other administrative expenses	(979.7)	(1,054.0)	(7.0%)
Depreciation and amortization	(331.5)	(326.6)	1.5%
Operating costs	**(3,219.7)**	**(3,285.7)**	**(2.0%)**

In 2015, cost / income ratio amounted to 45.6% in comparison with 44.7% in 2014.

As at the end of December, 2015, the Group employed 18,327 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,765 employees as at the end of 2014. The number of the Group's employees as at the end of December includes data of Pekao Investment Banking S.A. (f. UniCredit CAIB Poland S.A.) taken over by the Bank on January 1, 2015 under acquisition of 100% of the share capital.

As at the end of December 2015, the Bank employed 16,387 employees as compared to 16,914 employees as at the end of 2014.

Guarantee funds charges

Guarantee funds charges in 2015, amounted to PLN 274.4 million, an increase of PLN 134.6 million, i.e. 96.3% in comparison with 2014 mainly due to the higher BGF rates introduced in 2015.

One-off charges related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund

In 2015, the Group additionally incurred one-off charges related to the contribution to the BGF for the purpose of payments of the funds guaranteed to the depositors of the bankrupt Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SBRiR in Wołomin) and the cost of provision for the obligatory sector-wide contribution to the Borrowers Support Fund in 2015 in total amounting to PLN 260.5 million.

Net impairment losses

(in PLN million)

	2015	2014	CHANGE
Impairment losses on loans	(500.3)	(571.8)	(12.5%)
Impairment losses on off-balance sheet commitments	(17.2)	12.2	x
Total	**(517.5)**	**(559.6)**	**(7.5%)**

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 517.5 million in 2015, a decrease of PLN 42.1 million, i.e. 7.5% as compared with 2014.

Provisions, deferred tax assets and liabilities

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
Total provisions	**425.4**	**442.5**	**(3.9%)**
of which:			
provisions for off-balance sheet commitments	120.8	102.4	18.0%
provisions for liabilities to employees	293.4	301.5	(2.7%)
other provisions	11.2	38.6	(71.0%)
Deferred tax liabilities	**4.9**	**2.1**	**>100%**
Deferred tax assets	**915.2**	**877.4**	**4.3%**

Statement of Financial Position and Financial Results

Quarterly Income Statement

Consolidated income statement – long form

Consolidated income statement for 2015 – Provided for comparability purposes.

(in PLN thousand)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Interest income	1,369,470	1,365,004	1,323,599	1,398,296
Interest expense	(308,959)	(317,370)	(308,104)	(355,366)
Net interest income	**1,060,511**	**1,047,634**	**1,015,495**	**1,042,930**
Fee and commission income	582,260	606,051	616,307	583,905
Fee and commission expense	(78,351)	(98,251)	(103,057)	(103,338)
Net fee and commission income	**503,909**	**507,800**	**513,250**	**480,567**
Dividend income	**1**	**297**	**13,336**	**1**
Result on financial assets and liabilities held for trading	**124,074**	**103,916**	**94,931**	**105,127**
Result on fair value hedge accounting	**529**	**(223)**	**3,007**	**2,234**
Net result on other financial instruments at fair value through profit and loss	**–**	**–**	**–**	**–**
Gains (losses) on disposal of:	**58,476**	**16,162**	**2,019**	**152,944**
loans and other financial receivables	132	–	58	344
available for sale financial assets and held to maturity investments	58,486	16,350	2,089	152,626
financial liabilities	(142)	(188)	(128)	(26)
Operating income	**1,747,500**	**1,675,586**	**1,642,038**	**1,783,803**
Net impairment losses on financial assets and off-balance sheet commitments:	**(120,277)**	**(130,067)**	**(130,082)**	**(137,132)**
loans and other financial receivables	(117,113)	(147,171)	(89,181)	(146,890)
off-balance sheet commitments	(3,164)	17,104	(40,901)	9,758
Net result on financial activity	**1,627,223**	**1,545,519**	**1,511,956**	**1,646,671**
Administrative expenses	**(1,043,824)**	**(795,962)**	**(797,373)**	**(789,433)**
personnel expenses	(471,865)	(484,565)	(480,167)	(471,922)
other administrative expenses (*)	(571,959)	(311,397)	(317,206)	(317,511)
Depreciation and amortization	**(84,808)**	**(81,888)**	**(83,031)**	**(81,738)**
Net result on other provisions	**1,587**	**(3,714)**	**(767)**	**(25,872)**
Net other operating income and expenses	**10,635**	**22,843**	**117,895**	**9,623**
Operating costs	**(1,116,410)**	**(858,721)**	**(763,276)**	**(887,420)**
Gains (losses) on subsidiaries and associates	**10,622**	**72,426**	**14,599**	**15,556**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	**11,171**	**628**	**(54)**	**628**
Profit before income tax	**532,606**	**759,852**	**763,225**	**775,435**
Income tax expense	(93,960)	(149,008)	(143,806)	(150,866)
Net profit for the period	**438,646**	**610,844**	**619,419**	**624,569**
Attributable to equity holders of the Bank	**438,364**	**610,469**	**619,209**	**624,417**
Attributable to non-controlling interest	282	375	210	152

(*) Including extraordinary one-off charge to the BGF in relation to bankruptcy of SBRiR in Wołomin, one-off contribution to the Borrowers Support Fund and guarantee funds charges.

Consolidated income statement for 2014 – Provided for comparability purposes.

(in PLN thousand)

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Interest income	1,474,974	1,594,530	1,584,757	1,571,029
Interest expense	(417,603)	(460,586)	(444,851)	(440,956)
Net interest income	**1,057,371**	**1,133,944**	**1,139,906**	**1,130,073**
Fee and commission income	627,346	612,307	664,663	631,965
Fee and commission expense	(127,696)	(107,285)	(138,499)	(119,066)
Net fee and commission income	**499,650**	**505,022**	**526,164**	**512,899**
Dividend income	**–**	**109**	**8,189**	**–**
Result on financial assets and liabilities held for trading	**121,579**	**105,102**	**111,177**	**105,443**
Result on fair value hedge accounting	**(1,532)**	**(1,598)**	**(3,392)**	**(10,725)**
Net result on other financial instruments at fair value through profit and loss	**–**	**–**	**–**	**–**
Gains (losses) on disposal of:	**141,531**	**94,620**	**35,490**	**414**
loans and other financial receivables	17,495	–	670	414
available for sale financial assets and held to maturity investments	124,045	94,618	34,820	17
financial liabilities	(9)	2	–	(17)
Operating income	**1,818,599**	**1,837,199**	**1,817,534**	**1,738,104**
Net impairment losses on financial assets and off-balance sheet commitments:	**(135,213)**	**(134,194)**	**(142,666)**	**(147,502)**
loans and other financial receivables	(118,373)	(173,182)	(131,271)	(149,004)
off-balance sheet commitments	(16,840)	38,988	(11,395)	1,502
Net result on financial activity	**1,683,386**	**1,703,005**	**1,674,868**	**1,590,602**
Administrative expenses	**(762,962)**	**(778,424)**	**(784,046)**	**(776,702)**
personnel expenses	(469,718)	(479,962)	(484,010)	(471,380)
other administrative expenses (*)	(293,244)	(298,462)	(300,036)	(305,322)
Depreciation and amortization	**(81,422)**	**(82,263)**	**(81,049)**	**(81,945)**
Net result on other provisions	**349**	**99**	**(1,962)**	**(1,188)**
Net other operating income and expenses	**5,085**	**12,677**	**22,337**	**34,237**
Operating costs	**(838,950)**	**(847,911)**	**(844,720)**	**(825,598)**
Gains (losses) on subsidiaries and associates	**13,197**	**15,320**	**15,411**	**19,282**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	**2,218**	**122**	**(210)**	**(333)**
Profit before income tax	**859,851**	**870,536**	**845,349**	**783,953**
Income tax expense	(168,316)	(165,454)	(154,786)	(146,017)
Net profit for the period	**691,535**	**705,082**	**690,563**	**637,936**
Attributable to equity holders of the Bank	**691,023**	**704,370**	**685,077**	**634,244**
Attributable to non-controlling interest	512	712	5,486	3,692

(*) Including guarantee funds charges.

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2015

(in PLN thousand)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net profit	**438,646**	**610,844**	**619,419**	**624,569**
Attributable to equity holders of the Bank	**438,364**	**610,469**	**619,209**	**624,417**
Attributable to non-controlling interest	282	375	210	152
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	(1,146)	(10)	(19)	6
Change in fair value of available-for-sale financial assets	98,833	191,550	(441,980)	(85,527)
Change in fair value of cash flow hedges	41,738	(26,197)	(52,662)	(56,220)
Income tax expense on other comprehensive income	(26,708)	(31,417)	93,982	26,932
Items that will never be reclassified to profit or loss:				
Re-measurements of the defined benefit liabilities	12,900	–	–	–
Share in re-measurements of the defined benefit liabilities of associates	18	–	–	–
Tax on items that will never be reclassified to profit or loss	(2,451)	–	–	–
Other comprehensive income (net)	**123,184**	**133,926**	**(400,679)**	**(114,809)**
Total comprehensive income	**561,830**	**744,770**	**218,740**	**509,760**
Attributable to equity holders of the Bank	**561,548**	**744,395**	**218,530**	**509,608**
Attributable to non-controlling interest	282	375	210	152

Note: Net profit includes extraordinary one-off charge to the BGF in relation to bankruptcy of SBRiR in Wołomin and one-off contribution to the Borrowers Support Fund

Consolidated statement of comprehensive income for 2014

(in PLN thousand)

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net profit	**691,535**	**705,082**	**690,563**	**637,936**
Attributable to equity holders of the Bank	**691,023**	**704,370**	**685,077**	**634,244**
Attributable to non-controlling interest	512	712	5,486	3,692
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	(72)	(8)	6	5
Change in fair value of available-for-sale financial assets	(4,924)	127,131	322,991	36,868
Change in fair value of cash flow hedges	(8,490)	74,877	113,138	(11,416)
Income tax expense on other comprehensive income	2,548	(38,381)	(82,865)	(4,836)
Items that will never be reclassified to profit or loss:				
Re-measurements of the defined benefit liabilities	(44,338)	–	–	–
Share in re-measurements of the defined benefit liabilities of associates	(38)	–	–	–
Tax on items that will never be reclassified to profit or loss	8,424	–	–	–
Other comprehensive income (net)	**(46,890)**	**163,619**	**353,270**	**20,621**
Total comprehensive income	**644,645**	**868,701**	**1,043,833**	**658,557**
Attributable to equity holders of the Bank	**644,133**	**867,989**	**1,038,347**	**654,865**
Attributable to non-controlling interest	512	712	5,486	3,692

Statement of Financial Position and Financial Results

Consolidated income statement – presentation form

Consolidated income statement for 2015

(in PLN thousand)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest income	1,060,511	1,047,634	1,015,495	1,042,930
Dividend income and income from equity investments	10,623	11,666	27,935	15,502
Total net interest income, dividend income and other income from equity investments	**1,071,134**	**1,059,300**	**1,043,430**	**1,058,432**
Net fee and commission income	503,909	507,800	513,250	480,567
Trading result	182,947	119,855	99,899	259,961
Net other operating income and expenses	9,784	21,814	117,369	9,131
Net non-interest income	**696,640**	**649,469**	**730,518**	**749,659**
Operating income	**1,767,774**	**1,708,769**	**1,773,948**	**1,808,091**
Operating costs	**(798,613)**	**(808,475)**	**(811,221)**	**(801,363)**
Gross operating profit	**969,161**	**900,294**	**962,727**	**1,006,728**
Net impairment losses on loans and off-balance sheet commitments	(120,277)	(130,067)	(130,082)	(137,132)
Net operating profit	**848,884**	**770,227**	**832,645**	**869,596**
Net result on other provisions	1,587	(3,714)	(767)	(25,872)
Guarantee funds charges	(68,487)	(68,346)	(68,599)	(68,972)
One-off charges related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund	(260,549)	–	–	–
Net result on investment activities	11,171	61,685	(54)	683
Profit before income tax	**532,606**	**759,852**	**763,225**	**775,435**
Income tax expense	(93,960)	(149,008)	(143,806)	(150,866)
Net profit for the period	**438,646**	**610,844**	**619,419**	**624,569**
Attributable to equity holders of the Bank	**438,364**	**610,469**	**619,209**	**624,417**
Attributable to non-controlling interest	282	375	210	152
Net profit attributable to equity holders of the Bank excluding one-off charges related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund	***649,409***	***610,469***	***619,209***	***624,417***

Consolidated income statement for 2014

(in PLN thousand)

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net interest income	1,057,371	1,133,944	1,139,906	1,130,073
Dividend income and income from equity investments	13,197	15,429	23,600	19,282
Total net interest income, dividend income and other income from equity investments	**1,070,568**	**1,149,373**	**1,163,506**	**1,149,355**
Net fee and commission income	499,650	505,022	526,164	512,899
Trading result	244,083	198,124	142,605	94,718
Net other operating income and expenses	21,664	12,148	22,995	32,856
Net non-interest income	**765,397**	**715,294**	**691,764**	**640,473**
Operating income	**1,835,965**	**1,864,667**	**1,855,270**	**1,789,828**
Operating costs	**(809,644)**	**(825,416)**	**(830,660)**	**(820,047)**
Gross operating profit	**1,026,321**	**1,039,251**	**1,024,610**	**969,781**
Net impairment losses on loans and off-balance sheet commitments	(135,213)	(134,194)	(142,666)	(147,502)
Net operating profit	891,108	905,057	881,944	822,279
Net result on other provisions	349	99	(1,962)	(1,188)
Guarantee funds charges	(33,824)	(34,742)	(34,423)	(36,805)
One-off charges related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund	–	–	–	–
Net result on investment activities	**2,218**	**122**	**(210)**	**(333)**
Profit before income tax	**859,851**	**870,536**	**845,349**	**783,953**
Income tax expense	(168,316)	(165,454)	(154,786)	(146,017)
Net profit for the period	**691,535**	**705,082**	**690,563**	**637,936**
Attributable to equity holders of the Bank	**691,023**	**704,370**	**685,077**	**634,244**
Attributable to non-controlling interest	512	712	5,486	3,692

Statement of Financial Position and Financial Results

Reconciliation of income statement – presentation form and long form

Consolidated income statement for 2015

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFFIED TO PRESENTATION FORM	2015	COMMENTS
Net interest income		4,166,570	
Dividend income and income from equity investments		65,726	
	Dividend income	13,635	
	Gains (losses) on subsidiaries and associates	52,091	
Total net interest income, dividend income and other income from equity investments		**4,232,296**	
Net fee and commission income	Net fee and commission income	2,005,526	
Trading result		662,662	
	Result on financial assets and liabilities held for trading	428,048	
	Result on fair value hedge accounting	5,547	
	Net result on other financial instruments at fair value through profit and loss	–	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	229,551	
	(Gains) losses on disposal of financial liabilities	(484)	
Net other operating income and expenses		158,098	
	Net other operating income and expenses	160,996	
	less – Refunding of administrative expenses	(3,432)	/1
	Gains (losses) on disposal of loans and other financial receivables	534	
Net non-interest income		**2,826,286**	
Operating income		**7,058,582**	
Operating costs		(3,219,672)	
	Personnel expenses	(1,908,519)	
	Other administrative expenses	(1,518,073)	
	less – Guarantee funds charges	274,404	
	less – One-off charges related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund	260,549	
	Refunding of administrative expenses	3,432	/1
	Depreciation and amortization	(331,465)	
Gross operating profit		**3,838,910**	
Net impairment losses on loans and off-balance sheet commitments		(517,558)	
	Net impairment losses on loans	(500,355)	
	Net impairment provision for off-balance sheet commitments	(17,203)	
Net operating profit		**3,321,352**	
Net result on other provisions	Net result on other provisions	(28,766)	
Guarantee funds charges	Guarantee funds charges	(274,404)	
One-off charges related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund	One-off charges related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund	(260,549)	
Net result on investment activities		73,485	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	12,373	
	Impairment losses on subsidiaries and associates	–	
	Gains (losses) on disposal of subsidiaries and associates	61,112	
Profit before income tax		**2,831,118**	
Income tax expense	Income tax expense	(537,640)	
Net profit for the period	**Net profit for the period**	**2,293,478**	
Attributable to equity holders of the Bank	**Attributable to equity holders of the Bank**	**2,292,459**	
Attributable to non-controlling interest	Attributable to non-controlling interest	1,019	

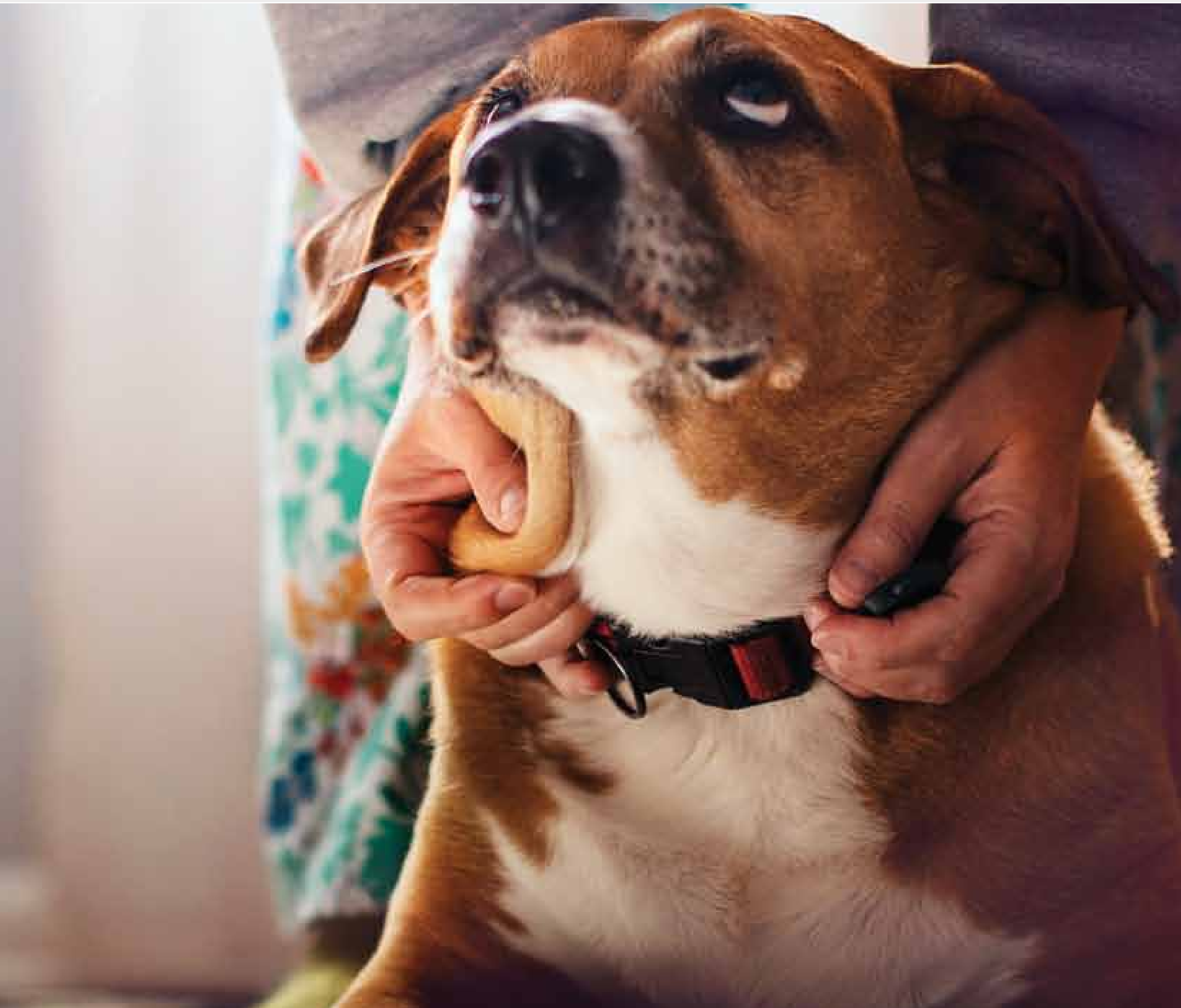
1/ In the long form the item "Refunding of administrative expenses" included in the item "Net other operating income/expenses", in a presentation form included in "Operating cost".

Consolidated income statement for 2014

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFFIED TO PRESENTATION FORM	2014	COMMENTS
Net interest income		4,461,294	
Dividend income and income from equity investments		71,508	
	Dividend income	8,298	
	Gains (losses) on subsidiaries and associates	63,210	
Total net interest income, dividend income and other income from equity investments		**4,532,802**	
Net fee and commission income	Net fee and commission income	2,043,735	
Trading result		679,530	
	Result on financial assets and liabilities held for trading	443,301	
	Result on fair value hedge accounting	(17,247)	
	Net result on other financial instruments at fair value through profit and loss	–	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	253,500	
	(Gains) losses on disposal of financial liabilities	(24)	
Net other operating income and expenses		89,663	
	Net other operating income and expenses	74,336	
	less – Refunding of administrative expenses	(3,252)	/1
	Gains (losses) on disposal of loans and other financial receivables	18,579	
Net non-interest income		**2,812,928**	
Operating income		**7,345,730**	
Operating costs		(3,285,767)	
	Personnel expenses	(1,905,070)	
	Other administrative expenses	(1,197,064)	
	less – Guarantee funds charges	139,794	
	Refunding of administrative expenses	3,252	/1
	Depreciation and amortization	(326,679)	
Gross operating profit		**4,059,963**	
Net impairment losses on loans and off-balance sheet commitments		(559,575)	
	Net impairment losses on loans	(571,830)	
	Net impairment provision for off-balance sheet commitments	12,255	
Net operating profit		**3,500,388**	
Net result on other provisions	Net result on other provisions	(2,702)	
Guarantee funds charges	Guarantee funds charges	(139,794)	
Net result on investment activities		1,797	
	(Gains) losses on disposal of property, plant and equipment and intangible assets.	1,797	
	Impairment losses on subsidiaries and associates	–	
	Gains (losses) on disposal of subsidiaries and associates	–	
Profit before income tax		**3,359,689**	
Income tax expense	Income tax expense	(634,573)	
Net profit for the period	**Net profit for the period**	**2,725,116**	
Attributable to equity holders of the Bank	**Attributable to equity holders of the Bank**	**2,714,714**	
Attributable to non-controlling interest	Attributable to non-controlling interest	10,402	

1/ In the long form the item "Refunding of administrative expenses" included in the item "Net other operating income/expenses", in a presentation form included in "Operating cost".



Hey, maybe you should think about a larger apartment?

Let's talk about your living space.

Home, sweet home. But what to do when your own apartment is getting too small for you? Ola and her dog Tofik are affected by this problem. Ola is an architect, she has her own studio and gets many orders. As a result, she often brings her work home, and her own four walls are turning into a second studio. She's not happy about this, and her four-legged friend is also affected. The problem is she is concerned by the idea of a mortgage.

For such people as Ola, who dream about a bigger house, Bank Pekao S.A. offers the Eurokonto Hipoteczne Plus account.

In Ola's work situation, it's the perfect solution. She can deposit all her spare cash in her Eurokonto Hipoteczne Plus account. The saved money will be deducted from the interest on her mortgage, and her loan installments will be more affordable. Such flexibility will definitely help relieve Ola's concerns. In addition, she'll be able to use the funds deposited in her Eurokonto Hipoteczne Plus account the same way as in the case of any personal account, up to the amount of her deposit.

Finally, Tofik, after his walk, will make himself comfortable on his new, large bed.

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Other Information

Management Board Position Regarding the Possibility of Achieving Previously Published Forecasts

The Bank has not published the forecast of the financial results for 2015.

Management Board Remuneration

The amount of remuneration or benefits (in cash, payments in kind or in any form) paid or due to the Management Board Members in 2015(*).

Fix remuneration

(in PLN thousand)

	BASE SALARY FOR 2015
Luigi Lovaglio	4,176
Diego Biondo	1,255
Andrzej Kopyrski	1,326
Adam Niewiński	560
Grzegorz Piwowar	1,286
Stefano Santini	672
Marian Ważyński	880

Variable remuneration

(in PLN thousand)

VARIABLE REMUNERATION PAID FOR	2011	2012	2013	2014
Luigi Lovaglio	749	0	1,685	1,498
Diego Biondo	117	0	229	213
Andrzej Kopyrski	197	0	359	287
Adam Niewiński	0	0	0	0
Grzegorz Piwowar	219	0	390	378
Stefano Santini	0	0	107	85
Marian Ważyński	86	0	159	143

Variable remuneration paid to the Management Board Members also includes remuneration in phantom shares calculated base on the average share price: PLN 188.73 for the period from 30 March, 2015 to 29 April, 2015.

VARIABLE REMUNERATION PAID – PHANTOM SHARES	2011 NUMBER OF SHARES	2012 NUMBER OF SHARES
Luigi Lovaglio	11,221	9,387
Diego Biondo	1,920	1,460
Andrzej Kopyrski	2,830	2,196
Adam Niewiński	0	0
Grzegorz Piwowar	3,138	2,130
Stefano Santini	0	0
Marian Ważyński	1,226	1,071

Due portion of Members of the Management Board variable remuneration in phantom shares is 29,500 shares. The value of this portion of the variable remuneration will depend on the Bank's share price at the settlement date.

Additional payments related to secondment package in 2015 for Management Board Members: Mr. Luigi Lovaglio PLN 1,244 thousand, Mr. Diego Biondo PLN 815 thousand, Mr. Stefano Santini PLN 443 thousand.

Other payments related to benefits received in 2015 for Management Board Members: Mr. Luigi Lovaglio PLN 137 thousand, Mr. Diego Biondo PLN 1 thousand, Mr. Andrzej Kopyrski PLN 112 thousand, Mr. Adam Niewiński PLN 52 thousand, Mr. Grzegorz Piwowar PLN 112 thousand, Mr. Stefano Santini PLN 1 thousand, Mr. Marian Ważyński PLN 32 thousand.

In 2015, the Management Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

Supervisory Board Remuneration

The amount of remuneration or benefits (in cash, payments in kind or in any form) paid or due to the Supervisory Board Members in 2015:

(in PLN thousand)

	TOTAL	NOTES
Jerzy Woźnicki	246	
Roberto Nicastro	43	Receive remuneration from 01.10.2015
Leszek Pawłowicz	227	
Alessandro Decio	–	Did not receive remuneration according to the Group's policy
Laura Penna	–	Did not receive remuneration according to the Group's policy
Wioletta Rosołowska	135	
Doris Tomanek	–	Did not receive remuneration according to the Group's policy
Dariusz Filar (from May 1, 2015)	125	
Katarzyna Majchrzak (from May 1, 2015)	89	
Paweł Dangel (until April 30, 2015)	68	
Małgorzata Adamkiewicz (until April 30, 2015)	46	

In 2015, the Supervisory Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

(*) the remuneration for expats is presented in PLN rate valid for compensation payout on monthly basis

The Incentive Programs

As at December 31, 2015, the following long-term incentive programs are realized in Bank Pekao S.A. Group:

- the Long-term UniCredit Group Incentive Program 2007 – in terms of the options 33 employees of Bank Pekao S.A. Group have been covered by the program, including 4 Members of the Management Board. The options expire in 2017,
- the Long-term UniCredit Group Incentive Program 2008 – in terms of the options 51 employees of Bank Pekao S.A. Group have been covered by the program, including 4 Members of the Management Board. The options expire in 2018.

Shares in the Bank and Related Entities Held by the Bank's Directors

According to information available to the Bank as at December 31, 2015, the Members of the Bank's management and supervisory bodies held 73,535 shares of Bank Pekao S.A. with face value of PLN 73,535. The number of the Bank's shares held by the Members of the Bank's management and supervisory bodies and its face value remained unchanged as the date of submitting of this report.

The table below presents the number of shares held by the Management Board Members:

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE YEAR 2015	FOR THE THIRD QUARTER OF 2015	FOR THE YEAR 2014
Luigi Lovaglio	64,035	64,035	64,035
Diego Biondo	9,500	9,500	9,500
Total	**73,535**	**73,535**	**73,535**

Moreover, as at December 31, 2015 UniCredit S.p.A. shares were held by: Mr. Luigi Lovaglio – 66,668 shares without nominal value, Mr. Diego Biondo – 4,824 shares without nominal value, Mr. Alessandro Decio – 151,471 shares without nominal value, Mr. Andrzej Kopyrski – 1,152 shares without nominal value, Mr. Roberto Nicastro – 245,364 shares without nominal value, Ms. Laura Penna – 5,747 shares without nominal value, Mr. Grzegorz Piwowar – 1,733 shares without nominal value, Mr. Stefano Santini – 7,029 shares without nominal value and Mr. Marian Ważyński – 827 shares without nominal value.

Information Regarding Contracts for Post Termination Benefits

Employment agreements provide payment of compensation amounting to 18 times the value of the monthly base remuneration of the following Members of the Management Board of the Bank: Mr. Andrzej Kopyrski – Vice-president of the Management Board, Mr. Grzegorz Piwowar – Vice-president of the Management Board, Mr. Marian Ważyński – Vice-president of the Management Board, however, in case of Mr. Adam Niewiński – Vice-president of the Management Board, the employment contract provides payment of compensation amounting to 12 times of the monthly base remuneration for the last month. Payment of the compensation follows among others in the event of tenure expiration without appointment for the next tenure or dismissing from the function.

The above mentioned provisions do not apply in case of dismissal for reasons stipulated in art. 52 or art. 53 of the Labour Code or in case of among others failure to adequately execute responsibilities or infringement of the Bank Statute, resolutions of the Management Board and the Supervisory Board.

Moreover, the abovementioned Members of the Management Board have concluded non-competition agreements with the Bank, which define the rights and obligations of agreement parties in the scope covered by non-competition agreements during and after the employment period.

Employment contracts of the remaining Management Board Members do not provide compensations of this kind.

Agreements with Companies Entitled to Auditing of Financial Reports

On the basis of the agreement concluded on June 17, 2013, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. is the company appointed to audit and review the financial statements of Bank Pekao S.A. and Bank Pekao S.A. Group for the years 2013 – 2017.

Audit remuneration for services of Bank Pekao S.A. Group.

(in PLN thousand)

	2015	2014
Fee for the audit of annual financial statements	3,351	3,397
Fee for other attestation services, including review of financial statements	1,827	1,454

The amounts above do not include value added tax (VAT).

Other Information

Average Interest Rates in Bank Pekao S.A. in December 2015

The average nominal interest rates for the basic types of PLN deposits for non-financial sector residents:

PLN retail deposits	0.9% p.a.
PLN corporate clients deposits	1.0% p.a.

The average nominal interest rates for the PLN loans for non-financial sector residents:

Total retail loans	4.3% p.a.
Mortgage	3.3% p.a.
Consumption	8.6% p.a.
Other	5.5% p.a.
Corporate loans	3.3% p.a.

Number and Value of Titles of Execution and Value of Collaterals

Bank Pekao S.A. has established specific policy with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations in the Bank. The type of collateral and its value are carefully analyzed and chosen regarding the particular risk of the secured transaction.

The Bank obeys the rule, according to which the value of collateral should relate directly to the value of secured liability, that is cash provided by the Bank to a client (capital or the amount of off-balance sheet commitments granted by the Bank) together with extraneous amounts due, for example, interest or commissions.

The collateral used by the Bank to hedge against risks related to its lending activities includes: bank guarantees, sureties under the Civil Code, blank promissory notes, endorsement on bills, transfer of debts, mortgages, registered pledges, pledges, assignment as collateral, appropriation of assets in bank accounts, deposits.

For corporate clients, the total value of the collateral for impaired transactions as at December 31, 2015 amounted to PLN 2,381.3 million. In 2015, 265 titles of execution were issued on behalf of the Bank in the total amount of PLN 75,5 million.

For retail clients, the total value of the collateral for impaired transactions as at December 31, 2015 amounted to PLN 524.0 million. In 2015, 8,331 titles of execution were issued on behalf of the Bank in the total amount of PLN 168.6 million.

Pending Litigations

In 2015, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 741 with the total value amounting to PLN 1,142.7 million. The number of legal proceedings in respect of receivables was 14,638 with the total value of PLN 1,305.8 million.

In 2015, there were no legal proceedings relating to the liabilities and/or receivables of the Group in which asserted claims accounted for at least 10% of the Bank's own funds.

In the opinion of the Bank none of the individual pending proceedings before any courts, arbitration bodies or public administration authorities during 2015, nor the proceedings in aggregate pose any threat to the Bank's financial liquidity.

Related Party Transactions

In 2015, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In 2015, the Bank and its subsidiaries did not provide any sureties or guarantees in respect of loans or advances to an entity or a subsidiary of such entity, as a result of which the total value of existing sureties and guarantees would have equaled or exceeded 10% of the Bank's equity.

Information on Significant Agreements

In 2015, there have been no significant agreements concluded by the Bank.

Information on Derivative Financial Instruments and Hedge Accounting

Information on derivative financial instruments and hedge accounting is included in the Note 27 and 30 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015.

Accounting Principles Adopted in the Preparation of the Report

Accounting principles adopted in the preparation of the report are described in the Note 5 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015.

Issuance, Redemption and Repayment of Debt Securities

Structured Certificates of Deposit

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 257.7 million (principal value) as at the end of December 2015. There are 8 issues of Structured Certificates of Deposit open in PLN with the maturity date in 2016.

Certificates of Deposit

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 1,393.1 million (principal value) as at the end of December 2015. There are 16 issues of Certificates of Deposit, and the maturity date up to 3 months accounts for 83.3%, up to 6 months accounts for 10.3% and up to 1 year accounts for 6.4% of its total value.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of liabilities due to covered bonds amounted to PLN 1,293.0 million as at December 31, 2015. The liabilities under covered bonds with maturity date up to 1 year account for 6.4%, with maturity date from 1 up to 3 years account for 14.9%, with maturity date from 3 up to 5 years account for 24.8% and with maturity date from 5 up to 10 years account for 53.9% of the total nominal value.

The Bank's share in acquisition of Visa Europe Ltd. by Visa Inc.

Under an agreement signed between Visa Europe and Visa Inc. from November 2, 2015, Visa Europe will be taken over by Visa Inc. Bank Pekao S.A. as a member of Visa Europe is among the beneficiaries of this transaction.

As a consequence, it is estimated that Bank Pekao S.A. will receive ca. EUR 14 million in shares of Visa Inc. and ca. EUR 41 million in cash. These amounts are subject to change due to transaction costs and possibility of appeal by Visa members. The transaction is expected to be completed in the second quarter of 2016. Additionally, in 2020, the Bank will receive deferred payment in cash, which amount cannot be estimated currently.

Subsequent Events

Tax on certain financial institutions

After the balance sheet date the Act of 15 January 2016 on tax on certain financial institutions was announced (Journal of Laws of 2016 Pos. 68). The Act regulates the taxation on assets of certain financial institutions. In the case of the Bank, the taxable amount will be excess of the total assets of more than PLN 4 billion. The law provides for the possibility of reducing the tax base, in the case of the Bank, among others by the value of own funds and the value of assets in the form of Treasury securities as at the last day of the month. The tax will amount to 0.0366% of the tax base per month. The Act comes into force on February 1, 2016.

The amount of tax which will actually be paid will depend on the tax base, which will be determined in the future at the end of each month. The Bank estimates that the monthly tax burden will range between PLN 40 million and PLN 50 million. The amounts paid will not be deductible for the purposes of income tax. The first accounting period for which the Bank will make the calculation and payment of the tax will be February 2016.

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Corporate Governance

Introduction – Basic Corporate Governance Rules

The general corporate governance rules applicable in the Bank, i.e. the system of regulations and procedures defining the guidelines for the activities of the Bank's governing bodies, are stipulated in the statutory provisions, including in particular the Commercial Companies Code and the Banking Act, capital market regulations, as well as the rules laid down in the following documents: *the Code of Banking Ethics of the Polish Bank Association, the Code of Best Practice for WSE Listed Companies and the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority on July 22, 2014 as well as UniCredit Integrity Charter.*

As required under the Act on Trading in Financial Instruments of July 29, 2005, the Bank has implemented internal procedures designed to monitor the performance of obligations related to inside information, the ban on transactions in the Bank's instruments during restricted periods, and on disclosing information on transactions in financial instruments connected with securities issued by the Bank made by significant persons related to the Bank.

In order to ensure the stability of Pekao Group, the Bank coordinates and controls the operations of its subsidiaries through the Bank's representatives in the governing bodies of such subsidiaries.

Compliance with the *Code of Best Practice for WSE Listed Companies*

Bank Pekao S.A. has followed the *Code of Best Practice for WSE Listed Companies* since 2002, when the Supervisory Board of Warsaw Stock Exchange (WSE) for the first time formulated a set of corporate governance guidelines. As stated in the Preamble, the *Code of Best Practice for WSE Listed Companies* "aims at enhancing the transparency of listed companies, improving the quality of the communication between companies and investors, and strengthening the protection of shareholders' rights, including those not regulated by legislation, while refraining from imposing a burden on listed companies that may outweigh the benefits resulting from market needs."

In 2015, the Bank adhered to the principles set out in the *Code of Best Practice for WSE Listed Companies*, adopted by the Supervisory Board of WSE on November 21, 2012 by virtue of Resolution No. 19/1307/2012 with the exception of Principles I.12 and IV.10.2 related to providing shareholders with the opportunity to participate in general meetings using electronic communication.

In the notice convening the Ordinary General Meeting of Bank Polska Kasa Opieki Spółka Akcyjna, published in the current report No. 5/2015 dated March 30, 2015, the Bank informed that: "Considering the fact that the Shareholder Structure of the Bank is characterized by a large number of shareholders and geographical and linguistic diversity, which means that the correct identification of shareholders and ensuring the appropriate level of security of electronic communication would require that the Bank should use advanced technological solutions that it currently does not have, in accordance with Art. 4065 § 2 of the Commercial Companies Code and § 8a(2) of the Bank's Statute, the Bank's Management Board decided that the participation in the Ordinary General Meeting of the Bank for 2014 using electronic communication would not be possible."

The Bank's Management Board allows the participation in General Meetings using electronic communication if the Bank meets the technical conditions required to enable the participation in General Meetings using electronic communication.

On December 22, 2015, by virtue of Resolution No. 497/XII/15, the Bank's Management Board adopted, to be applied by the *Bank, the Best Practice for GPW Listed Companies 2016* issued by Warsaw Stock Exchange by virtue of Resolution No. 26/1413/2015 of the Supervisory Board of WSE dated October 13, 2015. The Bank has applied, from January 1, 2016, all the recommendations and detailed rules included in the *Best Practice for GPW Listed Companies 2016*.

Seeking to ensure the compliance with the Rules of the Warsaw Stock Exchange, the Bank – as a listed company – publishes the Statement on the Application of Corporate Governance Standards. The Statement is a part of each annual report and its scope and form is consistent with the standards set out in Resolution No. 1013/2007 of the Management Board of WSE dated December 11, 2007.

The Bank, when preparing the Statement on the Application of Corporate Governance Standards, has also been complying with PFSA's Recommendation of April 9, 2014 on the quality of reporting on corporate governance (the "comply or explain" approach).

The requirement to include, in Annual Reports, the Statement on the Application of Corporate Governance Standards has also been imposed under the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19, 2009.

The Bank's Statement on the Application of Corporate Governance Standards in 2015 ("Corporate Governance Statement"), whose contents conform to the requirements laid down by the aforementioned regulations, forms part of the Annual Report.

Compliance with the *Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority on July 22, 2014*

On October 14, 2014, by virtue of Resolution No. 356/X/14, the Bank's Management Board adopted to follow the *Principles of Corporate Governance for Supervised* Institutions issued by the Polish Financial Supervision Authority on July 22, 2014. The Bank's Supervisory Board, on November 5, 2014, by virtue of its Resolution No. 33/14, expressed its positive opinion on the adoption by the Bank of the aforementioned Principles.

The *Principles of Corporate Governance for Supervised* Institutions are a set of rules that determine the internal and external relations of supervised institutions, including the relations with shareholders and clients, their organization, the functioning of the internal supervision and the key internal systems and functions, as well as statutory bodies and the principles of their cooperation. The objectives of the *Principles of Corporate Governance for Supervised* Institutions are as follows: raising the level of corporate governance in financial institutions; increasing the transparency of their activities; building greater trust in the financial market in Poland.

Since January 1, 2015, the Bank has applied the *Principles of Corporate Governance for Supervised* Institutions, except for: Chapter 9 concerning assets management at a client's risk, as the Bank does not carry out any activities in this area; § 49(4) and § 52(2), as the Bank has an audit unit and a compliance unit; and § 45(2) concerning the estimation of the risk of the failure to achieve the objectives of the system of internal control, due to the ongoing adjustment works. Furthermore, as the Bank cannot provide any technical solutions necessary to identify shareholders correctly and ensure the appropriate level of security of electronic communication at the Bank's General Meeting for 2014, particularly during the voting at the General Meeting, the Bank's Management Board decided that the participation in that General Meeting using electronic communication would not be possible; hence, the Bank derogated from § 8(4) of the *Principles of Corporate Governance for Supervised* Institutions.

The derogation notices for all the aforementioned principles were published by the Bank on its website, in accordance with the requirements of the *Principles of Corporate Governance for Supervised* Institutions.

Compliance with Applicable Standards, Laws and Regulations

The Bank applies standards which aim to ensure the compliance of its activities with law, the Bank's Statute and internal regulations, recommendations of regulatory and supervising authorities, best practices and ethical principles. As regards the management of the compliance risk, the Bank follows the guidelines and standards adopted by UniCredit Group, unless they conflict with the provisions of Polish law.

Bank Pekao S.A. Compliance Policy sets out objectives that are consistent for all organizational levels of the Bank with respect to the compliance risk management process as well as the compliance program, covering, among other things, the processes for the identification, assessment, control, monitoring and reporting of the risk. The Policy also defines the key procedures for the Bank and its employees in this area.

The implementation and application of the compliance risk management standards are key factors in the process of creating enterprise value, reinforcing and protecting the Bank's reputation, and fostering public trust in the Bank's activities and its standing.

Compliance risk is managed at three separate levels:

- executive staff responsible for ensuring compliance,
- risks management functions performed by dedicated organizational units of the Bank not involved in business operations,
- internal audit responsible for the independent assessment of the functioning of the internal control system and the monitoring of post-inspection activities.

The coordination of the Bank's compliance risk management activities is the responsibility of the Compliance Department. The tasks of the Department are as follows: the identification, assessment, monitoring and control of the risk of the non-compliance of the Bank's activities with the law, internal regulations and market standards as well as publishing related reports; and the performance of tasks to prevent abusing the Bank's operations for purposes related to money laundering and terrorism financing.

The Bank applies the dedicated compliance risk assessment (CRA) methodology and performs second-level compliance controls that ensure the assessment of compliance and effectiveness of selected processes with key legal requirements related to banking activities. The assessment of the compliance risk and second-level compliance controls contribute to the improvement of the internal control system at the Bank and, therefore, to the mitigation of the compliance risk related to the Bank's operations.

Code of Conduct of Pekao Group

The Bank's commitment to ensuring compliance with applicable standards has been manifested by the development and implementation of the *Code of Conduct of Pekao Group* ("Code").

The Code is a set of rules identifying the appropriate way to take decisions and the correct conduct in specific situations. It sets forth the duties and the proper conduct expected from the Employees, i.e. all persons employed by Bank Pekao S.A. or other Legal Entities of the Capital Group of Bank Pekao S.A. ("Group") under employment contracts or on the basis of any other legal relationship of a similar nature, including members of statutory bodies of member Companies of the Group ("Company").

The observance of the rules set forth in the Code guarantees the conduct complying with the values, mission and corporate culture of the Group and a manifestation of the commitment to the highest standards related to the performance of employee duties, the provision of services and the protection of the Group's reputation.

The Code sets forth the rules of conduct for all employees, striving to reconcile the mission of the Companies with the challenges of daily work. The employees should refer to the rules set forth in the Code at all times, as they support them in ensuring compliance with the law, recommendations of regulators, internal regulations and the standards of conduct approved by the Bank.

In accordance with the provisions of the Code, each employee is expected to act ethically, to be honest and loyal, to manifest the attitude promoting collaboration in achieving the Group's objectives, to respect and use the Group's assets in a prudent way, in particular:

- to perform their duties according to the highest professional standards in order to meet customers' expectations and avoid behavior which could be misinterpreted or interpreted in a manner not intended by an employee,
- to act in the best interests of the customers,
- to observe applicable laws and recommendations of regulators,
- to observe the Code and other internal regulations.

The Code further identifies that the managers are expected to take all reasonable measures to ensure compliance of the employees with the applicable laws, regulators' recommendations, internal regulations and the standards of conduct approved by the Bank.

The core principles of the *Code of Conduct of the Pekao Group* apply to:

- protection of the Group's reputation,
- maintaining in the workplace of an atmosphere compliant with core ethical standards,
- protection of information,
- prevention of money laundering and terrorism financing,
- fair competition,
- prevention of market abuse related to trading in financial instruments,
- prevention of conflicts of interest (including appropriate management of conflicts of interest if they cannot be eliminated)
- anti-corruption activities,
- maintaining the applicable communication standards,
- protection of assets,
- non-trespassing on the entrusted business authority.

General Meeting of Shareholders

Convening of the General Meetings

General Meetings of Shareholders are convened in accordance with the applicable laws and the provisions of the Bank's Statute, which are consistent with the law.

Annual General Meetings of Shareholders are convened by the Bank's Management Board. They should be held no later than in June. The Bank's Supervisory Board is entitled to convene the Annual General Meeting if the Management Board has failed to do so by the prescribed time.

Extraordinary General Meetings of Shareholders are convened when needed, either by the Bank's Management Board acting on its own initiative, or upon the Supervisory Board's request. Shareholders representing at least one twentieth of the share capital may also request that an Extraordinary General Meeting of Shareholders be convened and specific items be placed on its agenda. An Extraordinary General Meeting may also be called by the Supervisory Board, if it deems it advisable, or by shareholders representing at least a half of the share capital or at least a half of the total vote at the Bank.

As prescribed by the Commercial Companies Code, on the same day on which the convening of a General Shareholders Meeting of the Bank is announced – all documents to be submitted to the General Shareholders Meeting, including draft resolutions, are also published at the Bank's website.

All matters submitted for consideration to the General Meeting must have the Supervisory Board's recommendation. Pursuant to Section 9 of the Bank's Statute, all matters proposed to be debated by the General Meeting of Shareholders should be first submitted for the Supervisory Board's consideration.

General Shareholders Meetings are attended by members of the Bank's Supervisory and Management Boards, who provide shareholders with any desired explanations and information. The Bank's external auditor is obliged to attend the General Meeting convened to deal with the Bank's finances, including to review and approve the Bank's financial statements, the Management Board report on the Bank's operations, the consolidated financial statements of the Bank's Group and the report on the operations of the Bank's Group.

Powers of the General Meeting

The scope of powers vested with the General Meeting of Shareholders is defined in applicable laws, including the Commercial Companies Code and the Banking Act, as well as in the Bank's Statute. The aforementioned powers are discussed in more detail in the Corporate Governance Statement.

Rules of Procedure

The General Meeting of Shareholders operates in accordance with the Rules of Procedure for General Meetings of Shareholders of Bank Polska Kasa Opieki Spółka Akcyjna, adopted by virtue of Resolution No. 19 of the General Meeting of Shareholders of April 8, 2003, amended with Resolution No. 41 of 5 May 2009 and Resolution No. 41 of 1 June 2012.

The Rules of Procedure for General Meetings of Shareholders set out detailed procedures for holding meetings and adopting resolutions.

The mode of operations of the General Meeting of Shareholders is presented in the Statement of Bank Polska Kasa Opieki S.A. on application of Corporate GovernanceStandards in 2015..

The text of the Rules of Procedure for General Meetings of Shareholders is available at the Bank's website.

Majority Rule and Protection of the Minority Shareholders

As required under Art. 20 of the Commercial Companies Code, the Bank makes sure that all shareholders, irrespective of the size of their holdings, are given equal treatment in similar circumstances so that they are able to exercise their property and procedural rights defined in the Commercial Companies Code and in the Bank's Statute, such as the right to share in the Bank's profits or the right to obtain information about the Bank (as a rule, the right is exercised during General Meetings of Shareholders, as provided for in Art. 428 of the Commercial Companies Code), and that they have equal access to inside information of the Bank as a public company, which is communicated to the public by way of current and periodic reports published at the Bank's website in the manner prescribed in Art. 56 of the Act on Public Offering, Conditions Governing Introduction of Financial Instruments to Organised Trading, and Public Companies, dated 29 July 2005.

Supervisory Board of the Bank

Appointment, Composition and Qualifications

Pursuant to Section 14.1 of the Bank's Statute, the Supervisory Board is composed of seven to nine members, appointed by the General Meeting of Shareholders for a joint three-year term of office. The number of Supervisory Board members is determined by the General Meeting of Shareholders. The General Meeting may remove a Supervisory Board member from office at any time.

The Supervisory Board elects from among its members the Chairperson, two Deputy Chairpersons and the Secretary.

In the period from 1 January to 31 December 2015 the Supervisory Board was composed of nine members.

Pursuant to Section 14.3 of the Bank's Statute, at least half of the members of the Supervisory Board, including its Chairperson, should possess a thorough knowledge of the Polish banking market, i.e. they should meet all of the following criteria:

- they must have professional experience gained on the Polish market, relevant for the performance of a supervisory function at the Bank,
- they must be permanently domiciled in Poland,
- they must have command of the Polish language.

As at the end of 2015, the aforementioned criteria were met by 5 members of the Supervisory Board, including the Chairman.

The members of the Supervisory Board of Bank Pekao S.A. have the knowledge and experience required to perform their duties.

Their professional backgrounds with detailed information about their qualifications are available at the Bank's website.

Prof. Jerzy Woźnicki, Chairman of the Supervisory Board, Member of the Audit Committee, Nomination and Remuneration Committee.

From 10th September 1999 to 19th January 2005 Deputy Chairman of the Supervisory Board of Bank Pekao S.A.; from 20th January 2005 to 1st June 2011 Chairman of the Supervisory Board; from 1st June 2011 to 1st June 2012 Deputy Chairman of the Supervisory Board; from 2nd June 2012 member and from 24th July 2012 Chairman of the Supervisory Board.

Mr J. Woźnicki is professor of technical science (in electronics), also having academic achievements in the field of social science (in public politics science). public. He went through all stages of academic career, from junior lecturer to full professor at the Warsaw University of Technology. The scope of his research covers the issues of IT and such fields as knowledge society, innovation and knowledge-based economy. He was Dean of the Electronics and IT Faculty and, subsequently, Rector of the Warsaw University of Technology. He was also President of the Conference of Rectors of Academic Schools in Poland, and for many years of the Organization and Legislation Committee in KRASP. Professor J. Woźnicki held a number of positions at various companies, including the position of President of Softex Sp. z o.o., Deputy Chairman of the Supervisory Board of PKN Orlen, and member of the Board of the FIRE Innovation Centre. On 14th June 2013 the Minister of Economy appointed Prof. J. Woźnicki into the Economic Committee of the Strategic Thinking.

Currently Prof. J. Woźnicki is the President of the Polish Rectors Foundation and Director of the Institute of Knowledge Society, Chairman of the National Council for Science and Higher Education. He is also a member of the Committee of Ethics in Science operating at the Presidium of the Polish Academy of Sciences. He is the originator and co-author of the 'Code of Best Practices for Higher Education Institutions'.

Corporate Governance

During his over 15 year tenure on the Supervisory Board of Bank Pekao S.A. professor J. Woźnicki gained substantial expertise and experience in banking and in the Bank's operations. He was honoured with a medal 'For Merit to Banking' by the President of the National Bank of Poland. Moreover, he was awarded the Commander's Cross with the Star of the Order of the Rebirth of Poland and the Knight

Cross of the French National Order of the Legion of Honour. In 2013 the Wrocław University of Environmental and Life Sciences awarded prof. J. Woźnicki with the title of Doctor Honoris Causa. In 2015 Prof. J. Woźnicki was awarded the title of Doctor Honoris Causa by the University of Warmia and Mazury in Olsztyn. In March 2015, Prof. J. Woźnicki was elected an Active Member of the European Academy of Science and Arts in the Class of Social Sciences, Law and Economics.

Roberto Nicastro, Deputy Chairman of the Supervisory Board of Bank Pekao S.A., Member of the Financial Committee and Chairman of the Nomination and Remuneration Committee.

Member of the Bank's Supervisory Board in the years 1999-2003; from 29th April 2010 a member and from 16th June 2010 to 1st June 2012 Deputy Chairman of the Supervisory Board.

From 2nd June 2012 a member and from 24th July 2012 Deputy Chairman of the Supervisory Board. From 30th April 2014 Chairman of the Nomination and Remuneration Committee.

He attended Bocconi University, where he became guest researcher after his degree in Business Administration.

He worked for Salomon Brothers (London) and McKinsey & Co (Milan) as Strategic Advisor, developing organizational-strategic projects for Financial and Regulatory Organization, and Consumer Companies based in Italy and South America.

Before joining UniCredit Group in 1997 he became Head of Planning & Participations in Credito Italiano. Later he has been appointed as Group Deputy General Manager and Head of the New Europe Division of the UniCredito, to develop a brand new leader position in Central and Eastern Europe.

In 2003 he was appointed Head of Retail Division and CEO of UniCredit Banca. In 2007 he assumed the position of Deputy CEO of the Group.

Starting from 2010 till September 2015 he was General Manager of UniCredit, with responsibility on Austria, Central and Eastern Europe, Marketing Retail and Multichannel, Group Internal Control System, Fineco and relationship with Regulators.

He was member of the Supervisory Board of UniCredit Bank Austria – Vienna, and UniCredit Bank Zao – Moscow, Comitato Esecutivo ABI and Comitato Direttivo Assonime.

From 2009 until 2012 he served as Chairman of EFMA (European Financial Marketing Association).

Prof. Leszek Pawłowicz, Deputy Chairman of the Supervisory Board, member of the Audit Committee.

Member of the Supervisory Board since 8th January 1998, Deputy Chairman of the Supervisory Board since 7th November 2012. Member of the Audit Committee since 24th January 2000.

He graduated in economics from the University of Gdańsk in 1973.

In 1977 he obtained a Ph.D. in economics and in 1988 habilitacja (the highest Polish academic qualification) in economics.

Since the beginning of his professional career he has been in the Faculty of Production Economy (now: the Faculty of Management) in the University of Gdańsk where he passed by all levels of academic career. In 1993 he obtained the title of Professor of the University of Gdańsk. Since 2003 he is Director of Banking Department of the University of Gdańsk.

Since 1990 he is Deputy President of the Board of "Instytut Badań nad Gospodarką Rynkową" (The Gdańsk Institute for Market Economics).

Since 1992 he has been Director of the Gdańsk Academy of Banking.

Previously he was Chairman and then Member of the Supervisory Board of Bank Gdański S.A., Member of the Expert Group for VBM of Telekomunikacja Polska S.A., Member of the Scientific Board of Bank Gospodarki Żywnościowej S.A., Chairman of Economic Section in Scientific Research Committee, Member of the Board of PPUP Poczta Polska, President and next Member of the Supervisory Board of the Warsaw Stock Exchange and Vice-Chairman of the Supervisory Board of PKN Orlen S.A.

Currently, prof. L. Pawłowicz is Vice President of the Supervisory Board of BEST S.A., Member of the Programme Board of the Finansowanie Nieruchomości (Real Estate Finance) quarterly and Member of the Programme and Scientific Council of the Bezpieczny Bank (Safe Bank) journal. He is Member of the Committee of Financial Sciences of the Polish Academy of Sciences.

Prof. L. Pawłowicz is an expert in the domain of banking and goodwill management; he is an author of numerous dissertations and articles on the subject.

Alessandro Decio, Secretary of the Supervisory Board, member of the Audit Committee and Financial Committee.

Member of the Bank's Supervisory Board from 19th April 2011; from 1st June 2011 to 1st June 2012 Secretary of the Supervisory Board; from 2nd June 2012 member and from 24th July 2012 Secretary of the Supervisory Board.

A graduate from the Department of Economics, Commerciale L. Bocconi University, Alessandro Maria Decio holds an MA from INSEAD (the European Institute for Business Administration) and has worked as a research assistant for six months at Commerciale L. Bocconi University.

Starting his finance career at IMI International, Mr. A. Decio held the post of Vice President until 1991. Subsequently, he was employed by Morgan Stanley International as an associate and afterwards by McKinsey until 1994 with the same position.

At the end of 1994 Alessandro M. Decio joined the European Bank for Reconstruction and Development (EBRD) and left in 2000 as a Director.

In June 2000, he joined UniCredit Group as the Head of Foreign Banks Strategy, Mergers, Acquisitions, Planning and Control Group. In October 2002 he was appointed Chief Operating Officer (COO) for Zagrebacka Banka within UniCredit Group. He served as COO at Bulbank in Bulgaria, another UniCredit Group company between 2003 and 2005.

Mr A. Decio was appointed Manager of UniCredit Group's Germany Integration Project at the beginning of 2006, before going on to serve as UniCredit Group Deputy Head of Integration Office from July 2006 to July 2007. Appointed as Executive Director of Yapi Kredi on

26th April 2007, he also became the Chief Operating Officer of the Bank on 1st July 2007. As of 30th January 2009 A. Decio has been appointed as the Deputy CEO of Yapi Kredi.

In February 2011 he became Head of Family & SME Division in UniCredit, Responsible for Retail and SME for Italy, Austria, Germany and also Responsible for Global Leasing, Factoring, Consumer Finance, Asset Gathering (CEE Countries).

From 1st August 2012 till end of 2015, he was Group Chief Risk Officer and Member of the Executive Management Committee of UniCredit.

He was also: Member of the Board of Mediobanca S.p.A., Member of the Board of Borsa Italiana S.p.A. – London Stock Exchange Group, Member of the Board of UBIS Scpa – UniCredit Business Integrated Solution, Member of the Supervisory Board of UniCredit Bank Austria and ZAO UniCredit Bank.

Laura Penna, member of the Supervisory Board since June 2nd 2012. Since July 24th 2012 member of the Audit Committee and Financial Committee.

Ms Laura Penna got a degree in Economics at Bocconi University, Milan, in 1989.

In January 1990 she started her career in the strategic consulting industry working for Accenture, where she remained till 1999 as Senior Engagement Manager for strategic services.

In November 1999 she joined Rolo Banca (an Italian bank then merged in UniCredito Italiano) as Head of Planning and Control. In June 2001 she was appointed Head of Group Planning for UniCredit Group. She covered such position till October 2005, when she was given the Financial Controlling responsibility within the Integration Office, a unit set up to manage the HVB integration in the UniCredit Group.

After setting up and heading, between September 2006 and March 2007, the Strategic Business Development Structure, in April 2007 she was appointed Head of UniCredit Management Consultancy,a highly specialized unit aiming at providing in-house high level strategic advisory to the Group.

Member of the Board of Directors and Member of Internal Control & Risks Committee of UniCredit Business Integrated Solutions SCPA, Member of the Board of Directors of Finecobank S.p.A.

Wioletta Rosołowska, member of the Supervisory Board of Bank Pekao S.A. since 2nd June 2012. Member of the Nomination and Remuneration Committee since 24th July 2012.

Wioletta Rosołowska developed her leadership skills, acquired business knowledge at senior manager courses in Insead, Harvard and Oxford. She got postgraduate degrees in journalism from the University of Warsaw, and in social rehabilitation at the Academy of Special Education.

From 1991 to 1993 she worked for international advertising agencies Young & Rubicam and Saatchi & Saatchi and was responsible for developing media strategies and purchasing of the media for customers of the Agencies.

In 1993 she started work for Tchibo in Poland, where she held the position of marketing director in Poland and Baltic countries. She was also responsible for international marketing for the Tchibo brand in Tchibo GmbH in Hamburg.

From 2000 to 2007 she was general manager of Tchibo with responsibility for the FMCG business in Poland and Baltic countries, operations of Tchibo shops and a factory in Poland.

As member of the Management Board of Tchibo GmbH in Hamburg, from 2007 to 2013, she was responsible for developing the FMCG business, retail and e-commerce in eleven countries of Eastern Europe.

She was recognized twice by the Financial Times Deutschland as one of the most influential women in business.

In January 2014 Wioletta Rosołowska joined L'Oréal Group and in July 2014 she took up the position of the President of L'Oréal Polska.

In L'Oréal Polska she manages the group of over 900 people and she is jointly responsible for the operations of Kosmepol in Poland, which is one of the most important factories of the L'Oréal Group.

Corporate Governance

Doris Tomanek, Member of the Supervisory Board since 2nd June 2012; since July 24th 2012 member of the Nomination and Remuneration Committee.

She holds a Master's degree in Macroeconomics at the University of Economics, Vienna in 1981, Mag.Rer.soc.oec.

In the years 1975-1978 she started her career working in the banking sector at Creditanstalt-Bankverein.

She started her Human Resources career in 1982 in MobilOil Austria AG, where she soon advanced to a HR Generalist with experience in recruiting, compensation and benefits, organizational and employee development.

In 1988 she joined the Coca-Cola Organization where she held regional Human Resources positions with increasing responsibility, covering all Central and Eastern European countries as well as Austria, Italy, Switzerland and Nigeria.

Dariusz Filar, Member of the Supervisory Board starting from 1st May 2015, Chairman of the Audit Committee from 8 June 2015

In 1973, he graduated from the University of Gdańsk with a degree in foreign trade. In 1976 he did a Ph.D. in economics, and in 1989 the post-doctoral lecturing degree (habilitation) in economics. After graduating from the university he stayed at the University progressing from the assistant lecturer to the associate professor of the University of Gdańsk since 1992.

From 1992 to 1995 he was a visiting professor at the University of Michigan. From 1999 to 2004 he took up the position of the chief economist of Bank Pekao S.A. Next in 2004 he was appointed to the Monetary Policy Council of NBP and he held that function until 2010. From 2010 to 2014 he was a Member of the Economic Council of Prime Minister.

In the past prof. D. Filar was a Member of the Supervisory Board of PZU S.A. and chairman of the Audit Committee of PZU S.A.

Currently he is a Member of the Supervisory Board of BEST S.A., chairman of the Audit Committee of BEST S.A. and Member of the Supervisory Board of the Institute for Analyses and Rating (IAiR).

Prof. Katarzyna Majchrzak, Member of the Supervisory Board since 1st May 2015

Associate Professor (Profesor nadzwyczajny) of the Warsaw School of Economics (SGH), head of the Value-Based Marketing Department, the Institute of Value Creation. In 1995 she received a Ph.D. in economics, and in 2012 the post-doctoral lecturing degree (habilitation) in economics in the scope of management, Member of the Collegium of Business Administration SGH, and member of Learned Society of Praxiology.

From 2009 prof. K. Majchrzak is Corporate Communications Director, Member of Board of Directors in EDF Polska S.A. From 1999 to 2007 she was Director of the PR and Promotion Office in PKN Orlen S.A. with the responsibility of planning and supervision over implementation of the information and promotional and advertising policy of the company. She worked also in ICENTIS Corporate Solutions, ICENTIS Capital, Zachodni Fundusz Inwestycyjny NFI S.A., International Westfund Holdings LTD and in Hortex Sp. z o.o.

Małgorzata Adamkiewicz, member of the Supervisory Board since 12th June 2013 till 30th April 2015.

Medical Doctor (PhD). She graduated from Faculty of Medicine at the Medical University of Warsaw. Holds first and second degree specialization in internal medicine, specializes in endocrinology. A graduate of the Stockholm School of Economics Executive Educations.

In 1991-2002 she practiced at the Clinic of Endocrinology at the Centre of Postgraduate Medical Education in Warsaw.

From its very beginning involved with the Adamed Group, a Polish pharmaceutical and biotechnological company – leader on the domestic market of new generation medicines.

Holds a number of positions within the Group: Vice President of the Management Board of Zakłady Farmaceutyczne Adamed Pharma S.A., Vice President of the Management Board of Adamed Sp. z o.o., Member of the Supervisory Board of Adamed Consumer Healthcare S.A. and Chairwoman of the Supervisory Board of Pabianickie Zakłady Farmaceutyczne Polfa S.A. Since 2006 serves as Managing Director of the Adamed Group, of which she is also the co-owner.

She is also a member of: the Supervisory Board of the Polish Pharmaceutical Industry Employers Association, the Polish Business Roundtable, the International Endocrinology Society.

Paweł Dangel, Member of the Supervisory Board since 10th September 1999 till 30th April 2015. Member and Chairman of the Audit Committee since 7th November 2012 till 30 April 2015.

He obtained degree of master of arts in Directing and Producing a Theatre Production at Academy of Theatre Arts in Moscow.

In the years 1980-1984 he worked as a theatre producer in Poland and from 1984 to 1986 as a producer and lecturer in theatre academies in London.

From 1986 he worked as an advisor, manager, sale and insurance director for the UK-based insurance companies.

He has extensive experience in insurance and finance, having completed a number of specialist courses in management, insurance and finance.

In the years 1994-1997 he was Vice President of the Management Board and Sales and Marketing Director at the Life Insurance Company: Nationale-Nederlanden Polska S.A.

Next, from June 1997 to April 2013 he was President of the Management Boards of Insurance Company: Allianz Polska S.A. and Allianz Życie Polska S.A.; he was also Chairman of the Supervisory Board of PTE Allianz Polska S.A.

Since January 2014 till July 2015 P. Dangel has been a member of the Chapter of the Order of Polonia Restituta.

Powers of the Supervisory Board

In addition to other rights and obligations provided for in the Commercial Companies Code and in the Bank's Statute, the scope of powers and duties of the Supervisory Board includes in particular:

- reviewing the Management Board's Report on the Bank's operations and the Bank's financial statements for the previous financial year,
- reviewing the Management Board's recommendations concerning the distribution of profit or coverage of loss,
- reviewing the Management Board's Report on the Group's operations and the consolidated financial statements for the previous financial year,
- presenting the General Meeting of Shareholders with a report on the results of the above reviews and a report on the Supervisory Board's activities in the previous financial year,
- requesting approval from the Polish Financial Supervision Authority for appointment of two members of the Management Board of the Bank, including the President,
- appointing and removing from office the President of the Management Board and, upon the President's request, Vice Presidents and members of the Management Board,
- suspending from office a member (members) of the Management Board for important reasons,
- determining the terms and conditions of contracts governing employment relationships or other legal relationships between members of the Management Board and the Bank,
- giving opinions on long-term development plans and annual financial plans of the Bank,
- giving opinions on the Management Board's proposals concerning establishment of other companies or joining other companies as a shareholder, as well as disposal of shares or other equity interests, where a given transaction is related to a long-term strategic investment,
- approving the establishment or liquidation of foreign branches and representative offices of the Bank,
- adopting, upon the Management Board's request, rules governing the creation and use of funds specified in the Statute,
- approving the Management Board's proposals concerning purchase, encumbrance, or sale of real estate, an interest in or perpetual usufruct rights to real estate, where the value of a given transaction exceeds PLN 2 M,
- approving the Management Board's proposals concerning assumption of an obligation or disposal of assets, where the value of a given transaction executed with a single entity exceeds 5% of the Bank's equity,
- approving the Management Board's proposals to outsource services, where the services pertain to a strategic area of the Bank's business or their value equals or exceeds EUR 1 M.

Functioning of the Supervisory Board

In 2015, the Supervisory Board operates in accordance with the Rules of Procedure, adopted by virtue of Resolution No. 10/15 of 6 February 2015. The Rules of Procedure are available on the Bank's website. Previously binding Resolution No. 2/01 of the Supervisory Board of January 26, 2001 as amended is no longer valid. The Rules of procedure of the Supervisory Board are available on the Bank's website.

Meetings of the Supervisory Board are held when needed, but not less frequently than once in two months. Pursuant to the Rules of Procedure, the meetings of the Supervisory Board are accessible and open to members of the Management Board, unless they deal with matters relating directly to the Bank's Management Board or its members, and in particular with the appointment or removal from office of the President of the Management Board or, upon the President's request, Vice Presidents or members of the Management Board, their suspension from office, their responsibility or determination of their remuneration.

According to the Statute and the Code of Best Practice for WSE Listed Companies, every year the Supervisory Board submits to the General Meeting of Shareholders an annual report of its activities, including activities of its committees, and a concise evaluation of the Bank's standing, with special focus on the internal control system and the system for managing risks material to the Bank. The documents are made available to the shareholders before the General Meeting.

The Rules of Procedure of the Supervisory Board stipulate, in line with the principles set out in the Code of Best Practice for WSE Listed Companies, that in the event of a conflict of interests, the Supervisory Board member concerned is obliged to inform the other Board members of its occurrence and refrain from discussing and voting on a resolution which relates to the matter in respect of which the conflict of interests has occurred.

The Bank has in place a procedure for obtaining information from members of the Supervisory Board on any personal, actual and organisational links. Such information is then disclosed in current and periodic reports in accordance with applicable laws and the Code of Best Practice for WSE Listed Companies.

In 2015, the Supervisory Board held 8 meetings, reviewed 124 information notes, analyses and proposals, and adopted 55 resolutions.

Independent Members of the Supervisory Board

In accordance with the Bank's Statute, at least half of the members of the Supervisory Board should be independent members, i.e. persons free from any relationships that could materially affect their ability to make impartial decisions.

Detailed criteria which must be satisfied by members of the Supervisory Board to be deemed independent members are set out in the Bank's Statute. Pursuant to Section 14.5 of the Statute, to be deemed independent, a member of the Supervisory Board must meet all of the following conditions:
1. he/she is not and has not been in the last three years employed at the Bank, its subsidiaries or parent entity,
2. he/she does not hold and has not held in the last three years a position of a member of the Management Board or other managerial position (irrespective of the legal basis of employment) at the Bank, its subsidiaries or parent entity,
3. he/she is not and has not been in the last three years an auditor of the Bank, its subsidiaries or parent entity, or an employee of an entity providing auditing services to the Bank, its subsidiaries or parent entity,
4. he/she is not a shareholder holding more than 5% of the total vote at the Bank's General Meeting of Shareholders and is not employed by such a shareholder,
5. he/she does not receive any additional remuneration (except for remuneration payable on account of serving as a member of the Supervisory Board), or any other proprietary benefits from the Bank, its subsidiaries or parent entity, except for the benefits due to that person as a consumer under an agreement concluded on standard terms with the Bank, its subsidiaries or parent entity,
6. he/she is not and has not been in the last three years a spouse, a life partner or a relative through blood or marriage of a member of the Bank's Management Board or an employee holding a managerial position at the Bank,
7. he/she is not a member of the management board of another company in which a member of the Bank's Management Board serves as a member of the supervisory board,
8. he/she has no material business links with the Bank, its subsidiaries or parent entity which might compromise his/her independence, and
9. if the election date falls within three years of the date of registration of the increase in the Bank's share capital made with a view to delivering shares to the shareholders of Bank BPH S.A. in connection with Bank BPH S.A.'s division by way of a spin-off – he/she is not related to Bank BPH S.A., its subsidiaries or parent entities in the manner referred to in Section 1, 2, 3 and 6 above.

According to the submitted representations, the independence criteria set forth in the Statute were satisfied as at the end of 2015 by five of nine members of the Supervisory Board, i.e. J. Woźnicki, D. Filar, K. Majchrzak, L. Pawłowicz and W. Rosołowska.

Management Board

Appointment, Composition and Qualifications

The Management Board is composed of five to nine members. Members of the Management Board are appointed by the Supervisory Board for a joint three-year term of office.

The Bank's Management Board comprises: the President of the Management Board, Vice Presidents and Members of the Management Board. Vice Presidents and Members of the Management Board are appointed and removed upon request of the President. Appointment of two members of the Management Board, including the President, is subject to approval by the Polish Financial Supervision Authority. Applications to the Polish Financial Supervision Authority are submitted by the Supervisory Board. The Vice President of the Management Board, who is subject to approval by the Polish Financial Supervision Authority, is responsible for risk management, including credit risk, with the exception of managing compliance risk.

At least half of the members of the Management Board, including its President, should possess thorough knowledge of the Polish banking market, i.e. they should meet all of the following criteria:
- they must have professional experience gained on the Polish market, relevant for the performance of a managerial function at the Bank,
- they must be permanently domiciled in Poland,
- they must have command of the Polish language.

In the Management Board of the current term of office, all of the aforementioned criteria are met by six members.

The Management Board currently in office comprises seven members, including the President and six Vice Presidents.

All Management Board members have extensive knowledge and experience needed to perform their duties on the Board. Their professional backg**rounds are available at the Bank's website.**

Mr **Luigi Lovaglio**, President of the Bank's Management Board, CEO.

Luigi Lovaglio was elected the President of the Management Board, CEO of Bank Pekao in May 2011. Prior, since 2003 he hosted the position of Vice President and General Manager of Bank Pekao.

He is an over 40-year veteran of banking services, most of this time devoted to the leading international banking group – UniCredit – which he joined in 1973. During next 20 years he held a number of management positions and in 1997 he assumed the responsibility of the Head of Strategic Planning of UniCredit Group where he participated in the process of mergers of newly acquired banks. Two years later, in 1999, following the development of the UniCredit Group in Central and Eastern Europe, with regard to his broad experience in mergers, he was appointed the Head of Foreign Banks Group Planning with the primary goal of Bank Pekao integration.

In the years 2000-2003 Luigi Lovaglio hosted the position of Deputy Chairman of the Management Board and Executive Director of Bulbank AD – the largest bank in Bulgaria.

In September 2003 he came back to Poland, assumed the responsibility of Vice President and General Manager at Bank Pekao, in 2011 he was elected the President of the Management Board, CEO of the Bank. He commenced strengthening the position of this Bank and as the result Bank Pekao has been recognized by major international financial institutions and magazines as one of the leading banks in Central and Eastern Europe. His focus on sustainable long term returns and ethical aspects led also to the decision not to offer CHF mortgage loans to retail customers, which was an exception in CEE.

Luigi Lovaglio was born in 1955 in Potenza, Italy. He is a graduate in Economics and Commerce at the University of Bologna. In 2008 he was awarded the title of Italy's Commander of the Order of the Star of Italian Solidarity by Giorgio Napolitano, President of Italy, in recognition of his outstanding contribution to the development of economic cooperation between Poland and Italy.

Mr **Diego Biondo**, Vice President of the Management Board.

He completed business management studies at the University of Turin.

Mr Biondo started his professional career in 1990 at the Fiat Group in Turin, where he held a number of positions in the Finance Department. In 2000, he became Vice President and Deputy Treasurer of Fiat Finance North America of New York. In that role, he was responsible for the financing activities of the Fiat Group's companies in the US, Canada and Mexico. In the years 2001-2003, he was Vice President and Chief Financial Officer at Fiat Polska Sp. z o.o. in charge of the financing activities of the Fiat Group in Poland.

Mr Biondo joined Bank Pekao S.A. in 2003 as Executive Director, Head of the Risk Management Division (CRO).

Since December 11th 2008 he has served as Vice President of the Management Board, Chief Risk Officer.

Mr **Andrzej Kopyrski**, Vice President of the Bank's Management Board.

He is a graduate of Warsaw University of Technology and the University of Strathclyde (Glasgow).

He has been associated with the banking sector since 1992, when he joined Bank Pekao S.A. In 1993-1996, he worked in the corporate banking division at ING Bank Polska. Afterwards, he became Head of Structural Finance at Deutsche Bank Polska, and then in 1997-2001 he held the position of Head of Structural Finance and Capital Markets at ABN Amro Bank (Polska). In 2001, Mr Kopyrski was appointed member of the Management Board at HSBC Financial Services (Poland).

From April 2002, Mr Andrzej Kopyrski worked for Bank BPH S.A. as Managing Director responsible for Sales, Structural Finance and Capital Markets. After the merger with Bank Pekao S.A., he took charge of the Investment Banking and Structural Finance Department. He was appointed Vice President of the Management Board of Bank Pekao S.A. on June 4th 2008.

Currently, he supervises the Corporate Banking, Markets and Investment Banking Division.

Mr Andrzej Kopyrski is also Chairman of the Supervisory Boards of: Pekao Leasing Sp. z o.o., Pekao Faktoring Sp. z o.o. and Pekao Investment Banking S.A.

Adam Niewiński, Vice President of the Management Board since 30th April 2015.

He is graduated from the Warsaw School of Economics, faculty: "Management and Marketing". He also completed courses at the U.S. management schools: Stanford University Graduate School of Business and Harvard Business School.

Adam Niewiński started his professional career in 1998 at The Boston Consulting Group where he worked as a consultant specialized in financial services sector. For nearly three years, he carried out many projects in the areas of reorganization and strategy development. As of 2000 he was building a team, acquired financing and subsequently established the Expander company (FinFin S.A.). of which he became President. Initially, the company was running the biggest in Poland website rendering financial advisory services and then it was transformed into a distributor of financial solutions with branches all over Poland. The new strategy enabled the company to achieve the leadership position in financial advisory and intermediation in sale of mortgage loans.

Since 2002 up till now Adam Niewiński has been associated with the Pekao Group.

In July 2002 he started working in the Central Brokerage House of Bank Pekao S.A. (CDM) where he held the position of Vice President of the Management Board. Next, from April 2004 to April 2015 he was President of the Management Board of Dom Inwestycyjny Xelion Sp. z o. o. (Xelion Investment House). In February 2013 he was appointed Executive Director of the Private Banking Division at Bank Pekao S.A. Since 30th April 2015 he was appointed Vice President of the Management Board of the Bank supervising Private Banking Division.

Mr **Grzegorz Piwowar**, Vice President of the Management Board.

He holds a master's degree in Electronics from the University of Science and Technology of Kraków, and completed post-graduate studies in banking at the Kraków School of Economics.

He has been associated with the banking sector since 1992, when he joined Bank BPH S.A. In the years 1996-2000, he worked as Head of the Brokerage Office and for another two years as Director of the Retail Banking Southern Region. In 2002, he was promoted to the position of Sales and Distribution Managing Director of the Retail Banking Division. In October 2006, he was appointed member of the Management Board of Bank BPH S.A. in charge of Retail Banking.

From November 30th 2007, he held the position of Vice President of the Management Board of Bank Pekao S.A. with responsibility for the Retail and Business Banking Division and since 2009 he has been responsible for the Retail Banking Division.

Stefano Santini, Vice President of the Bank's Management Board.

He graduated from the Faculty of Economics of Bocconi University where he defended his MA dissertation on the "Transformation of Central and East European countries to market economy".

Following a period of involvement in economic research, he embarked on a professional career in banking. In 2000 he joined UniCredit supporting P&C activities for the UniCredit Group and managed project integration in Croatia and Romania. In 2003, as a representative of UniCredit he started supporting P&C, the Project Office of Bank Pekao S.A. In 2005 he joined Bank Pekao S.A. as Deputy Director of the Finance Division. In 2006, after the merger of UniCredit and HVB, he was appointed Project Manager responsible for the spin-off of BPH and merger of Bank BPH and Bank Pekao S.A.

In 2008 he was appointed the Head of the Capital Allocation and ALM Department in Bank Pekao S.A. and the Adviser to the Supervisory Board of UniCredit Bank Ukraine and Member of the Audit Committee.

In April 2010 he became member of the Management Board of UniCredit Bank Hungary Zrt. as CFO responsible for planning and control, accounting, management information, asset and liability management and the tax area, while supervising the operations of the Bank's subsidiary companies. At the same time, he was elected Chairman of the Supervisory Board of UniCredit Jelzálogbank Zrt. (mortgage bank) and Chairman of ALCO.

Since 1 April 2013 he was appointed Vice President of the Management Board of Bank Pekao S.A. supervising the Finance Division.

On March 28th 2013 joined the Supervisory Board of Pekao Leasing and in July 2015 he was appointed Deputy Chairman of the Supervisory Board of Pekao Investment Banking.

Mr **Marian Ważyński**, Vice President of the Management Board.

A graduate of Warsaw University, Faculty of Law and Administration; he also completed postgraduate studies in commercial bank management at the Warsaw School of Economics.

He has been working in the banking sector since 1986.
In 1986-1990, Mr Ważyński was Director of the Office of the President of the National Bank of Poland. From 1990 till 1998, he held a number of managerial positions at commercial banks. He was a member of the Management Board of AmerBank and Animex Bank, and a Regional Director of Bank Depozytowo-Kredytowy S.A.

Since he joined Bank Pekao S.A. in 1998, he was Merger Manager responsible for a transaction involving merger of four banks, and then became Executive Director responsible for the Logistics Division. Since December 15th 2004, he has been a member of the Management Board of the Bank. In November 2007, Mr Ważyński was appointed Vice President of the Management Board; he supervises Logistics and Procurement Division.

Powers of the Management Board

The scope of powers of the Management Board is defined by the provisions of applicable laws, including the Commercial Companies Code, the Banking Act and the Bank's Statute.

The Management Board runs the Bank's affairs and represents the Bank. The Management Board's powers include all matters which, pursuant to the provisions of applicable laws or the Bank's Statute, do not fall within the scope of competence of other governing bodies of the Bank.

The Management Board prepares the development strategy for the Bank and is responsible for the implementation of that strategy. Pursuing the principle of efficient and prudent management ofthe Bank, the Management Board is responsible for initiation and implementation of programmes aimed at increasing the Bank's value and rate of return for the shareholders, as well as protection of the employees' long-term interests.

In its decisions, the Bank's Management Board makes every effort to ensure, to the maximum extent possible, the promotion of the interests of the shareholders, customers, employees, as well as other entities and persons cooperating with the Bank in its business activity.

Functioning of the Management Board

The principles and mode of operation of the Management Board are set forth in the Rules of Procedure of the Management Board of Bank Pekao S.A., approved under Resolution of the Bank's Management Board No. 101/VI/03 of 3 June 2003. With Resolution No. 480/XII/2014 of 22 December 2014 the Bank's Management Board approved new Rules of Procedure of the Management Board. The Rules of Procedure of the Management Board are available on the Bank's website.

The management of the Bank is based on professionalism, reliability and confidentiality. Relations with customers are characterised by reliability and fairness and operations compliant with law. These values are among the principles incorporated in the Code of Conduct and UniCredit Integrity Charter implemented at the Bank.

Each member of the Bank's Management Board is obliged to act in such a way as to further the Bank's interests. According to the Code of Conduct effective at the Bank, each member of the Management Board is expected to be honest and loyal in pursuing the common objectives, and to respect the Bank's resources and use them in a prudent manner.

Moreover, members of the Management Board are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be incompatible with the Bank's interests or their official duties. A Management Board member is obliged to notify the Supervisory Board of any situation in which a conflict of interests might occur or has occurred.

A Management Board member who becomes aware of any situation where an employee or a representative of a business partner of the Bank demanded any benefits, regardless of their scope and nature, should promptly notify the Supervisory Board of such demand.

The Rules of Procedure of the Management Board specify the issues which require collective consideration by the Management Board. According to the Rules of Procedure, the following issues in particular require collective consideration:

- the Bank's development strategy,
- financial plans, reports on the operations and financial statements of the Bank and its Group,
- proposed distribution of profit (coverage of loss),
- rules for and manner of implementation of: the investment policy, the assets and liabilities management policy, the credit policy, the HR policy, the remuneration policy, the employee benefits policy and the interest rate policy,
- matters relating to purchase, encumbrance and sale of real estate or interests in real estate,
- matters relating to the organisational structure of the Head Office, as well as the establishment and liquidation of the Bank's organisational units,
- adoption of rules for special purpose funds,
- establishment of other companies, joining other companies and disposal of shares (or other equity interests), where a given transaction relates to a long-term strategic investment,
- establishment of associations and foundations and joining associations and foundations,
- matters remitted to the Management Board by the Supervisory Board,
- matters relating to the participation of the Bank's employees in supervisory boards of companies in which the Bank holds equity interests,
- approval and submission of a report on notifications of major abuses to the Supervisory Board4.

Furthermore, the Management Board collectively considers all matters which are submitted to the Supervisory Board for consideration, as well as matters submitted by the Bank's Management Board to the General Meeting of Shareholders.

The Management Board is headed by the President, who convenes and presides over its meetings, presents its position to other governing bodies of the Bank and in relations with third parties,

in particular with governmental authorities, and issues internal regulations. The President may delegate the authority to issue internal regulations to other persons.

In 2015, the Management Board held 47 meetings and adopted 501 resolutions..

Management structure

Members of the Management Board coordinate and supervise the Bank's operations in line with the delegation of responsibilities adopted under a resolution of the Management Board and approved by the Supervisory Board. Mr Luigi Lovaglio, President of the Management Board, coordinated the activities of the Members of the Management Board and supervised a number of areas of the Bank's activity, in particular: internal audit, compliance risk management and corporate communication, including investor relations.

Mr Luigi Lovaglio headed the Management Board, convened and presided over the Board meetings, presented its stance to other governing bodies of the Bank and in relations with third parties, in particular with the state authorities, and issued internal regulations.

Mr Diego Biondo, Vice President of the Management Board, supervised the activity of the Risk Management Division.

Mr Andrzej Kopyrski, Vice President of the Management Board, supervised the activity of the Corporate Banking and MIB Division.

Mr Adam Niewiński Vice President of the Management Board, supervised the activity of the Private Banking Division.

Mr Grzegorz Piwowar, Vice President of the Management Board, supervised the activity of the Retail Banking Division.

Mr Stefano Santini, Vice President of the Management Board, supervised the activity of the Finance Division.

Mr Marian Ważyński, Vice President of the Management Board, supervised the activity of the Logistics and Procurement Division.

The Management Board ensures that the management system at the Bank is transparent and effective, and runs the Bank's affairs in compliance with applicable laws and the rules of the Code of Best

Practice for WSE Listed Companies and the Code of Banking Ethics of the Polish Bank Association.

The Bank's organisational structure is made up of:
- the Head Office,
- operational units of the Head Office,
- Regional Offices,
- domestic and foreign Branches with Sub-Branches and Banking Service Points,
- other organisational units, including Regional Corporate Centres.

The basic organisational units of the Bank's Head Office (departments and bureaus) may be combined into business divisions. Each business division may be directly supervised by a member of the Management Board; it may be also managed by an Executive Director / Head of Division.

The Bank's Head Office has the following standing Committees:
- Credit Committee of the Bank
- Assets, Liabilities and Risk Committee
- Liquidity and Market Risk Committee
- Operational Risk Committee
- Change Management Committee
- Security Committee
- Business Internal Control Committee
- Committee for Relations with Regulatory and Control Bodies
- Conflict of Interest Committee
- Data Management and Data Quality Committee

Mandate, composition and functioning of the committees are defined by Bank's internal regulations.

Ad hoc units may also operate at the Bank's Head Office (task forces, projects).

Risk Management System

The risk management system in place at Bank Pekao S.A. is defined in the ICAAP Policy, adopted by the Bank's Management Board and approved by its Supervisory Board.

The ICAAP Policy outlines the key elements of a comprehensive approach to the risks arising from the Bank's operations and business strategy, both at the level of the Bank and the entire Bank Pekao S.A. Group. It defines identified risks and the criteria for classifying them as material, sets out the objectives and principles of risk management, the target structure of risk exposure arising from the Bank's operations, as well as the acceptable level and structure of risk.

A risk is defined as *"the possibility that the outcome of an action or event could lead to adverse impacts resulting in losses or constraining the Bank's ability to meet its stated business strategy"*. Every identified risk should be assessed in terms of its materiality and – if found to be material – measured (if classified as measurable), as well as monitored and controlled in line with the methods and procedures defined specifically for a given type of risk. The risk assessment and measurement methodologies are designed to ensure compliance with the applicable legal requirements, best market practices and the UniCredit Group's guidance.

The risk management system in place at the Bank constitutes an integral part of the Bank's management system. The risk management system is used to identify, measure (estimate), monitor, control and report the risks inherent in the Bank's operations in order to ensure that the process of setting and attaining specific objectives related to the Bank's operations functions properly. Risk management improves the efficiency of the decision-making process, while ensuring compliance of the Bank's decisions with the best market practice and the applicable regulatory regime.

The Bank applies formal limits to mitigate the risks and defines rules to be followed in the event that the limits are exceeded, while the adopted management information system serves as a tool enabling it to monitor the risks. The Bank's organisational structure is adapted to the size and profile of its risk exposure. In managing risks at the Group level, the Bank oversees the risk exposures inherent in the operations of its subsidiaries.

Under the risk management system currently in place at the Bank, the Management Board is responsible for: the development, implementation and functioning of risk management processes and the process of computing of internal capital adapted to the Bank's size and risk profile, taking into account risk exposures of subsidiaries. The Bank's Management Board receives regular updates on the Bank's risk profile, the largest exposures and credit risk concentrations.

The Supervisory Board exercises supervision over the risk management system, assessing its adequacy and effectiveness. Moreover, the Supervisory Board also provides supervision of the compliance of Group policy with respect to risk management with the strategy and financial plan.

Decisions to implement new, or modify the existing products, including financial products (to the extent such decisions are not reserved for the Bank's Management Board), while ensuring their consistency with the Bank's strategy and defined business model, and prioritising the planned changes, have been entrusted to the Change Management Committee. All such decisions are preceded by a preparatory process as part of which material risks are identified, the product is included in the existing risk identification and measurement system, the internal limits are determined and the rules of accounting/reporting are set down.

The risk management strategy and system in place at the Bank are subject to regular reviews and necessary updates to ensure that they remain adequate given the scale and complexity of the Bank's operations.

Internal Control System

The Bank's Internal Control System comprises all internal regulations, procedures, and organizational structures, which – acting together – aim to ensure:

– compliance with the Bank's strategy,
– efficiency and effectiveness of procedures,
– protection of assets,
– prevention of losses, errors and damage to the Bank's reputation,
– security, stability and efficiency of operations,
– reliability and completeness of accounting records and management information,
– compliance of transactions with the generally applicable laws, regulations issued by the competent supervisory authorities, as well as internal policies, plans, regulations and procedures, and
– support of the decision-making process.

The Bank's Internal Control System is adapted to its organizational structure, complexity of conducted operations, size and profile of the risks defined by: credit risk (including counterparty risk; concentration risk; residual risk; country risk), financial risk (market risk including interest rate risk in the banking book; liquidity risk), operational risk, Pillar II risks (real estate risk; macroeconomic risk; business risk including strategic risk; reputational risk; model risk), compliance risk.

Internal control is a continuous process, carried out at all levels of the Bank. The internal control system engages – in various roles – the statutory bodies of the Bank, individuals and organizational units of the Bank, supervising and directing at all levels of management and all employees.

The Supervisory Board is responsible for exercising effective supervision over the operation of the Internal Control System, which includes evaluation of its adequacy, efficiency and effectiveness.
The Supervisory Board is assisted in the performance of those duties by the Audit Committee and the Internal Audit.

The Management Board is responsible for the development, implementation and regular revision of the policies, strategies and procedures of the Internal Control System as well as for the adequacy, efficiency and effectiveness of the Internal Control System, which is adapted to the size and profile of the risk associated with the Bank's operations. The President of the Management Board issues, in the form of an order, the Internal Control Regulations.

In 2012, the Internal Control Business Committee was set up whose tasks include the provision of opinions and recommendations supporting the efficiency and effectiveness of the Bank's Internal Control System. The Committee supports the President of the Management Board identifying remedial measures and priorities in their implementation, with a view to providing for the needs of the Bank's organisational units and of Clients, as well as to ensure compliance of the Bank's operations with internal regulations of the Bank and the generally applicable law.

Internal Control System includes three control levels:

1) **Operational management**
Controls carried out under operational management function are divided into line controls and functional controls.

a) Line control
Line control is carried out by each employee (self-control) based on existing procedures and based on duty of supervision by managers (hierarchical control). This control should ensure correctness of operations within the same operational structure in accordance with procedures.

b) Functional control
This control is performed in the units based on the control plans prepared by directors, performed by them, by delegated employees or by the supervising unit. The purpose of this control is to check the correctness and the quality of performed activities, in particular in the scope of risk assessment and risk monitoring, compliance with competences assigned to the job positions and checking coherence between limits of rights in the different functionality areas of operations.

2) **Control of risk management**
Control of risk management is performed by units not involved in business activity, in particular in the scope of security, finance, risk management and compliance. The purpose of this control is to measure, monitor and strengthen the effectiveness of risk management undertaken by operational units to support the owners of risks in determining the level of risk exposure and distribution of information regarding the risks in the Bank.

3) **Internal Audit (institutional control)**
This control covers audits performed by the Internal Audit Department (IAD) both on organizational units of the Bank and its Subsidiaries. The task of IAD is to review and evaluate independently and objectively the adequacy, efficiency and effectiveness of the Internal Control System, compliance function and risk management system. IAD activities are aimed to assess compliance of actions taken by the Bank's employees with current provisions of the law, including observance of prudential regulations and other external standards as well as the Bank's internal regulations in force.
Institutional control is exercised through audits performed in accordance with an officially accepted audit plan and unplanned ad hoc audits, as well as remote controls. The Internal Audit Department reports directly to the President of the Management Board. The Internal Audit Department also presents reports to the Audit Committee and Supervisory Board.
An independent quality assessment review of the Internal Audit function of the Bank was performed at the end of 2013 by PwC. According to PwC, the results of the review were very positive.

The review confirmed that the Internal Audit Department generally conforms with the International Standards for the Professional Practice of Internal Auditing.
The Bank exercises the control functions at its subsidiary companies by having representatives in the Supervisory Board of each subsidiary. The Pekao Group's companies apply uniform standards and principles of the Internal Audit activity.

Protection of Inside Information and Prohibition of Trading during Restricted Periods

As regards prevention of unlawful use and disclosure of inside information and ensuring that investors have equal access to information, the Bank meets the high standards stipulated in the Act on Trading in Financial Instruments of July 29th 2005 and the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, which implemented the provisions of Directive 2003/6/EC of the European Parliament and of the Council of January 28th 2003 on Insider Dealing and Market Manipulation (Market Abuse) into Polish law.

Pursuant to the provisions of the Act of Trading in Financial Instruments, the Bank prohibits the use of inside information and any trading in the Bank shares and financial instruments during restricted periods by any persons having access to such information.

Protection of inside information and ensuring that investors have equal access to information are among the basic duties of all the Bank's employees. The manner of performing those duties and detailed procedures in this respect are regulated by orders of the President of the Management Board, by virtue of which the following documents have been introduced:
- *Rules for performing obligations related to inside information and disclosing information on trades in financial instruments related to the Bank's securities, executed by the obliged persons; and*
- *Rules for preparing and releasing by Bank Polska Kasa Opieki S.A. of current and periodic information to be published by issuers of securities and other information related to the Bank's shares.*

Additionally, the Bank guarantees protection of personal data and protects information embodying its business secret.

Protection of Inside Information

In order to prevent unlawful use and disclosure of inside information, the Bank has established an inside information protection system whose main purpose is to secure and protect documents containing inside information, protect systems containing inside information and control the circulation of documents containing inside information.

The currently binding Rules for performing obligations related to inside information and disclosing information on trading in financial instruments related to the Bank's securities executed by the Obliged Persons ("Rules") also include a prohibition on using or disclosing inside information, or recommending or inducing other persons to acquire or dispose of financial instruments on the basis of inside information which relates to such instruments.

The above prohibition applies to all persons who hold inside information as a result of performing various functions in the Bank's governing bodies, holding Bank shares, having access to such information in connection with their employment, practiced profession, or a mandate contract or any other legal relation of a similar nature, and in particular to:
1. members of the Management Board, the Supervisory Board, proxies or attorneys-in-fact of the Bank, its employees, auditors or other persons related to the Bank under a mandate contract or any legal relation of a similar nature (primary insiders),
2. the Bank shareholders,
3. persons employed or holding posts referred to in item 1 in a subsidiary company or the1 parent company of the Bank, or bound with such company under a mandate contract or any other legal relation of a similar nature.

The Bank monitors compliance with the above prohibition in accordance with the Rules. The Rules also define the manner of proceeding in the event of a reasonable suspicion of unlawful use or disclosure of inside information, non-compliance with the disclosure requirements or entry into a prohibited transaction during a restricted period.

Prohibition of Trading During Restricted Periods

The persons described as "primary insiders" who have access to inside information are not allowed to enter, during the so-called restricted periods, into any legal transactions, for their own account or for the account of a third party, which lead or might lead to the disposal of the Bank shares, derivative rights attached to the Bank shares or financial instruments related to such shares.

A restricted period is:
- the time from the moment a primary insider receives inside information until such information is made public,
- in the case of an annual report – two months preceding the release of the annual report or, if shorter, the period between the end of the financial year and the release of the report,
- in the case of a semi-annual report – a month preceding the release of the report or, if shorter, the period between the end of a given six-month period and the release of the report,

– in the case of a quarterly report – two weeks preceding the release of the report or, if shorter, the period between the end of a given quarter and the publication of the report.

All the Bank's employees are notified of the opening and closing dates of restricted periods related to the publication of the Bank's periodic reports.

The prohibition of entering into transactions does not apply if the primary insider had no access to the financial data serving as the basis for the preparation of a given report.

A primary insider who undertakes investment activity during a restricted period is liable to administrative sanctions for violating the provisions of the Act on Trading in Financial Instruments, as well as to criminal sanctions.

Reporting Transactions by Obliged Persons

Pursuant to the Rules, obliged persons are required to notify the Financial Supervision Authority and the Bank of any transactions, executed by such obliged persons or by persons closely related to them for their own account, involving purchase or disposal of the Bank shares, derivative rights attached to the Bank shares and other financial instruments related to such securities, admitted or sought to be admitted to trading on a regulated market.

Obliged persons include:
1. Members of the Management and Supervisory Boards and proxies of the Bank,
2. other persons who hold management posts in the organisational structure of the Bank, have permanent access to inside information related, directly or indirectly, to the Bank, and are authorised to make decisions concerning the Bank's development and business prospects.

The Bank promptly discloses the information it receives simultaneously to the company operating the regulated market (Warsaw Stock Exchange) and to the public in a current report prepared according to a pre-defined format and using the appropriate IT standards.

Relations with the External Auditor

Selection of the Auditing Firm to Audit Financial Statements

Pursuant to the Bank's Statute and the Rules of Procedure of the Supervisory Board, the auditing firm is selected by the General Meeting of Shareholders on the basis of a recommendation prepared by the Supervisory Board through its Audit Committee. The auditing firm to be mandated to audit the Bank's financial statements is selected in accordance with the relevant procedures applicable at the Bank, in a way that guarantees the auditor's independence in the performance of its responsibilities.

The Auditor's Independence

In compliance with the European Commission Recommendation 2002/590/EC and Directive 2006/43/EC, the Bank and the Pekao Group have internal regulations in place whose purpose is to guarantee independence of the auditors and reliability of the financial statements of the Bank and its subsidiaries.

In accordance with the above regulations, no financial, business or employment relations, or other relations of any kind, including those resulting from the provision of non-audit services, may exist between the auditor of financial statements and the audited entity (that is the Bank or any of its subsidiary companies).

Agreements for the provision of permitted services concluded between the Bank or any of its subsidiary companies and the auditor of financial statements have to specify the services in detail and meet certain expressly stipulated conditions. The services provided under such agreements and the related costs are monitored on an ongoing basis by the Bank's internal audit.

Credit Process for the Management Staff and Entities and Persons Related to the Bank

Pursuant to the provisions of the Banking Act and applicable regulations of the UniCredit Group, credit transactions with members of the Bank's Management and Supervisory Boards, with persons who hold managerial positions and entities related to them, and with persons included in the list of the UniCredit Group's corporate officers, are entered into on the basis of relevant Rules adopted by the Bank's Supervisory Board.

The Rules determine in detail the principles of the decision-making process as regards entering into transactions with the above-mentioned persons and entities, and they also specify levels of authority to make relevant decisions, and their authority limits. Specifically, the decision to grant a loan to a member of the Management or Supervisory Board or to entities related to them by equity or organisational links, is made by the Management and Supervisory Boards by way of separate Resolutions if the total exposure to such person or entity exceeds the PLN equivalent of EUR 10,000 translated at the mean exchange rate of the National Bank of Poland.

Corporate Governance

Members of the Bank's Management and entities related to them by equity or organisational links may use the Bank's credit products in accordance with the terms and conditions normally offered by the Bank. In particular, in relation to such persons and entities the Bank does not apply preferential interest rates; the credit risk assessment is made in line with the methodology routinely employed by the Bank in the case of a given customer segment and type of transaction.

With respect to the above listed entities the standard credit process is used, while the decisions on entering into transactions are made exclusively by relevant authorities at the level of the Bank's Head Office.

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Corporate Social Responsibility

Introduction

Social responsibility is the Bank's permanent rule of conduct, on which it builds its relations with the environment.

Bank Pekao S.A. adheres to the Bank Code of Ethics of the Polish Banks Association and the financial market good practices canon adopted by the Financial Supervision Authority. Together with the UniCredit Group Integrity Charter, the documents specify the rules of conduct related to the Banks' activity in customer relations, the rules of mutual relations between banks and the Bank's behavior as the employer towards its employees.

An integral part of coherent activities performed around social business responsibility is the Bank's social commitment. The Bank supports long-term projects based on partnership with selected, social-trust organizations, for the purpose of solving defined problems.

UniCredit Group Integrity Charter

The Bank's priority objective is building permanent value by ensuring the highest standards of customer service and introducing friendly, simple solutions, creating work environments fostering development of employees, caring for their workplace satisfaction and reinforcing their feelings of pride in being part of the organization, as well as participating in development of local communities in which we operate. All the aspects are considered in UniCredit Group Integrity Charter.

The Integrity Charter was adopted in 2006 and introduced in all units of the Group for the purpose of creating a basis for cultural integration and an identity foundation for a community of over 144 000 employees, operating in 17 European countries.

The Charter is a set of basic corporate values. It identified values which are at the basis of relations with each of the groups of stakeholders and indicates models of desired behaviors. Applying the Charter in relations with employees, customers, shareholders and communities creates conditions for balanced development, thanks to building value for all groups of stakeholders. Through the Integrity Charter we attempt to:

– propose behaviors that will aid us in managing our everyday activity, where conflicts can arise between morality, business objectives and various cultures,
– create unity through overcoming conflicts and disputes, foster developing a common way of feeling and experiences among colleagues in the Group.

System of Values is a practical translation of the functioning of the Integrity Charter's value into specific situations and workplace relations. The project is based on the idea of enforcing the corporate values included in the Integrity Charter in everyday relations. Employees can notify the Integrity Charter's Spokesmen in the event of observing or personally experiencing behaviors that are non-compliant with the Integrity Charter's values. The task of the Spokesmen is aiding in solving problems with violating values. After receiving a notification, the Spokesmen take up appropriate actions aimed at reconciling conflicted parties and improving relations, with the use of available tools, such as: meetings, signals.

We had UniCredit Day > now we have UniCredit Way

Since 2006, employees of the units part of UniCredit Group participated in cyclical initiatives getting closer to issues related to corporate culture and ethical business promotion, implemented in accordance with the Group's values. In 2015, on the basis of applications collected as part of the previous editions of the initiative called UniCredit Day, a new initiative has been developed and implemented: UniCredit Way. **UniCredit Way Program** focuses on working on and promoting appropriate bases enabling optimum customer service. Its objective is reminding of the **5 competences model** implemented in the Group, defined as key for implementation of everyday activities and supporting a positive influence on the customer. The model operating in the Group consists of: Cooperation & Synergies, Realization & Discipline, Risk Management, Orientation on the Customer and Human and Business Development.

Up Award in UniCredit Group

The idea of the "UniCredit Up Award" appeared in 2012 to honor the employees of UniCredit Group who prove each day with their behavior and work on products and service development, that we can influence customer satisfaction and therefore the achieved results.

The award is granted in **two categories**. First, ***UniCredit Stories***, are practices and behaviors. The category rewards the best practices and behaviors positively influencing customers. In the 2015 edition, the Group's employees were requested to send in **Co-operation stories**, namely descriptions of "Co-operation & Synergy" cases, one of the 5 key competences of UniCredit Group. The second category is **Products and Services** (*Real Life Banking Achievements*) and refers to the products and services offered in the Group, which are special in the certification process, with the use of "Customer Orientation Test", and therefore have an exceptionally positive influence on our customers.

The competition finalists represent the best practices that should be followed in the whole Group.

Double win in UniCredit Up Award 2015

In 2015, Bank Pekao became a double winner of the UniCredit Up Award, winning first prize in both categories of the competition. In the *UniCredit Stories* category, first prize was awarded for preparation and implementation of a dedicated card for the students of Katolicki Uniwersytet Lubelski: "IDee Card: special student card origination story". Bank Pekao won the ***Products and services category*** thanks to the multi-currency card distinctive on the market. Thus, Bank Pekao's innovative card products won high esteem among the Group's Management, employees of all countries in which the Group operates, as well as international team of internal experts.

The Bank's sponsoring and charity rules of procedure

Basic objectives of Bank Pekao S.A.'s sponsoring activity are: making the Bank and its products popular, creating positive connotations between a given event and the Bank, creating and strengthening a positive opinion on the Bank and its products. The Bank's policy in that scope is regulated by internal regulations – the current Directive of the Bank's President adopted on 6 February 2015. The Directive specifies the rules, course and competences related to granting donations and sponsoring by Bank Polska Kasa Opieki Spółka Akcyjna.

The Bank withdraws from activity based on single donations and reactive responding to requests for support, in favor of long-term social commitment based on partnership with selected organizations, having significance for a given society and uniting the widest possible number of members of the society.

Before making a donation or concluding a sponsoring agreement, the Bank performs due diligence risk assessment, in accordance with the anti-corruption regulations operating in the Bank.

Upon selecting initiatives, the Bank applies the following criteria:
- initiative should be significant for a given community and refer to the highest possible number of members of the community. If a given initiative is addressed to a limited circle, it should involve local leaders in opinion, decision-makers, regional media and thus influence local public opinion,
- organizer of a given initiative should be an institution/entity/organization, credible in the Bank's view, with significant influence on a given community,
- the Bank's support of a given initiative should have long-term, positive influence on the Bank's image,
- initiative should assume the possibility of exposing the Bank's brand and logo and direct participation of representatives of the Bank and the Employees as co-organizers and participants or guests,
- the Bank does not grant donations to any political parties or sponsor their activity.

In its charity and sponsoring activity, the Bank supports selected organizations and institutions that execute various projects in the scope of the following areas:
- high culture,
- environmental protection, with special consideration for the protection of Polish bisons,
- sport,
- responsible development of the economy,
- supporting small consumer groups,
- useful innovations,
- promoting ethics in business activity,
- local and regional initiatives, significant from the point of view of development and support of local communities,
- aiding children in need.

Investing in Human Capital

Human Capital as a key asset

The principles of the Bank's policy in the area of Human Resources (HR) development are set by its mission and values considered as a key for the Bank sustainable growth.

The Bank invests in training, professional development of employees (in line with their preferences and abilities), creation of a friendly work environment and conducts questionnaire surveys on employees opinion and satisfaction. Significant area of the Bank's personnel policy is outstanding talents spotting within the organization and investing in development of their skills.

In 2015, these priorities were accompanied by a particular emphasis on promoting preferential values of corporate culture shared across the Bank and UniCredit Group.

Training and professional development

The Bank creates learning opportunities and provides access to various forms of training for its employees.

Training programs include classroom training, on-the-job training, electronic training, coaching and system of Virtual Class which provides training at a distance in a form of remote webinars. In the year 2015, the Bank continued also structured rotation program allowing for direct exchange of professional knowledge between experts.

In the year 2015, the main training priorities of the Bank were as follows:
- preparation of the Bank's personnel to changes in law and regulations,
- expanding of professional skills of the Bank's employees,
- education of middle and top managers,
- realization of mandatory training required under internal and external regulations.

Preparation of Bank's personnel to changes in law and regulations

In the year 2015, the Bank realized training projects supporting personnel in proper implementation of regulatory and legal changes, especially in the bancassurance area in relation to entering into force Recommendation U and Legal Academy covering wide range of changes in law and reinforcing Bank's employees knowledge in scope of practical implementation of those changes.

Expanding of professional skills of the Bank's employees
The Bank expanded also a number of training projects aimed at reinforcement of risk culture and training regarding introduction of new priority products according to business strategy. Additionally in the year 2015 training activities were concentrated on support of key business projects reinforcing sales and acquisition competencies of employees as well as areas of specialist competencies such as: SME, Taxes and Derivatives.

In 2015, the Bank delivered (both in form of class room and e-learning/virtual sessions) more than 580 thousand of training hours attended by over 16 thousand of employees (approx. 98% of all employed persons) which confirms efficient implementation of required regulations and customer care by the Bank.

Development programs and initiatives

In 2015, development programs and initiatives were provided for the Bank employees, aimed at providing support in long-term of carrier planning.

Development processes
One of priorities of development programs in the Bank is identification, review, verification and development of current and future leaders of the Bank.

In order to achieve this goal, the Bank currently operates four main processes:
- Executive Development Plan (EDP) – annual appraisal process of managers as well as planning and realization of development activities. In 2015, 606 persons took part in the EDP,
- Talent Management Review (TMR) – annual process of the potential and performance assessment, used to manage and develop Talents in the Bank and UniCredit Group, which was attended by 152 people, identified as part of the recruitment process, addressed to all employees of the Bank,
- key outcomes of the EDP and the TMR processes are succession plans which are crucial for ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk. The Bank designed succession plans for 99,5% key positions,
- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In 2015, 14,879 employees took part in the process.

Furthermore, the Bank offers the following development:
- Assessment Centre/Development Centre session, survey of individual performance style and communication and 180/360 Feedback – diagnostic tools for identification of strengths and development areas of the employees,
- Mentoring and Coaching – dedicated for selected employees to give them broader business perspectives and an opportunity to gain new experience,
- international development programs realized at the level of UniCredit Group (UniQuest, UniFuture and MBA in banking area),
- Career Navigator tool supporting career development planning of the Bank's employees.

Internship and trainee programs
One of the yearly aim of the Bank is to obtain a certain number of graduates of the best universities in Poland, offering them career development within the organization: the network of branches and units of the Head Office of the Bank. To implement the above mentioned programs are described below:
- UniChallenge – a two year-long internship program, addressed to talented last-year MA students and graduates. The UniChallenge Program is used to spot high-potential candidates for employees,
- the apprenticeship programs addressed to students. The apprenticeship possibility is offered for 2 weeks to 3 months in order to give participants an opportunity to gain experience in different areas of banking, in all of the Bank's units.

Increasing engagement of employees
Project: Team Climate – process done within Teams which aims at increasing engagement of employees through implementing actions that improve the work atmosphere. In 2015 years 2,224 employees from 53 organizational units participated in the project.

Compensation policy

On July 31, 2015, the Supervisory Board of Bank Pekao S.A. approved the Compensation Policy of the Bank (hereinafter referred to as "Policy"), reflecting the mission and values of the Bank's approach to remuneration systems, which:
- defines basics of remuneration, structure management, corporate and organizational processes,
- confirms compliance requirements of the adopted remuneration system with generally binding law,
- defines the rules for monitoring of market practices and the approach to remuneration systems, which ensure sustainability of the Bank.

General framework of the Policy is aimed at providing consistency of components and strategy of remuneration by maintaining compliance with risk management and long-term strategies.

The main rule of the Policy is to guarantee competitive level remunerations and their efficiency, correctness in scope of acting and obtained results as well as transparency and internal justice. In 2015, the Policy was amended by provisions concerning ensuring equal treatment in scope of remuneration and company benefits as well as the provision concerning transparency of individual evaluation parameters was defined more precisely.

The compensation strategy has been developed in line with the business standards and values underlying the Bank's mission and reflected in the Policy provisions as well as it constitutes the basis for enhancing and protecting the Bank's reputation and creating long term value for all the Stakeholders. The Policy applied by the Bank includes provisions included to the Compensation Policy of the parent entity.

Moreover, the Policy presents provisions regarding variable compensation elements of persons in key managerial positions of the Bank. The currently binding Policy for 2015 includes provisions concerning variable compensation components of persons in key managerial positions based on the concept of the bonus pool. It is aimed at reinforcement of relation between the amount of variable part of remuneration and realization of long-term value increase for shareholders and company stability. The conducted internal audit concerning implementation of the Policy provisions regarding variable compensation elements confirmed execution of the above assumptions of the Policy at satisfactory level.

Additionally, Assessment report of functioning of the Policy in the Bank, according to the provisions of the Supervisory Board of Bank Polska Kasa Opieki S.A. Regulation will be prepared for the General Meeting of Shareholders.

Information regarding remuneration value of each Member of the Management Board is presented in in the section of Management Board and Supervisory Board remuneration.

Incentive systems

In the Bank, there are three main incentive systems: Executive Variable Compensation System, system based on Management by Objectives (MBO) and system based on provisions of Corporate Collective Labour Agreement with quarterly bonuses and incentive reward.

Executive Variable Compensation System is dedicated to people holding managerial positions, who have significant influence on the risk profile of the Bank. The aim of the System is to support the execution of the Bank's strategy and to mitigate excessive risk conflicts of interest. Participant covered by the System may receive a variable compensation based on a concept of bonus pool approach providing for a comprehensive performance measurement at individual level, level of his/her organizational unit and results of the entire Bank, including assessment of the Participant's compliant behaviour with respect to law provisions and standards adopted by the Bank. In accordance with the System parameters, for reinforcement of care for long-term welfare of the Bank, at least 50% of variable remuneration is provided in phantom shares based on the value of the Bank shares and at least 40% of the bonus is deferrable and paid after the end of the evaluation period it is payable for. In case of the Management Board Members, deferral refers to 60% of the variable remuneration component. Variable remuneration payable for a particular year, is paid within 6 years.

MBO system covers employees employed under the management contract and refers in particular to the positions in the front-office sales and to the managerial positions, which play a significant role in achieving the Bank's commercial goals. The employees covered by the MBO system receive individual goals resulting from the adopted financial plan for a given year and key objectives of the Bank; the annual bonus value is conditioned by completion level of those tasks.

A system based on the provisions of the Corporate Collective Labour Agreement (CCLA) applies to all employees who are not subject to other systems. According to the provisions of the CCLA the basis of the system is a quarterly bonus which is discretionary and depends on evaluation of employee's performance, the level of commitment and achieved results of the Bank in a given year as well as an incentive bonus, which is granted for outstanding work achievements.

Retention Plans

In 2015, the Long-Term Incentive Plans of UniCredit Group (edition 2007 and 2008 within the scope of stock options) addressed to the top management was carried out.

The local Retention Program 2010-2013 of Bank Pekao S.A. – dedicated to the key employees was completed.

Additional benefits for employees

Within the scope of remuneration system the Bank's employees are offered non-wage benefits allowing fair treatment and consistency of remuneration system. In 2015, Employee Share Ownership Plan (ESOP) was continued, under which Bank offers to all employees the opportunity to invest in the shares of UniCredit S.p.A under at favourable conditions by obtaining Free Shares measured on the basis of the Investment Shares purchased by each Participant.

Moreover, the Bank provides its employees with additional medical care in domestic network of private medical clinic.

Suitability Assessment Policy

Bank adopted of The Policy of the Suitability Assessment of the proposed and appointed Management Board's Members, Supervisory Board's Members and Key Function Holders at Bank Polska Kasa Opieki Spółka Akcyjna. In 2015 Bank assessed the suitability of the candidates for function of Member of the Supervisory Board and Member of the Management Board including an assessment of their qualifications, reputation, and additional criteria for management according to mentioned policy. The suitability assessment is performed by the Supervisory Board of the Bank with the support of the Nomination and Remuneration Committee.

Diversity policy

The Management Board of Bank Polska Kasa Opieki Spółka Akcyjna on 22 December 2015 adopted by resolution "Diversity policy in reference to Supervisory Board Members, Management Board Members and Key Function Holders in the Bank, which defines the

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strategy of the Bank in scope of diversity management, including diversity in reference to appointment, the Supervisory Board Members, Management Board Members and Key Function Holders in the Bank.

The purpose of diversity strategy of the Bank is to provide high quality of tasks execution by its governing bodies, through selection of qualified people to hold function in the Supervisory Board, the Management Board and Key Function Holders in the Bank, using as the first objective criteria and taking into account the benefits of diversity in scope of knowledge, skills and work experience, as well as educational background, geographical origin and nationality, gender and age.

An integral element of Diversity policy is the Gender Equality policy of the Bank, which provides Bank's employees career opportunities, success and performance evaluation based on individual merit, regardless of gender.

Corporate values

The Bank implements a project "System of Values" which defines the corporate values to be cherished by Bank employees in their daily relations at work. The Bank's values defined in the Integrity Charter are: respect, reciprocity, transparency, fairness, confidence, and freedom (to act). These values provide a reference system for routine work and for problem situations which are not always addressed by external and internal regulations.

The foundation of this "System of Values" is the work of Integrity Charter Ombudsmen who are independent, experienced, retired managers to whom the employees may report behaviours which clash with the corporate values. The Ombudsmen use the available tools (meetings, notices) when they undertake measures to restore respect for the corporate values in relations among employees wherever they have been disrupted.
Their work directly supports the Bank's internal communication and defines certain standards of conduct and communication patterns for all the employees to follow. In 2015, the Integrity Charter Ombudsmen held 28 meetings with people working at the Bank in order to familiarize them with the "System of Values" and with the Ombudsmen's service. Apart from these, the Ombudsmen also held meetings with individual employees and they spoke by telephone indicates the ability to solve problems independently.

Relations with Trade Union Organisations

The co-operation between the Bank and the trade unions in the fields of consultation, negotiation, and agreements was carried out in 2015 according to the rules and procedures defined by the Labour Law and with respect to the interest of the parties and the principles of social dialogue. There were 11 meetings between the Bank and the Unions in that period.

Relations with the Works Council

The four-year term of Bank Pekao S.A.'s Works Council ended in May 2015. To meet the requirements specified in the Worker Information and Consultation Act of April 7, 2006, the Bank has elected its Works Council for the new term 2015-2019. Being a representative of the employees, the Council is eligible for getting information and for consulting them. The Council held several meetings with the Bank's representatives during 2015 to discuss the related questions indicated by the law. Co-operation with the Works Council progressed with respect to the mutual rights of the parties involved.

Workforce in number

As at the end of December 2015, the Group employed 18,327 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,765 employees as at the end of 2014.

As at the end of December 2015, the Bank employed 16,387 employees as compared to 16,914 employees as at the end of 2014. The average age of the employees was 46 years, 64.1% of the employees are university graduates (63.2% in 2014), women represent 79.7% of the total workforce.

Quality of Collaboration

In 2015, as in the previous year, we regularly measured the level of service quality in Pekao branches on the basis of more than 3,600 visits of auditors playing "mystery customers" in the Bank. This enabled us to continue, and at the same time intensify, training and awareness building activities addressed to the Bank's employees.

Monitoring the quality of the collaboration between the Bank's particular organizational units is also of key importance to ensure the proper quality of our services. It is based on the Internal Customer Satisfaction Survey, where each respondent has the opportunity to make their suggestions and share their opinions on the quality of services, processes and work tools provided by particular units of the Bank's head office.

The Employee Opinion Poll is another valuable source of information, and the proof of the employees' commitment to the building of the Bank's future. It focuses on collecting and analyzing opinions on the operation of the Bank's key areas, such as commitment, the sense of affiliation, reputation, leadership, management efficiency, development and competencies. It is supplemented with the Employee Barometer survey held on a quarterly basis, which provides ongoing feedback.

In order to further understand the opinions and suggestions of employees on specific processes and services, the Bank carries out dedicated studies and surveys as well as "A Day at a Branch" initiative, during which managers from the head office hold meetings with employees of selected branches.

Throughout 2015, we gathered over 15,000 opinions and comments which contributed to numerous modifications of existing procedures and processes, and resulted in a higher index of the collaboration between the Bank's branches and its head office.

Our Customers

One of the key elements in building long-term and sustainable value of the Bank is the attention given to the satisfaction and loyalty of our stakeholders, and in particular – customers and employees of the Bank.

Continuing the activities undertaken in previous years, in 2015 the Bank was conducting an array of projects and processes of gathering the customer feedback, which was systematically utilized to improve the way the Bank operates and for building the customer-centric organizational culture. The customer surveys were using various feedback channels and research techniques, including telephone and online interviews, as well as focus groups.

The total number of customer interviews completed in 2015 is more than 42 000. Within the customer feedback gathering and analysis, the focus was put on understanding the particular customer experiences, also using the customer journey mapping.

In 2015 it has been observed that the customer satisfaction positive trend continued in all of the customer segments.

Protection of Clients' Interests

The focus on our clients' interests is the main principle underlying the Bank's operations.

It is the Bank's objective to ensure that each client, when purchasing a product or a service, is aware of the related risks and properly understands the value of such a product or service. This is particularly important in the context of a substantial growth of risk due to the development of more and more complex financial instruments. For many years now, the Bank has consistently refrained from granting mortgage loans in foreign currencies, thus effectively protecting its clients against the currency risk, which hit many households severely when the złoty exchange rate plummeted.

Further enhancement of the protection for clients against taking excessive risk in their investment decisions resulted from the full implementation of the MiFID Directive in the Bank's Group. As a result, our clients may expect ever better protection of their interests. Since April 2010, the Bank's employees have been evaluating the clients' expertise and experience in investing. Based upon the suitability survey completed by the client, he receives feedback whether the service involving the acceptance and transfer of instructions related to shares of investment funds, unit links or other investment products is suitable for a particular client. At the same time, the Bank implemented management and organizational measures to enhance the protection for clients – the conflicts of interests management policy and the clients classification/reclassification policy as well as the principles governing own investments of the Bank's employees.

The Bank always focuses on building proper relations with its Clients and their greater satisfaction with the quality of offered insurance solutions. On 31.03.2015, the Bank implemented additional – and beneficial from the point of view of the protection of Clients' interests – solutions in the area of the insurance products distribution related to the coming into force of Recommendation U issued by the Polish Financial Supervision Authority. For example, the Bank has expanded the scope of its reliable information policy and supports clients in the claims filing process. The Bank analyses bancassurance-related complaints and monitors the performance of insurance agreements by insurance companies.

The Bank protects the interests of its clients, safeguarding their deposits and ensuring the security of transactions in their accounts. Any information about clients is protected in line with the applicable security and confidentiality standards.

The protection of the funds entrusted to us by clients is our top priority. The solutions offered by the Bank are very up-to-date, but also secure, convenient and practical.

When developing its state-of-the-art online platforms (Pekao24 and PekaoBiznes24), the Bank ensured that they are user-friendly and absolutely secure. The access to accounts is protected by a multi-level security system. Electronic banking systems of Bank Pekao warrant the protection of personal data, and the security of the funds in accounts and transactions.

In 2010, Bank Pekao was the first bank in Europe to implement the innovative biometric method of the authorization of the users of its transactional system for corporate clients. The users of PekaoBiznes24 may log into the system and authorize their transactions with their fingerprints. The solution incorporates the best security standard on the market and, at the same time, is practical and convenient for users.

In Pekao24 system, the Bank's individual customers may take advantage of up-to-date authorization methods: PekaoToken – an application for mobile phones, a hardware token and SMS codes. PekaoToken, the hardware token and SMS codes are very convenient for clients and ensure the highest security level.

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The Bank is constantly improving its procedures and taking necessary measures to respond swiftly to clients' complaints and handle them in the way ensuring the maximum regard for the clients' justified interests.

The parties (the client and the Bank) may also refer any contractual disputes between them to the Arbitration Court of the Polish Bank Association to be resolved. The competence of the Arbitration Court to resolve a particular dispute results from a written agreement of the parties indicating the subject of the dispute or the legal relationship which gave or may give rise to the dispute (arbitration clause).

Business Partners – Suppliers

The Bank respects its business partners taking care of fair and honest business relations. In the selection process of suppliers, the Bank applies internal procedures, compliant with the best practices pursued in the UniCredit Group as well as rules and provisions required by Polish law.

In the procurement procedures, the specification of the procurement is the same for all business partners to guarantee fair competition. Any company may be invited to participate in a procedure and to submit a business proposal meeting the Bank's requirements. All companies that have submitted their initial proposals, are registered in the supplier base and will be taken into account in the development of list of potential suppliers. The companies invited to participate in the procedure can make inquiries related to the received specification. Information about the outcome of the procedure is submitted to all participants.

In accordance with the procurement rules, in majority of procedures the Bank applies negotiations by electronic means (Internet auctions), thanks to which the procedure can have a local, national or international reach. A significant advantage of this solution is enhanced transparency of the negotiation process. The Bank aims to ensure compliance with the Green Procurement Policy applied across the UniCredit Group. The suppliers participating in tender processes run by the Bank are to complete a CSR form, in which they provide information concerning environmentally conscious management, social responsibility and legal provisions.

Additionally, when running procurement procedures, the Bank verifies potential bidders in terms of corruption risk, sanction lists (in the UE and the USA) and public warnings of the Polish Financial Supervision Authority (KNF).

In many instances, collaboration with suppliers is subject to frame agreements concluded centrally by the UniCredit Group. The above applies inter alia to suppliers of material IT goods and services for the banking sector with which contracts are concluded subject to procedures providing for individual conditions and needs of the banks in the Group. In reliance of the frame agreements, local contracts are concluded providing for detailed terms and conditions of supply in the local market.

The companies that perform deliveries to the Bank are informed on the existing inconformity process and major provisions of the anticorruption policy pursued by the Bank.

Environmental Protection

Bank Pekao S.A. protects the environment by taking into account ecological aspects in the credit risk analysis process, supporting environmentally-friendly projects in our lending activities and supporting financially organizations and institutions involved in ecological projects, with particular focus on the protection of the European bison in Poland. For years now, we have fostered the objectives of the Earth Hour initiative, during which we switch off all the lights in selected venues.

Environmental Risk Associated with Lending Activities

Bank Pekao S.A. is implementing an environmental awareness policy which follows from the United Nations Environment Programme Finance Initiative (UNEP FI) concerning natural environment and sustainability, considering environmental impact factors in performing credit risk analyses of its transactions and in transaction monitoring processes. In its day-to-day activities Bank Pekao S.A. is strongly committed to protection of the environment. Environmental risk assessment is one of the crucial factors in evaluating credit transactions executed with businesses. It involves a number of steps: from review of a customer's business profile and preparation of a preliminary environmental risk assessment, to assessment proper, which includes an on-site visit and review of documents relating to the environmental aspects of an undertaking, to management phase, which includes a credit decision and agreement execution, to monitoring of environmental risks. If a borrower's business profile entails environmental hazards, Bank Pekao S.A. works with the customer on reducing the potential implications of the environmental risks. They cooperate to identify such risks, assess their scale and mitigate their potential impact. Such cooperation, which forms part of credit risk assessment, relies on the methodology and industry guidance developed by the European Bank for Reconstruction and Development.

If the Bank establishes that a customer is unable to minimise its environmental risks, it defines certain conditions to be met during the transaction term, also by including relevant environmental provisions in the loan agreement. The Bank does not finance certain types of business activities on environmental grounds. Such activities are enumerated in the Environmental Exclusion List drawn up on the basis of international standards, including the Convention on International Trade in Endangered Species (CITES). Furthermore, the Bank refuses to finance trade in goods representing environmental hazards or projects violating health and public safety laws. The Bank's credit risk policy prohibits it to finance production of military equipment, nuclear power projects and activities which may be a source of major environmental hazards. Any exceptions to that policy require the approval of the Management Board and a positive opinion of the Supervisory Board. In line with its credit policy, the Bank supports projects with environmental benefits.

The protection of the European bison in Poland

For many years now, Bank Pekao S.A. has been committed to the protection of the European bison, a unique and endangered species.

In 2015, the Bank continued its long-term cooperation with five leading institutions involved in the protection of this Europe's largest mammal:
- Białowieża National Park (BPN),
- Western Pomeranian Nature Society,
- "Panda" Foundation for the Development of the Warsaw Zoological Garden,
- Toruń Zoobotanical Gardens,
- European Bison Friends Society.

The Bank's financial support is to help ensure the diversification and growth of the European bison population in Poland, the maintenance of the BPN's Bison Breeding Center, herds care, and the co-financing of scientific and educational projects, e.g. on biodiversity.

Planting firs in the Tatra National Park

Over three thousand trees planted by the employees of Bank Pekao S.A. grow in Kościeliska Valley. The new forest is being born in the place where the trees destroyed in 2013 by a strong wind grew. Foehn wind, known in Poland as "halny", knocked over a hundred thousand cubic meters of trees and, for a a dozen or so years, changed the face of the Tatra Mountains. It will take another 50 years for young trees to reach the height and extensiveness of a fully-grown forest.

In 2015, the employees of Bank Pekao S.A. planted 1,600 seedlings that will become part of a new forest in the Tatra Mountains. It was the second afforestation campaign in the Tatra National Park with the participation of 190 employees of the Bank previously trained by foresters on proper tree planting.

Supporting the Earth Hour initiative

The Earth Hour is an international campaign related to the green policy initiated by the environmental organization *World Wide Fund for Nature* (WWF), which has taken place each year since 2007 on the last Saturday of March. The objective of the initiative is to make people ponder on negative climate change.

Bank Pekao S.A., identifying with the objectives of the campaign, got involved in this project again. On 28 March 2015, from 8:30 pm until 9:30 pm, all the lights in the buildings of the Bank's Head Office in Warsaw at 31 Żwirki i Wigury Street, 53/57 Grzybowska Street and 5 Giełdowa Street, were switched off.

Charitable Activities

Bank Pekao S.A. cooperates with recognized public benefit organizations and supports their statutory activities, donating funds for this purpose. Our commitment stems from the approach which assumes that the Bank, as the leader in the sector, present directly or indirectly in the homes of millions of Poles, is also responsible for the development of the society and the country, the participation in important initiatives, the assistance to the needy and the welfare of Polish families.

Marian Kanton Foundation of Bank Pekao S.A.

Charitable activities of Bank Pekao S.A. are carried out mainly through Marian Kanton Foundation of Bank Pekao S.A., which was established in 1997.

Each year, about one-third of the Foundation's financial resources are allocated to finance summer and winter holidays for children from poor families and rehabilitation camps for ill and disabled children and teenagers. Owing to such aid, the Foundation is able to improve the quality of their lives and ensure equal opportunities for them.

In addition, the Foundation provides financial and material assistance to schools and libraries in villages and small towns, and supports sports clubs for children and teenagers, usually located in schools or in community centers.

In line with the Founder's intention, the Foundation's Board also allocates funds for scholarships for talented pupils and students from socially disadvantaged families.

For many years now, the Foundation has been involved in the Bank's all-year campaign for the children of the Bank's employees who require rehabilitation or treatment, called "Let's Help One Another" ("Pomagajmy sobie"). In 2015, the Foundation allocated PLN 100,000 for the purpose, directly supporting each of the persons concerned.

Regular recipients of the assistance provided by the Foundation include state-run and family children's homes, organizations and associations (including Caritas, Monar-Markot and the Children's Friends Association (TPD)), village schools and kindergartens, parishes, single mothers' homes, hospices and community day-care centers. It should be highlighted that small institutions dedicated to the support of Polish families come to depend on the Foundation's assistance for their existence.

Detailed reports on the Foundation's activities are available on the Bank's website.

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"Gift Matching Program"

The "Gift Matching Program" ("Dary do Pary") is a charitable initiative of UniCredit Foundation. Its objective is to support charitable activities of the Employees of UniCredit Group. As part of the Program, UniCredit Foundation increases contributions made by the employees to selected non-profit organizations chosen directly by employees in line with the Foundation's guidelines.

In 2015, the Bank's employees registered in the Program and supported financially 24 projects, to which 1,580 donations were made. The Great Orchestra of Christmas Charity Foundation was the largest project supported by Pekao employees, who raised money for the initiative. The employees also made donations to the following organizations: "Zdążyć z Pomocą" Foundation for Children; onWATER.pl Foundation; "AUXILIUM" Foundation for People with Disabilities, Children and the Youth; "JUNIOR" Football Academy Foundation; "Akogo?" Foundation; the Polish Humanitarian Action, "Wielkopomoc" Association for the Local Communities Integration; "PIĘKNE ANIOŁY" Association; "Siepomaga" Foundation; "Bruno" Association for Children with Development Dysfunctions; "TĘCZA" Association for Children and the Youth; "Viva!" International Voice for Animals Foundation; Non-Public Special Primary School for Children with Development Dysfunctions; "A Shelter for Homeless Animals in Józefów" Foundation; the Association for Children, the Youth and Foster Families; the Voluntary Fire Brigade in Lenarty; SOS Children's Villages in Poland Association; "Jaś i Małgosia" Foundation; "AVALON" Direct Assistance Foundation; the Association for Animal Care in Gliwice.

The Great Orchestra of Christmas Charity Foundation

Bank Pekao S.A. has been cooperating with the Great Orchestra of Christmas Charity (Wielka Orkiestra Świątecznej Pomocy – WOŚP) since 1999. Since the very beginning of the collaboration, Pekao has acted as the Foundation's Banker. It provides general services to the Foundation, ensuring comprehensive financial solutions and supporting selected projects carried out by the Foundation throughout the year.

The largest-scale project implemented as part of this cooperation is the annual Grand Finale, which traditionally takes place each year on the second Sunday of January. During the 23rd Finale held in 2015 with the aim "to uphold high standards of medical treatment for children in pediatric and cancer wards, and to ensure decent medical care for senior citizens," the Bank played with the Orchestra for the seventeenth time. Over 2,000 employees from the Bank's branches and its Head Office were involved in the organization of the Finale and the event itself. In addition, the Bank donated PLN 2,000,000 to the WOŚP Foundation.

The WOŚP Banker Team, composed of the Bank's employees and members of their families, took part for the second time in "Let's Fight Diabetes" run held on the Finale day. Nearly 180 people participated in the event to support the dissemination of knowledge about diabetes, the program to fight the disease, and to raise money to purchase insulin pumps for pregnant women.

In fact, the Bank's employees who give donations during the Finale fund-raising event, make double contributions. Each year, the contributions made directly by the Bank's employees are matched by UniCredit Foundation as part of its "Gift Matching Program". This way, the Bank promotes and supports social and direct commitment of its Employees. In 2015, as part of the Finale fund-raising event, the Bank's employees raised nearly PLN 60,000. This amount was doubled by UniCredit Foundation.

As part of the cooperation with the WOŚP Foundation, the Bank has also become the sponsor of Woodstock Festival Poland ("Przystanek Woodstock"), which is one of the most unusual events on the world music stage, and the Patron of the Academy of Fine Arts held during the festival. In addition, the Bank is the main sponsor of the CPR nationwide educational program of the WOŚP Foundation ("Ratujemy i uczymy ratować"), which is one of the largest projects carried out by an NGO in the Polish education system, owing to which pupils, from the very first grades of primary school, are taught how to provide first aid and develop good habits.

"Let's Help One Another" Campaign

The charitable activities of Bank Pekao S.A. focus on various aspects. The assistance to the company's employees is one of such aspects; however, at the same time, employees are encouraged to support seriously and chronically ill children of their colleagues. These are the objectives of "Let's Help One Another" initiative ("Pomagajmy sobie") organized since 2008 with two goals. The first goal is to inspire employees to pay one percent of their income tax for chronically ill children of the Bank's employees. The second goal is to invite employees to make individual voluntary donations for the children through the foundations that take care of them. Both campaigns are permanent points in the calendar of the Bank's charitable activities. Currently, the assistance is given to forty children who are seriously and chronically ill children of the employees of Bank Pekao S.A. This initiative is quite special, as, by participating in it, the employees help one another.

Supporting Culture and Art

Investing in culture is an integral part of the Bank's philosophy. Pekao S.A. has supported and promoted art for years now, believing that it mirrors reality, shapes it and contributes significantly to the process of building and exchanging ideas and innovation. When supporting institutions crucial for the promotion of culture, the Bank's assistance is based mainly on long-term contracts. The sponsoring activities of Bank Pekao S.A. are carried out at two levels: the national level, at which the Bank sponsors strategic events with an undisputed impact on the Polish culture, and the local level, at which smaller projects of great significance to local communities are supported.

POLITYKA Passports

"POLITYKA Passports" prizes have been awarded since 1993 by Polityka weekly to young, talented artists whose influence on the Polish culture in a given year was undeniable. The Passports for 2015 were the 8th Passports awarded in cooperation with the Bank.

The prizes in particular categories are awarded on the basis of the opinions of critics in six areas: film, theater, visual arts, literature, classical music, popular music. The special "Creator of Culture" Award is given to outstanding artists for special achievements in popularizing Polish culture.

The prize winners in 2015 were as follows: Magnus von Horn, Ewelina Marciniak, Tymek Borowski, Łukasz Orbitowski, Marcin Świątkiewicz and Kuba Ziołek. The "Creator of Culture" Award was granted to the team of CD Projekt RED studio.

"Bank Pekao S.A. Project Room" at the Center for Contemporary Art in Warsaw

"Bank Pekao Project Room" is a cultural project initiated in 2012 by the Bank and the Center for Contemporary Art – Ujazdowski Castle (CSW) in Warsaw. It creates the opportunity to present the latest and the most interesting artistic phenomena and build a forum for discussion on contemporary art. With the Bank's financial support, young artists may develop their artistic projects in a special exhibition room at Ujazdowski Castle. CWS oversees the selection process so as to ensure the highest artistic level of exhibitions. For 20 years now, the Center for Contemporary Art has been a venue where all forms of art were created and presented, and "Bank Pekao Project Room" is an appropriate place for exhibitions and attracts more viewers.

In 2015, eight exhibitions of young artists were held in "Bank Pekao Project Room". Each year since the beginning of the project, Bank Pekao S.A. acquires the most interesting works from among those presented in the project. They became the germ of the Young Art Collection of Bank Pekao S.A.

The 23rd Łódź Ballet Meetings

The Łódź Ballet Meetings is an event where current trends in the world ballet art and the most important achievements in contemporary choreography are presented. The idea behind the Meetings is to promote the art of ballet and the latest achievements in choreography, both as regards classical ballet and various trends in contemporary dance.

The Meetings are held every second year at the Grand Theater in Łódź. The latest, 23rd edition, was held in 2015. The repertoire of the Meetings included a spectacle created by Giorgio Madia – *Imagined Chopin (Chopin Imaginaire)*; the premiere of the farewell performance of one of the biggest stars of the world ballet, French prima ballerina Sylvie Guillem titled *Men in Motion* developed by Ivan Putrov; a spectacle titled Lac with the choreography of Jean Christophe Maillot; and the European debut of an American group Phoenix Ballet.

The performance by the renowned Italian Teatro alla Scala, which, accompanied by the Orchestra of the Grand Theater in Łódź, presented a unique spectacle consisting of fragments of classical ballets with the participation of the most famous dancers from Milan, was the highlight of the 23rd Łódź Ballet Meetings. The audience had the opportunity to enjoy, among other things, choreographies by Fokin, Vaganova, Petit and Petipa.

Bank Pekao S.A. was the Strategic Sponsor of the 23rd Łódź Ballet Meetings.

Polish Theater in Wrocław

The Polish Theater in Wrocław is one of the most important Polish theaters. It cooperates with leading Polish theater directors, such as Jan Klata, Krystian Lupa, Michał Zadara (the winner of one of "Polityka Passports" prizes for 2007) or Monika Strzępka.

In the artistic season 2015/2016 (under the Bank's patronage), the following plays were staged: *Media Medea* directed by Marcin Libera; *Grimms' Fairy Tales* directed by Łukasz Twarkowski; *The Piano Teacher* by Elfriede Jelinek, directed by Ewelina Marciniak (the winner of one of "Polityka Passports" prizes for 2015); *Liberation* by Stanisław Wyspiański, directed by Krzysztof Garbaczewski; and *Forefathers' Eve* by Adam Mickiewicz, directed by Michał Zadara.

The 19th Gdańsk Shakespeare Festival

The Shakespeare Festival in Gdańsk is one of the most important theatrical events in Europe, where artists, directors, culture promoters and critics come together to co-create a forum for exchanging ideas between people associated with culture from different parts of the world. During the 19th edition of the festival, the flagship stories of Macbeth, Hamlet and Julius Caesar were presented in a completely different way. "New faces" of those well-known characters were discovered by The Tiger Lillies theater, which, together with Republique Theater, presented *Hamlet* in the form of cabaret songs, describing the plot. A musical version of Shakespeare's plays could also be heard during the concert of OGRE project, i.e. a group created by a Portuguese singer Maria João and three other musicians. In addition, the audience had the opportunity to watch performances from Poland, Denmark, Hungary and Romania.The Bank has been supporting the Gdańsk Shakespeare Festival since 2000.

Teatr Wielki Theater in Poznań

Teatr Wielki Theater in Poznań is one of the most important venues of musical and cultural life in Poznań. Its diverse repertoire includes both classical operas and contemporary compositions, with special emphasis on Italian and Polish operas.

In 2015, the Bank sponsored the staging of *Halka* by Stanisław Moniuszko, directed by Paweł Passini, the founder and manager of the first online neTTheatre, the winner of Konrad Swinarski Award for the best theater director in the 2012/2013 season, and nominated twice to "Polityka Passports" prizes.

Polish PEN Club Awards

Polish PEN Club Association is a national center of an international organization P.E.N. The goal of this prestigious and distinguished organization, present in Poland for 90 years now, is to develop cultural exchange and oversee the issues related to the Polish literature in the world.

Bank Pekao S.A. has cooperated with the Polish PEN Club since 2006, and the first prizes awarded by the Bank were granted in 2007. Apart from the Jan Parandowski Award, the Bank is the sponsor of editorial prizes for outstanding achievements in publishing.

Adam Zagajewski became the laureate of the Jan Paradowski Award in 2015. He is a poet, a novelist, an essayist and a translator, considered to be a certain Polish candidate for the Nobel Prize in Literature. Adam Zagajewski is one of the most recognizable Polish writers abroad, a laureate of numerous awards in literature, including the Neustadt Prize (for 2004) called "a little Nobel prize", and the Zhongkun Prize (for 2014) considered to be the "Chinese Nobel Prize in poetry".

The Juliusz Żuławski Editorial Prize for 2015 was awarded to the editorial team of an academic publication *Letters to Adam Mickiewicz* — Elżbieta Jaworska, Joanna Krauze-Karpińska, Wiesława Kordaczuk, Maria Prussak and posthumously Maria Dernałowicz, whose award was collected on her behalf by Zofia Dernałowicz.

Bank Pekao S.A. has been involved in various cultural initiatives for years now. Apart from the aforementioned initiatives, in 2015, the Bank became the patron of the concert commemorating the 70th anniversary of Pietro Mascagni's death, who was one of the most prominent Italian composers of the late nineteenth and early twentieth century. The concert took place as part of the 19th Ludwig van Beethoven Easter Festival. In summer, the towns of Kamień Pomorski and Jedrzejów were the hosts of organ and chamber music concerts, which the Bank has sponsored for more than 20 years. In addition, the Bank continued the collaborations related to the following local initiatives: Grape-Harvest Theater Meetings in Zielona Góra; Theater Meetings in Gorzów; the cooperation with the Philharmonic Concert Hall in Lublin (Grzegorz Turnau's concert); Premieres Festival in the Polish Theater in Bydgoszcz; or the Polish Composers Festival in Bielsko-Biała.

Supporting Social Initiatives

"Social Start Up"

"Social Start Up" is a project aimed at supporting the development of social enterprises, especially innovative ones, whose profits are reinvested in order to solve social problems. The project is run by Bank Pekao S.A. together with UniCredit Foundation, but it is implemented by "Ashoka" Innovators for the Public Foundation, which is a non-governmental organization specializing in searching for and supporting social innovators.

The participants in the "Social Start Up" initiative include social entrepreneurs and business organizations, which have proved that their activities or ideas for social enterprises are creative, fresh and result in palpable and perceptible social changes. The entrepreneurs qualifications to the project were in the form of a contest, during which the best ideas to create or boost a social enterprise were selected.

The contest comprised two categories:

- An innovative social enterprise – an accelerator: for existing enterprises in the early stages of their development,
- An idea for an innovative social enterprise.

The winners of the contest will get all-year professional support in the area of business consultancy as regards corporate development, and, if necessary, development grants. The project participants acquire knowledge concerning the running of a social enterprise, reporting, business planning, the development of business models, customer relations management and team management.

Blood donation campaigns

The employees of Bank Pekao S.A. regularly participate in blood donation campaigns organized in the cooperation with the Regional Blood Donation and Transfusion Medicine Center in Warsaw. Since the beginning of this collaboration, i.e. since 2010, almost 500 employees of the Bank donated ca. 200 liters of blood. In 2015, blood donation campaigns were held twice: in May and in September. More than 100 people registered as participants, including 73 persons who were qualified as blood donors, and 33 liters of blood were donated. Further blood donation initiatives are scheduled for 2016.

Supporting Business Initiatives

The 5th European Financial Congress

The European Financial Congress (EFC), organized by the Gdańsk Academy of Banking and the Gdańsk Institute for Market Economics, is held annually in Sopot. The EFC serves as a forum for the exchange of views on the future safety and stability of the European Union. Its aims to encourage debates whose conclusions will exert impact on the decisions made by the most important European institutions.

Due to both the tensions within the EU and the noticeable security crisis in Europe, the head topic of the fifth edition of the Congress, which took place in 2015, was: "European Integration in the Face of a Security Crisis."

Bank Pekao S.A. was the patron of three debates:
- "Growth prospects for the mortgage loans market",
- "Bonds issue and bank financing. A supplement or an alternative?",
- "Is it the last such boom? Is the development model of the Polish economy running out and, following the current boom, we will face a significant and long-term economic slowdown?".

The Bank has been a co-organizer of the Congress since its first edition.

The 5th European Forum for New Ideas

The European Forum for New Ideas (EFNI) is an international discussion meeting of the business milieus focusing on the future of Europe and its economy in a broad, global context. It has been organized since 2011 by the Polish Confederation "Lewiatan" in the cooperation with BUSINESSEUROPE, the City of Sopot as well as Polish and international companies and institutions. The Bank has supported the event as the exclusive partner of the Opening Gala since 2013.The motto of the fifth edition was: "Europe in the Face of Growing Social Inequality, Radicalism and Geopolitical Threats." The three-days' debate focused mainly on the migration crisis, growing radicalism and unequal income distribution.

In 2015, the Bank participated in this prestigious event for the third time as the exclusive partner of the Opening Gala.

The Corporate Banking Congress

The Corporate Banking Congress, organized by the Gdańsk Academy of Banking and the Gdańsk Institute for Market Economics, is a new proposal in the calendar of business conferences and events in Poland. The leading theme of the first edition, which took place in December 2015, was: "Financing Economy with Corporate Banking and Capital Market Instruments." Bank Pekao S.A., as the leader of the corporate banking segment, was the co-organizer of this event.

The Bank actively participated in the Congress and was a host of two plenary debates and the so-called Oxford-style debate:
- "How is the banking system going to meet the development needs of corporations?",
- "Building the value of enterprises through internationalization",
- "Banks will not survive the next 25 years".

Bank Pekao S.A. was also a co-host of two expert 'round tables':
- "Using Big Data in corporate banking",
- "Challenges in financing energy infrastructure".

The European Congress of Small and Medium-Size Enterprises

Bank Pekao S.A. has been one of the sponsors of the European Congress of Small and Medium-Size Enterprises in Katowice from the very beginning. It is the largest business event in Europe dedicated exclusively to small and medium-sized enterprises, organized by the Regional Chamber of Commerce in Katowice.

In 2015, the Bank participated in the fifth edition of the Congress, which was held on October 12-14 with the motto: "Science – Business – Government. Together for the Economy."

Report on Micro and Small Companies

Since 2010, Bank Pekao S.A. has been preparing its *Report on Micro and Small Companies* based on interviews with owners of nearly 7,000 companies with no more than 49 employees. The findings of the study are presented at the national, regional and local levels (66 groups of counties) as well as by company size (micro, small) and by industries (manufacturing, commerce, construction industry, services). Innovation in micro and small companies was the special theme of the fifth edition of the report published in 2015. The results of the report were presented at a conference in Warsaw and during 16 regional conferences organized in the cooperation with the Offices of Voivodeship Marshals.

Pekao S.A. supports entrepreneurship in different regions of Poland. One should highlight the Bank's involvement in the South-Eastern Region, particularly in Rzeszowskie Voivodeship and Lubelskie Voivodeship, where the Bank is a partner of three gala ceremonies summarizing contests during which the best entrepreneurs are awarded:
- "Lublin Business Club", which is the largest regional business organization in Poland; during the gala ceremony organized by the Club, the awards for outstanding contribution to business development in the Lublin region are given,
- "Podkarpackie Voivodeship Economic Prize" is a contest organized to promote the fastest-growing companies in Podkarpackie Voivodeship,
- "Fair Play Enterprise" contest, which is an initiative to promote the districts that offer good investment opportunities for entrepreneurs, and companies distinguished by their high reliability and responsibility in business.

Supporting Sport

The 23rd Pekao Szczecin Open Tennis Tournament

Pekao Szczecin Open (PSO) is the biggest and the most important men's tennis tournament in Poland, with the participation of tennis players from around the world and a prize pool of up to USD 150,000. It is also the most important sports event in the Western Region. The Bank has been the titular sponsor of the Tournament since its very beginning in 1993. In September 2015, PSO was held for the 23rd time.

Pekao Szczecin Open has been a breeding ground for fresh talents in Polish tennis for years now. In the last edition, the Bank launched its "Road to Pekao Szczecin Open" program. The program is to promote sport among children and their parents, thus making it possible to select new talented tennis players, who will have a chance to win the Challenger tournament in Szczecin in the future. The first demonstration lessons for the children participating in the program are scheduled for spring 2016.

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Prospects for Development

Factors which Will Affect the Results of the Group

Bank Pekao S.A. and its subsidiaries operate predominantly on the territory of Poland. Therefore, the Bank's performance will be influenced mainly by the economic events in Poland and international outlooks that have an impact on the Polish economy.

The forecasts regarding economic growth are favorable; it is expected that the GDP accelerates from 3.6% in 2015 to 3.7% in 2016. It will be supported both by strong private consumption as well as by investments. Private consumption will be supported by very good situation in the labor market, where high demand for labor will push wages up, and that in turn will increase private consumption. An additional boost will come from government program "Family 500+", which will mean a transfer of ca. PLN16 billion to households.

A gradual increase of inflation is expected. Forecasted CPI index reaches 1.5% year on year in end of 2016, from -0.5% year on year in end of 2015. Return to higher inflation may take longer if commodities' prices on international markets continued their falls. Low price of crude oil poses risk for the economy of Russia, and consequences of potential problems there could include weakening of the złoty. Impact on real economy in Poland would be small, as trade links with this country were significantly lowered in the aftermath of sanctions on Russia.

Steps taken by the new Cabinet increased level of uncertainty among foreign investors, which may translate into weaker złoty. However, weaker złoty would boost economic growth, via higher margins of exporters, and probably also via higher exports volumes.

Tax and regulatory environment will have the greatest impact on the business and the banks' earnings in 2016. According to the draft law on tax on certain financial institutions, from February 2016 banks will pay the so-called bank levy. Its size will be calculated based on assets (net of selected items). Also new, higher capital requirements will have significant impact on the operations of banks in 2016. Some banks will also have to assure extra capital buffers, which are set individually. The activities and results of banks in 2016 will be also affected by the burden related to the functioning of the Bank Guarantee Fund. In addition to pre-defined yearly contributions an ad-hoc need, as it did in 2015, for financing of the Fund may arise.

In relation to the above mentioned changes it should be expected that in 2016 some banks will have limited capacity to expand their assets. In some segments of the market this may lead to lower market competition. Higher operating costs of banks will also lead to higher prices of the banking products.

In 2016 a slowdown in growth of deposits is expected. In case of household deposits this will be associated with a greater propensity to consume (due to a stable situation on the labor market and historically low interest rates). In case of corporate deposits a slowdown will be a consequence of limited interest of banks in this type of funding in connection with the bank levy (which will translate into slower growth in assets, thus lower financing needs) and lower attractiveness for banks from the point of view of liquidity requirements.

Due to base effects caused by the appreciation of the Swiss franc in 2015, in 2016 it should be expected a significant slowdown in the growth rate of loans to households. Higher capital requirements and resulting from that limited ability of some banks to engage resources into long-term receivables (mortgage loans) will act in the same direction. Due to smaller competition and changes in regulatory environment it can be expected an increase in credit margins, particularly in those market segments where interest rates are not capped by the regulation. Due to the above-mentioned changes in regulatory environment also in the case of corporate loans slower growth in volumes and higher margins are likely.

In 2016, monetary policy will be among important factors influencing bank results. Due to the fact that new members of the Monetary Policy Council will be elected this year, the policy may be less predictable. It cannot be ruled out another rate cut with negative consequences for the banks' interest income.

Lately a few concepts of restructuring of CHF mortgage loans for individuals have appeared, including the President's draft of the act on the restoration of the equality of parties of certain loan agreements. The proposed solutions are under discussion and may change significantly. Therefore, at the moment, the Bank is not able to reliably estimate the impact of the proposed solutions on the results of the banking sector. However, taking into account the relatively minor share of these loans in the total assets (almost entirely acquired as a result of the merger of the spun-off part of Bank BPH S.A. in 2007), the Bank assesses that potentially taken solutions should not materially affect the financial standing of the Group.

A buyout of Visa Europe by Visa Inc. may have positive impact on the results of some banks (and thus of the whole sector) in 2016.

Directions of the Activities and Business Priorities

Bank Pekao S.A. is a universal commercial bank focused on conducting business activity on the Polish market. The strategic objective of the Bank is further business development and stable growth thanks to its strong capital and liquidity position while maintaining the highest standards of risk management and further improvement of cost efficiency. The Bank aims to maintain sustainable flow of income and increase its share in the sector income through strengthening its market position in the areas with the largest value creation potential and by effective margin management.

The Bank's philosophy is based on the customer-centric approach, adjusting its products offer and operational model to the changing clients' needs. The Bank aims at building long-term relationships with clients, allowing to ensure sustainable business growth.

The Bank's business model is based on customer segmentation identifying the following groups of customers:
- individual customers – embracing retail, affluent and private banking clients. Segmentation is based on monthly inflows or assets under management. Each segment has its own business model adjusted to the clients' needs,
- small and micro enterprises (SME) – customers are served by dedicated advisors with the support of product specialists. Service is carried out in retail branches as well as in specialized Business Customer Hubs. Customers are offered professional products and services adjusted to individual clients' needs,
- corporate customers – embracing medium and large companies. Segmentation takes into account the turnover value, sector, type of ownership (public/private, domestic/international, etc.). Customers are served by dedicated advisors with the support of product specialists enabling to optimize service level and cost. Customer advisors are focused on providing high-quality and effective service, using the best practices and integrated sales management tools.

The Bank offers competitive products and services on the Polish market, high service quality and nationwide, well-developed and easily accessible network of branches and ATMs as well as professional call center and a competitive Internet and mobile banking platform for individuals, corporate, small and micro enterprises.

Thanks to the scale of operations, strong capital and liquidity structure and balance sheet strength with a high level of solvency ratio and high surplus of deposits in relation to granted loans, the Bank has competitive advantages that allow effectively compete on the market.

Directions of the activities and business priorities for the year 2016

The Bank's activities will be conducted in accordance with the guidelines outlined in the development plan for 2014-2020. Favourable macroeconomic scenario and strong Bank's fundamentals support the continuation of determined directions, despite growing regulatory pressure, and introduction of additional banking sector financial burdens.

In 2016, the Bank's priority will remain further business development and reinforcement of market position in selected areas while maintaining the highest standards of risk management, effective margin management and further operational efficiency improvement, keeping the liquidity and capital position at safe levels, while striving to ensure sustainable and attractive dividends. The Bank will aim to gradual improvement of business profitability by improving the structure and the level of achieved incomes as well as by further cost efficiency enhancement.

Continuation of expected high economic growth at 3.7% should allow to maintain the demand for loans at a relatively high level. Nevertheless, taking into account the effects of significant banking sector burdens implementation, we assume slowdown in lending growth to 3% in the sector. The Bank thanks to its competitive advantages i.a. strong capital position aims to continue its strategy of increasing lending activity and strengthening its market position in strategic areas that provide the largest value creation potential.

The Bank's goal is to build the position of the most recognizable bank in Poland thanks to the professionalism and value creation for the customer. The Bank's activities will be focused on increasing customer satisfaction with provided services through meeting the customer's needs, constant improvement of service quality and delivering the best on the market solutions that enable our clients to reach their financial goals.

In the individual customer segment, the Bank will continue to sell consumer loans and mortgage loans denominated in PLN leveraging on long-term experience in selling these products and proved business model focused on effective and efficient adaptation of the offer to the clients' needs, while maintaining ethical principles in lending and reasonable risk level. In order to adopt best our offer to the changing clients' preferences, the Bank will continue to upgrade CRM system and multi-module analytical tools and algorithms while developing sales of products via remote channels and automating processes. Thinking about the future of our clients we intend to continue the development of product offer proposing the best and proven savings and insurance solutions, building long-term relationships with the clients and managing the client's life cycle.

In the business customer segment, the Bank's focus is to reinforce its leading position in the corporate lending, transactional banking services as well as organisation and servicing of corporate bonds issuance. The Bank, leveraging on its experience, aims to support the clients in utilizing 2014-2020 EU funds assigned for building a modern and competitive economy. In addition the Bank will continue the development of cooperation with customers from the agri-food sector.

In order to ensure the highest service quality for corporate as well as small and micro enterprises (SME) the Bank will continue working on the best adoption of its business model to the changing clients' requirements by strengthening local teams, their competences and mobility of advisors, while ensuring comprehensive offer and providing innovative financial solutions.

The Bank will continue acquisition of new clients consistently working on the number of customers increase in all segments. Investments in innovative products and solutions will be one of the elements that increase the attractiveness of the Bank's offer and allow to increase the number of customers served. The Bank will continue the development of remote distribution channels (multichannels / omnichannel), including Internet and mobile banking

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exploring innovative solutions available on the market, allowing the customer to use the banking services on multiple devices i.a. computer, mobile / smartphone, tablet. Providing ready-made solutions, tailored to the needs of given customer through the remote channels, without branch visit, making life of our customers easier, remains one of our key objectives. We intend to further develop PeoPay system enabling mobile payments and acceptance of mobile payments focusing on increasing the number of active users and transaction volumes.

The Bank will continue the activities aimed at improving operational efficiency focusing on processes optimisation, gradual adjustment of the distribution channels structure to the evolving customer needs and simplification of the organizational model.

Representations of the Bank's Management Board

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Representations of the Bank's Management Board

The Management Board of Bank Pekao S.A. declares to the best of its knowledge that:

– Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015 and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner Bank Pekao S.A. Group financial position and their results,
– Report on the activities of Bank Pekao S.A. Group for the year 2015 provides the true picture of Bank Pekao S.A. Group development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015 has been selected in line with the binding legal regulations. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the annual consolidated financial statement, in line with the binding provisions of the law and professional standards.

Statement of Bank Polska Kasa Opieki Spółka Akcyjna on application of Corporate Governance Standards in 2015

Statement of Bank Polska Kasa Opieki Spółka Akcyjna on application of Corporate Governance Standards in 2015

Statement of Bank Polska Kasa Opieki Spółka Akcyjna on Application of Corporate Governance Standards in 2015

According to the ordinance of Minister of Finance dated February 19, 2009 *on current and periodic information published by issuers of securities and the conditions for recognition as equivalent the information required by the laws of a non-member state*[1], Bank Polska Kasa Opieki Spółka Akcyjna (the "Bank") states that it falls within the following set of corporate governance rules, including standards that issuer applies voluntarily and corporate governance practices used by issuer beyond the requirements of national law.[2]

General corporate governance rules i.e. a system of regulations and procedures defining guidelines for the activities of the Bank's governing bodies, including their relations with entities interested in the Bank's activities (stakeholders) result from laws regulations, especially from the Commercial Companies Code and the Banking Law, capital market regulations, as well as the rules laid down in: Code of Best Practice for WSE Listed Companies, Code of Banking Ethics of Polish Bank Association and Corporate Governance Rules for the Supervised Institutions issued by the Financial Supervision Authority on July 22, 2014.

In 2015, the Bank applied corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies[3] set by WSE Board's Resolution No. 19/1307/2012 of November 21, 2012 excluding Rules I.12 and IV.10 point 2 regarding enabling the shareholders to participate in a General Meeting using electronic communication.

In the announcement on convening the Ordinary General Meeting of Bank Polska Kasa Opieki Spółka Akcyjna published in the current report 5/2015 on March 30, 2015 the Bank informed that: "Considering the fact that the Shareholding of the Bank is characterized by a large number of shareholders, geographical and linguistic diversity, which means that for the Bank to meet the requirements necessary to identify the shareholders correctly and to ensure the appropriate level of security of electronic communication it would be necessary to provide on the Bank's side highly advanced technical solutions which currently the Bank is not in possession of, in accordance with Art. 4065 § 2 of the Commercial Companies Code and § 8a sec. 2 of the Statute of the Bank, the Management Board of the Bank resolved not to allow participation with the use of electronic communication means in the Ordinary General Meeting of the Bank for the year 2014".

In each case of convening the General Meeting, the Management Board of the Bank defines whether the participation in the General Meeting with the use of electronic communication means is possible and what are the requirements and limitations necessary to identify of shareholders and to ensure the safety of electronic communication.

The Bank applies corporate governance rules laid down in the Code of Banking Ethics of Polish Bank Association.[4]

As of January 1, 2015 the Bank applies Corporate Governance Rules for the Supervised Institutions issued by the Financial Supervision Authority on July 22, 2014[5] with the exclusion of chapter 9 of the Rules related to asset management at the client's risk, in view of the fact that the Bank does not pursue any activity in this area, § 49 section 4 and § 52 section 2 of the Rules in view of the fact that there is an audit unit and a compliance unit functioning in the Bank, and § 45 section 2 of the Rules in terms of risk assessment concerning failure to achieve the objectives of the internal control system due to ongoing adjustment works. Moreover, taking into account the lack of possibility for the Bank to ensure the technical conditions necessary to identify the shareholders correctly and to ensure the appropriate level of security of electronic communication during the Ordinary General Meeting of the Bank for 2014, in particular during the process of voting at the General Meeting, the Management Board of Bank Pekao S.A. has resolved not to allow participation in this General Meeting with the use of electronic communication means and at the same time has decided to not apply § 8 section 4 of Corporate Governance Rules for the Supervised Institutions.

Information about not applying the above mentioned rule was published by the Bank on the website, in accordance with Corporate Governance Rules for the Supervised Institutions.

Furthermore, the Bank applies corporate governance rules resulting from UniCredit Group Integrity Charter[6] as requirements beyond requirements under national law.

On December 22, 2015 the Management Board of the Bank by Resolution No. 497/XII/15 adopted to follow the "Best Practice for GPW Listed Companies 2016"[7] issued by the Warsaw Stock Exchange (GPW) by Resolution No 26/1413/2015 of the GPW Supervisory Board of October 13, 2015. As of January 1, 2016 the Bank applies all the recommendations and detailed provisions included in "Best Practice for GPW Listed Companies 2016".

The activities undertaken by the Bank comply with the laws regulations, the Bank's Statute, internal Bank's regulations, supervisory and control bodies recommendations, good practices standards and ethic norms.

[1] Journal of Laws 2014.133 unified text
[2] Par. 91.5.4.a and b of the ordinance of the Minister of Finance of February 19, 2009
[3] The document is publicly available on the WSE website: http://www.gpw.pl/dobre_praktyki_spolek_regulacje
[4] The document is publicly accessible on the Polish Bank Association web site: http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej
[5] The document is publicly accessible on the Polish Financial Supervision Authority web site: http://www.knf.gov.pl/regulacje/praktyka/index.html
[6] The document is publicly available on Bank Pekao S.A. website: http://www.pekao.com.pl/o_banku/misja/#tab2
[7] The document is publicly available on GPW S.A. website : http://www.gpw.pl/2296

Acting in compliance with par. 91.5.4.c–k of above mentioned ordinance of Minister of Finance dated February 19, 2009, the Bank presents following information:

1. The description of key features of the Bank's internal control and risk management systems related to the preparation of financial statements and consolidated financial statements[8]

The Management Board of the Bank is responsible for developing and implementing of an adequate, effective and efficient internal control system and risk management system with respect to the preparation of financial statements.

The Supervisory Board oversees the functioning of the internal control system by assessing its adequacy, effectiveness and efficiency through the Audit Committee and the Internal Audit Department.

The internal control system is aimed at ensuring reliable, complete and correct disclosure of all commercial transactions executed over a given period.

The accounting policies adopted by the Bank, which are compliant with the International Financial Reporting Standards (IFRS), the chart of accounts and reporting databases take into account the format and the extent of detail of the financial data disclosed in the financial statements, in accordance with the requirements and rules applied by the dominant entity. The Bank maintains its accounting books in the form of separate IT resources in its IT systems, in line with the adopted business structure. The IT systems ensure access to intelligible and centralized data, separately for each system, which confirm the accounting records and make it possible to control records continuity and transfer account activity and balances, as well as draw up financial statements.

The accounting books are reconciled against reporting databases.

The responsibility for preparation of financial statements and periodic financial reports and for information management rests with the Financial Division supervised by the Vice President of the Bank's Management Board.

UniCredit S.p.A. as the parent company of the Bank is subject to the provisions of the Italian "Saving Act 262" (law 262/2005). Therefore in the Bank there has been implemented a verification process of its operational and audit procedures applied in the drawing up of the financial statements, in accordance with UniCredit S.p.A. guidelines arising from the above provisions.

2. Identification of shareholders owning directly or indirectly a significant block of shares together with identification of number of shares owned by those shareholders, percentage of shareholders share in share capital, number and percentage of votes at the Bank's General Meeting resulting from owned shares[9]

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2015, UniCredit S.p.A. held 50.10% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders. The remaining shareholders held 49.90% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders.

Since none of the remaining shareholders holds more than 5% of the total vote at the Bank's General Shareholders Meeting, they are not required to disclose acquisitions of the Bank's shares.

The shareholders of the Bank owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the Bank's General Shareholders Meeting are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	DECEMBER 31, 2015		DECEMBER 31, 2014	
UniCredit S.p.A.	131,497,488	50.10%	131,497,488	50.10%
Other shareholders (below 5%)	130,972,546	49.90%	130,972,546	49.90%
Total	**262,470,034**	**100.00%**	**262,470,034**	**100.00%**

3. Identification of holders of any securities with special control rights with description of those rights[10]

According to the Bank's Statute all the existing shares are ordinary bearer shares. There are no special preferences or limitations connected with the shares, or differences in the rights attached to them. The rights and obligations related to the shares are defined by the provisions of the Polish Commercial Companies Code and other applicable laws.

Securities issued by the Bank do not give their holders any special control rights.

[8] Par. 91.5.4.c of the ordinance of the Minister of Finance of February 19, 2009
[9] Par. 91.5.4.d of the ordinance of the Minister of Finance of February 19, 2009
[10] Par. 91.5.4.e of the ordinance of the Minister of Finance of February 19, 2009

4. Identification of any restrictions of voting rights, such as restriction of voting rights of holders of given number or percentage of votes, temporary restrictions of voting or provisions according to which, with co-operation of a company, rights resulting from securities are separated from the fact of holding those securities[11]

According to the Bank's Statute there are no restrictions of voting rights.

5. Identification of any restrictions of ownership transfer of securities issued by the Bank[12]

According to the Bank's Statute there are no limitations of ownership transfer of the Bank's shares.

6. Description of rules governing appointment and dismissal of Members of managerial bodies and their rights, in particular right to decide whether to issue or repurchase shares[13]

Management Board
As stated in the Bank's Statute the Management Board is composed of 5 to 9 Members. Members of the Management Board are appointed by the Supervisory Board for the common term, which shall last three years. The Management Board comprises the President of the Management Board of the Bank, Vice Presidents of the Management Board of the Bank and Members of the Management Board of the Bank. Deputy Presidents and Members of the Management Board are appointed and removed on the motion of the President. Appointment of two Members of the Management Board, including its President of the Management Board, is subject to approval by the Financial Supervision Authority. The body which applies to the Financial Supervision Authority for the approval is the Supervisory Board.

At least half of the Members of the Management Board, including its President, should possess a thorough knowledge of the Polish banking market, i.e. they should meet all of the following criteria:
- they have professional experience gained on the Polish market, relevant for the performance of a managerial function at the Bank,
- they are permanently domiciled in Poland,
- they have command of the Polish language.

The Management Board runs the business and represents the Bank. Each Member of the Bank's Management Board is obliged to act in such a way as to further the Bank's interests. Members of the Management Board are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be incompatible with the Bank's interests or their official duties. A Management Board Member is obliged to notify the Management Board of the Bank and the Supervisory Board of any situation in which a conflict of interests might occur or has occurred as well as refrain from participating in discussion and voting on resolution in case of which a conflict of interest has occurred. A Management Board Member who becomes aware of any situation where an employee or a representative of a business partner of the Bank demanded any benefits, regardless of their scope and nature, should promptly notify the Supervisory Board of such demand.

Members of the Management Board shall have rights under the generally applicable law.

According to the Bank's Statute they have no right to decide whether to issue or purchase shares.

7) Description of rules governing amendment of the Statute of the Bank[14]

Amendment of the Bank's Statute and drafting its consolidated text requires adoption by way of resolution of the Bank's General Shareholders Meeting as well as registering the amendment in the National Court Register. Procedure of the General Shareholders Meeting of the Bank[15] defines detailed rules of conducting the Bank's General Shareholders Meetings and adopting resolutions. The Bank's General Shareholders Meetings resolutions concerning the amendments of the Bank's Statute are being adopted by the three-quarter majority, whereas according to the Bank's Status the Bank's General Shareholders Meeting is entitled to adopting resolutions only if at least 50% of shares plus one share is represented. Moreover, as stated in Par. 34.2 of the Banking Act, any amendment of the Statute of the Bank shall require the authorization of the Polish Financial Supervision Authority where such amendment relates to:
- the company name,
- the bank's registered office, objects and scope of activity taking into consideration activities defined in par. 69.2.1-7 of the Act on Trading in Financial Instruments of July 29, 2005 that the bank intends to perform according to Par. 70.2 of this Act,
- the management bodies and their competences, including particularly the competences of the members of the management board appointed with acceptance by the Polish Financial Supervision Authority and in compliance with the decision making standards, the basic organizational structure of the bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions concerning the undertaking of commitments or disposal of assets whose total value with regard to a single entity exceeds 5% of the bank's own funds,

[11] Par. 91.5.4.f of the ordinance of the Minister of Finance of February 19, 2009
[12] Par. 91.5.4.g of the ordinance of the Minister of Finance of February 19, 2009
[13] Par. 91.5.4.h of the ordinance of the Minister of Finance of February 19, 2009
[14] Par. 91.5.4.i of the ordinance of the Minister of Finance of February 19, 2009
[15] Adopted by virtue of the Resolution of the General Shareholders Meeting No. 19 of April 8, 2003

- the principles of functioning of the internal control system,
- the own funds and financial management principles,
- voting preference or limitation attached to shares at a bank.

8) Functioning of the General Shareholders Meeting and its key powers, as well as description of the rights of shareholders and the manner of exercising these rights, in particular rules resulting from Rules of Procedure for the General Shareholders Meeting, unless these rules result directly from generally applicable law[16]

The operation of the Bank's General Shareholders Meeting is governed by the Rules of Procedure for the Bank's General Shareholders Meeting, adopted by way of Resolution No. 19 of April 8, 2003, amended by way of Resolution No. 41 of May 5, 2009 and Resolution No. 41 of June 1, 2012 which defines detailed rules of conducting General Shareholders Meetings and adopting resolutions. The Rules of Procedure are available to the public on the Bank's website[17].

Apart from powers and authorities mentioned in the Code of Commercial Companies and the Bank's Statute, the Bank's General Shareholders Meeting has the following powers and authority:
- to review and approve the report on the Bank's operations and the Bank's financial statements for the previous financial year,
- to adopt a resolution on profit distribution or coverage of loss,
- to review and approve the report on the activities of the Supervisory Board,
- to grant discharge to Members of the Supervisory Board and Management Board in respect of their duties,
- to review and approve the report on the Group's operations and the Group's financial statements,
- to set the dividend record date and dividend payment date,
- to dispose of or lease a business or its organized part, and to encumber it with limited property rights,
- to amend the Bank's Statute and to draft its consolidated text,
- to increase or decrease the Bank's share capital,
- to issue convertible bonds, bonds with pre-emptive rights to acquire shares, and subscription warrants,
- to retire shares and to define the terms of retirement,
- to decide on the Bank's merger, demerger or liquidation,
- to create and release special accounts,
- to appoint and remove from office Members of the Supervisory Board,
- to define the remuneration rules for Members of the Supervisory Board,
- to conclude an agreement with a subsidiary which provides for the management of the subsidiary or for the transfer of profit by the subsidiary,
- to appoint the entity authorized to examine financial statements and review the financial statements,
- to deal with other matters falling within the scope of the Bank's activities which are submitted to the Bank's General Shareholders Meeting.

The Bank's General Shareholders Meeting is convened via the Bank's website and in a way determined for passing current information according to rules regarding public offer and conditions, under which the financial instruments are introduced to organized turnover system and to rules regarding public companies. The convocation have to take place at last twenty-six days before the Bank's General Shareholders Meeting.

The Ordinary General Shareholders Meeting should take place once a year, not later than in June. When determining the date of the Bank's General Shareholders Meeting, the Management Board seeks to enable as many shareholders as possible to participate in the Meeting.

The Statute allows the participation in the General Meeting with the use of electronic communication means if the Management Board adopts such decision. Management Board adopts decision mentioned in the previous sentence in the case of fulfilling by the Bank technical conditions necessary for participation in the General Meeting with the use of electronic communication means what covers in particular:
1) real-life broadcast of General Meeting,
2) real-time bilateral communication where shareholders may take the floor during a General Meeting from location other than the General Meeting,
3) exercising the rights to vote during a General Meeting either in person or through a plenipotentiary.

According to the Statute, in each case of convening the General Meeting, the Management Board of the Bank defines whether the participation in the General Meeting with the use of electronic communication means is possible and what are the requirements and limitations necessary to identify of shareholders and to ensure the safety of electronic communication. Detailed conditions of participation in the General Meeting with the use of electronic communication means are specified in regulation adopted by the General Meeting and notice of calling the General Meeting.

The Bank's Supervisory Board can convene Annual General Shareholders Meeting, if the Management Board does not convene it in due time stated in the Statute and the Extraordinary Shareholders Meeting, if necessary.

The full documentation which is to be presented to the Bank's General Meeting, together with the drafts of resolutions and information concerning the Bank's General Meeting are made

[16] Par. 91.5.4.j of the ordinance of the Minister of Finance of February 19, 2009
[17] http://www.pekao.com.pl/informacje_dla_inwestorow/walne-zgromadzenia-banku/

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available to persons entitled to participate in the Bank's General Meeting on the Bank's website and in paper form which is available in the Bank's Headquarters, Warsaw, Żwirki i Wigury Street 31. Information in this respect is covered by announcement about convening the General Meeting, in accordance with Art. 402² of Code of Commercial Companies.

Official copies of the Bank's Management Board on the Bank's operations and financial statements as well as copies of the Supervisory Board's report and external auditor's opinion are issued to shareholders upon request no later than 15 days prior to the Bank's General Meeting date.

The rights of the Bank's shareholders include in particular:
- the right of shareholders holding at least a half of the share capital or at least a half of the votes to convene Extraordinary Meeting of Shareholders. In this case, the shareholders elect the chairman of the Bank's General Meeting,
- the right of shareholders holding at least the twentieth of share capital to demand that specific issues be placed on the agenda of the next Bank's General Shareholders Meeting. The demand should include the justification and the project of resolution's project concerning proposed issue and should be submitted to the Management Board no later than 21 days prior to the Meeting date. The Management Board is obliged to announce changes in the Meeting agenda introduced because of shareholder's demand as fast as possible and no later than 18 days prior to the Meeting date. The Announcement takes place according to the way proper for General Meeting convocation,
- the right of shareholders holding at least the twentieth of share capital to submit via electronic communication media projects of resolutions concerning issues introduced to the Bank's General Meeting agenda or issues, which are supposed to be introduced to the Meeting agenda before the date of holding the Bank's General Meeting. The Bank instantly announces projects of resolutions on the Bank's website,
- the right of every shareholder to submit projects of resolutions concerning issues introduced to the Meeting's agenda,
- the right of shareholders to participate in the Bank's General Shareholders Meeting personally or by proxy,
- the right of shareholders holding a tenth of the share capital represented at the Bank's General Shareholders Meeting to demand that the attendance list of the Bank's General Shareholders Meeting be checked by a committee appointed for that purpose and composed of at least three persons, including one person appointed by the parties making the demand,
- the right according to which the Bank's General Shareholders Meeting is not allowed to adopt a resolution to remove an item from the agenda or not to consider an issue which was placed on the agenda upon request of shareholders unless the shareholders express their consent to the same,
- the right according to which the Bank's General Shareholders Meeting may not be adjourned deliberately to obstruct the exercise of the shareholders rights,
- the right of each individual participant of the Bank's General Shareholders Meeting to nominate one or more candidates for membership on the Bank's Supervisory Board,
- the right of shareholders holding at least a fifth of the share capital to demand block voting on the appointment of the Supervisory Board; a relevant request should be submitted to the Management Board in writing at such time as to enable its placement on the agenda of the Bank's General Shareholders Meeting,
- the right to inspect the book of minutes and to receive copies of resolutions authenticated by the Management Board,
- the right according to which the Chairperson of the Bank's General Shareholders Meeting is obliged to ensure that the rights of minority shareholders are respected,
- the right of shareholders who raise an objection against a resolution to justify the objection in a concise manner.

All issues submitted to the Bank's General Shareholders Meeting have the recommendation of the Supervisory Board. According to Par. 9 of the Bank's Statute, the Management Board is obliged to present the issues submitted to the Bank's General Shareholders Meeting for consideration by the Supervisory Board.

The Bank's General Shareholders Meetings are attended by Members of the Supervisory Board and Management Board in makeup that enables providing content-related answers to question in discussion. An auditor is present at the General Shareholders Meeting in particular Ordinary General Shareholders Meeting, if financial matters of the Bank are to be discussed at the Meeting.

The Bank's Management Board, as a body responsible for providing legal service to the Bank's General Shareholders Meeting, exerts every effort to ensure that resolutions are formulated in a clear and unambiguous manner.

The Rules of Procedure for the Bank's General Shareholders Meeting contain provisions (Par. 13.10–17) regarding block voting on the appointment of the Supervisory Board.

Any amendments to the Rules of Procedure for the Bank's General Shareholders Meeting take effect as of the date of the next General Shareholders Meeting.

In the course of performing their responsibilities, the Bank's governing bodies ensure that the interests of majority shareholders are served in such a way as not to prejudice the interests of the minority shareholders. The above principle finds its practical implementation in the proper composition of the Supervisory Board, which comprises representatives of both majority and minority shareholders. Thus, the interests of all shareholder groups are accounted for in carrying out the supervisory function. The principle of the majority rule is reflected in Par. 10.2 of the Bank's Statute, whereby the Bank's General Shareholders Meeting may adopt resolutions if at least 50% of the share capital plus one share is represented at the Meeting. The purpose of this provision is to guarantee that resolutions on matters most important to the Bank and its shareholders are adopted by the Bank's General Shareholders Meeting in the presence of shareholders representing jointly an absolute majority of the share capital. However, if a resolution is not adopted for lack of quorum, as defined above, the resolution may be adopted at the next Meeting with the same agenda, in the presence of shareholders representing at least 20% of the share capital.

The Chairperson of the Bank's General Shareholders Meeting is responsible for the orderly conduct of the meeting and ensures that the rights and interests of all shareholders are respected, that any abuse of rights by the participants is prevented, and that the rights of minority shareholders are observed.

Within the scope of their competence and to the extent necessary to resolve issues placed under discussion of the Bank's General Shareholders Meeting, Members of the Supervisory Board, Members of the Management Board and the auditor provide the participants with the required explanations and information concerning the Bank.

Voting on procedural matters may be carried out only on issues related to the conduct of the Meeting. This voting procedure cannot be applied to resolutions which may have impact on the exercise of the shareholders rights.

Removing an item from the agenda or a decision not to consider an issue placed on the agenda at the request of shareholders requires a resolution of the Bank's General Shareholders Meeting, adopted with a three-quarter majority of the votes, following approval by all the present shareholders who submitted such a request.

9) Composition of the Bank's managerial, supervisory or administrative bodies and it's committees, and its changes that occurred during last financial year as well as rules of procedure[18]

Management Board

As at January 1, 2015 the Management Board of the Bank was composed of the following persons:

Luigi Lovaglio	President of the Management Board, CEO,
Diego Biondo	Vice President of the Management Board,
Andrzej Kopyrski	Vice President of the Management Board,
Grzegorz Piwowar	Vice President of the Management Board,
Stefano Santini	Vice President of the Management Board,
Marian Ważyński	Vice President of the Management Board.

With the effect of April 30, 2015 the Supervisory Board of the Bank appointed Mr. Adam Niewiński as Vice President of the Management Board for the current joint term of the Management Board of the Bank.

As at December 31, 2015 the Management Board was composed of the following persons.

Luigi Lovaglio	President of the Management Board, CEO,
Diego Biondo	Vice President of the Management Board,
Andrzej Kopyrski	Vice President of the Management Board,
Grzegorz Piwowar	Vice President of the Management Board,
Stefano Santini	Vice President of the Management Board,
Marian Ważyński	Vice President of the Management Board,
Adam Niewiński	Vice President of the Management Board.

The Management Board of the Bank acts according to the Bank's Statute and the Rules of procedure adopted by virtue of its Resolution No. 480/XII/2014 of December 22, 2014. The previously binding Resolution of the Management Board No. 101/VI/03 of June 3, 2003 expired. The Rules of procedure shall in particular define the matters which require joint consideration by the Management Board, as well as the procedure for adopting a resolution in writing. The Rules of Procedure of the Management Board are available on the Bank's website[19]. The Members of the Management Board shall coordinate and supervise the activity of the Bank pursuant to the binding division of competence adopted by the Management Board and approved by the Supervisory Board.

According to the Bank's Statute, the Management Board shall conduct the matters of the Bank and represent the Bank. Issues not reserved by virtue of the provisions of the law or of the Statute to fall within the scope of competence of other Bank's statutory bodies, shall fall within the scope of competence of the Bank's Management Board. The Management Board of the Bank in the framework limited by the rules of the binding Polish law submits all required information and data to UniCredit S.p.A. as the parent company. The Management Board of the Bank, operating through the statutory bodies of the subsidiaries of the Bank, coordinates and affects their activities aimed at ensuring the stability of the Group.

Pursuant to the provisions of the Rules of procedure, the Bank's Management Board prepares the development strategy for the Bank and is responsible for the implementation and execution of that strategy. The Supervisory Board issues its opinions on the Bank's long-term development plans and annual financial plans, prepared by the Management Board. The Management Board ensures that the management system at the Bank is transparent and effective, and runs the Bank's affairs in compliance with applicable laws and Best Practices. The core values underlying the management of the Bank are professionalism, credibility and confidentiality, while customer relations are underpinned by reliability and integrity, as well as compliance with applicable laws, including the provisions on anti-money laundering and financing of terrorism.

[18] Par. 91.5.4.k of the ordinance of the Minister of Finance of February 19, 2009
[19] http://www.pekao.com.pl/o_banku/wladze_Banku/

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Pursuing the principle of efficient and prudent management, the Management Board is responsible for initiation and implementation of programs aimed at increasing the Bank's value and rate of return for the shareholders, as well as protection of the employees' long-term interests. In its decisions, the Bank's Management Board makes every effort to ensure, to the maximum extent possible, the promotion of the interests of the shareholders, creditors, employees, as well as other entities and persons co-operating with the Bank in its business activity.

Supervisory Board

As at January 1, 2015 the Supervisory Board of the Bank was composed of the following persons:

Jerzy Woźnicki	Chairman of the Supervisory Board,
Roberto Nicastro	Deputy Chairman of the Supervisory Board,
Leszek Pawłowicz	Deputy Chairman of the Supervisory Board,
Alessandro Decio	Secretary of the Supervisory Board,
Małgorzata Adamkiewicz	Member of the Supervisory Board,
Paweł Dangel	Member of the Supervisory Board,
Laura Stefania Penna	Member of the Supervisory Board,
Wioletta Rosołowska	Member of the Supervisory Board,
Doris Tomanek	Member of the Supervisory Board.

As of the end of April 30, 2015 Ms. Małgorzata Adamkiewicz and Mr. Paweł Dangel resigned from their positions as Members of the Supervisory Board of the Bank. The Ordinary General Meeting of Shareholders of the Bank on April 30, 2015 appointed Mr. Dariusz Filar and Ms. Katarzyna Majchrzak as Members of the Supervisory Board of the Bank for the current joint term of the Management Board of the Bank, with the effect of May 1, 2015.

As at December 31, 2015 the Supervisory Board was composed of the following persons.

Jerzy Woźnicki	Chairman of the Supervisory Board,
Roberto Nicastro	Deputy Chairman of the Supervisory Board,
Leszek Pawłowicz	Deputy Chairman of the Supervisory Board,
Alessandro Decio	Secretary of the Supervisory Board,
Dariusz Filar	Member of the Supervisory Board,
Katarzyna Majchrzak	Member of the Supervisory Board,
Laura Stefania Penna	Member of the Supervisory Board,
Wioletta Rosołowska	Member of the Supervisory Board,
Doris Tomanek	Member of the Supervisory Board.

The Supervisory Board acts on the basis of the Rules of procedure adopted by virtue of its Resolution No. 10/15 of February 6, 2015. Previously binding Resolution No. 2/01 of the Supervisory Board of January 26, 2001 as amended is no longer valid. The Rules of procedure of the Supervisory Board are available on the Bank's website.[20]

The role of the Supervisory Board is to exercise a general and permanent supervision over the Bank's activities, taking into consideration the Bank's function of a parent company regarding subsidiaries of the Bank. Apart from the competence defined in law, the Supervisory Board possesses competence stated in the Bank's Statute, the Supervisory Board in particular examines every matter submitted to the Bank's General Shareholders Meeting.

The Supervisory Board Members always act with due regard to the Bank's interests and take all actions necessary to ensure efficient functioning of the Supervisory Board. Moreover, Members of the Supervisory Board of the Bank are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be not in line with the Bank's best interest. About existing or potential conflict of interests the Member of the Supervisory Board informs the Supervisory Board and restrains from participating in a discussion and voting on resolution regarding issue in the case of which a conflict of interest occurred.

Each year, according to regulations in force, the Supervisory Board prepares and submits to the Bank's General Shareholders Meeting an assessment of the report on the activities of the Bank and the Group prepared by the Bank's Management Board, assessment of the Bank's financial statements and consolidated financial statements of the Group, assessment of motion concerning profit's division or losses coverage, as well as the Supervisory Board activities statements. The assessments prepared by the Supervisory Board are made available to the shareholders before the Bank's General Shareholders Meeting.

The Supervisory Board set up dedicated committees which deal with specific areas of the Bank's operations, including the Audit Committee, the Nomination and Remuneration Committee and the Financial Committee and Risk Committee (set up on December 18, 2015). Reports of the committees set up by the Supervisory Board are stored at the Bank's Head Office and made available by the President's Office to the shareholders at the request. Annual reports of committees are annexed to and published with the Supervisory Board statement.

Audit Committee

As at January 1, 2015 the Audit Committee was composed of the following persons:

Paweł Dangel	President of the Committee,
Alessandro Decio	Member of the Committee,
Leszek Pawłowicz	Member of the Committee,
Laura Stefania Penna	Member of the Committee,
Jerzy Woźnicki	Member of the Committee.

Due to resignation of Mr. Paweł Dangel from the position of Member of the Supervisory Board, the Supervisory Board on the sitting on June 8, 2015 appointed Mr. Dariusz Filar as a Member of Audit Committee and conferred to him function of the President of the Committee for the period until the end of current term of the Supervisory Board.

[20] http://www.pekao.com.pl/o_banku/wladze_Banku/#tab2

The composition of the Audit Committee as at December 31, 2015 was composed of the following persons.

Dariusz Filar	President of the Committee,
Alessandro Decio	Member of the Committee,
Leszek Pawłowicz	Member of the Committee,
Laura Stefania Penna	Member of the Committee,
Jerzy Woźnicki	Member of the Committee.

The scope of the Audit Committee's remit has been determined by the Supervisory Board's Resolution No. 41/14 of December 12, 2014. Previously in force Supervisory Board's Resolution No. 9/12 of March 8, 2012 expired.

The Audit Committee supports the Supervisory Board in the performance of its duties, therein related to the adequacy and effectiveness of the Bank's internal control mechanisms, including identification, measurement and management of risk, compliance with applicable laws and procedures governing the Bank's operations, correct application of accounting rules in the process of drawing up financial statements, and ensuring independence of external auditors and the resources of the Internal Audit Department.

The Audit Committee is composed of five persons selected from among the Members of the Supervisory Board, and includes at least three independent Members. The Chairman of the Audit Committee is an independent Member of the Supervisory Board.

Meetings of the Audit Committee are held as need of Committee arises, but not less frequently than four times a year, and dates of these meetings coincide with key dates in the Bank's quarterly reporting cycle and the review of the annual audit plan presented by the Director of the Internal Audit Department.

Nomination and Remuneration Committee

As at January 1, 2015, in the Bank operated the Remuneration Committee, which was composed of the following persons:

Roberto Nicastro,
Wioletta Rosołowska,
Doris Tomanek,
Jerzy Woźnicki.

On February 6, 2015 the Supervisory Board adopted the Rules of Procedure of the Supervisory Board of the Bank, which included among others, change of the name of the Remuneration Committee to Nomination and Remuneration Committee as well as modified its competence. The Committee operates on the basis of the abovementioned Rules as well as Rules of Procedure of the Nomination and Remuneration Committee, which was adopted on April 27, 2015.

The composition of the Nomination and Remuneration Committee, as above, did not change till December 31, 2015.

The aim of the Committee is to support the Supervisory Board in performing its duties by, among others:

a) submission of recommendations regarding conditions of agreements that regulate employment relationship or other legal relationship between Members of the Management Board and the Bank, including the amount of remuneration to be paid to Members of the Management Board, and regarding approval of the policy on variable components of the remuneration for persons holding managerial positions in the Bank according to separate regulations and in order to submit recommendations to the General Shareholders Meeting regarding the remuneration to be paid to Members of the Supervisory Board,
b) preparation of recommendations regarding fulfillment of suitability requirements for the purpose of appointment of Members of the Management Board and the Supervisory Board,
c) Preparation of report for the General Shareholders Meeting regarding assessment of functioning of the remuneration policy in the Bank.

Financial Committee

As at January 1, 2015, the Financial Committee was composed of the following persons:

Alessandro Decio,
Roberto Nicastro,
Laura Stefania Penna.

The composition of the Financial Committee did not change till December 31, 2015.

The Financial Committee operates on the basis of the Supervisory Board's resolution. Its role is to exercise supervision over the implementation of the Bank's financial objectives. Members of the Committee have the right to use services of advisers.

Risk Committee

On December 18, 2015 the Supervisory Board of the Bank set up Risk Committee and adopted "Rules of Procedure of the Risk Committee". Mission of the Committee is to support the Supervisory Board in fulfillment of its obligations concerning supervision over risk management system and assessment of the adequacy and effectiveness of the said system.

Auditor's Opinion

Auditor's Opinion

To the Shareholders and Supervisory Board
of Bank Polska Kasa Opieki S.A.

We have audited the attached consolidated financial statements of the Bank Polska Kasa Opieki S.A. Capital Group ("Capital Group"), for which Bank Polska Kasa Opieki S.A. ("Bank") with its registered office in Warsaw, at Grzybowska 53/57 is the Parent Company. Those consolidated financial statements include: consolidated statement of financial position prepared as of 31 December 2015, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement for the financial year from 1 January 2015 to 31 December 2015 and explanatory notes comprising a summary of significant accounting policies and other explanatory information as required by the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations.

Preparation of consolidated financial statements and a report on the activities of the Capital Group in line with the law is the responsibility of the Management Board of the Bank.

The Management Board of the Bank and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013 item 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:
– section 7 of the Accounting Act,
– national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Bank and the subsidiaries of the Capital Group, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements in all material respects:
– give a true and fair view of the information material to evaluation of the economic and financial position of the Capital Group as of 31 December 2015 as well as its financial performance in the financial year from 1 January 2015 to 31 December 2015,
– have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and its executory provisions,
– comply with the provisions of law applicable to the Capital Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Bank for the 2015 financial year is complete within the meaning of the Article 49, paragraph 2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133) and disclosed information derived from the audited financial statements was verified in accordance with the Article 111a, paragraph 1 of the Banking Law (Journal of Laws of 2015 item 128 as amended) and is consistent with the attached financial statements.

Dorota Snarska-Kuman
Key certified auditor
conducting the audit
No. 9667

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dorota Snarska-Kuman
– Deputy Chairman of the Management Board of Deloitte Polska Sp. z o.o.
– which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 8 February 2016

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Anybody who says that being a student is easy has never been a student.

Let’s talk about simplifying your everyday life.

Books, notes, classes, exams. Studying at university is not as easy as they say. Not to mention that studying takes place at the exact moment in life when all you want to do is to have fun, but at the same time you don’t want to waste an opportunity that your future life depends on. ‘Too much to handle’ – Piotr, a law student from Lublin, thinks sometimes. And we understand this.

To make Piotr’s and other students’ everyday lives easier, we decided to cooperate with the University. Now, once Piotr receives his Student ID Card he can activate the embedded ELS system and use it as a payment card. All he needs to do is to open an Eurokonto Intro account at Bank Pekao S.A.

Apart from its usual functions like allowing access to the university library, thanks to the payment card’s activated functionalities, he can withdraw cash or settle payments. As a client of our bank, Piotr can also benefit from other convenient products, such as student loans and multi-currency debit cards.

And if Piotr forgets to return a book to the university’s library on time, he will pay the library fee using the payment functionalities of his Student ID Card.

Consolidated Financial Statements of Bank Pekao S.A. Group

for the period ended on 31 December 2015

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Consolidated income statement

(in PLN thousand)

	NOTE	2015	2014
Interest income	10	5,456,369	6,225,290
Interest expense	10	(1,289,799)	(1,763,996)
Net interest income		**4,166,570**	**4,461,294**
Fee and commission income	11	2,388,523	2,536,281
Fee and commission expense	11	(382,997)	(492,546)
Net fee and commission income		**2,005,526**	**2,043,735**
Dividend income	**12**	**13,635**	**8,298**
Result on financial assets and liabilities held for trading	**13**	**428,048**	**443,301**
Result on fair value hedge accounting	**30**	**5,547**	**(17,247)**
Gains (losses) on disposal of:	**14**	**229,601**	**272,055**
loans and other financial receivables		534	18,579
available for sale financial assets and held to maturity investments		229,551	253,500
financial liabilities		(484)	(24)
Operating income		**6,848,927**	**7,211,436**
Net impairment losses on financial assets and off-balance sheet commitments:	**18**	**(517,558)**	**(559,575)**
loans and other financial receivables		(500,355)	(571,830)
off-balance sheet commitments		(17,203)	12,255
Net result on financial activity		**6,331,369**	**6,651,861**
Administrative expenses	**15**	**(3,426,592)**	**(3,102,134)**
personnel expenses		(1,908,519)	(1,905,070)
other administrative expenses		(1,518,073)	(1,197,064)
Depreciation and amortization	**16**	**(331,465)**	**(326,679)**
Net result on other provisions		**(28,766)**	**(2,702)**
Net other operating income and expenses	**17**	**160,996**	**74,336**
Operating costs		**(3,625,827)**	**(3,357,179)**
Gains (losses) on subsidiaries and associates	**19**	**113,203**	**63,210**
Gains (losses) on disposal of property, plant and equipment and intangible assets	**20**	**12,373**	**1,797**
Profit before income tax		**2,831,118**	**3,359,689**
Income tax expense	**21**	**(537,640)**	**(634,573)**
Net profit for the period		**2,293,478**	**2,725,116**
1. Attributable to equity holders of the Bank		2,292,459	2,714,714
2. Attributable to non-controlling interests	51	1,019	10,402
Earnings per share (in PLN per share)			
basic for the period	22	8.73	10.34
diluted for the period	22	8.73	10.34

Notes to the financial statements presented on pages 146 – 274 constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	2015	2014
Net profit		**2,293,478**	**2,725,116**
1. Attributable to equity holders of the Bank		2,292,459	2,714,714
2. Attributable to non-controlling interests	51	1,019	10,402
OTHER COMPREHENSIVE INCOME			
Item that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(1,169)	(69)
Change in fair value of available-for-sale financial assets		(237,124)	482,066
Change in fair value of cash flow hedges	30	(93,341)	168,109
Tax on items that are or may be reclassified subsequently to profit or loss	21	62,789	(123,534)
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities	45	12,900	(44,338)
Share in remeasurements of the defined benefit liabilities of associates		18	(38)
Tax on items that will never be reclassified to profit or loss	21	(2,451)	8,424
Other comprehensive income (net of tax)		**(258,378)**	**490,620**
Total comprehensive income		**2,035,100**	**3,215,736**
1. Attributable to equity holders of the Bank		2,034,081	3,205,334
2. Attributable to non-controlling interests	51	1,019	10,402

Notes to the financial statements presented on pages 146 – 274 constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	31.12.2015	31.12.2014
ASSETS			
Cash and due from Central Bank	24	7,881,607	9,226,254
Bill of exchange eligible for rediscounting at Central Bank		70	165
Loans and advances to banks	25	7,314,724	7,169,872
Financial assets held for trading	26	1,126,792	448,453
Derivative financial instruments (held for trading)	27	3,206,447	4,447,975
Loans and advances to customers	28	118,555,199	111,871,948
Receivables from finance leases	29	3,503,979	3,112,048
Hedging instruments	30	421,640	470,822
Investments (placement) securities	31	21,181,723	24,712,776
1. Available for sale		17,813,299	23,111,208
2. Held to maturity		3,368,424	1,601,568
Assets held for sale	33	45,302	37,102
Investments in associates	34	148,965	184,228
Intangible assets	35	636,717	627,032
Property, plant and equipment	36	1,460,652	1,544,139
Investment properties	37	30,221	35,295
Income tax assets		991,804	879,991
1. Current tax assets		76,600	2,572
2. Deferred tax assets	21	915,204	877,419
Other assets	38	2,279,725	2,856,928
TOTAL ASSETS		**168,785,567**	**167,625,028**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to Central Bank	24	914	971
Amounts due to other banks	40	5,958,449	5,344,702
Financial liabilities held for trading	26	611,442	591,311
Derivative financial instruments (held for trading)	27	3,204,328	4,417,706
Amounts due to customers	41	128,867,691	125,609,000
Hedging instruments	30	1,702,759	1,484,428
Fair value hedge adjustments of hedged items due to interest rate risk		–	–
Debt securities issued	42	2,903,233	3,857,043
Income tax liabilities		6,649	70,257
1. Current tax liabilities		1,713	68,164
2. Deferred tax liabilities	21	4,936	2,093
Provisions	43	425,374	442,456
Other liabilities	44	1,680,535	1,761,422
TOTAL LIABILITIES		**145,361,374**	**143,579,296**
Equity			
Share capital	49	262,470	262,470
Other capital and reserves	50	20,869,976	20,990,344
Retained earnings and profit for the period	50	2,275,783	2,764,875
Total equity attributable to equity holders of the Bank		**23,408,229**	**24,017,689**
Non – controlling interests	51	15,964	28,043
TOTAL EQUITY		**23,424,193**	**24,045,732**
TOTAL LIABILITIES AND EQUITY		**168,785,567**	**167,625,028**

Notes to the financial statements presented on pages 146 – 274 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(in PLN thousand)

		EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
		OTHER CAPITAL AND RESERVES										
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON – CONTROLLING INTERESTS	TOTAL EQUITY
Note	49	50							50		51	
Equity as at 1.01.2015	**262,470**	**20,990,344**	**9,137,221**	**1,937,850**	**9,002,629**	**540,806**	**1,169**	**370,669**	**2,764,875**	**24,017,689**	**28,043**	**24,045,732**
Management options	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Options exercised (share issue)	–	–	–	–	–	–	–	–	–	–	–	–
Revaluation of management share options	–	–	–	–	–	–	–	–	–	–	–	–
Comprehensive income	**–**	**(258,378)**	**–**	**–**	**–**	**(257,209)**	**(1,169)**	**–**	**2,292,459**	**2,034,081**	**1,019**	**2,035,100**
Remeasurements of the defined benefit liabilities (net of tax)	–	10,467	–	–	–	10,467	–	–	–	10,467	–	10,467
Revaluation of available-for-sale investments (net of tax)	–	(192,070)	–	–	–	(192,070)	–	–	–	(192,070)	–	(192,070)
Revaluation of hedging financial instruments (net of tax)	–	(75,606)	–	–	–	(75,606)	–	–	–	(75,606)	–	(75,606)
Foreign currency translation differences	–	(1,169)	–	–	–	–	(1,169)	–	–	(1,169)	–	(1,169)
Net profit for the period	–	–	–	–	–	–	–	–	2,292,459	2,292,459	1,019	2,293,478
Appropriation of retained earnings	**–**	**161,860**	**–**	**37,565**	**113,961**	**–**	**–**	**10,334**	**(2,781,551)**	**(2,619,691)**	**(13,098)**	**(2,632,789)**
Dividend paid	–	–	–	–	–	–	–	–	(2,624,701)	(2,624,701)	(8,088)	(2,632,789)
Profit appropriation to other reserves including consolidation adjustments	–	161,860	–	37,565	113,961	–	–	10,334	(156,850)	5,010	(5,010)	–
Other	**–**	**(23,850)**	**–**	**–**	**(23,850)**	**–**	**–**	**–**	**–**	**(23,850)**	**–**	**(23,850)**
Acquisition of Pekao Investment Banking S.A.	–	(23,850)	–	–	(23,850)	–	–	–	–	(23,850)	–	(23,850)
Equity as at 31.12.2015	**262,470**	**20,869,976**	**9,137,221**	**1,975,415**	**9,092,740**	**283,597**	**–**	**381,003**	**2,275,783**	**23,408,229**	**15,964**	**23,424,193**

Notes to the financial statements presented on pages 146 – 274 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(in PLN thousand)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK											
		OTHER CAPITAL AND RESERVES										
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON – CONTROLLING INTERESTS	TOTAL EQUITY
Note	49	50							50		51	
Equity as at 1.01.2014	**262,470**	**20,564,611**	**9,137,221**	**1,937,850**	**9,070,200**	**50,117**	**1,238**	**367,985**	**2,592,802**	**23,419,883**	**94,288**	**23,514,171**
Management options	**–**	**(697)**	**–**	**–**	**–**	**–**	**–**	**(697)**	**–**	**(697)**	**–**	**(697)**
Options exercised (share issue)	–	–	–	–	–	–	–	–	–	–	–	–
Revaluation of management share options	–	(697)	–	–	–	–	–	(697)	–	(697)	–	(697)
Comprehensive income	**–**	**490,620**	**–**	**–**	**–**	**490,689**	**(69)**	**–**	**2,714,714**	**3,205,334**	**10,402**	**3,215,736**
Remeasurements of the defined benefit liabilities (net of tax)	–	(35,952)	–	–	–	(35,952)	–	–	–	(35,952)	–	(35,952)
Revaluation of available-for-sale investments (net of tax)	–	390,473	–	–	–	390,473	–	–	–	390,473	–	390,473
Revaluation of hedging financial instruments (net of tax)	–	136,168	–	–	–	136,168	–	–	–	136,168	–	136,168
Foreign currency translation differences	–	(69)	–	–	–	–	(69)	–	–	(69)	–	(69)
Net profit for the period	–	–	–	–	–	–	–	–	2,714,714	2,714,714	10,402	2,725,116
Appropriation of retained earnings	**–**	**(71,614)**	**–**	**–**	**(74,995)**	**–**	**–**	**3,381**	**(2,542,641)**	**(2,614,255)**	**(4,823)**	**(2,619,078)**
Dividend paid	–	–	–	–	–	–	–	–	(2,614,202)	(2,614,202)	(4,823)	(2,619,025)
Profit appropriation to other reserves including consolidation adjustments	–	(71,614)	–	–	(74,995)	–	–	3,381	71,561	(53)	–	(53)
Other	**–**	**7,424**	**–**	**–**	**7,424**	**–**	**–**	**–**	**–**	**7,424**	**(71,824)**	**(64,400)**
Acquisition of non-controlling interests	–	7,424	–	–	7,424	–	–	–	–	7,424	(71,824)	(64,400)
Equity as at 31.12.2014	**262,470**	**20,990,344**	**9,137,221**	**1,937,850**	**9,002,629**	**540,806**	**1,169**	**370,669**	**2,764,875**	**24,017,689**	**28,043**	**24,045,732**

Notes to the financial statements presented on pages 146 – 274 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES – INDIRECT METHOD			
Net profit for the period		**2,292,459**	**2,714,714**
Adjustments for:		**(3,592,611)**	**(7,953,110)**
Depreciation and amortization	16	331,465	326,679
Share of profit (loss) of associates		(52,146)	(63,210)
(Gains) losses on investing activities		(241,559)	(255,130)
Net interest income	10	(4,166,570)	(4,461,294)
Dividend income	12	(13,635)	(8,298)
Interests received		5,228,593	6,231,689
Interests paid		(1,266,247)	(1,765,173)
Income tax		550,623	528,404
Income tax paid		(607,365)	(577,671)
Change in loans and advances to banks		174,433	257,414
Change in financial assets held for trading		(677,498)	(261,239)
Change in derivative financial instruments (assets)		1,241,528	(2,451,041)
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(6,507,423)	(10,855,537)
Change in receivables from finance leases		(391,931)	(180,800)
Change in investment (placement) securities		(830,115)	(1,313,325)
Change in other assets		819,733	(956,834)
Change in amounts due to banks		615,159	(1,071,167)
Change in financial liabilities held for trading		20,131	281,569
Change in derivative financial instruments (liabilities)		(1,213,378)	2,366,205
Change in amounts due to customers		3,229,320	5,829,409
Change in debt securities issued		91,981	73,855
Change in provisions		(17,082)	48,919
Change in other liabilities		89,372	323,466
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(1,300,152)**	**(5,238,396)**
Cash flow from investing activities			
Investing activity inflows		**269,003,982**	**407,980,528**
Sale of shares in associates	33	75,000	–
Sale of investment securities		268,281,039	407,198,470
Sale of intangible assets and property, plant and equipment		17,120	9,108
Dividend received	12	13,635	8,298
Other investing inflows		617,188	764,652
Investing activity outflows		**(265,080,477)**	**(395,889,319)**
Acquisition of shares in subsidiary, net of cash acquired	2	(274,329)	(64,400)
Acquisition of investment securities	31	(264,510,542)	(395,559,593)
Acquisition of intangible assets and property, plant and equipment	35, 36	(295,606)	(265,326)
Net cash flows from investing activities		**3,923,505**	**12,091,209**
CASH FLOWS FROM FINANCING ACTIVITIES			
Financing activity inflows		**3,966,098**	**6,015,875**
Issue of debt securities	42	3,966,098	6,015,875
Financing activity outflows		**(7,632,240)**	**(7,928,366)**
Redemption of debt securities	42	(5,007,539)	(5,314,164)
Dividends and other payments to shareholders		(2,624,701)	(2,614,202)
Net cash flows from financing activities		**(3,666,142)**	**(1,912,491)**
Total net cash flows		**(1,042,789)**	**4,940,322**
including: effect of exchange rate fluctuations on cash and cash equivalents held		151,702	183,208
Net change in cash and cash equivalents		**(1,042,789)**	**4,940,322**
Cash and cash equivalents at the beginning of the period		**15,556,184**	**10,615,862**
Cash and cash equivalents at the end of the period	**52**	**14,513,395**	**15,556,184**

Notes to the financial statements presented on pages 146 – 274 constitute an integral part of the consolidated financial statements.

Notes to financial statements

(in PLN thousand)

The accompanying notes to the financial statements constitute an integral part of the consolidated financial statements.

1. General information

The parent company of the Bank Pekao S.A. Group (the 'Group') is Bank Pekao S.A. (hereinafter referred to the 'the Parent Company', 'the Bank'), with Head Office in Warsaw, at 53/57 Grzybowska Street, 00-950 Warsaw. Bank Pekao S.A. was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously in operation since its incorporation.

Bank Pekao S.A. is registered in the National Court Registry – Enterprise Registry of the Warsaw District Court XII Commercial Division of the National Court Registry in Warsaw under the reference number KRS 0000014843.

The Bank's statistical REGON number is 000010205.

Both the Parent Company and the consolidating entities constituting the Capital Group has been estabilished for an indefinite period of time.

Bank Pekao S.A. Capital Group ('Group' or 'Bank Pekao S.A. Group') is part of the UniCredit S.p.A. Group with its seat in Roma, Italy.

The Bank's shares are quoted on the Warsaw Stock Exchange (WSE). The Bank's securities, traded on regulated markets, are classified in the banking sector.

Bank Pekao S.A. is a universal commercial bank, offering a broad range of banking services on domestic and foreign financial markets, provided to retail and corporate clients, in compliance with the scope of services, set forth in the Bank's Articles of Association. The Bank runs both PLN and forex operations, and it actively participates in both domestic and foreign financial markets. Moreover, acting through its subsidiaries, the Group provides stockbroking, leasing, factoring operations and offering other financial services.

2. Group structure

The Group consists of Bank Pekao S.A. as the parent entity and the following subsidiaries

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL / VOTING	
			31.12.2015	31.12.2014
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Leasing Sp. z o.o. (*)	Warsaw	Leasing services	36.49	36.49
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	–
Pekao Leasing Holding S.A. (in liquidation), including:	*Warsaw*	*Leasing services*	*100.00*	*100.00*
Pekao Leasing Sp. z o.o.	Warsaw	Leasing services	63.51	63.51
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	65.00	65.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A., including:	*Warsaw*	*Real estate development*	*100.00*	*100.00*
FPB – Media Sp. z o.o.	*Warsaw*	Real estate development	100.00	100.00
Pekao Fundusz Kapitałowy Sp. z o.o.	*Warsaw*	*Business consulting*	*100.00*	*100.00*
Pekao Telecentrum Sp. z o.o. (in liquidation)	Warsaw	Liquidated	–	100.00

(*)The total share of the Group in Pekao Leasing Sp. z o.o. equity is 100.00% (36.49% directly and 63.51% via Pekao Leasing Holding S.A.).

(in PLN thousand)

As at 31 December 2015, all of the subsidiaries have been consolidated.

Associates

Bank Pekao S.A. Capital Group has an interest in the following associates

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL / VOTING	
			31.12.2015	31.12.2014
Dom Inwestycyjny Xelion Sp. z o.o. (*)	Warsaw	Financial intermediary	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	49.00	49.00
Pioneer Pekao TFI S.A.	Warsaw	Asset management	49.00	49.00
Krajowa Izba Rozliczeniowa S.A. (**)	Warsaw	Clearing house	–	34.44
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00
Polish Banking System S.A. (in liquidation)	Warsaw	Pending liquidation	48.90	48.90
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Pending liquidation	36.20	36.20

(*) The Group has no control or joint control over the entity due to provisions in the Company's Articles of Association.
(**) The percentage of the Group's ownership rights in share capital/voting is 5.74% as at 31 December 2015. The shares in the Company have been classified as 'Equity securities available for sale'.

As at 31 December 2015, the Group held no shares in entities under common control.

Changes in Group structure

Acquisition of shares in UniCredit CAIB Poland S.A (presently Pekao Investment Banking S.A.)

On 1 January 2015, the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. and obtained control over the entity. UniCredit CAIB Poland S.A. specializes in corporate finance, in particular referring to mergers and acquisitions, public and private offering, as well as securities trading on secondary market. As a result of the acquisition, the Group extends the portfolio of services provided to the customers from corporate banking segment. The purchase consideration was PLN 274 334 thousand and consisted of cash in total. After the acquisition by the Bank, the entity changed its name on Pekao Investment Banking S.A.

The acquisition transaction was classified as intragroup transaction and recognized at book value. The Bank recognized the assets and liabilities of the acquired entity at their book values, adjusted exclusively for the purpose of aligning the accounting principles. Pursuant to the transaction, neither goodwill nor badwill was recognized. The result on the transaction was recognized in the equity of the Group.

The above accounting policy is consistent with the policy of UniCredit Group, adopted by the Group and applicable for business combination under common control.

(in PLN thousand)

The recognized amounts of identifiable assets acquired and liabilities assumed are presented in the table below

ITEM	
Cash	5
Loans and advances to banks	232,469
Financial assets held for trading	12,981
Debt securities available for sale	640
Intangible assets	730
Property, plant and equipment	4,047
Deferred tax assets	42,831
Other assets	60,715
TOTAL ASSETS	**354,418**
Amounts due to other banks	581
Derivative financial instruments (held for trading)	8,906
Amounts due to customers	64,042
Deferred tax liabilities	177
Provisions	442
Other liabilities	29,786
TOTAL LIABILITIES	**103,934**
TOTAL NET ASSETS	**250,484**

The Group incurred acquisition-related costs of PLN 868 thousand. These costs have been included in 'Administrative expenses' in the consolidated income statement.

The interest income and commission income included in the consolidated income statement since 1 January 2015 contributed by Pekao Investment Banking S.A. business was PLN 43 373 thousand. UniCredit CAIB Poland S.A. also contributed net profit of PLN 6 822 thousand for the same period.

Liquidation of Pekao Telecentrum Sp. z o.o. (in liquidation)

On 8 January 2015, the District Court for the City of Warsaw, XIII Commercial Division of the National Court Registry decided on completing the liquidation proceedings of Pekao Telecentrum Sp. z o.o. (in liquidation) and deleting the Entity from the National Court Registry.

Sale of shares in Krajowa Izba Rozliczeniowa S.A.

On 15 July 2015, the Bank sold 3 125 shares of Krajowa Izba Rozliczeniowa S.A. As a result of the transaction, the Bank's share in the share capital and the votes in the General Meeting of the Company was reduced from 34.44% to 5.74%.

3. Business combination

In 2015 the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. (presently Pekao Investment Banking S.A.). The transaction is described in the Note 2.

In 2014 Bank Pekao S.A. took over Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Mikołaja Kopernika.

4. Approval of the Financial Statements

These Consolidated Financial Statements were approved for publication by the Bank's Management Board on 8 February 2016.

5. Significant accounting policies

5.1 Statement of compliance

The annual consolidated financial statements ('financial statements') of the Bank Pekao S.A. Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with further amendments) and respective operating regulations, and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock exchange listing market.

5.2 Basis of preparation of Consolidated Financial Statements

General information

These Consolidated Financial Statements of the Group, which have been prepared for the period from 1 January to 31 December 2015, contain the financial results of the Bank and of its subsidiaries, comprising the 'Group', as well as the results of associated entities, measured using the equity method.

The financial statements have been prepared in Polish zloty, and all data in the financial statements are presented in PLN thousand (PLN '000), unless indicated otherwise.

The financial statements have been prepared on a going concern basis on the assumption that the Group will continue its business operations substantially unchanged in scope for a period of at least one year from the balance sheet date.

Consolidated Financial Statements of the Group have been prepared based on the following valuation methods:
- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets recognized initially at fair value through profit or loss and available-for-sale financial assets, except for those for which the fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for non-financial assets and liabilities or financial assets available for sale whose fair value cannot be reliably measured,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2015, had no material impact on the Group's financial statements (Note 5.11).

The financial statements does not take into consideration interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 5.12 and Note 5.13).

In the Group's opinion, amendments to Standards and interpretations will not have a significant influence on the consolidated financial statements of the Group, with the exception of IFRS 9 'Financial Instruments'.

IFRS 9 'Financial Instruments'

In July 2014 the IASB has issued IFRS 9 'Financial Instruments', the new accounting standard, mandatorily effective for annual periods beginning on or after 1 January 2018, that will replace IAS 39 'Financial Instruments: Recognition and Measurement'. The endorsement by the European authorities is expected to be completed before its date of first time adoption.

The new standard includes a revised model for classification and measurement of financial asserts, an impairment model for credit allowances based on 'expected loss' and a reformed approach to general hedge accounting.

The new classification and measurement approach for financial assets in IFRS 9 will be based upon:

- the entity's business model for managing the financial assets, or
- the contractual cash flow characteristics of the financial asset (i.e. whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding, hereinafter 'SPPI assets').

Depending on the entity's business model, SPPI assets may be classified as:

- 'held to collect contractual cash flows (measured at amortized costs and subject to the expected loss impairment),
- 'held to collect and sale' (measured at fair value through other comprehensive income and subject to the expected loss impairment),
- held for trading (measured at fair value through profit or loss).

The Bank expects that implementation of the new impairment model based on the expected credit loss (ECL) approach will have an impact on the Bank's financial results, especially with reference to loans and advances to customers and banks, loan commitments, debt securities held to collect' and 'held to collect and sale', financial guarantees and leasing financial assets in scope of the ECL approach. This new approach, designed by the IASB (as requested by the G20) allows for earlier recognition of credit losses than according to 'incurred loss' model in IAS 39, which is instead based on the existence of evidences of impairment.

According to IFRS 9 for the purpose of estimation of ECL the exposures are assigned into one of three stages. The measurement of ECL depends on its credit risk and the extent of a significant increase in credit risk since initial recognition, as follows:

a) '12-month ECL' (Stage 1) – the approach applied to exposures which are non-impaired as of the balance sheet date as long as there is no significant increase in credit risk since initial recognition,
b) 'Lifetime ECL' (Stage 2) – the approach applied to exposures which are non-impaired as of the balance sheet date but for which a significant increase in credit risk has occurred since initial recognition,
c) 'Lifetime ECL' (Stage 3) – the approach applied to all exposures that are impaired as of the balance sheet date.

Assets allocated in Stage 1 and 2 for IFRS 9 are currently measured using the 'incurred but not reported approach' (IBNR'). With the transition to IFRS 9, this IBNR approach used for IAS 39 will be replaced respectively for assets allocated in Stage 1 by the 12-month ECL and for assets allocated in Stage 2 by the lifetime ECL. For assets allocated in Stage 3, which are non-performing under IAS 39, no major conceptual differences exist with the ECL approach of IFRS 9, as triggers for impairment recognition and non-performing loan classification used under IAS 39 will continue to be applied.

Considering the differences in concepts described above for assets which are subject to IBNR (according to IAS 39), the ECL approach is expected to increase the credit loss allowances. The Bank expects that implementation of the new standard will require more-complex model-based calculation with greater predictive ability.

The application of a model of the expected loss also requires the use of a much wider range of data compared to the current model. Implementation of the new methodology for the calculation of impairment requires the implementation of appropriate changes in IT systems and processes functioning in the Bank.

The Bank has launched a dedicated program to implement IFRS 9, involving Finance Division, Risk Division, as well as the main Business functions, Organization and Information Communication Technology departments. After a phase of gap analysis and definition of high-level methodological guidelines, the activities are currently in the detailed design phase.

With reference to classification and measurement, the Bank is undertaking a detailed assessment of cash flow characteristics of debt instruments classified at amortized cost under IAS 39, in order to identify assets that, failing the SPPI test, will have to be potentially measured at fair value under IFRS 9. With reference to the ECL approach, the Bank is currently working on assumption to the models, data availability and system and tools design and plans to run detailed impact assessment for IFRS 9 impairment.

Quantitative impacts on financial statements at initial application are to date not available, reflecting the status of the above mentioned activities. The main impacts on the Bank are expected to come from the implementation of the new impairment model, which will result in higher credit loss allowances for loans subject to IBNR assessment. Adjustments to carrying values of financial instruments due to IFRS 9 transition will impact book value of equity as of 1 January 2018.

The accounting principles as described below have been consistently applied for all the reporting periods.

The principles have been applied consistently by all the Group entities.

(in PLN thousand)

5.3 Consolidation

Consolidation principles

The consolidated financial statements of Bank Pekao S.A. Group include the financial data of Bank Pekao S.A. and its subsidiaries as at 31 December 2015. The financial statements of the subsidiaries are prepared at the same reporting date as those of the parent entity, using consistent accounting policies within the Group in all important aspects.

All intra-group balances and transactions, including unrealized gains, have been eliminated. Unrealized losses are also eliminated, unless there is an objective evidence of impairment, which should be recognized in the consolidated financial statements.

Investments in subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. The subsidiaries are consolidated from the date of obtaining control by the Group until the date when the control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The Group measures any non-controlling interests in the acquire at fair value or at the present ownership instruments' proportionate share in the recognized amounts of the acquire's identifiable net assets. Acquisition-related costs are expenses as incurred (in the income statement under 'Administrative expenses').

If the business combination is achieved in stages, the acquirer remeasures its previously held equity interests in the acquiree at fair value at the acquisition date (date of obtaining control) and recognizes the resulting gain or loss in the income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

The above policy does not apply to the business combinations under common control.

The changes in a parent entity's ownership interest in a subsidiary that do not result in the parent entity losing control of the subsidiary are accounted for as equity transactions (i.e. transactions with owners of parent entity). The Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attributes it to the owners of the parent entity.

When the Group ceases to have control over the subsidiary, any retained interest in that subsidiary is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the income statement.

Recognition of business combinations under common control at book value

Business combinations under common control are excluded from the scope of IFRS. As a consequence, following the recommendation included in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', in the absence of any specific guidance within IFRS, Bank Pekao S.A. has adopted the accounting policy consistently applied in all business combinations under common control within the UniCredit Group, of which the Bank is a member, which recognizes those transactions using book value.

The acquirer recognizes the assets and liabilities of the acquired entity at their current book value adjusted exclusively for the purpose of aligning the accounting principles. Neither goodwill, nor badwill is recognized.

Any difference between the book value of the net assets acquired and the fair value of the consideration paid is recognized in the Group's equity. In applying this book value method, the comparative periods are not restated.

If the transaction results in the acquisition of non-controlling interests, the acquisition of any non-controlling interest is accounted for separately.

There is no guidance in IFRS how to determine the percentage of non-controlling interests acquired from the perspective of a subsidiary. Accordingly Bank Pekao S.A. uses the same principles as the ultimate parent for estimating the value of non-controlling interests acquired.

Investments in Associates

An associate is an entity over which the Group has significant influence, and that is neither a subsidiary nor a joint venture. The Group usually holds from 20% to 50% of the voting rights in an associate. The equity method is calculated using the financial statements of the associates. The balance sheet dates of the Group and its associates are the same.

On acquisition of the investment, any difference between the cost of the investment and the Group's share in the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- goodwill relating to an associate is included in the carrying amount of the investment,
- any excess of the Group's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

The Group recognizes the investments in associates applying the equity method. The investment in associates is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share in net assets of the associate after the date of acquisition, net of any impairment allowances. The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Distributions received from an associate reduce the carrying amount of the investment.

If the Group's share in the losses of an associate equals or exceeds the Group's share in the associate, the Group ceases to recognize further losses, unless it assumed obligations or made a payment on behalf of the associate.

Unrealized profits or losses from transactions between the Group and associates are eliminated pro rata to the Group's share in the associates.

5.4 Accounting estimates

Preparation of financial statements in accordance with IFRS requires the Group to make certain estimates and to adopt certain assumptions, which affect the amounts of assets and liabilities presented in the financial statements.

Estimates and assumptions are reviewed on an ongoing basis and rely on historic data and other factors including expectation of the future events which seems justified in given circumstances. Although the estimates are based on the best knowledge of current conditions and activities which the Group will undertake, the actual results may differ from such estimates.

Estimates and underlying assumptions are subject to a regular review. Revisions to accounting estimates are recongised prospectively starting from the period in which the estimates are revised.

Information on the applied estimates and the underlying uncertainity related to significant risk of the material adjustments in the financial statements are presented below.

Impairment of loans and advances to customers

At each balance sheet date the Group assesses whether there is any objective evidence ('trigger') that loan exposures are impaired. Impairment losses are incurred if, and only if at least one impairment trigger is identified and the event implicating the impairment trigger has a negative impact on the estimated future cash flows of the loan exposure. Whilst the identification of loan exposures impairment the Group does not consider future events, irrespective of probability of its occurrence.

In the process of impairment assessment the Group considers all loan exposures, irrespective of the level of risk of particular loan exposures or a group of loan exposures.

The Group splits the loan exposures into individually significant exposures and individually insignificant exposures. The individually significant exposures are in particular all loan exposures of the borrower, for whom total Group's exposure exceeds the threshold value as at balance sheet date and the restructuring loan exposures of debtors being the entrepreneurs within the meaning of the Article 43 of the Civil Code. The individually insignificant exposures are all loan exposures, which are not classified as individually significant exposures.

(in PLN thousand)

For all loans exposures, which are impaired, the Group measures the amount of impairment allowance as the difference between the loan exposure's carrying amount and the present value of estimated future cash flows, discounted at the loan exposure's original effective interest rate.

For all individually significant exposures, which are impaired as at balance sheet date, the Group measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Group's employees and consists of individual verification of the impairment occurrence and projection of future cash flows from foreclosure less costs for obtaining and selling the collateral or other resources. The Group compares the estimated future cash flows applied for measurement of individual impairment allowances with the actual cash flows on a regular basis.

For all individually insignificant exposures, which are impaired as at balance sheet date, the Group measures the impairment allowance (impairment loss) as part of collective assessment. Each exposure assessed collectively is grouped based on similar credit risk characteristics (on the basis of the borrower's type, the product's type, past-due status or other relevant factors impacting on the debtor's ability to pay all amounts due according to the contractual terms). The future cash flows are estimated on the basis of historical data of cash flows and historical loss experience for exposures with credit risk characteristics similar to those in the group. Historical data, when necessary, are adjusted on the basis of current data to remove the effects of conditions in the historical period that do not exist currently. The recovery rates and the methodology and assumptions used for estimating future cash flows for particular groups of loan exposures are reviewed regularly.

For all loan exposures, for which no impairment triggers have been identified, the Group measures the allowance for losses incurred, but not reported ('IBNR').

The following table presents the impact on the net impairment losses on financial assets and off-balance sheet commitments of a change in the estimated recovery rates (RR) and estimated probability of default (PD) by 10 percent.

	NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND OFF-BALANCE SHEET COMMITMENTS	
31.12.2015	10 PERCENT INCREASE	10 PERCENT DECREASE
Recovery rates (RR)	110,990	(112,736)
Probability of default (PD)	(43,102)	43,219

	NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND OFF-BALANCE SHEET COMMITMENTS	
31.12.2014	10 PERCENT INCREASE	10 PERCENT DECREASE
Recovery rates (RR)	109,041	(109,246)
Probability of default (PD)	(52,525)	52,860

Impairment of non-current assets

At each balance sheet date the Group reviews its assets for indications of impairment. Where such indications exist, the Group makes a formal estimation of the recoverable value. If the carrying amount of a given asset is in excess of its recoverable value, impairment is defined and a write-down is recorded to adjust the carrying amount to the level of its recoverable value. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use.

Estimation of the value-in-use of an assets (or cash generating unit) requires assumptions to be made regarding, among other, future cash flows which the Group may obtain from the given asset (or cash generating unit), any changes in amount or timing of occurrence of these cash flows and other factors such as the lack of liquidity. The adoption of different measurement assumptions may affect the carrying amount of some of the Group's non-current assets.

Measurement of derivatives and unquoted debt securities available for sale

The fair value of non-option derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Group also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments. The assumptions used for fair value measurement are described in detail in Note 6.7 'Fair value of financial assets and liabilities'.

Provisions for defined benefit plans

The principal actuarial assumptions applied to estimation of provisions for defined benefit plans, as well as the sensitivity analysis were presented in Note 45.

Goodwill

The Group performs an impairment test of goodwill on a yearly basis or more often if impairment triggers occur. The assessment of goodwill impairment requires an estimate of value in use of all cash-generating units to which the goodwill relates. The principal assumptions applied to an impairment test of goodwill were presented in Note 35.

5.5 Foreign currencies

- Functional and presentation currency
  The financial statements of individual Group entities, including the Bank's Branch in Paris, are presented in their functional currencies, i.e. in the currency of the primary economic environment in which the entity operates. The Consolidated Financial Statements are presented in Polish zloty. Polish zloty is the functional currency and the presentation currency of the Bank. The Group applies as the closing rate the average the National Bank of Poland ('NBP') exchange rate, valid as at the balance sheet date.

- Transactions and balances
  Foreign currency transactions are calculated into the functional currency using the spot exchange rate from the date of the transaction. Gains and losses from foreign currency translation differences resulting from settlements of such transactions and from the statement of financial position valuation of monetary assets and liabilities expressed in foreign currencies are recognized in the income statement.

- Foreign currency translation differences arising from non-monetary items, such as equity instruments classified as financial assets measured at fair value through the profit or loss are recognized together with the changes in the fair value of that item in the income statement.
  Foreign currency translation differences arising from non-monetary items such as equity instruments classified as available for sale financial assets are recognized in the revaluation reserves.

- Companies of the Group
  The consolidation of assets and liabilities of foreign business entities are translated into Polish currency i.e. to the presentation currency as per the closing exchange rate for the balance sheet date. Revenues and expenses are translated at the average exchange rates calculated on the basis of the exchange rates of the reporting period except for situations where exchange rates fluctuate significantly such that the average exchange rate is not an acceptable approximation of the exchange rate from the transaction date. In such situations revenue and expenses are translated on the basis of the exchange rate from the date of the transaction.

  In December 2015 the Bank liquidated the Branch in Paris.

(in PLN thousand)

Financial statements of the Bank's Branch in Paris are translated into Polish zloty using the following exchange rates:

- to translate statement of financial position items as at 31 December 2014, average exchange rates announced by the NBP on 31 December 2014 have been used

	31.12.2015	31.12.2014
PLN for EUR 1	–	4.2623

- for translation of income statement items for the period from 1 January 2015 until 30 November 2015 and for the period from 1 January 2014 until 31 December 2014, arithmetic average values of exchange rates have been used, announced by the NBP as at the last date of each month during the period from 1 January 2015 until 30 November 2015 and during the period from 1 January 2014 until 31 December 2014, respectively, as follows

	2015	2014
PLN for EUR 1	4.1778	4.1893

The foreign exchange rate differences from the valuation of foreign entities are accounted for as a separate component of equity.

Goodwill arising on acquisition of the entity operating abroad as well as any adjustments of the balance sheet value of assets and liabilities to fair value arising on the acquisition of the entity are treated as assets and liabilities of a foreign entity i.e. they are expressed in the functional currency of the overseas entity and translated at the closing exchange rate as described above.

5.6 Income statement

Interest income and expense

The Group recognizes in the income statement all interest income and expense related to financial instruments valued at amortized cost using the effective interest rate method, financial assets available for sale and financial assets at fair value through profit or loss.

The effective interest rate is the discount rate of estimated future cash inflows and payments made during the expected period until the expiry of the financial instruments, and in justified cases in a shorter time, to the net carrying amount of such financial assets or liabilities. The calculation of the effective interest rate includes all commissions paid and received by parties to the agreement, transaction costs and all other premiums and discounts, comprising an integral part of the effective interest rate.

Interest income includes interest and commission fees received or due from credits, interbank deposits and held to maturity securities, recognized in the calculation of effective interest rate, as well as from securities available for sale and measured at fair value through the income statement and hedging derivatives.

At the recognition of impairment of financial instruments measured at amortized cost and of available for sale financial assets, the interest income is accrued based on the carrying amount of the receivable (this is the new, lower value reduced by the impairment charge) using the interest rate used when discounting the future cash flows for impairment calculation.

Interest expense of the reporting period related to interest liabilities associated with client accounts and liabilities from the issue of treasury stock are recognized in the income statement using the effective interest rate.

Fee and commission income and expense

Fee and commission income is generated from financial services provided by the Group. Fee and commission income and expense is recognized in the profit or loss using the following methods:

- fees and commissions directly attributable to financial asset or liability origination (both income and expense) are recognized in the income statement using the effective interest rate method and are described above,
- fees and commissions relating to the loans and advances without a defined repayment schedule and without a defined interest rate schedule e.g. overdraft facilities and credit cards are amortized over the life of the product using the straight line method,

- other fees and commissions arising from the Group's financial services offering (customer account transaction charges, credit card servicing transactions, brokerage activity and canvassing) are recognized in the income statement up-front when the corresponding service is provided.

Income and expense from bancassurance

The Bank splits the remuneration for sale of insurance products linked to loans into separate components, i.e. dividing the remuneration into proportion of fair value of financial instrument and fair value of intermediary service to the sum of those values. The fair values of particular components of the remuneration are determined based on market data to a highest degree.

The particular components of the Bank's remuneration for sale of insurance products linked to loans are recognized in the income statement according to the following principles:

- remuneration from financial instrument – as part of effective interest rate calculation, included in interest income,
- remuneration for intermediary service – upfront at the time when the insurance product in sold, included in fee and commission income.

Additionally the Bank estimates the part of the remuneration which will be refunded in the future (eg. due to early termination of insurance contract, early repayment of loan). The estimate of the provision for future refunds is based on the analysis of historical data and expectations in respect to refunds trend in the future.

In 2015 the Bank recognized upfront 12% of bancassurance revenue associated with cash loans and 30% of bancassurance revenue associated with mortgage loans. The remaining portion of bancassurance revenue is amortized over the life of the associated loans as part of effective interest rate.

Result on financial assets and liabilities held for trading

Result on financial assets and liabilities held for trading include:

- Foreign exchange result
  The foreign exchange gains (losses) are calculated taking into account the positive and negative foreign currency translation differences, whether realized or unrealized from the daily valuation of assets and liabilities denominated in foreign currencies. The revaluation is perform using the average exchange announced by the NBP on the balance sheet date.
  The foreign exchange result includes the trade margins on foreign exchange transactions with the Group's clients, as well as swap points from derivative transactions, entered into by the Group for the purpose of managing the Group's liquidity in foreign currencies.
  Income from foreign exchange positions includes also foreign currency translation differences from valuation of investments in foreign operations arising on disposal thereof. Until the disposal, foreign currency translation differences from valuation of assets in foreign operations are recognized in 'Other capital and reserves'.
- Income from derivatives and securities held for trading
  The income referred to above includes gains and losses realized on a sale or a change in the fair value of assets and liabilities held for trading. The accrued interest and unwinding of a discount or a premium on securities held for trading is presented in the net interest income.

Gains (losses) on financial assets/liabilities at fair value through profit or loss

This includes gains and losses realized on a sale or a change in the fair value of assets and liabilities, designated at fair value through profit or loss.

The accrued interest and unwinding of a discount or a premium on financial assets/ liabilities designated at fair value through profit or loss are recognized in the interest result.

Other operating income/expense

Other operating income includes mainly amounts received for compensation, revenues from operating leases, recovery of debt collection costs, excess payments, miscellaneous income and releases of provision for legal cases. Other operating expenses include mainly the costs of client claims, compensation paid, sundry expenses and costs of provision for litigations.

(in PLN thousand)

5.7 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets

Financial assets are classified into the following categories:

- Financial assets measured at fair value through profit or loss
  This category comprises two sub-categories: financial assets held for trading and financial assets designated at initial recognition as financial assets measured at fair value through profit or loss.
  Financial assets held for trading include: debt and equity securities, loans and receivables purchased or classified into this category for the purpose of disposal thereof on a short-term basis. The classification also includes derivative instruments (not used as hedging instruments).
  Financial assets classified at the moment of original recognition as financial assets measured at fair value through profit or loss include debt securities acquired by the Group for the purpose of elimination or considerable reduction of inconsistencies in the valuation between these securities and the derivatives, which are economically hedging the interest rate risk of such securities. Otherwise, such securities would have been classified into the available for sale portfolio, with the effect of valuation recognized in revaluation reserves, and valuation of derivatives economically hedging such securities reported in the income statement.

- Held to maturity
  These are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which the entity has an intent and ability to hold to maturity, other than:
  a) those that the entity upon initial recognition designates as at fair value through profit or loss,
  b) those that the entity designates as available for sale, and
  c) those that meet the definition of loans and receivables.
  Financial assets classified into this category are measured at amortized cost using the effective interest rate method. The recognition of amortized cost with the use of effective interest rate is recognized in interest income.

- Loans and receivables
  Loans and receivables are non-derivative financial assets, with fixed or determinable payments, not quoted on active markets, other than:
  a) those that the entity intends to sell immediately or in the near term which are classified as held for trading and those that the entity designates as at fair value through profit or loss upon initial recognition,
  b) those that the Group upon initial recognition designates as available for sale, or
  c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.
  This category also contains debt securities, purchased from the issuer, for which there is no active market, as well as credits, loans, receivables from reverse repo transactions and other receivables acquired and granted. Loans and receivables are measured at amortized cost using the effective interest rate method and with consideration of impairment.

- Available for sale
  This includes financial assets with an undefined holding period. The portfolio includes: debt and equity securities, as well as loans and receivables not classified into other categories. Interest on assets available for sale is calculated using the effective interest rate method, and recognized in the income statement.
  Available for sale financial assets are measured at fair value, whereas gains and losses resulting from changes in fair value against amortized cost are recognized in the revaluation reserves. Amounts in the revaluation reserves are recognized in the income statement either on the sale of an asset, or its impairment. In case of impairment of an asset, previous increases from revaluation to fair value will decrease the 'Revaluation reserves'. Should the amount of previously recognized increases be insufficient to cover the impairment, the difference will be recorded in the income statement as 'Net impairment losses on financial assets and off-balance sheet commitments'.

Dividends from equity instruments are recognized in the profit or loss at the moment the rights to receive such payments are established.

Standardized purchase and sale transactions of financial assets designated at fair value through profit or loss, designated as held for trading (except for derivatives), held to maturity, and available for sale, are recognized and derecognized by the Group on the settlement date of such transaction, i.e. as at the date of receipt or delivery of such assets.

Changes in the fair value of assets, which occur during the period from transaction date to transaction settlement date, shall be recognized similarly as in the case of the asset held.

Credits and loans are recognized on the date of cash disbursement to the debtor.

Derivative instruments are recognized or derecognized on transaction dates.

Reclassification of financial assets

The Group may reclassify the financial assets classified as available for sale, which meet the definition of loans and receivables, from the category of available for sale financial assets to the category of loans and receivables, if the Group has the intent and the ability to hold such financial assets in foreseeable future or until their maturity.

If the financial asset with a given maturity is reclassified, prior gains and losses associated with such asset, recognized in other comprehensive income, are amortized in the profit or loss throughout the remaining period until maturity, using the effective interest rate method. Any differences between such new amortized cost and embedded amount is amortized throughout the period remaining until the maturity of such asset using the effective interest rate method, similar to premium or discount amortization.

The Group allows the reclassification of financial assets classified as financial assets measured at fair value through profit or loss, if extraordinary circumstances occur, i.e. events that are unusual and highly unlikely to recur in the near term.

Such financial assets are reclassified at fair value as at reclassification date. The gains or losses recognized in the profit or loss before such reclassification cannot be reversed. The fair value of financial assets, as at reclassification date, is recognized as its new cost or its new amortized cost.

Impairment of financial assets

Assets measured at amortized cost – loans and advances

At each balance sheet date the Group assesses whether there is any objective evidence ('triggers') that loans and advances or financial assets held-to-maturity measured at amortized cost ('loan exposures') are impaired. In the process of impairment assessment the Group considers all loan exposures, irrespective of the level of risk of particular loan exposures or a group of loan exposures.

The Group splits the loan exposures into individually significant exposures and individually insignificant exposures.

In respect to exposures assessed individually the Group applies the following list of impairment triggers:
- overdue in repayment of principal, interest or credit fees more than 90 days and more than 2 working days in case of exposure towards banks including credit transactions and reverse repo/sell-buy-backs,
- significant financial difficulties of borrower (including loss of job or other events that could impact on ability to repayment in case of individuals). Significant financial difficulties of economic entity mean financial standing that could threaten timely repayment of liabilities towards the Group, especially when incurred losses have consumed equity in 50%, excluding projects where losses have been assumed or where external financial support exists (in form of injections to the equity, granting a loan, warranty/guarantee by related company or other third party, conversion of loan into equity, issuance of shares/bonds),
- restructuring, if it is related with granting an advantage, due to economic or legal reasons resulted from financial difficulties of the borrower, that in other circumstances the Group would not give. The advantage leads to reduction of the Group's loan exposure, and may include: reduction of the interest rate, temporary interest accruing holidays, cancelling a part or total of the exposures, in this interest or principal,
- lowering by the well-known and accepted rating agency a borrower's rating or country's rating – country of domicile or rating of debt securities issued by the borrower by at least 4 notches including modifiers within one year. Decrease in credit rating alone is not an evidence of impairment trigger but could be confirmation of impairment if it is analyzed together with other available information,
- significant worsening of rating or scoring analysis results. It means the decrease in rating by 4 notches in the scale and at the same time move to non-performing category based only on rating criterion, excluding situations of rating deterioration resulted from seasonality of activity and excluding impact of classification in RMT ('Risk Management Tool') on rating. Decrease in rating alone is not an evidence of impairment trigger but could be confirmation of impairment if it is analyzed together with other available information,
- the Group has started an execution process or has been informed about execution towards borrower,
- the debt/loan is questioned by the borrower including commencement of legal proceedings,
- the debt/loan has been due as the credit agreement has been terminated,
- the motion for borrower's bankruptcy has been filled in the court or legal proceedings has been instituted,
- disappearance of active market for given credit exposure resulted from financial difficulties of debtor. This impairment trigger could refer to financial instruments listed on stock exchanges, when due to significant deterioration in financial standing of issuer (eventually bankruptcy), the liquidity of assets trading is so low that reliable price fixing is not possible,

- receivership has been established or debtor has stopped/suspended its activity,
- unknown place of stay and not disclosed assets of the borrower.

In respect to exposures assessed collectively the Group applies the following list of impairment triggers:
- overdue in repayment of principal, interest or credit fees greater or equal to 90 days,
- significant financial difficulties of retail debtor, including loss of job or other events that could impact on ability to repayment,
- unknown place of stay and not disclosed assets of the retail debtor or sole trader.

The Group classifies the exposure as past due in case the borrower has failed to make payment on the principal and/or interest in the contractual maturity date. The Group presents the whole amount of exposure as past due, regardless of whether the delay of payment affects the whole exposure, or only part of it (installment). The number of days past due for receivables paid by installments is assumed as the period from the date of maturity of the earliest installment, when the repayment is delayed.

In case of identification of impairment triggers for at least one of loan exposures of the borrower, all loan exposures of such borrower are assessed for impairment.

For all loans exposures, which are impaired, the Group measures the amount of impairment allowance as the difference between the loan exposure's carrying amount and the present value of estimated future cash flows, discounted at the loan exposure's original effective interest rate. The carrying amount of the loan exposure is reduced through use of an allowance account. The amount of the impairment loss is recognized in profit or loss. If, in a subsequent period, the amount of impairment loss decreases, then the previously recognized impairment loss is reversed by adjusting an allowance account. The amount of the reversal is recognized in profit or loss.

For all individually significant exposures, which are impaired as at balance sheet date, the Group measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Group's employees and consists of individual verification of the impairment occurrence and projection of future cash flows from foreclosure less costs for obtaining and selling the collateral or other resources. The Group compares the estimated future cash flows applied for measurement of individual impairment allowances with the actual cash flows on a regular basis.

For all individually insignificant exposures, which are impaired as at balance sheet date, the Group measures the impairment allowance (impairment loss) as part of collective assessment. Each exposure assessed collectively is grouped based on similar credit risk characteristics on the basis of the borrower's type, the product's type, past-due status or other relevant factors impacting on the debtor's ability to pay all amounts due according to the contractual terms. The future cash flows are estimated on the basis of historical data of cash flows and historical loss experience for exposures with credit risk characteristics similar to those in the group (for example, the value of the real estate taken as the collateral for the mortgage). Historical data, when necessary, are adjusted on the basis of current data to remove the effects of conditions in the historical period that do not exist currently. The recovery rates ('RR') and the methodology and assumptions used for estimating future cash flows for particular groups of loan exposures are reviewed regularly.

For all loan exposures, for which no impairment triggers have been identified, the Group measures the allowance for losses incurred, but not reported ('IBNR'). As part of IBNR assessment the Group estimates the loss resulting from events not reported as at balance sheet date and for which no impairment triggers have been identified, but the events occurred prior to balance sheet date and the loss was incurred. While estimating the IBNR, it is assumed that there is a several-months period from the date of emergence of objective impairment trigger to the date of its reporting, i.e. loss identification period ('LIP'). The value of LIP parameter is estimated on the basis of statistical analysis using the historical data. The Group applies different loss identification periods for different groups of loan exposures, taking into account the client's segment, the product's type and the collateral. The update of LIP parameter is carrying out at least once a year.

The IBNR is measured based on the likelihood that the debtor will be unable to meet its obligations during loss identification period ('PD_LIP') multiplied by impairment loss estimated analogously like collective allowance for value of exposure at default ('EAD'). The value of EAD parameter is estimated on the basis of historical data.

The Group estimates the value of PD_LIP parameter using the PD measured by Basel models with relevant transformation taking into account the shortening of loss identification period for applied length of LIP and Point-in-Time adjustment. Within the transformation the Group calibrates the values of PD parameter to the most up to date realized PD_LIP values once a month. The values of PD_LIP as estimated reflect the current economic conditions the best. The model applied to measurement of PD_LIP is of 'Point-In-Time' type.

The values of LIP, PD_LIP, EAD and RR applied for IBNR measurement as well as the methodology and assumptions used for estimating such parameters for particular groups of loan exposures are reviewed regularly.

Financial assets available for sale

When a decline in the fair value of an available for sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity is removed from equity and recognized in the income statement. The amount of the cumulative loss transferred to the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Off-balance sheet commitments

The provisions for off-balance sheet commitments is measured as the difference between the expected value of balance sheet exposure arising from granted off-balance sheet commitment and the present value of estimated future cash flows from that balance sheet exposure at the date of impairment identification. The expected value of balance sheet exposure arising from granted off-balance sheet commitment is measured using the credit conversion factor ('CCF'), estimated on the basis of historical data.

The values of CCF applied for measurement of provisions for off-balance sheet commitments as well as the methodology and assumptions used for estimating such parameters for particular groups of loan exposures are reviewed regularly.

The Group estimates the future cash flows as part of individual assessment or collective assessment depending on classification of particular off-balance sheet commitments as individually significant exposures or individually insignificant exposures.

Repo and reverse-repo agreements

Repo and reverse-repo transactions, as well as sell-buy back and buy-sell back transactions are classified as sales or purchase transactions of securities with the obligation of repurchase or resale at an agreed date and price.

Sales transactions of securities with the repurchase obligation granted (repo and sell-buy back) are recognized as at transaction date in amounts due to other banks or amounts due to customers from deposits depending upon the counterparty to the transaction. Securities purchased in reverse-repo and buy-sell back transactions are recognized as loans and receivables from banks or as loans and receivables from customers, depending upon the counterparty to the transaction.

The difference between the sale and repurchase price is recognized as interest income or expense, and amortized over the contractual life of the contract using the effective interest rate method.

Derivative financial instruments and hedge accounting

The Group acquires the derivative financial instruments: currency transactions (spot, forward, currency swap and currency options, CIRS), exchange rate transactions (FRA, IRS, CAP), derivative transactions based on security prices, indices of stocks and commodities. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently re-measured at fair value at each balance sheet date. The fair value is established on the basis of market quotations for an instrument traded in an active market, as well as on the basis of valuation techniques, including models using discounted cash flows and options valuation models, depending on which valuation method is appropriate.

Positive valuation of derivative financial instruments is presented in the statement of financial position in the line 'Derivative financial instruments (held for trading)' or 'Hedging instruments' on an asset side, whereas the negative valuation – 'Derivative financial instruments (held for trading)' or 'Hedging instruments' on a liabilities side. For financial instruments with an embedded derivative component, if the whole or part of the cash flows related to such a financial instrument changes in a way similar to what would be the case with the embedded derivative instrument on its own, then the embedded derivative instrument is reported separately from the basic contract. This occurs under the following conditions:

- the financial instrument is not included in assets held for trading or in assets designated at fair value through the profit or loss the revaluation results of which are reflected in the financial income or expense of the reporting period,

- the nature of the embedded instrument and the related risks are not closely tied to the nature of the basic contract and to the risks resulting from it,
- a separate instrument characteristics of which correspond to the features of the embedded derivative instrument would meet the definition of the derivative instrument,
- it is possible to reliably establish the fair value of the embedded derivative instrument.

In case of contracts that are not financial instruments with a component of an instrument meeting the above conditions the built-in derivative instrument is classified in accordance with assets or liabilities of derivatives financial instruments with respect to the income statement in accordance with derivative financial instruments valuation principles.

The method of recognition of the changes in the fair value of an instrument depends on whether a derivative instrument is classified as held for trading or is designated as a hedging item under hedge accounting.

The changes in fair value of the derivative financial instruments held for trading are recognized in the income statement.

The Group designates some of its derivative instruments as hedging items in applying hedge accounting. The Group implemented fair value hedge accounting as well as cash flow hedge accounting, under the condition of meeting the criteria of IAS 39 'Financial Instruments: Recognition and Measurement'.

Fair value hedge accounting principles
Changes in the measurement to fair value of financial instruments indicated as hedged positions are recognized – in the part ensuing from hedged risk – in the income statement. In the remaining part, changes in the carrying amount are recognized in accordance with the principles applicable for the given class of financial instruments.

Changes in the fair market valuation of derivative financial instruments, indicated as hedging positions in fair value hedge accounting, are recognized in the profit or loss in the same caption, in which the gains/losses from change in the value of hedged positions are recognized.

Interest income on derivative instruments hedging interest positions hedged is presented as interest margin.

The Group ceases to apply hedge accounting, when the hedging instrument expires, is sold, dissolved or released (the replacement of one hedging instrument with another or extension of validity of given hedging instrument is not considered an expiration or release, providing such replacement or extension of validity is a part of a documented hedging strategy adopted by given unit), or does not meet the criteria of hedge accounting or the Group ceases the hedging relation.

An adjustment for the hedged risk on hedged interest position is amortized in the income statement at the point of ceasing to apply hedge accounting.

Cash flow hedge accounting principles
Changes in the fair value of the derivative financial instruments indicated as cash flow hedging instruments are recognized:
- directly in the caption 'revaluation reserves' in the part constituting the effective hedge,
- in the income statement in the line 'Result on financial assets and liabilities held for trading' in the part representing ineffective hedge.

The amounts accumulated in the 'Revaluation reserves' are transferred to the income statement in the period, in which the hedge is reflected in the income statement and are presented in the same lines as individual components of the hedged position measurement, i.e. the interest income from hedging derivatives in cash flow hedge accounting is recognized in the interest result, whereas gains/losses from foreign exchange revaluation are presented in the foreign exchange gains (losses).

The Group ceases to apply hedge accounting when the hedging instrument expires or is sold, or if the Group revokes the designation. In such cases, the accumulated gains or losses related to such hedging item, initially recognized in 'Revaluation reserves', if the hedge was effective, are still presented in equity until the planned transaction was closed and recognized in the income statement.

If the planned transaction is no longer probable, the cumulative gains or losses recognized in 'Revaluation reserves' are transferred to the income statement for the given period.

Financial liabilities

The Group's financial liabilities are classified to the following categories:

- financial liabilities held for trading, valued at fair value,
- financial liabilities not held for trading, valued at amounts payable, measured at amortized cost using the effective interest rate method.

Financial liabilities not held for trading consist of amounts due to banks and customers, loans from other banks, and own debt securities issued.

De-recognition of financial instruments from the statement of financial position

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the Group transfers the contractual rights to receive the cash flows in a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

The Group derecognizes a credit or a loan receivable, or its part, when it is sold. Additionally, the Group writes-off a receivable against the corresponding impairment provision when the debt redemption process is completed and when no further cash flows from the given receivable are expected. Such cases are documented in compliance with the current tax regulations.

The Group derecognizes a financial liability, or its part, when the liability expires. The liability expires when the obligation stated in the agreement is settled, redeemed or the period for its collection expires.

5.8 Valuation of other items in the Group's consolidated statement of financial position

Intangible assets

Goodwill

Goodwill is defined as a surplus of the purchasing price over the fair value of the assets, liabilities and contingent liabilities of the acquired subsidiary, associate or a unit under joint control. Goodwill at initial recognition is carried at purchase price reduced by any accumulated impairment losses. Impairment is determined by estimating the recoverable value of the cash generating unit, to which given goodwill pertains. If the recoverable value of the cash generating unit is lower than the carrying amount an impairment charge is made. Impairment identified in the course of such tests is not subject to subsequent adjustments.

Goodwill on acquisition of subsidiaries is presented in intangible assets and goodwill on acquisition of associates is presented under the caption 'Investments in associates'.

Other intangible assets

Intangible assets are assets controlled by the Group which do not have a physical form which are identifiable and represent future economic benefits for the Group directly attributable to such assets.

These assets include:

- computer software licenses,
- copyrights,
- costs of completed development works.

Intangible assets are initially carried at purchase price. Subsequently intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with a definite useful life are amortized over their estimated useful life. Intangible assets with indefinite useful life are not amortized.

All intangible assets are reviewed on a periodical basis to verify if any significant impairment triggers occurred, which would require performing a test for impairment and a potential impairment charge.

As far as intangible assets with indefinite useful life and those still not put into service are concerned, impairment test is performed on a yearly basis and additionally when impairment triggers are identified.

(in PLN thousand)

Property, plant and equipment

Property, plant and equipment are defined as controlled non-current assets and assets under construction. Non-current assets include certain tangible assets with an expected useful life longer than one year, which are maintained for the purpose of own use or to be leased to other entities.

Property, plant and equipment are recognized at historical cost less accumulated depreciation and accumulated impairment write downs. Historical cost consists of purchase price or development cost and costs directly related to the purchase of a given asset.

Each component of property, plant and equipment, the purchase price or production cost of which is significant compared to the purchase price or production cost of the entire item is a subject to separate depreciation. The Group separates the initial value of property, plant and equipment into its significant parts.

Subsequent expenditures relating to property plant and equipment are capitalized only when it is probable that such expenditures will result in future economic benefits to the Group, and the cost of such expenses can be reliably measured.

Service and maintenance costs of property, plant and equipment are expensed in the reporting period in which they have been incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

Depreciation and amortization

Depreciation expense for property, plant and equipment and investment properties and the amortization expense for intangible assets are calculated using straight line method over the expected useful life of an asset. Depreciated value is defined as the purchase price or cost to develop a given asset, less residual value of the asset. Depreciation rates and residual values of assets, determined for balance-sheet purposes, are subject to regular reviews, with results of such reviews recognized in the same period.

The statement of financial position depreciation and amortization rates applied to property, plant and equipment, investment properties and intangible assets are as follows:

a) depreciation rates applied for non-current assets

Buildings and structures and cooperative ownership rights to residential premises and cooperative ownership rights to commercial premises	1.5% – 10.0%
Technical equipment and machines	4.5% – 30.0%
Vehicles	7% – 20.0%

b) amortization rates for intangible assets

Software licenses, copyrights	12.5% – 50.0%
Costs of completed development projects	33.3%
Other intangibles	20% – 33.3%

c) depreciation rates for investment properties

Buildings and structures	1.5% – 10.0%

Land, non-current assets under construction and intangible assets under development are not subject to depreciation and amortization.

Depreciation and impairment deductions are charged to the income statement in the item ‘Depreciation and amortization’.

Notes to the financial statements

(in PLN thousand)

Investment properties

Investment properties assets are recognized initially at purchase cost, taking the transaction costs into consideration. Upon initial recognition, investment property assets are measured using the purchasing price model.

Investment property assets are derecognized from the statement of financial position when disposed of, or when such investment property is permanently decommissioned and no future benefits are expected from its sale. Any gains or losses resulting from de-recognition of an investment property are recognized in the income statement in the period when such de-recognition occurred.

Non-current assets held for sale and discontinued operations

Non-current assets held for sale include assets, the carrying amount of which is to be recovered by way of resale and not from their continued use. The only assets classified as held for sale are those available for immediate sale in their present condition, and the sale of which is highly probable, i.e. when the decision has been made to sell a given asset, an active program to identify a buyer has been launched and the divestment plan is completed. Moreover, such assets are offered for sale at a price which approximates its present fair value, and it is expected that the sale will be recognized as completed within one year from the date of such asset is reclassified into this category.

Non-current assets held for sale are recognized at the carrying amount or at fair value reduced by the cost of such assets, whichever is lower. Assets classified in this category are not subject to depreciation.

A discontinued operation is a component of the Group's business which constitutes a separate line of business or a geographical area of operations, which was sold, made available for sale or to be disposed, or is a subsidiary acquired exclusively with a view to re-sale. Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as held for sale, the comparative figures in the income statement are represented as if the operation had been discontinued from the beginning of the comparative period.

Leases

The Group is a party to leasing contracts on the basis of which it grants a right to use a non-current asset or an intangible asset for an agreed period of time in return for payment.

The Group is also a party to leasing contracts under which it receives a right to use a non-asset or an intangible asset for an agreed period of time from another party in return for a payment.

Operating leases

In the case of leasing contracts entered into by the Group acting as lessor, the leased asset is presented in the Group's statement of financial position, since there is no transfer to the lessee of essentially all risks and benefits resulting from the asset.

In the case of lease agreements, entered into by the Group as lessee, the leased asset is not recognized in the Group's statement of financial position.

The entire amount of charges from operating leases is recognized in the profit or loss on a straight line basis, throughout the leasing period.

Finance leases

The Group as lessor

In the lease agreements, where essentially all risks and benefits relating to the ownership of an asset are transferred, the leased asset is no longer recognized in the statement of financial position of the Group. However, receivables are recognized in the amount equal to the present value of the minimum lease payments. Lease payments are split into the financial income and the reduction of receivables balance in order to maintain a fixed interest rate on the outstanding liability.

Lease payments from agreements, which do not meet the conditions of finance lease agreements are recognized as revenues in the income statement using the straight-line method over the life of the lease.

The Group as lessee

For lease agreements in which in principle all risks and benefits relating to ownership of the leased assets are transferred to the Group, the leased asset is recognized as a non-current asset and simultaneously a liability is recognized in the amount equal to the present value of minimum lease payments as at the date of commencement of the lease. Lease payments are split into costs of lease charges and a reduction of liabilities in order to maintain a fixed interest rate on the outstanding liability. Financial costs are recognized directly in the income statement.

Non-current assets subject to finance lease agreements are depreciated in the same way as other non-current assets. However, if it is uncertain whether the ownership of the asset subject of the contract will be transferred then the asset is depreciated over the shorter of the expected useful life or the initial period of lease.

Lease charges from agreements that do not fulfill the criteria for finance lease agreements are recognized as costs in the income statement on a straight line basis over the lease period.

Provisions

The provisions are recognized when the Group has a present obligation (legal or constructive) resulting from the past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, the amount of a provision is established by discounting forecasted future cash flows to the present value, using the discount rate reflecting current market estimates of the time value of money and the possible risk associated with the obligation.

The provisions include the provisions relating to long-term employee benefits, in this those measured by an actuary and provisions for restructuring costs. The provision for restructuring costs is recognized when the general recognition criteria for provisions and detailed criteria for recognition of provisions for restructuring cost under IAS 37 'Provisions, contingent liabilities and contingent assets' are met. The amount of employment restructuring provision is calculated by the Group on the basis of the best available estimates of direct outlays resulting from restructuring activities, which are not connected with the Group's current activities.

The provisions are charged to the income statement, except for actuarial gains and losses from the measurement of the defined benefit plans obligations, which are recognized in other comprehensive income.

Deferred income and accrued expenses (liabilities)

This caption includes primarily commission income settled using the straight line method and other income charged in advance, that will be recognized in the income statement in the future periods.

Accrued expenses include accrued costs resulting from services provided for the Group by counterparties which will be settled in future periods, accrued payroll and other employee benefits (including annual and Christmas bonuses, other bonuses and awards and accrued holiday pay).

Deferred income and accrued expenses are presented in the statement of financial position under the caption 'Other liabilities'.

Government grants

The Group recognizes government grants when there is reasonable assurance that it will comply with any conditions attached to the grant and the grant will be received. Government grants are recognized in profit or loss in the periods in which the related expenses are recognized which the grants are intended to compensate. For the settlement of the grant, the Group uses the income method. Government grants related to assets are presented in the statement of financial position of the Group as a reduction in the carrying value of the asset.

Equity of the Group

Equity is comprised of the capital and funds created by the companies of the Group in accordance with the binding legal regulations and the appropriate laws and Articles of Association. Equity also includes retained earnings. Subsidiaries' equity line items, other that share capital, are added to the relevant equity line items of the parent company, in the proportion of the Group's interest.

The equity of the Group includes only those parts of the subsidiaries' equity which were created after the date of purchase of shares or stocks by the parent entity.

The Group equity consists of the following:

a) share capital – applies only to the capital of the Bank as the parent entity and is presented at nominal value specified in the Articles of Association and in the entry in the Enterprises Registry,
b) 'issue premium' – surplus generated during share issues over the nominal value of such issues, remaining after the issue costs are covered. Moreover, this item also includes a change in the value of minority shares, ensuing from an increase of the share of the Parent entity in Bank's share capital. This accounting principle is in accordance with the accounting principles applied by UniCredit Group,
c) the general banking risk fund is established at Bank Pekao S.A. in keeping with the Banking Act dated 29 August 1997 from profit after tax,
d) other reserve capital utilized for the purposes defined in the Statute is created from appropriations of profits,

e) revaluation reserve includes the impact of valuation of financial instruments available for sale, effects of valuation of derivative instruments hedging cash flows, remeasurements of the defined benefit liabilities and the value of deferred tax for items classified as temporary differences, recognized as valuation allowance. In the statement of financial position, the valuation allowance is presented as net value,
f) exchange rate differences include differences arising from valuation of net assets in foreign entities and from the recalculation of the result of a foreign branch at the weighted average exchange rate at the balance sheet date in relation to the average NBP exchange rate,
g) other capital:
  - other supplementary capital, established in keeping with provisions under the Articles of Association of companies from profit appropriations,
  - capital components:
    - bonds convertible to shares – includes the fair value of financial instruments issued as part of transactions settled in equity instruments,
    - provision for purchase of parent entity stocks,
  - brokerage activity fund for stock broking operations, carried out by Bank Pekao S.A.,
  - retained earnings from prior periods includes undistributed profit and uncovered losses generated/incurred in prior periods by subsidiaries consolidated full method,
  - net profit/loss which constitutes profit/loss presented in the income statement for the relevant period. Net profit is after accounting for income tax.

Non – controlling interests
Non – controlling interests are defined as the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

Share-based payments
Employee participation programs are established by the Group under which key management staff is granted pre-emptive rights to buy shares of the Bank, including phantom shares, and shares of UniCredit S.p.A. (Note 46).

Bank's Pekao S.A. phantom shares-settled share-based payment transaction
The cost of transactions settled with employees in phantom shares is measured by reference to the fair value of the liability as of the balance sheet date.

The fair value of the liability is estimated based upon the Bank's shares price on the (WSE) as of the balance sheet date and expected number of phantom shares to which full rights will be acquired.

The cost of phantom share-based payments is recognized in personnel expenses together with the accompanying increase in the value of liabilities towards employees presented in 'Provisions'.

The accumulated cost recognized for transactions settled in phantom shares for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares the rights to which – in the opinion of the Bank's Management Board for that date based on best available estimates of the number of phantom shares – will be eventually vested.

Stock options and stock of the UniCredit S.p.A.
The Group entities joined the UniCredit-wide long term incentive program. The aim of the program is to offer to selected key Group's employees share options and shares of UniCredit S.p.A.

The fair value of the instruments granted to the Group employees was established following the UCI Group-wide applied Hull and White model.

The expenses related to the rights granted are recognized in 'Personnel expenses' and respective increase is recognized as liabilities presented in 'Other liabilities'.

The Group is obliged to pay to UniCredit S.p.A. the fair value of the instruments vested at the time the instruments are exercised.

5.9 Income tax

Income tax expense comprises current and deferred tax. The income tax expense is recognized in the income statement excluding the situations when it is recognized directly in equity. The current tax is the tax payable of the Group entities on their taxable income for the period, calculated based on binding tax rates, and any adjustment to tax payable in respect of previous years. The receivables resulting from taxes are disclosed if the Group's companies has sufficient certainty that they exist and that they will be recovered.

Deferred income tax assets and liabilities are calculated, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax asset or the deferred tax liability is settled.

A deferred tax asset is recognized for negative temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

A deferred tax liability is calculated using the balance sheet method based on identification of positive temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

5.10 Other

Contingent liabilities and commitments

The Group enters into transactions which are not recognized in the statement of financial position as assets or liabilities, but which result in contingent liabilities and commitments. Contingent liabilities are characterized as:

- a potential obligation the existence of which will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond the control of the Group (e.g. litigations),
- a current obligation which arises as a result of past events but is not recognized in the statement of financial position as it is improbable that it will result in an outflow of benefits to settle the obligation or the amount of the obligation cannot be reliably measured (mainly: unused credit lines and guarantees and letters of credit issued).

The issuer of the financial guarantee contract recognizes it at the higher of:

- the amount determined in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets',or
- the amount initially recognized less, when appropriate, cumulative amortization charges recognized in accordance with IAS 18 'Revenue'.

Cash and cash equivalents

Cash and cash equivalents in the consolidated cash flow statement include 'Cash and due from Central Bank' and loans and receivables from banks with maturities up to three months.

(in PLN thousand)

5.11 New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective on or after 1 January 2015

STANDARD /INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IAS 19 (amendment) 'Employee benefits'	The amendment applies to contributions from employees or third parties to defined benefit plans. The aim of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of remuneration. The amendment is effective since 1 February 2015.	The Group claims that the standard's amendment did not have a material impact on its financial statements in the period of its first application.
IFRIC 21 'Levies'	IFRIC 21 is an interpretation of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The interpretation clarifies what is an event giving rise to the obligation to pay a levy.	The impact of the initial application of the Interpretation will depend on the specific levies imposed, applicable at the date of initial application. The Group claims that the standard's amendment did not have a material impact on its financial statements in the period of its first application.
Improvements to IFRS 2010-2012	The annual improvements to IFRS 2010-2012 principally aim to solve inconsistencies and specify vocabulary. The improvements are effective since 1 February 2015.	The Group claims that the improvements did not have a material impact on its financial statements in the period of its first application.
Improvements to IFRS 2011-2013	The annual improvements to IFRS 2011-2013 principally aim to solve inconsistencies and specify vocabulary.	The Group claims that the improvements did not have a material impact on its financial statements in the period of its first application.

(in PLN thousand)

5.12 New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and not yet approved by the European Union

STANDARD /INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 11 (amendment) 'Joint Arrangements'	The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendment will not have a material impact on its financial statements in the period of its first application.
IAS 1 'Presentation of the financial statements'	The amendments clarify that among others an entity should not reduce understandability by aggregating or disaggregating information in a manner that obscures useful information. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will have an impact on the presentation of the disclosures.
IAS 16 (amendment) 'Property, Plant and Equipment' **and IAS 38 (amendment)** 'Intangible Assets'	The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standards amendments will not have a material impact on its financial statements in the period of its first application.
IAS 16 (amendment) 'Property, Plant and Equipment' **and IAS 41 (amendment)** 'Agriculture'	IAS 41 'Agriculture' currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 'Property, Plant and Equipment', because their operation is similar to that of manufacturing. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 27 (amendment) 'Separate Financial Statements'	The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
Improvements to IFRS 2012-2014	The annual improvements to IFRS 2012-2014 principally aim to solve inconsistencies and specify vocabulary. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the improvements will not have a material impact on its financial statements in the period of its first application.

(in PLN thousand)

5.13 New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and not yet approved by the European Union

STANDARD /INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 'Financial Instruments'	New regulations constitute a part of changes designed to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes, introduced by the new standard, are as follows: • new categorisation of financial assets, • new criteria of assets classification to the group of financial assets measured at amortized cost, • new impairment model – expected credit losses model, • new principles for recognition of changes in fair value measurement of capital investment in financial instruments, • elimination of the necessity to separate embedded derivatives from financial assets. The major part of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged. Date of application: the first financial year beginning after 1 January 2018.	The impact assessment of the new standard implementation on Group's financial statements is described in note 5.2 Basis of preparation of Consolidated Financial Statements.
IFRS 14 'Regulatory deferral accounts'	The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.
IFRS 15 'Revenue from Contracts with Customers'	The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer. Date of application: the first financial year beginning after 1 January 2018.	The Group is currently assessing the impact of the IFRS 15 application on its financial statements.
IFRS 16 'Leases'	Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. Date of application: annual periods beginning on or after 1 January 2019	The Group is currently assessing the impact of the IFRS 15 application on its financial statements.

(in PLN thousand)

STANDARD /INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 10 (amendment) 'Consolidated Financial Statements' **and IAS 28 (amendment)** 'Investments in Associates and Joint Ventures'	The amendments concern the sale or contribution of assets between the investor and the associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
Amendments to IFRS 10 'Consolidated Financial Statements', **IFRS 12** 'Disclosure of interests in other entities' and **IAS 28** 'Investments in Associates and Joint Ventures'	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 12 (amendment) 'Income Taxes'	The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Date of application: annual periods beginning on or after 1 January 2017.	The Group is currently analyzing the impact of those changes on the financial statements.
IAS 7 (amendment) 'Statement of Cash Flows' – Disclosure Initiative	The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Date of application: annual periods beginning on or after 1 January 2017.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.

6. Risk management

The risk management policy of the Group has a goal of optimizing the structure of the statement of financial position and off-balance sheet positions under the consideration of all risks in relation to income and other risk that the Group encounters in conducting its daily activity. Risks are monitored and controlled with reference to profitability and equity coverage and are regularly reported in accordance with rules briefly presented below.

All important risk types, occurring in the course of the Group's operations are described as follows.

6.1 Organizational structure of risk management

Supervisory Board

The Supervisory Board provides supervision over the risk management control system, assessing the adequacy and effectiveness. Moreover, the Supervisory Board also provides supervision of the compliance with Group policy with respect to risk management as it relates to the Group's strategy and financial planning.

Management Board

The Management Board is responsible for the development, implementation and functioning of risk management processes by, among others, introduction of relevant, internal regulations, also taking into consideration the results of internal audit inspections.

The Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital computation process and the effectiveness of the review of the process of computing and monitoring of internal capital. Moreover, the Management Board also introduces the essential adjustments or improvements to those processes and systems whenever necessary. This need may be a consequence of changing risk levels of the Group's operations, business environment factors or other irregularities in the functioning of processes or systems.

Periodically, the Management Board submits to the Supervisory Board concise information on the types, scale and significance of risks the Group is exposed to, as well as on methods used in the management of such risks.

The Management Board is responsible for assessing, whether activities such as identification, measurement, monitoring, reporting and control or mitigation are being carried out appropriately within the scope of the risk management process. Moreover, the Management Board examines whether the management at all levels is effectively managing the risks within the scope of their competence.

Committees

In performing these tasks, in terms of risk management, the Management Board is supported by committees:
- Assets, Liabilities and Risk Management Committee (ALCO) – in terms of market risk management, liquidity and capital adequacy,
- Liquidity and Market Risk Committee (LMRC) – in terms of liquidity and market risk management, acting as support for Assets, Liabilities and Risk Management Committee,
- Operational Risk Committee – in operational risk management,
- Credit Committee – in making credit decisions within the powers and in the case of the largest transactions in preparing recommendations for the Board of Directors,
- Change Management Committee – in the implementation of new or modification of existing products and processes in business and outside business,
- Safety Committee – in the field of security and business continuity management.

6.2 Credit risk

Credit risk is one of the basic risks associated with activities of the Group. The percentage share of credits and loans in the Group's statement of financial position makes the maintenance of this risk at safe level essential to the Group's performance. The process of credit risk management is centralized and managed mainly by Risk Management Division units, situated at the Bank Head Office or in local units. The integration of various risks in the Risk Management Division, where apart from credit risk, market and operational risk are dealt with, facilitates effective management of all credit-related risks. This process covers all credit functions – credit analysis, making credit decisions, monitoring and loan administration, as well as restructuring and collection. These functions are conducted in compliance with the Bank's credit policy, adopted by the Bank's Management Board and the Bank's Supervisory Board for a given year and its related guidelines. The effectiveness and efficiency of credit functions are achieved using diverse credit methods and methodologies, supported by advanced IT tools, integrated into the Bank's general IT system. The Bank's procedures facilitate credit risk mitigation. In particular those related to transaction risk evaluation, establishing collateral, setting authorization limits for granting loans and limiting of exposure to some areas of business activity in line with current client's segmentation scheme in the Bank.

The Bank's lending activity is limited by the restrictions of the Banking Act as well as internal limits in order to increase safety. These restrictions refer in particular to concentration limits for specific sectors of the economy, share of large exposures in the loan portfolio of the Bank and exposure limits for particular foreign countries, foreign banks and domestic financial institutions. Credit granting limits, concentration limits for specific business activities as well as internal and external prudential standards include not only credits, loans and guarantees, but also derivatives transactions and debt securities.

The Bank established the following portfolio limits:
- share of large exposures in the loan portfolio of the Bank – approved by the Management Board and the Supervisory Board of the Bank,
- customer segment limits – established in the Bank's credit policy,
- product limits (mortgage loans given to private individuals, financing commercial real estate) – established in the Bank's credit policy,
- concentration limits for specific sectors of the economy – approved by the Credit Committee of the Bank.

Since key limits are determined by decision-making bodies which simultaneously receive and analyze reports on credit risk (presenting also the Basel parameters of credit risk), limit-related decisions take into consideration the credit risk assessments supported by internal rating systems. Moreover, the Bank limits higher risk credit transactions, marked by excess risk by restricting the decision-making powers in such cases to higher-level decision-making bodies.

The management of the Bank's credit portfolio quality is further supported by regular reviews and continuous monitoring of timely loan repayments and the financial condition of the borrowers.

Rating models utilized in the credit risk management process

For credit risk management purposes, the Bank uses the internal rating models depending on the client's segment and/or exposure type.

The rating process is a significant element of credit risk assessment in relation to clients and transactions, and constitutes a preliminary stage of the credit decision-making process of granting a new credit or changing the terms and conditions of an existing credit and of the credit portfolio quality monitoring process.

In the credit risk measurement the following three parameters are used: PD, LGD and EAD. PD is the probability of a Client's failure to meet its obligations and hence the violation of contract terms and conditions by the borrower within one year horizon, such default may be subject-matter or product-related. LGD indicates the estimated value of the loss to be incurred for any credit transaction from the date of occurrence of such default. EAD reflects the estimated value of credit exposure as at such date.

The risk parameters used in the rating models are designed for calculation of the expected losses resulted from credit risk.

The value of expected loss is one of the significant assessment criteria taken into consideration by the decision-making bodies in the course of the crediting process. In particular, this value is compared to the requested margin level.

The level of minimum margins for given products or client segments is determined based upon risk analysis, taking into consideration the value of risk parameters assessed and comprising an element of internal rating systems.

The client and transaction rating, as well as other credit risk parameters hold a significant role in the Credit Risk Management Information System. For each rating model, the credit risk reports provide information on the comparison between the realized parameters and the theoretical values for each rating class.

Credit risk reports are generated on a monthly basis, with their scope varying depending upon the recipient of the report (the higher the management level, the more aggregated the information presented). Hence, the reports are being effectively used in the credit risk management process.

For internal purposes, within the Bank the following rating models are used, developed in accordance with provisions of Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms:

1. For the private individuals, the Bank uses two separate models applicable for:
   - mortgage loans,
   - consumer loans.
2. For the corporate clients, the Bank uses rating models dividing clients for:

- clients with income not exceeding EUR 500 million,
- corporate clients assessed by central model with income exceeding EUR 500 million,
- specialized lending.

The following exposure types are not covered by internal rating models:

1. retail exposures immaterial in terms of size and perceived risk profile:
   - Eurokonto limits,
   - overdrafts,
   - forced debits,
   - exposures related to credit cards,
   - exposures related to the Building Society (Kasa Mieszkaniowa) unit,
   - other loans.
2. corporate clients immaterial in terms of size and perceived risk profile:
   - exposures to stock exchanges and other financial intermediators,
   - exposures to insurance companies,
   - project financing,
   - purchased receivables,

(in PLN thousand)

- exposures to investment funds,
- exposures to leasing companies and financial holding companies,
- other loans.

3. exposures to regional governments and local authorities which are not treated as exposures to central governments, for which the number of significant counterparties is limited.

Rating scale

The rating scale is determined by the client segment and the exposure type.

The proceeds of assigning a client or an exposure to a given rating class depends on its probability of default (PD parameter).

The tables below present the loan portfolio quality for exposures encompassed by internal rating models.

The distribution of rated portfolio for individual client segment (excluding impaired loans) – mortgage loans

RATING CLASS	RANGE OF PD	31.12.2015		31.12.2014	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.06%	10,532,502	25.9%	9,204,532	25.3%
2	0.06% <= PD < 0.19%	5,936,116	14.6%	5,157,908	14.2%
3	0.19% <= PD < 0.35%	16,303,771	40.1%	14,388,070	39.6%
4	0.35% <= PD < 0.73%	5,213,593	12.8%	4,689,007	12.9%
5	0.73% <= PD < 3.50%	1,393,240	3.4%	1,768,054	4.8%
6	3.50% <= PD < 14.00%	651,234	1.6%	536,705	1.5%
7	14.00% <= PD < 100.00%	652,160	1.6%	614,263	1.7%
Total		**40,682,616**	**100.0%**	**36,358,539**	**100.0%**

The distribution of rated portfolio for individual client segment (excluding impaired loans) – consumer loans

RATING CLASS	RANGE OF PD	31.12.2015		31.12.2014	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.34%	573,469	7.4%	586,362	8.1%
2	0.34% <= PD < 0.80%	805,937	10.3%	785,442	10.8%
3	0.80% <= PD < 1.34%	1,390,763	17.8%	1,380,223	19.0%
4	1.34% <= PD < 2.40%	2,393,959	30.6%	2,071,926	28.6%
5	2.40% <= PD < 4.75%	1,594,636	20.4%	1,388,335	19.1%
6	4.75% <= PD < 14.50%	673,978	8.6%	620,601	8.6%
7	14.50% <= PD < 31.00%	187,224	2.4%	216,987	3.0%
8	31.00% <= PD < 100.00%	194,052	2.5%	205,325	2.8%
Total		**7,814,018**	**100.0%**	**7,255,201**	**100.0%**

(in PLN thousand)

The distribution of rated portfolio for corporate client segment (excluding impaired loans) – clients with income not exceeding EUR 500 million

RATING CLASS	RANGE OF PD	31.12.2015 CARRYING AMOUNT	31.12.2015 %PORTFOLIO	31.12.2014 CARRYING AMOUNT	31.12.2014 %PORTFOLIO
1	0.00% <= PD < 0.15%	357,910	2.4%	574,961	4.0%
2	0.15% <= PD < 0.27%	1,887,596	12.5%	1,755,225	12.1%
3	0.27% <= PD < 0.45%	2,348,388	15.6%	2,410,148	16.7%
4	0.45% <= PD < 0.75%	2,304,203	15.3%	2,341,503	16.2%
5	0.75% <= PD < 1.27%	3,136,094	20.8%	1,689,707	11.7%
6	1.27% <= PD < 2.25%	1,935,237	12.8%	1,982,327	13.7%
7	2.25% <= PD < 4.00%	1,043,523	6.9%	782,207	5.4%
8	4.00% <= PD < 8.50%	1,898,162	12.6%	2,720,855	18.8%
9	8.50% <= PD < 100.00%	165,709	1.1%	195,881	1.4%
Total		**15,076,822**	**100.0%**	**14,452,814**	**100.0%**

The distribution of rated portfolio for corporate client segment (excluding impaired loans) – clients assessed by central model with income exceeding EUR 500 million

RATING CLASS	RANGE OF PD	31.12.2015 CARRYING AMOUNT	31.12.2015 %PORTFOLIO	31.12.2014 CARRYING AMOUNT	31.12.2014 %PORTFOLIO
1	0.0000% <= PD < 0.0011%	–	0.0%	–	0.0%
2	0.0011% <= PD < 0.0031%	–	0.0%	–	0.0%
3	0.0031% <= PD < 0.0069%	–	0.0%	–	0.0%
4	0.0069% <= PD < 0.0124%	–	0.0%	–	0.0%
5	0.0124% <= PD < 0.0223%	–	0.0%	–	0.0%
6	0.0223% <= PD < 0.0395%	–	0.0%	–	0.0%
7	0.0395% <= PD < 0.0691%	1,243,315	24.2%	706,957	14.9%
8	0.0691% <= PD < 0.1208%	645,108	12.6%	784,727	16.6%
9	0.1208% <= PD < 0.2091%	629,490	12.3%	377,371	8.0%
10	0.2091% <= PD < 0.3581%	375,435	7.3%	563,945	11.9%
11	0.3581% <= PD < 0.6132%	81,377	1.6%	210,375	4.5%
12	0.6132% <= PD < 1.0807%	93,303	1.8%	861,246	18.2%
13	1.0807% <= PD < 1.9599%	–	0.0%	–	0.0%
14	1.9599% <= PD < 3.5545%	2,063,695	40.2%	–	0.0%
15	3.5545% <= PD < 7.6705%	–	0.0%	1,222,552	25.9%
16	7.6705% <= PD < 19.6959%	16	0.0%	–	0.0%
17	19.6959% <= PD < 100.0000%	–	0.0%	–	0.0%
Total		**5,131,739**	**100.0%**	**4,727,173**	**100.0%**

For specialized lending, the Bank adopts slotting criteria approach within internal rating method which uses supervisory categories in the process of assigning risk weigh category.

Distribution of the portfolio exposure to specialized lending (excluding impaired loans)

SUPERVISORY CATHEGORY	31.12.2015 CARRYING AMOUNT	31.12.2015 %PORTFOLIO	31.12.2014 CARRYING AMOUNT	31.12.2014 %PORTFOLIO
High	1,647,122	25.0%	878,848	16.7%
Good	4,185,156	63.4%	2,993,883	57.1%
Satisfactory	720,513	10.9%	1,356,873	25.9%
Low	43,078	0.7%	17,093	0.3%
Total	**6,595,869**	**100.0%**	**5,246,697**	**100.0%**

(in PLN thousand)

Division of loans and advances to customers for covered and not covered by internal rating models

	31.12.2015	31.12.2014
Loans with no impairment:	**119,349,516**	**112,009,183**
Loans to individuals:	**51,611,229**	**46,602,904**
Covered by internal rating model:	48,496,634	43,613,740
Mortgage loans	40,682,616	36,358,539
Consumer loans	7,814,018	7,255,201
Other, not covered by internal rating model	3,114,595	2,989,164
Loans to corporates:	**67,738,287**	**65,406,279**
Covered by internal rating model:	20,208,561	19,179,987
Clients with income not exceeding EUR 500 million	15,076,822	14,452,814
Clients assessed by central model with income exceeding EUR 500 million	5,131,739	4,727,173
Specialized lending exposures	6,595,869	5,246,697
Debt securities, not covered by internal rating model	12,330,221	10,402,996
Repo transactions, not covered by internal rating model	4,755,472	5,789,064
Other, not covered by internal rating model	23,848,164	24,787,535
Impaired loans	**2,705,410**	**2,968,958**
Total loans and advances to customers (*)	**122,054,926**	**114,978,141**

(*) Loans and advances to customers include receivables from financial leases and bills of exchange eligible for rediscounting at Central Bank.

Client/transaction rating and credit risk decision-making level

Decision-making level connected with transaction approval is directly dependent upon the client's rating.

Decision-making entitlement limits are associated with the position held, determined in accordance with the Bank's organizational structure. The limits are determined taking the following matters into consideration:

- the Bank's total exposure to a client, including the amount of the requested transaction,
- type of a client,
- commitments of persons and entities associated with the client.

Validation of rating models

The internal validation of models and risk parameter assessments is focused on the quality assessment of risk models and the accuracy and stability of parameter assessments, applied by the Bank. The validation covers risk models and parameters assessed locally, whereas the validation of central models is carried out within UniCredit Group. Validation is carried out at the level of each risk model, although the Bank may apply several models for each class of exposures.

Moreover, the internal audit unit is obligated to review the Bank's rating systems and their functionality at least once a year. In particular, the internal audit unit reviews the scope of operations of credit division and estimations of risk parameters. It also verifies compliance of rating systems and their functionality with all requirements of advanced methods.

(in PLN thousand)

Group's exposure to credit risk

The maximum credit risk exposure

The table below presents the maximum credit risk exposure for statement of financial position and off-balance sheet positions as at the reporting date

	31.12.2015	31.12.2014
Due from Central Bank	4,930,181	5,826,907
Loans and advances from banks and from customers (*)	125,869,993	119,041,985
Receivables from finance leases	3,503,979	3,112,048
Financial assets held for trading	1,126,792	448,453
Derivative financial instruments (held for trading)	3,206,447	4,447,975
Hedging instruments	421,640	470,822
Investment securities	21,181,723	24,712,776
Other assets (**)	2,300,995	2,917,662
Balance sheet exposure (***)	**162,541,750**	**160,978,628**
Obligations to grant loans	30,825,051	27,281,560
Other contingent liabilities	15,130,027	14,338,636
Off-balance sheet exposure	**45,955,078**	**41,620,196**
Total	**208,496,828**	**202,598,824**

(*) Loans and advances to customers include bills of exchange eligible for rediscounting at Central Bank.
(**) Includes the following items of the statement of financial position: 'Investments in associates' and part of 'Other assets' (Accrued income, Interbank and interbranch settlements, Other debtors and Card settlements).
(***) Balance sheet exposure is equal to the carrying amount presented in the statement of financial position.

Notes to the financial statements

(in PLN thousand)

Credit risk mitigation methods

Bank Pekao S.A. Group has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations, which are based on supervision rules, specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

The most frequently used types of collateral for credits and loans, accepted in compliance with the relevant policy of Pekao Group, are as follows

COLLATERAL	COLLATERAL VALUATION PRINCIPLES
MORTGAGES	
– commercial	Collateral value is defined as the fair market value endorsed by a real estate expert. Other evidenced sources of valuation are acceptable, e.g. binding purchase offer, value dependent on the stage of tendering procedure, etc.
– residential	
REGISTERED PLEDGE/ ASSIGNMENT	
– inventories	The value is defined basing on well evidenced sources e.g. amount derived from pledge agreement, amount disclosed in last financial statement, insurance policy, stock exchange quotations, the value disclosed through foreclosure procedure supported with evidence e.g. prepared by bailiff/receiver.
– machines and appliances	The value is defined as expert appraisal or present value determined based on other, sound sources, such as current purchase offer, register of debtor's non-current assets, value evidenced by bailiff or court receiver, etc.
– vehicles	The value is defined based on available tables (e.g. from insurance companies) proving the car value depending on its producer, age, initial price, or other reliable sources e.g. value stated in the insurance policy.
– other	The value is defined upon individually. The valuation should result from reliable sources.
– securities and cash	The value is defined upon individually estimated fair market value. Recovery rate shall be assessed prudently reflecting the securities price volatility.
TRANSFER OF RECEIVABLES	
– from clients with investment rating assigned by independent rating agency or by internal rating system of the Bank	The value is defined upon individually assessed claims' amount.
– from other counterparties	The value is defined upon individually assessed claim's amount.
GUARANTIES/SURETIES (INCL. RAFTS) / ACCESSION TO DEBT	
– from banks and the State Treasury	Up to the guaranteed amount.
– from other counterparties enjoying good financial standing, particularly when confirmed by investment rating, assigned by an independent rating agency or by the internal rating system of the Bank	The value is defined upon individually assessed claim's amount.
– from other counterparties	Individually assessed fair market value.

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 1 465 933 thousand as at the 31 December 2015 (1 585 989 thousand as of the 31 December 2014). The level of required impairment allowances for the portfolio would increase by this amount, if the discounted cash flows from collateral were not taken into account during estimation.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting agreements or similar agreements, irrespective of whether they are offset in the statement of financial position.

The netting agreements concluded by the Group are:
- ISDA agreements and similar master netting agreements on derivatives,
- GMRA agreements on repo and reverse-repo transactions.

The netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the one of the counterparty. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(in PLN thousand)

The Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:
- derivatives,
- repo and reverse-repo transactions.

Such collateral is subject to standard industry terms. The collateral in the form of cash stems from an ISDA Credit Support Annex (CSA).

The securities received/given as collateral on repo and reverse-repo transaction can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

Financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements and which may be potentially offset in the statement of financial position.

31.12.2015	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING: FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	AMOUNT OF POTENTIAL OFFSETTING: CASH COLLATERAL RECEIVED	NET AMOUNT
FINANCIAL ASSETS				
Derivatives	3,628,087	(3,012,327)	(295,762)	319,998
TOTAL	**3,628,087**	**(3,012,327)**	**(295,762)**	**319,998**

31.12.2015	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING: FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	AMOUNT OF POTENTIAL OFFSETTING: CASH COLLATERAL RECEIVED	NET AMOUNT
FINANCIAL LIABILITIES				
Derivatives	4,907,087	(3,012,327)	(1,339,417)	555,343
Repo transactions	963,829	(962,346)	–	1,483
TOTAL	**5,870,916**	**(3,974,673)**	**(1,339,417)**	**556,826**

31.12.2014	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING: FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	AMOUNT OF POTENTIAL OFFSETTING: CASH COLLATERAL RECEIVED	NET AMOUNT
FINANCIAL ASSETS				
Derivatives	4,918,797	(3,860,033)	(239,865)	818,899
Reverse-repo transactions	531,315	(530,528)	(385)	402
TOTAL	**5,450,112**	**(4,390,561)**	**(240,250)**	**819,301**

31.12.2014	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING: FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	AMOUNT OF POTENTIAL OFFSETTING: CASH COLLATERAL RECEIVED	NET AMOUNT
FINANCIAL LIABILITIES				
Derivatives	5,902,134	(3,860,033)	(1,140,883)	901,218
Repo transactions	2,391	(2,391)	–	–
TOTAL	**5,904,525**	**(3,862,424)**	**(1,140,883)**	**901,218**

Notes to the financial statements

(in PLN thousand)

The carrying amount of financial assets and financial liabilities disclosed in the above tables have been measured in the statement of financial position on the following bases:

- derivatives – fair value,
- assets and liabilities resulting from repo and reverse-repo transactions – amortized cost.

Reconciliation of the carrying amount of financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements to the amounts presented in the statement of financial position

31.12.2015	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	3,134,367	Derivative financial instruments (held for trading)	3,206,447	72,080	27
	421,640	Hedging instruments	421,640	–	30
FINANCIAL LIABILITIES					
Derivatives	3,106,943	Derivative financial instruments (held for trading)	3,204,328	97,385	27
	1,702,759	Hedging instruments	1,702,759	–	30
Repo transactions	963,829	Amounts due to other banks	5,958,449	4,994,620	40

31.12.2014	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	4,274,548	Derivative financial instruments (held for trading)	4,447,975	173,427	27
	470,822	Hedging instruments	470,822	–	30
Reverse-repo transactions	531,315	Loans and advances to banks	7,169,872	6,638,557	25
FINANCIAL LIABILITIES					
Derivatives	4,323,991	Derivative financial instruments (held for trading)	4,417,706	93,715	27
	1,484,428	Hedging instruments	1,484,428	–	30
Repo transactions	2,391	Amounts due to other banks	5,344,702	5,342,311	40

Overall characteristics of monitoring process

The monitoring process is oriented at the identification of symptoms and threats, affecting the client, undertaking actions preventing the deterioration of credit portfolio quality for the purpose of maximizing the probability of recovery of assets made available to the client.

In particular, the monitoring of credit risk includes the control of timely debt service, analysis of client's financial standing, verification of meeting the terms of credit agreement and reviewing the collaterals.

Loans for large corporate clients are monitored using the rating system and data from both internal and external sources of information. In case of small and medium-size clients, the monitoring process is carried out using an internal tool, embedded into the statistical behavioral model. Process efficiency is further enhanced by regular reviews of the credit portfolio, carried out by representatives of the Risk Management Division and other Business Divisions for the purpose of determining the actual quality of individual exposures and of the entire credit portfolio.

The monitoring of individual clients is carried by IT systems and is based on the results of behavioral scoring.

Overall characteristics of provisioning model

The Group establishes loan loss provisions ('LLP') in line with International Financial Reporting Standards ('IFRS'). LLP reflects the loan impairment and whether the Group recognizes objective impairment triggers. Impairment of loans is recognized under an individual and collective approach.

The process of identifying impaired exposures covered by individual valuation is carried out with the use of an internal tool and consists of the following stages:

- identification, whether the impairment trigger for given a credit exposure has been recognized and, upon such identification, determination of the type of such trigger and assignment of default status to the exposure,
- assessment of future cash flows, discounted using the effective interest rate, generated both from collateral and client operations,
- calculation and registration of loan loss provision in the IT system.

Exposures covered by the collective approach valuation are classified into the default class for overdue amounts exceeding 90 days. For such exposures, the loan loss provision is calculated using a statistical model.

If an impairment trigger is not recognized, the Group establishes provisions for incurred but not reported losses (IBNR) applying a statistical model of expected loss.

The applied statistical models are based on historical data for homogenous groups of exposure.

Both the models and parameters applied in the establishment of loan loss provision are subject to regular validation.

Notes to the financial statements

(in PLN thousand)

The quality analysis of the Group's financial assets

The Group exposures to credit risk with impairment recognized, broken down by delays in repayment

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
– not past due	–	–	564,430	606,657
– up to 1 month	–	–	37,283	49,537
– between 1 month and 3 months	–	–	22,868	115,710
– between 3 months and 1 year	–	–	158,487	773,426
– between 1 year and 5 years	9,927	9,160	3,079,109	2,690,334
– above 5 years	–	–	1,429,845	1,146,735
Total gross carrying amount	**9,927**	**9,160**	**5,292,022**	**5,382,399**
ALLOWANCE FOR IMPAIRMENT				
– not past due	–	–	(238,852)	(197,636)
– up to 1 month	–	–	(7,530)	(8,787)
– between 1 month and 3 months	–	–	(5,206)	(60,488)
– between 3 months and 1 year	–	–	(52,140)	(317,684)
– between 1 year and 5 years	(9,927)	(9,160)	(1,738,572)	(1,462,240)
– above 5 years	–	–	(1,198,995)	(925,460)
Total allowance for impairment	**(9,927)**	**(9,160)**	**(3,241,295)**	**(2,972,295)**
Net carrying amount of exposure individually impaired	**–**	**–**	**2,050,727**	**2,410,104**
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
– not past due	–	–	120,069	74,332
– up to 1 month	–	–	42,559,	34,439
– between 1 month and 3 months	–	–	47,688	51,263
– between 3 months and 1 year	–	–	303,072	366,923
– between 1 year and 5 years	–	–	1,359,720	1,511,446
– above 5 years	9,800	9,800	956,361	816,260
Total gross carrying amount	**9,800**	**9,800**	**2,829,469**	**2,854,663**
ALLOWANCE FOR IMPAIRMENT				
– not past due	–	–	(46,047)	(44,747)
– up to 1 month	–	–	(10,980)	(17,188)
– between 1 month and 3 months	–	–	(17,089)	(26,512)
– between 3 months and 1 year	–	–	(156,199)	(212,986)
– between 1 year and 5 years	–	–	(1,047,727)	(1,217,252)
– above 5 years	(9,800)	(9,800)	(896,744)	(777,124)
Total allowance for impairment	**(9,800)**	**(9,800)**	**(2,174,786)**	**(2,295,809)**
Net carrying amount of exposure collectively impaired	**–**	**–**	**654,683**	**558,854**

(*) Loans and advances to banks and loans and advances to customers include receivables from financial leases.

(in PLN thousand)

The Group exposures to credit risk with no impairment recognized, broken down by delays in repayment

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
– not past due	7,319,104	7,176,334	67,677,272	64,973,743	50,112,528	45,042,713
– up to 30 days	–	–	214,225	438,304	1,269,204	1,300,910
– between 30 days and 60 days	–	–	34,541	108,516	183,623	198,014
– above 60 days	–	–	89,848	146,870	194,520	302,346
Total gross carrying amount	**7,319,104**	**7,176,334**	**68,015,886**	**65,667,433**	**51,759,875**	**46,843,983**
IBNR PROVISION						
– not past due	(58)	(442)	(273,574)	(253,479)	(90,586)	(128,724)
– up to 30 days	–	–	(2,652)	(4,326)	(37,046)	(74,108)
– between 30 days and 60 days	–	–	(686)	(2,122)	(11,615)	(22,575)
– above 60 days	–	–	(687)	(1,227)	(9,399)	(15,672)
Total IBNR provision	(58)	(442)	(277,599)	(261,154)	(148,646)	(241,079)
Net carrying amount of exposure with no impairment	**7,319,046**	**7,175,892**	**67,738,287**	**65,406,279**	**51,611,229**	**46,602,904**

(*) Loans and advances to banks and loans and advances to customers include receivables from financial leases and bills of exchange eligible for rediscounting at Central Bank.

The Group exposures to credit risk, broken down by impairment triggers criteria

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
IMPAIRED EXPOSURE				
Gross carrying amount	19,727	18,960	8,121,491	8,237,062
Allowance for impairment	(19,727)	(18,960)	(5 416 081)	(5,268,104)
Total net carrying amount	**–**	**–**	**2,705,410**	**2,968,958**
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:		–	78,166	64,755
Exposure with collateral value included in expected discounted cash flow, in this	–	–	*78,166*	*64,755*
Past due exposures	–	–	*31,741*	*25,804*
IBNR provision	–	–	(1,362)	(1,820)
Total net carrying amount	**–**	**–**	**76,804**	**62,935**
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	7,319,104	7,176,334	119,697,595	112,446,661
IBNR provision	(58)	(442)	(424,883)	(500,413)
Total net carrying amount	**7,319,046**	**7,175,892**	**119,272,712**	**111,946,248**

(*) Loans and advances to banks and loans and advances to customers include receivables from financial leases and bills of exchange eligible for rediscounting at Central Bank.

Notes to the financial statements

(in PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2015

	DEBT SECURITIES				
RATING	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (***)	TOTAL
A+ do A–	1,003,007	15,954,349	2,497,324	6,520,122	25,974,802
BBB+ do BBB–	7,724	251,367	–	–	259,091
no rating	113,986	1,312,168(*)	871,100(**)	–	2,297,254
Total	**1,124,717**	**17,517,884**	**3,368,424**	**6,520,122**	**28,531,147**

(*) including NBP bills in an amount of PLN 628 454 thousand.
(**) including NBP bills in an amount of PLN 871 100 thousand.
(***) Fair value of debt securities purchased in the reverse repo transactions.

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2014

	DEBT SECURITIES				
RATING	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (***)	TOTAL
AA+ do AA–	–	1,048,585	–	–	1,048,585
A+ do A–	310,653	14,891,849	750,123	7,716,100	23,668,725
BBB+ do BBB–	–	248,985	–	–	248,985
no rating	137,800	6,850,034(*)	851,445(**)	–	7,839,279
Total	**448,453**	**23,039,453**	**1,601,568**	**7,716,100**	**32,805,574**

(*) including NBP bills in an amount of PLN 6 147 781 thousand.
(**) including NBP bills in an amount of PLN 851 445 thousand.
(***) Fair value of debt securities purchased in the reverse repo transactions.

Classification of exposures to derivative financial instruments according to Standard & Poor's ratings as at 31 December 2015

	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
RATING	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	TOTAL
AAA	90	–	–	–	–	–	90
AA+ do AA–	126,730	–	–	3,032	–	–	129,762
A+ do A–	1,044,437	272,974	–	64,698	–	749	1,382,858
BBB+ do BBB–	1,003,930	–	503	319,425	–	–	1,323,858
BB+ do BB–	–	–	1,454	–	–	–	1,454
no rating	464,159	52,220	239,950	29,798	3,938	–	790,065
Total	**2,639,346**	**325,194**	**241,907**	**416,953**	**3,938**	**749**	**3,628,087**

Classification of exposures to derivative financial instruments according to Standard & Poor's ratings as at 31 December 2014

	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
RATING	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	TOTAL
AAA	155	–	–	–	–	–	155
AA+ do AA–	165,233	–	–	7,996	–	–	173,229
A+ do A–	2,672,019	275,856	–	415,222	–	–	3,363,097
BBB+ do BBB–	490,530	–	1,129	20,649	–	–	512,308
BB+ do BB–	26,026	–	2,623	–	–	–	28,649
B+ do B–	–	–	103	–	–	–	103
no rating	304,009	201,825	308,467	21,383	5,572	–	841,256
Total	**3,657,972**	**477,681**	**312,322**	**465,250**	**5,572**	**–**	**4,918,797**

(in PLN thousand)

Forbearance measures

With reference to European Securities and Markets Authority (ESMA) document 2012/853 and instructions issued by European Banking Authority in terms of disclosure as far as forborne exposures, the Group in cooperation with its mother company has implemented a process of classification of this type of exposures.

Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Based on these difficulties, the Group decides to modify the terms and conditions of the contract to allow the borrower sufficient ability to service the debt or refinance the contract, either totally or partially. Modification of the terms and conditions of the contract may include i.e. the reduction of the interest rate, principal, accrued interest or the rescheduling of the dates of payment of principal and/or interests.

In particular, the Group assumes that the forbearance has taken place when:
- the modified contract was classified as impaired and the modifications were made within restructuring activities,
- the modified contract was totally or partially past-due by more than 30 days (without being impaired) at least once during the three months prior to its modification or would be more than 30 days past-due, totally or partially, without modification,
- simultaneously with or close in time to the concession of additional debt by the Group, the debtor made payments of principal or interest on another contract with the Group that was totally or partially 30 days past due at least once during the three months prior to its refinancing.

The classification as forborne exposure shall be discontinued when all the following conditions are met:
- the contract is considered as exposure without impairment triggers,
- a minimum 2 year probation period has passed from the date the forborne exposure was considered as exposure without impairment triggers,
- regular payments of more than an insignificant amount of principal or interest have been made,
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period of forborne exposure.

If a decision is made to extend a concession, modify the contractual terms or refinance, which is not related to the financial difficulties of the borrower, then forbearance has not occurred.

The forbearance agreements are monitored for fulfillment of contractual provisions. Dedicated units of the Bank manage the agreements with identified forbearance measures and monitor such agreements on a current basis.

When the exposure is classified as forborne and at each balance sheet date the Group assesses whether there is any objective evidence that the exposure is impaired. The accounting policies in respect to the evaluation and the provisioning of the forborne exposures generally follow the principles in line with the provisions of IAS 39, i.e. whether there are objective evidences that it has incurred a loss for impairment of loans valued at amortized cost, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet incurred) discounted at the original effective interest rate of the loan.

When the forbearance measures lead to derecognition of the original loan, the Group recognizes the new loan at its fair value. The difference between the carrying amount of the original loan and the fair value of the new loan is recognised in income statement.

The Group also performs an in-depth analysis of the credit risk characteristics of assets for which forbearance measures have been applied, when assessing for specific as well as collective impairment.

Share of forborne exposures in the Group's loan portfolio

	31.12.2015	31.12.2014
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	**119,349,516**	**112,009,183**
forborne exposures	422,649	450,050
Impaired exposures, of which:	**2,705,410**	**2,968,958**
forborne exposures	1,537,735	1,718,075
Total net carrying amount, of which:	**122,054,926**	**114,978,141**
forborne exposures	1,960,384	2,168,125

(in PLN thousand)

The quality analysis of forborne exposures

	31.12.2015	31.12.2014
Exposures with no impairment		
Gross carrying amount	437,459	490,667
IBNR provisions	(14,810)	(40,617)
Net carrying amount	**422,649**	**450,050**
Impaired exposures		
Gross carrying amount, of which:	2,957,036	2,866,373
exposures individually impaired	2,745,545	2,725,502
exposures collectively impaired	211,491	140,871
Allowances for impairment, of which:	(1,419,301)	(1,148,298)
exposures individually impaired	(1,323,802)	(1,066,135)
exposures collectively impaired	(95,499)	(82,163)
Net carrying amount	**1,537,735**	**1,718,075**
Total net carrying amount	**1,960,384**	**2,168,125**

The Group holds the collaterals for forborne exposures amounting to PLN 881 711 thousand as at 31 December 2015 (PLN 1 255 658 thousand at 31 December 2014).

The quality analysis of forborne exposures broken down by delays in repayment

	31.12.2015	31.12.2014
Gross carrying amount of exposures with no impairment, of which:	**437,459**	**490,667**
– not past due	285,368	353,409
– up to 30 days	95,039	98,513
– between 30 days and 60 days	27,860	22,848
– above 60 days	29,192	15,897
IBNR provisions for exposures with no impairment, of which:	**(14,810)**	**(40,617)**
– not past due	(5,807)	(21,727)
– up to 30 days	(5,673)	(12,099)
– between 30 days and 60 days	(1,533)	(3,793)
– above 60 days	(1,797)	(2,998)
Gross carrying amount of impaired exposures, of which:	**2,957,036**	**2,866,373**
– not past due	571,632	614,634
– up to 1 month	46,871	47,492
– between 1 month and 3 months	32,999	110,956
– between 3 months and 1 year	131,902	651,006
– between 1 year and 5 years	2,124,721	1,434,933
– above 5 years	48,911	7,352
Allowances for impairment, of which:	**(1,419,301)**	**(1,148,298)**
– not past due	(198,882)	(199,283)
– up to 1 month	(11,312)	(12,309)
– between 1 month and 3 months	(7,510)	(63,454)
– between 3 months and 1 year	(42,355)	(225,414)
– between 1 year and 5 years	(1,120,572)	(641,220)
– above 5 years	(38,670)	(6,618)
Total net carrying amount	**1,960,384**	**2,168,125**

(in PLN thousand)

Changes in net carrying amount of forborne exposures

	2015	2014
Net carrying amount at the beginning	**2,168,125**	**1,932,336**
Amount of exposures recognized in the period	229,336	749,272
Amount of exposures derecognized in the period	(152,818)	(155,873)
Changes in impairment allowances	(217,882)	(162,465)
Other changes	(66,377)	(195,145)
Net carrying amount at the end	**1,960,384**	**2,168,125**
Interest income	168,659	198,910

Forborne exposures by type of forbearance activity

	31.12.2015	31.12.2014
Modification of terms and conditions	3,199,428	3,165,429
Refinancing	195,067	191,611
Total gross carrying amount	**3,394,495**	**3,357,040**
Impairment allowances	(1,434,111)	(1,188,915)
Total net carrying amount	**1,960,384**	**2,168,125**

Forborne exposures by product type

	31.12.2015	31.12.2014
Mortgage loans	578,748	471,910
Current accounts	301,434	332,691
Operating loans	879,129	583,040
Investment loans	1,335,790	1,467,691
Purchased debt receivables	1,061	266,330
Other loans and advances	298,333	235,378
Total gross carrying amount	**3,394,495**	**3,357,040**
Impairment allowances	(1,434,111)	(1,188,915)
Total net carrying amount	**1,960,384**	**2,168,125**

Forborne exposures by industrial sectors

	31.12.2015	31.12.2014
Corporations	2,818,427	2,846,155
Manufacturing	718,779	670,068
Construction	604,287	654,406
Real estate activities	468,815	493,325
Professional, scientific and technical activities	523,922	475,414
Accommodation and food service activities	212,819	217,619
Wholesale and retail trade	128,840	151,153
Mining and quarrying	77,734	71,658
Transportation and storage	63,613	51,361
Agriculture, forestry and fishing	2,816	45,055
Other sectors	16,802	16,096
Individuals	576,068	510,885
Total gross carrying amount	**3,394,495**	**3,357,040**
Impairment allowances	(1,434,111)	(1,188,915)
Total net carrying amount	**1,960,384**	**2,168,125**

Notes to the financial statements

(in PLN thousand)

Forborne exposures by geographical structure

	31.12.2015	31.12.2014
Poland	3,082,046	3,091,289
Ukraine	292,314	254,098
Cyprus	18,503	10,880
Other countries	1,632	773
Total gross carrying amount	**3,394,495**	**3,357,040**
Impairment allowances	(1,434,111)	(1,188,915)
Total net carrying amount	**1,960,384**	**2,168,125**

Credit risk concentration

According to the current legislation the total exposure of the Group to the risks associated with the single borrower or a group of borrowers in which entities are related by capital or management may not exceed 25% of the Group's equity. In 2015 the maximum exposure limits were not exceeded.

a) Breakdown by individual entities:

As at 31.12.2015

EXPOSURE TO 10 LARGEST CLIENTS OF THE GROUP	% SHARE OF PORTFOLIO
Client 1	1.5%
Client 2	1.2%
Client 3	1.2%
Client 4	0.9%
Client 5	0.8%
Client 6	0.7%
Client 7	0.7%
Client 8	0.6%
Client 9	0.6%
Client 10	0.6%
Total	**8.8%**

b) Concentration by capital groups:

As at 31.12.2015

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE GROUP	% SHARE OF PORTFOLIO
Group 1	1.8%
Group 2	1.8%
Group 3	1.4%
Group 4	1.4%
Group 5	1.3%
Total	**7.7%**

(in PLN thousand)

c) Breakdown by industrial sectors:

In order to mitigate credit risk associated with excessive sector concentration the Group employs a system for monitoring the sector structure of its credit exposure. The system involves setting concentration ratios for particular sectors, monitoring the loan portfolio and procedures for exchanging information. The system is based on the lending exposure in particular types of business activity according to the classification applied by the Polish Classification of Economic Activities (Polska Klasyfikacja Działalności – PKD).

Concentration ratios are determined on the basis of the Group's current lending exposure to the particular sector and risk assessment of each sector. Periodic comparison of the Group's exposure to particular sectors with the current concentration ratio allows timely identification of the sectors in which the concentration of sector risk may become excessive. If such situation arises an analysis of the economic situation of the sector is performed considering the current and predicted trends and the quality of the current exposure to that sector. These measures enable the Group to develop policies that reduce sector risk and allow for a timely reaction to a changing environment.

The table below presents the structure of exposures by industrial sectors

SECTOR DESCRIPTION	31.12.2015	31.12.2014
Wholesale and retail trade; repair of motor vehicles	15.2%	14.2%
Public administration and defence	10.9%	11.9%
Real estate activities	10.5%	10.4%
Electricity, gas, steam	8.6%	9.0%
Financial and insurance activities	7.8%	9.6%
Transportation and storage	7.2%	6.8%
Construction	6.3%	5.1%
Mining and quarrying	4.4%	3.9%
Manufacture of metals, metal products and machinery	4.0%	3.8%
Manufacture of beverages and food products	3.8%	3.1%
Manufacture of coke, rafined petroleum products, chemicals and pharmaceutical products	2.9%	2.8%
Information and communication	2.7%	5.0%
Manufacture of rubber, plastic and non-metalic products	2.1%	1.9%
Other manufacturing	5.2%	4.5%
Other sectors	8.4%	8.0%
Total	**100.0%**	**100.0%**

Notes to the financial statements

(in PLN thousand)

CHF loans to individuals

Since 2003 Bank Pekao S.A. has not granted CHF loans for individuals. Almost the entire portfolio of CHF loans for individuals was granted before August 2006 by Bank BPH S.A. and then taken over by Bank Pekao S.A. as a result of the merger.

A few concepts of restructuring of CHF mortgage loans for individuals have been proposed recently, including the President's draft of the act on the restoration of the equality of parties of certain loan agreements. The proposed solutions are under discussion and may change significantly. Therefore, at the moment, the Group is not able to reliably estimate the impact of the proposed solutions on the financial statements. However, taking into account the relatively minor share of these loans in the total assets and limited market share, the Group assesses that potentially taken solutions should not materially affect the financial standing of the Group.

The tables below present the structure and quality of CHF loans for individuals.

Gross and net amount of CHF loans to individuals

	31.12.2015	31.12.2014
Gross carrying amount, of which:	**4,761,295**	**4,798,719**
– denominated in CHF	961,415	965,182
– indexed to CHF	3,799,880	3,833,537
Impairment allowances, of which:	**(78,963)**	**(171,056)**
– denominated in CHF	(9,463)	(17,543)
– indexed to CHF	(69,500)	(153,513)
Net carrying amount, of which:	**4,682,332**	**4,627,663**
– denominated in CHF	951,952	947,639
– indexed to CHF	3,730,380	3,680,024

Quality of CHF loans to individuals

	31.12.2015	31.12.2014
Gross carrying amount of exposures with no impairment, of which:	**4,599,473**	**4,581,528**
– not past due	4,251,469	4,201,472
– up to 30 days	277,566	310,533
– between 30 days and 60 days	41,226	48,231
– above 60 days	29,212	21,292
IBNR provisions for exposures with no impairment, of which:	**(13,479)**	**(32,394)**
– not past due	(5,144)	(12,684)
– up to 30 days	(4,898)	(13,072)
– between 30 days and 60 days	(1,542)	(4,363)
– above 60 days	(1,895)	(2,275)
Gross carrying amount of impaired exposures, of which:	**161,822**	**217,191**
– not past due	25,499	16,838
– up to 1 month	12,076	9,260
– between 1 month and 3 months	9,211	15,503
– between 3 months and 1 year	30,569	26,829
– between 1 year and 5 years	53,721	76,103
– above 5 years	30,746	72,658
Allowances for impairment, of which:	**(65,484)**	**(138,662)**
– not past due	(4,356)	(5,271)
– up to 1 month	(1,507)	(3,447)
– between 1 month and 3 months	(1,764)	(5,445)
– between 3 months and 1 year	(6,250)	(12,232)
– between 1 year and 5 years	(27,927)	(50,495)
– above 5 years	(23,680)	(61,772)
Total net carrying amount	**4,682,332**	**4,627,663**

(in PLN thousand)

The average LTV for CHF loans to individuals granted by the Group amounted as of 31 December 2015 to 56.5%, with an average LTV for the whole portfolio of 66.4%.

Credit exposures towards Ukraine

As at 31 December 2015, the Group carried the level of net balance sheet exposures towards Ukraine amounting to PLN 593 million (0.4% of total Group exposures).

The majority of the mentioned amount refers to intra group exposure in the form of interbank placement which will be repaid up to 2017. The remaining part of exposures refers to two international corporate groups.

The Group is strictly monitoring evolution of the situation in the country, however the nature of our exposures do not pose any treat in the overall quality of our assets.

The below table presents the Group's exposure towards the Ukrainian entities

	31.12.2015	31.12.2014
Balance sheet exposure		
Loans and advances to banks	402,630	713,178
Loans and advances to customers	300,551	269,487
Total gross carrying amount	**703,181**	**982,665**
IBNR / Impairment allowances	(110,605)	(20,505)
Total net carrying amount	**592,576**	**962,160**
Off-balance sheet exposure		
Credit lines granted	4,049	4,028
Total gross carrying amount	**4,049**	**4,028**
IBNR	(27)	(14)
Total net carrying amount	**4,022**	**4,014**

6.3 Market risk

The Group is exposed in its operations to market risk and other types of risk caused by changing market risk parameters.

Market risk is the risk of deteriorating financial result or capital of the Group resulting from market changes. The main factors of market risk are as follows:
- interest rates,
- foreign exchange rates,
- stock prices,
- commodity prices.

The Group established a market risk management system, providing structural, organizational and methodological procedures for the purpose of shaping the structure of statement of financial position and off-balance items to assure the achievement of strategic goals.

The main objective of market risk management is to optimize financial results and the influence on the worth of economic capital assuring the implementation of financial goals of the Group, while keeping the exposure to market risk within the risk appetite defined by risk limits approved by the Management Board and the Supervisory Board.

The organization of the market risk management process is based on a three-tier control system, established in compliance with the best international banking practices and recommendations from banking supervision. The process of market risk management and procedures regulating it have been developed taking into consideration the split into trading and banking books.

(in PLN thousand)

Market risk of the trading book

The Group's management of market risk of the trading book aims at optimizing the financial results and assuring the highest possible quality of customer service in reference to the market accessability (market making) while staying within the limits of risk approved by the Management Board and the Supervisory Board.

The main tool for market risk of the trading book measurement is Value at Risk model (VaR). This value corresponds to the level of a one-day loss, which will be exceeded with the probability not greater than 1%. VaR value is calculated with historical simulation method based on 2 years of historical observations of market risk factors' dynamics. The set of factors used when calculating VaR consists of all significant market factors that are taken into account for valuation of financial instruments, excluding specific credit risk of an issuer and counterparty. Estimating the impact of changes in market factors on the present value of a given portfolio is performed under the full revaluation (which is a difference between the value of the portfolio after the adjustments in market parameters' levels by historically observed changes of the parameters and the present value of the portfolio). For such a set of probable changes in the portfolio value (distribution), VaR is defined to be equal to 1% quantile.

The model is subject to continuous, statistical verification by comparing the VaR values to actual and revaluated performance figures. Results of analyses carried out in 2015 and 2014 confirmed the adequacy of the model applied.

The tables below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk in 2015 and 2014

	31.12.2015	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	54	15	203	1,674
interest rate risk	1,176	676	1,175	2,103
Trading portfolio	1,282	854	1,179	1,880

	31.12.2014	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	44	11	413	2,183
interest rate risk	1,365	936	1,792	3,710
Trading portfolio	1,282	872	1,819	3,772

Interest rate risk of the banking book

In managing the interest rate risk of the banking book the Group aims to hedge the economic value of capital and achieve the planned interest result within the accepted limits. The financial position of the Group in relation to changing interest rates is monitored through the interest rate gap (repricing gap), duration analysis, sensitivity analysis, stress testing and VaR.

The table below presents the sensitivity levels of the interest income (NII) to interest rate change by 100 b.p. and of economic value of the Group's equity (EVE) to interest rate change by 200 b.p. for the end of December 2015 and December 2014, assuming perfect elasticity of the Group's administrated rates to the markets rates changes, taking into account behavioral factors relevant in an environment of low interest rates (i.e current accounts priced in PLN, for which the Group applies the model adjusting the profile of product's revaluation) and parallel changes in Central Bank's interest rates. The measure takes into account factors possible to secure for the Group. Evolution of interest income sensitivity comes from low level of interest rates at the end of 2015 and the potential impact of its further lowering on the interest income of the Group.

SENSITIVITY IN %	31.12.2015	31.12.2014
NII	(11.14)	(12.17)
EVE	(0.77)	(0.32)

Currency risk

Currency risk management is performed simultaneously for the trading and the banking book. The objective of currency risk management is to maintain the currency profile of statement of financial position and off-balance items within the internal limits.

The table below presents the Group's foreign currency risk profile measured at Value at Risk

CURRENCY	31.12.2015	31.12.2014
Currencies total (*)	1,538	490

(*) VaR presented in 'Currencies total' is VaR for the whole portfolio, and includes correlations among currencies.

(in PLN thousand)

Foreign currency position of the Group

31.12.2015	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS – DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	18,890,563	17,929,313	11,066,799	11,841,800	186,249
USD	6,294,671	8,290,240	7,077,654	5,116,063	(33,978)
CHF	4,700,851	606,176	3,221,543	7,319,753	(3,535)
GBP	318,067	708,529	622,872	232,423	(13)
CZK	37,732	16,591	183,225	204,259	107
Other currencies	273,984	161,448	73,793	183,113	3,216
TOTAL	**30,515,868**	**27,712,297**	**22,245,886**	**24,897,411**	**152,046**

31.12.2014	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS – DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	19,006,758	15,037,971	11,464,052	15,448,199	(15,360)
USD	7,432,536	7,137,324	8,562,453	8,841,212	16,453
CHF	5,014,483	921,126	3,016,884	7,111,994	(1,753)
GBP	215,835	611,115	546,896	151,798	(182)
CZK	224,478	35,356	3,109	191,907	324
Other currencies	223,738	97,753	201,698	324,630	3,053
TOTAL	**32,117,828**	**23,840,645**	**23,795,092**	**32,069,740**	**2,535**

The amount of the net long position in EUR (equivalent of PLN 185 540 thousand) as at 31 December 2015 mainly results from the recognition of the fair value valuation of shares in Visa Europe (see Note 31) in the amount of EUR 40 866 611 (equivalent of PLN 174 153 thousand). The foreign currency position from the valuation of shares in Visa Europe was closed on January 2016.

6.4 Liquidity risk

The objective of liquidity risk management is to:
- ensure and maintain the Group's solvency with respect to current and future payables taking into account the cost of acquiring liquidity and return on the Group's equity,
- prevent the occurrance of crisis situations, and
- provide solutions necessary to survive a crisis situation when such circumstances occur.

The Group has centralized liquidity risk management system covering current liquidity management and first level control performed by the responsible functions, the second level control carried out by a dedicated unit responsible for risk management and independent audit.

Managing the Group's liquidity is carried out in intraday, short-term and long-term horizon. Analyzing of Intraday liquidity concerns flows realized during the day, through a short-term liquidity analysis is understood liquidity measurement system which refers to the time horizon shorter then one year, long-term analysis covers period above one year. Due to the specific tools and techniques used for liquidity risk management, the Group manages current and medium-term liquidity together with short-term liquidity.

The liquidity control is performing as a continuous process of determining and analyzing the levels of various indicators and measures related to intraday, short-term and long-term liquidity. Monitoring frequency is matched to the specific liquidity aspect – e.g. daily for short-term liquidity, monthly for long-term liquidity. Liquidity ratios and measures are subject to a formal limiting process. The limits' utilisation is regularly monitored and presented to the Management of the Bank and subsidiaries. In case of exceeding, escalation process is running as to inform decision-makers and ultimately to restore the liquidity risk exposures to acceptable levels.

Scenario-based stress analyses, conducted on a monthly basis, constitute an integral part of the Group's liquidity monitoring process. Within the scope of these analyses the Group's liquidity is assessed under the conditions of crisis which is caused by financial markets or is caused by internal factors,

(in PLN thousand)

specific to the Group. In 2015 Bank has made a review of the liquidity stress tests system, defining a new set of scenarios different in terms of duration of liquidity threat, their origination and severity.

Managing the liquidity, the Group pays special attention to the liquidity in foreign currencies through monitoring, limiting and controlling the liquidity individually for each currency, as well as monitoring demand for the current and future currency liquidity and in case of identification of such need the Group hedges using currency swaps. It is also monitored the potential influence on the liquidity of placing required collateral deposits for derivative transaction.

In order to define the principles of contingency liquidity management, Bank introduced, approved by the Management Board, 'Contingency Liquidity Policy', which defines the contingency procedures in the event of crisis situations. This policy involves daily monitoring of the system and specific early-warning indicators for the Bank and the Group as well as three levels of liquidity risk states depending on the level of early-warning indicators, the Bank's, the Group's and market situation. It also defines the sources for covering the expected outflows from the Group. This document sets the procedures for monitoring the liquidity states, emergency action procedures, task forces dedicated for restoring the Group's liquidity and the Management's responsibilities for taking necessary decisions to restore the required liquidity level.

Below are presented basic quantitative information concerning the Group's liquidity at the end of 2015 year in comparison to the end of 2014. They cover the structure of financial liabilities by contractual maturity, adjusted liquidity gap and financial flows from derivative transactions.

Structure of financial liabilities by contractual maturities

31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1,606,000	1,066,155	108,638	1,204,022	2,124,172	6,108,987
Amounts due to customers	96,357,303	12,213,137	17,987,883	2,777,981	55,721	129,392,025
Debt securities issued	336,500	1,034,304	409,535	616,862	661,531	3,058,732
Financial liabilities held for trading	–	–	170,729	382,663	58,050	611,442
Total	**98,299,803**	**14,313,596**	**18,676,785**	**4,981,528**	**2,899,474**	**139,171,186**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off – balance sheet commitments Financial liabilities granted	30,935,860	–	–	–	–	30,935,860
Off – balance sheet commitments Guarantees liabilities granted	14,072,827	–	–	–	–	14,072,827
Total	**45,008,687**	**–**	**–**	**–**	**–**	**45,008,687**

31.12.2014	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	2,007,821	233,470	360,834	1,030,528	1,941,187	5,573,840
Amounts due to customers	99,800,692	14,198,585	11,196,512	712,407	50,317	125,958,513
Debt securities issued	79,083	1,211,065	1,453,224	560,727	755,557	4,059,656
Financial liabilities held for trading	–	–	362,582	173,090	55,639	591,311
Total	**101,887,596**	**15,643,120**	**13,373,152**	**2,476,752**	**2,802,700**	**136,183,320**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off – balance sheet commitments Financial liabilities granted	27,376,548	–	–	–	–	27,376,548
Off – balance sheet commitments Guarantees liabilities granted	14,208,684	–	–	–	–	14,208,684
Total	**41,585,232**	**–**	**–**	**–**	**–**	**41,585,232**

(*) Including Central Bank.
(**) Exposure amounts from financing-related off-balance sheet commitments granted and guarantee liabilities granted have been allocated to earliest tenors, for which an outflow of assets from the Group is possible based on contracts entered into by the Group. However, the expected by the Group flows from off-balance exposures are actually significantly lower and are differently distributed in time than those indicated from the specification presented above. The above is a consequence of considerable diversification of amounts due to customers and stages of life of individual contracts. Risk monitoring and management in relation to the outflow of assets from off-balance exposures are provided by the Group on continuous basis. The Group estimates also more probable flows that are presented in Tables 'Adjusted liquidity gap'.

(in PLN thousand)

Adjusted liquidity gap

The adjusted liquidity gaps presented below include, inter alia, the adjustments concerning the stability of core deposits and their maturities, adjustments of flows from granted off-balance sheet commitments arising from financing, guarantees and from assets without contractual repayment schedules. On top of that, included are also the adjusted flows stemming from the security portfolio and flows resulting from earlier repayment of mortgage loans portfolio. These are the main elements differentiating the adjusted gaps from unadjusted ones. Moreover, the gaps are of static nature, i.e. they do not take into consideration the impact of changes of balance sheet and off-balance sheet items volume (i.e. new deposits) as well as the effect of non-equity related cash flows upon the liquidity profile of the Group.

Adjusted liquidity gap

31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	39,156,141	7,110,676	24,968,630	50,455,851	47,094,269	168,785,567
Balance sheet liabilities	16,049,305	8,827,295	18,770,564	19,999,689	105,138,714	168,785,567
Off-balance sheet assets/liabilities (net)	(6,717,006)	568,926	1,240,893	2,489,137	1,254,323	(1,163,727)
Periodic gap	**16,389,830**	**(1,147,693)**	**7,438,959**	**32,945,299**	**(56,790,122)**	**(1,163,727)**
Cumulated gap	**–**	**15,242,137**	**22,681,096**	**55,626,395**	**(1,163,727)**	**–**

31.12.2014	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	47,740,552	6,795,243	21,167,967	49,682,882	42,238,384	167,625,028
Balance sheet liabilities	32,485,830	9,500,072	15,959,804	30,257,051	79,422,271	167,625,028
Off-balance sheet assets/liabilities (net)	(7,860,398)	(608,975)	3,015,181	2,838,710	1,640,604	(974,878)
Periodic gap	**7,394,324**	**(3,313,804)**	**8,223,344**	**22,264,541**	**(35,543,283)**	**(974,878)**
Cumulated gap	**–**	**4,080,520**	**12,303,864**	**34,568,405**	**(974,878)**	**–**

Off-balance derivative transactions

The tables below show the financial flows relating to derivative off balance transactions.

According to Group's policy, off-balance derivative transactions settled in net amounts include:
- Interest Rate Swaps (IRS),
- Forward Rate Agreements (FRA),
- Foreign currency options and for gold,
- Interest rate options (Cap/Floor),
- Transactions based on equity securities and stock indexes,
- Transactions based on commodities and precious metals.

Off-balance derivative transactions settled by the Group in gross amounts include:
- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps (Fx-Swap),
- Forward contracts based on securities.

(in PLN thousand)

Liabilities from off-balance transactions on derivatives recognized in net amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2015	70,648	104,854	151,485	2,007,425	889,219	**3,223,631**
31.12.2014	109,831	66,827	157,420	2,488,681	1,594,385	**4,417,144**

Flows related to off-balance derivative transactions settled in gross amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2015						
inflows	16,745,976	6,290,357	7,529,685	8,415,940	2,830,603	**41,812,561**
outflows	16,750,719	6,249,486	7,612,854	9,216,680	3,152,969	**42,982,708**
31.12.2014						
inflows	20,372,845	11,645,192	5,339,427	8,072,682	3,000,995	**48,431,141**
outflows	20,369,706	11,635,627	5,451,489	8,811,935	3,084,889	**49,353,646**

6.5 Operational risk

Operational risk is defined as the risk of losses resulting from inadequacy or failure of internal processes, people, systems or external events. It includes law risk, whereas strategic risk, business risk and reputation risk are separate risk categories.

Operational risk management is based on internal procedures that are consistent with the law requirements, resolutions, recommendations and guidelines of the supervisor, and the standards of UniCredit Group. Operational risk management includes identification, assessment, monitoring, preventing and reporting. Identification and assessment of operational risk is based on an analysis of internal factors and external factors that may have a significant impact on the achievement of the objectives of the Group. The main tools used in identifying and assessing operational risk are: internal operational events, external operational events, key risk indicators, scenario analysis and self-assessment of operational risk. Monitoring activities are conducted on three levels of control: operational control (all employees), risk management control (Financial and Operational Risk Management Department) and internal audit (Internal Audit Department). Preventing operational risk includes definition of operational risk limits and the obligation to initiate mitigation actions in case they are exceeded, the system of internal control, business continuity plans and insurance coverage. Operational risk reporting system enables the assessment of the Group's exposure to operational risk and the effective management of this risk, and also plays a fundamental role in the process of informing the Supervisory Board, the Management Board and executives of the Group's exposure to operational risk. It is based in particular on the quarterly reports on operational risk control that include, among others: profile of operational risk, loss limit utilization, analysis of trends in the relevant categories of operational risk, potential losses, information on key indicators of operational risk and operational risk capital requirement.

The Supervisory Board, the Management Board and the Operational Risk Committee are involved in operational risk management. The Financial and Operational Risk Management Department coordinates the process of operational risk management. All employees of the Group and selected specialized units are responsible in their areas for operational risk management, due to diversified character of this risk which requires professional knowledge.

Operational risk management system is subject to internal validation at least once a year. Validation aims at verification of compliance with regulatory requirements and standards of the UniCredit Group.

The table below presents operational events by categories as defined by the Article 324 of Regulation No. 575/2013:

- internal frauds – losses resulting from acts of intended fraud, misappropriation of property, circumvention of regulations, the laws and internal policies of a company, excluding losses resulting from diversity or discrimination of employees, which concern at least one internal party,
- external frauds – losses being a consequence of acts of defraud, misappropriation of property or circumvention of regulations performed by a third party,
- employment practices and workplace safety – losses due to acts inconsistent with regulations or employment agreements, workplace health and safety agreements, payments from personal injuries claims or losses from discrimination and unequal employee treatment,

(in PLN thousand)

- clients, products and business practices – losses arising from failures of meeting professional obligations towards clients due to unintended or negligent acts (including custody requirements and appropriate behavior) or concerning specific features or a design of a product,
- damages to physical assets – losses due to damage or loss of tangible assets resulting from natural disasters or other events,
- business disruption and system failures – losses stemming from business or system failures,
- execution, delivery and process management – losses resulting from failed transaction settlements or process management and losses from relations with cooperating parties and vendors.

OPERATING EVENTS BY CATEGORIES	2015	2014
Internal frauds	20.50%	36.32%
External frauds	4.70%	24.51%
Employment practices and workplace safety	1.12%	4.62%
Clients, products and business practices	59.15%	14.78%
Damages to physical assets	4.70%	8.88%
Business disruption and system failures	0.71%	0.60%
Execution, delivery and process management	9.12%	10.29%
Total	**100.00%**	**100.00%**

In 2015, operating losses were dominated by events of category clients, products and business practices, which accounted for 59.15% of total losses (14.78% in 2014). The second category of high losses was internal frauds, representing 20.50% of the total losses (36.32% in 2014), while the third category – execution, delivery and process management accounted for 9.12% of all registered losses (10.29% in 2014).

6.6 Capital management

The capital management process applied by Bank Pekao S.A. Group has been adopted for the following purposes:
- assurance of safe operating by maintaining the balance between the capacity to undertake risk (limited by own funds), and the risk levels generated,
- maintenance of capital for covering risk above the minimum stated levels in order to assure further business operations, taking into consideration the possible, future changes in capital requirements and to safeguarding the interests of shareholders,
- maintenance of the optimal capital structure in order to maintain the desired quality of risk coverage capital,
- creation of value to shareholders by the best possible utilization of the Group funds.

The Bank has put in place a formalized process of capital management and monitoring, established within the scope of ICAAP procedure. The Finance Division under the Chief Financial Officer is responsible for functioning of the capital management process in the Bank. The ultimate responsibility for capital management is allocated to the Management Board of the Bank, supported by the Assets, Liabilities and Risk Management Committee, which approves the capital management process. The Bank has also implemented the Capital Contingency Policy which establishes rules and obligations in the event of crisis appearance or further development that would significantly reduce capitalization level of the Bank or Group. The policy defines the principles of supervision including split of responsibilities for the purpose of early and consistent management in case of crisis situation development.

The Capital Management Strategy defines the objectives and general rules of the management and monitoring of the Group's capital adequacy, such as the guidelines concerning risk coverage sources, preferred structure of capital for risk coverage, long-term capital targets, capital limits system, sources of additional capital under contingency situations and the structure of capital management process.

The capital adequacy of the Group is controlled by the Assets, Liabilities and Risk Management Committee and Management Board of Bank. Periodic reports on the scale and direction of changes of the capital ratios together with indication of potential threats are prepared for the Management Board and for the Assets, Liabilities and Risk Management Committee. The level of basic types of risks is monitored according to the external limits of the banking supervision and the internal limits of the Group. Analyses and evaluations of directions of business activities development are performed assessing the compliance with capital requirements. Forecasting and monitoring of risk weighted assets, own funds and capital ratios constitute an integral part of the planning and budgeting process, including stress tests.

The Group also has a capital allocation process in place, with an aim of guaranteeing the shareholders a safe and effective return on invested capital. On one hand, the process requires capital allocations to products/clients/business lines, which guarantee profits adequate to the risks taken, while on the other hand taking into consideration the cost of capital associated with the business decisions taken. Risk-related efficiency ratios are used in the analyses of income generated compared against the risk taken as well as for the optimization of capital usage for different types of operations.

(in PLN thousand)

Regulatory capital requirements

Capital ratios are the basic measures applied for the measurement of capital adequacy. The minimum Total Capital Ratio required by law cannot be lower than 8% while according to recommendation of European Banking Authority and Polish Financial Supervision Authority (KNF) total capital ratio must be not lower than 12% and Tier 1 capital ratio not lower than 9%. Starting from 2016 the minimum capital ratios recommended by KNF increases to 13.25% in case of Total Capital Ratio and 10.25% in case of Tier I capital ratio.

Calculations of the regulatory capital requirements at both report dates were done based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, with further amendments as well as Commission Implementing and Delegated Regulations (EU).

As at 31 December 2015 total capital ratio of the Group amounted at 17.7% (as at 31 December 2014 – 17.3%).

	31.12.2015	31.12.2014
CAPITAL REQUIREMENTS		
Credit and counterparty risk including CVA	8,527,667	8,379,811
Market risk	63,578	192,563
Operational risk	564,787	705,781
Total capital requirement	**9,156,032**	**9,278,155**
OWN FUNDS		
Common Equity Tier 1 capital	20,209,595	20,063,716
Own funds for total capital ratio	**20,209,595**	**20,063,716**
OWN FUNDS REQUIREMENTS		
Common Equity Tier 1 capital ratio (%)	**17.7%**	**17.3%**
Total capital ratio (%)	**17.7%**	**17.3%**

Total Capital Ratio at the end of December 2015 compared with December 2014 increased by 0.4 pp. Total capital requirement decreased during this period by 1.3% and own funds increased by 0.7%.

Total capital requirement decreased in 2015 as a result of decrease of capital requirements for operational risk and market risk offset by the increase of capital requirement for credit and counterparty risk including CVA.

The strengthening of the Group's capital base in 2015 is the effect of different value of unrealised gains and losses from debt and capital instruments classified as available for sale, which can be included in own funds and Bank Pekao S.A. Annual

General Meeting decision on the allocation of the PLN 37.6 million of net profit from 2014 to the Bank's own funds.

For the purpose of capital requirement calculation the Group uses:
- Standardised Approach for credit risk capital requirement calculation,
- Financial Collateral Comprehensive Method for credit risk mitigation,
- Advanced Measurement Approach for operational risk measurement in case of Bank and Standardised Approach for Bank's subsidiaries,
- Standardised Approach for foreign-exchange risk capital requirement calculation,
- Simplified approach for commodities risk capital requirement calculation,
- Standardised Approach for own funds requirements for credit risk valuation adjustment risk,
- Standardised Approach for specific risk and duration-based calculation for general risk capital requirement calculation.

(in PLN thousand)

Own funds

The Group defines components of own funds in line with the binding law, particularly with Regulation No 575/2013 and The Banking Act.

The Group's own funds consist only of Common Equity Tier 1 capital. Additional Tier 1 capital and Tier 2 capital are not identified in the Group.

	31.12.2015	31.12.2014
OWN FUNDS		
Capital	**23,424,195**	**24,045,732**
Different scope of consolidation	**15,827**	**14,052**
Component of the capital not included into own funds, in which:	**(2,292,459)**	**(2,714,714)**
Current year net profit	(2,292,459)	(2,714,714)
Regulatory adjustments, in which:	**(937,968)**	**(1,281,354)**
Intangible assets	(570,310)	(560,804)
Capital from revaluation	(36,678)	(112,283)
Unrealised loss from debt and capital instruments available for sale	–	3,279
Unrealised gain from debt and capital instruments available for sale	(267,137)	(525,676)
Deferred tax assets that rely on future profitability	(16,490)	(22,856)
Additional value adjustments due to prudent calculation	(31,389)	(34,972)
Minority interests	(15,964)	(28,042)
Common Equity Tier 1 capital	**20,209,595**	**20,063,716**
Own funds for total capital ratio	**20,209,595**	**20,063,716**

Components of capital not included into own funds:
- Current year net profit – net profit of current reporting period, verified by statutory auditor responsible for auditing of the Group's accounts reduced by all foreseeable charge and dividend, can be included into Common Equity Tier 1 capital only with the permission of KNF. As at 31 of December 2015, current profit of the Group was not included into Common Equity Tier 1 capital.

Regulatory adjustments:
- intangible assets (after deduction of related deferred tax liabilities) decrease Common Equity Tier 1 capital, according to Article 36 of Regulation No 575/2013,
- capital from revaluation reflects fair value of cash flow hedges is not included in any element of own funds, according to Article 33 of Regulation No 575/2013,
- unrealised losses from debt and capital instruments classified as available for sale according to Article 467 of Regulation No 575/2013 using national options defined in Article 171a. Banking Act, decrease Common Equity Tier 1 capital in 100%,
- unrealised gains from debt and capital instruments classified as available for sale according to Article 468 of Regulation No 575/2013 using national options defined in Article 171a. Banking Act are included in 40% to Common Equity Tier 1 capital,
- deferred tax assets based on future profitability decrease Common Equity Tier 1 capital according to Article 36 of Regulation No 575/2013 only in 40% (Article 469 of Regulation No 575/2013 using national options defined in Article 171a Banking Act),
- additional value adjustments due to prudent valuation are created for every asset measured at fair value, according to Article 34 of Regulation No 575/2013,
- minority interests are deducted from Group's capital because requirements laid down in Regulation No 575/2013 are not meet.

Internal capital adequacy assessment

To assess the internal capital adequacy of the Group, the Bank applies methods designed internally.

The Group takes the following risk types into consideration:
- credit risk,
- operational risk,
- market risk (banking book and trading book),
- liquidity risk,
- real estate risk,
- macroeconomic risk,
- business risk (including strategic risk),

- compliance risk,
- reputational risk,
- model risk,
- excessive leverage risk,
- bancassurance risk,
- financial investment risk.

For each risk deemed material, the Group develops and applies adequate risk assessment and measurement methods. The Group applies the following risk assessment methods:

- qualitative assessment – applied in case of risks which are difficult to measure or for which capital is not a sufficient mean to cover losses (compliance, reputational and bancassurance risks),
- assessment by estimation of capital buffer, for risks that are not easily quantifiable however some aggregate assessment of their impact is possible (model risk and macroeconomic risk),
- quantitative assessment – applied for risks which can be measured with the use of economic capital (other risk types apart from liquidity risk and excessive leverage risk) or based on other risk-specific measures (liquidity risk and excessive leverage risk).

Preferred methods of measuring quantifiable risks and determining the resulting capital requirements are Value at Risk models, based on assumptions derived from the Group's risk appetite. The models are developed in compliance with the best market practices and regulatory requirements and supplemented with stress tests or scenario analyses. In case of risk types for which such methodologies have not been finally developed or implemented, the Group uses modified regulatory models supplemented with stress tests or simplified measurement methods. A consistent methodology for estimating the buffer for macroeconomic and model risks has been developed. The macroeconomic risk capital buffer is determined on the basis of the impact of the economic slowdown scenario on economic capital in the forecast horizon.

Model risk is assessed qualitatively based on the analysis of data, assumptions and methodologies used. An additional element of the model risk assessment are scenario analyses making it possible to evaluate the impact of potential model inconsistencies on its output. Based on the aggregated output, the model risk capital buffer is determined.

The procedure of estimating capital needs starts with the calculation of economic capital, separately for each material quantifiable risk identified by the Group. Next, economic capital figures for individual risks are aggregated inclusive of diversification effect. The amount is then increased by the capital buffer for model and macroeconomic risks. The sum of economic capital (inclusive of diversification effect) and the capital buffer constitutes the internal capital of the Group.

6.7 Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the consolidated statement of financial position of the Group

The measurement of fair value of financial instruments, for which market values from active markets are available, is based on market quotations of a given instrument (mark-to-market).

The measurement of fair value of Over-the-counter ('OTC') derivatives and instruments with limited liquidity (i.e. for which no market quotations are available), is made on the basis of other instruments quotations on active markets by replication thereof using a number of valuation techniques, including the estimation of present value of future cash flows (mark-to-model).

As of 31 December 2015 and 31 December 2014, the Group classified the financial assets and liabilities measured at fair value into the following hierarchy of three categories based on the valuation method:

- Level 1: mark-to-market, applies to securities quoted on active markets,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument. This method applies to illiquid government, municipal, corporate and central bank debt securities, linear and non-linear derivative instruments of interest rate markets (including forward transactions on debt securities), equity, commodity and foreign currency exchange markets, except for those cases that meet the criteria of Level 3,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors. This method is applicable to corporate and municipal debt securities and for linear and non-linear derivative instruments of interest rate, equity, commodity and foreign currency exchange markets for which unobservable parameters (e.g. credit risk factors) are recognized as significant.

(in PLN thousand)

The measurement at fair value is performed directly by a unit within Risk Management Division, independent of front-office units. The methodology of fair value measurement, including the changes of its parameterization, is subject to approval of Assets and Liabilities Committee (ALCO). The adequacy of measurement methods is subject to on-going analysis and periodical reviews in the framework of model risk management. The same Risk Management Division unit performs the assessment of adequacy and significance of risk factors and assignment of valuation models to appropriate method class, according to established hierarchy of classification.

31.12.2015	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**15,929,590**	**6,134,087**	**504,501**	**22,568,178**
Financial assets held for trading	936,763	142,640	47,389	1,126,792
Derivative financial instruments, including:	28	3,205,476	943	3,206,447
– Banks	–	2,639,346	–	2,639,346
– Customers	28	566,130	943	567,101
Hedging instruments, including:	–	421,640	–	421,640
– Banks	–	416,953	–	416,953
– Customers	–	4,687	–	4,687
Securities available for sale	14,992,799	2,364,331	456,169	17,813,299
Liabilities:	**611,443**	**4,907,086**	**–**	**5,518,529**
Financial liabilities held for trading	611,442	–	–	611,442
Derivative financial instruments, including:	1	3,204,327	–	3,204,328
– Banks	–	2,747,772	–	2,747,772
– Customers	1	456,555	–	456,556
Hedging instruments, including:	–	1,702,759	–	1,702,759
– Banks	–	1,702,759	–	1,702,759
– Customers	–	–	–	–

31.12.2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**16,308,012**	**11,803,880**	**366,566**	**28,478,458**
Financial assets held for trading	310,653	38,016	99,784	448,453
Derivative financial instruments, including:	–	4,445,008	2,967	4,447,975
– Banks	–	3,654,969	2,967	3,657,936
– Customers	–	790,039	–	790,039
Hedging instruments, including:	–	470,822	–	470,822
– Banks	–	465,249	–	465,249
– Customers	–	5,573	–	5,573
Securities available for sale	15,997,359	6,850,034	263,815	23,111,208
Liabilities:	**591,311**	**5,902,134**	**–**	**6,493,445**
Financial liabilities held for trading	591,311	–	–	591,311
Derivative financial instruments, including:	–	4,417,706	–	4,417,706
– Banks	–	3,687,513	–	3,687,513
– Customers	–	730,193	–	730,193
Hedging instruments, including:	–	1,484,428	–	1,484,428
– Banks	–	1,484,428	–	1,484,428
– Customers	–	–	–	–

Notes to the financial statements

(in PLN thousand)

Change in fair value of financial instruments measured at fair value according to Level 3 by the Group

2015	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	**99,784**	**2,967**	**263,815**	**–**
Increases, including:	10,663,874	1,942	200,231	–
Reclassification	–	1,942	313	–
Acquisition	10,661,018	–	–	–
Settlement	–	–	–	–
Gains on financial instruments	2,856	–	199,918	–
recognized in the income statement	2,856	–	11,077	–
recognized in revaluation reserves	–	–	188,841	
Decreases, including:	(10,716,269)	(3,966)	(7,877)	–
Reclassification	(55,052)	(2,967)	–	–
Settlement / redemption	(435,186)	(891)	(7,877)	–
Sale	(10,225,856)	–	–	–
Loss on financial instruments	(175)	(108)	–	–
recognized in the income statement	(175)	(108)	–	–
Closing balance	**47,389**	**943**	**456,169**	**–**
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	**(63)**	**(108)**	**2,674**	**–**
Income statement:	108	(108)	268	–
net interest income	108	–	268	–
result on financial assets and liabilities held for trading	–	(108)	–	–
Other components income	(171)	–	2,406	–

2014	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	**–**	**2,625**	**263,668**	**–**
Increases, including:	13,997,309	4,541	9,979	–
Acquisition	13,996,268	–	–	–
Derivatives transactions made in 2014	–	1,488	–	–
Gains on financial instruments	1,041	3,053	9,979	–
recognized in the income statement	1,041	3,053	9,979	–
Decreases, including:	(13,897,525)	(4,199)	(9,832)	–
Settlement/redemption	(1,432,830)	(4,199)	(9,832)	–
Sale	(12,464,143)	–	–	–
Loss on financial instruments	(552)	–	–	–
recognized in the income statement	(552)	–	–	–
Closing balance	**99,784**	**2,967**	**263,815**	**–**
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	**(343)**	**1,479**	**470**	**–**
Income statement:	117	1,479	292	–
net interest income	117	–	292	–
result on financial assets and liabilities held for trading	–	1,479	–	–
Other components income	(460)	–	178	–

(in PLN thousand)

Transfers from Level 1 to 2 are based on availability of active market quotations as at the end of the reporting period.

Transfers from Level 2 to 3 takes place if observable valuation parameter is changed to an unobservable one or if a new unobservable parameter is applied, provided the change results in significant impact on the valuation of instrument.

Transfer from Level 3 to Level 2 takes place if unobservable valuation parameter is changed to an observable one, or the impact of unobservable parameter becomes insignificant. The transfers between levels take place on date and at the end of the reporting period.

In the period from 1 January to 31 December 2015, there was a transfer of three government bonds measured at fair value between Level 1 and Level 2.

In the period from 1 January to 31 December 2015, there was a transfer of one interest rate derivative instrument measured at fair value from Level 2 to Level 3.

In the period from 1 January to 31 December 2015, there was a transfer of four corporate bonds and two equity derivative instruments measured at fair value from Level 3 to Level 2.

The impact of estimated parameters on measurement of financial instruments for which the Group applies fair value valuation according to Level 3 as at 31 December 2015 and 31 December 2014 is as follows:

FINANCIAL ASSET/ LIABILITY	FAIR VALUE AS AT 31.12.2015	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2015	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate debt securities	298 756	Discounted cash flow	Credit spread	0.54%-1%	526	(1 427)
Interest rate derivatives	943	Discounted cash flow	PD	2.1%-5.4%	39	(44)
			LGD	40.1%-54.1%	16	(16)

FINANCIAL ASSET/ LIABILITY	FAIR VALUE AS AT 31.12.2014	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2014	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity derivatives	2,967	Black Scholes Model	Correlation	0%-1%	263	(581)
Corporate debt securities	348,069	Discounted cash flow	Credit spread	0.53%-0.95%	4,530	(1,264)

Financial instruments that are not measured at fair value in the consolidated statement of financial position of the Group

The Group also holds financial instruments which are not presented at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As of 31 December 2015 and on 31 December 2014, the Group classified the financial assets and liabilities not measured at fair value in the consolidated statement of financial position into the following three categories based on the valuation level:

- Level 1: mark-to-market. Applies to government securities quoted on the liquid market and cash,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument. This method applies to interbank deposits, own issues, illiquid government, municipal, corporate and central bank debt securities,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors. This method is applicable to corporate and municipal debt securities and loans and deposits for which the applied credit risk factor (an unobservable parameter) is recognized significant.

In case of certain groups of financial assets, recognized at the amount to be received with impairment considered, the fair value was assumed to be equal to carrying amount. The above applies in particular to cash and other financial assets and liabilities.

In the case of loans for which no quoted market values are available, the fair values presented are generally estimated using valuation techniques taking into consideration the assumption, that at the moment when the loan is granted its fair value is equal to its carrying amount. Fair value of non-impaired loans is equal to the sum of future expected cash flows, discounted at the balance sheet date. The discount rate is defined as the appropriate market risk-free rate plus the credit risk margin and current sales margin for the given loan products group. The margin is computed on loans granted during last three months broken down by loan product groups and maturity. For the purpose of the fair value of foreign currency loans estimation, the margin on PLN loans adjusted by the cross-currency basis swap quotes is used. The fair value of impaired loans is defined as equal to the sum of expected recoveries, discounted with the use of effective interest rate, since the average expected recovery values take the element of credit risk fully into consideration. In case of loans without repayment schedule (loans in current account, overdrafts and credit cards), the fair value was assumed as equal to the carrying amount.

(in PLN thousand)

For the Group's capital exposure, for which no active market prices are available and market values are unattainable, the Group does not measure their fair value. Such exposures include companies from financial sector, associated with the use of the financial and banking infrastructure and payment card services and companies taken-over as a result of debt restructuring.

Since no quoted market prices are available for deposits, their fair values have been generally estimated using valuation techniques with the assumption that the fair value of a deposit at the moment of its receipt is equal to its carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows, discounted at the relevant balance sheet date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. The margin is computed on deposits acquired during last three months broken down by deposit product groups and maturity. In case of short term deposits (current deposits, overnights, saving accounts), the fair value was assumed as equal to the carrying amount.

The fair value of deposits and loans, apart from mortgage loans denominated in PLN and CHF for which prepayment model is used, is calculated based on contractual cash flows.

The mark-to-model valuation of own issue debt instruments is based on the method of discounting the future cash flows. Variable cash flows are estimated based upon rates adopted for specific markets (depending upon issue specifications). Both the fixed and implied cash flows are discounted using interbank money market rates.

			OF WHICH		
31.12.2015	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	7,881,607	7,881,607	2,951,414	4,930,193	–
Loans and advance to banks	7,314,724	7,311,058	–	5,301,176	2,009,882
Loans and advances to customers (*)	118,555,269	116,567,135	–	10,936,692	105,630,443
Receivables from financial leases	3,503,979	3,568,200	–	–	3,568,200
Debt securities held to maturity	3,368,424	3,380,400	2,509,227	871,173	–
Total assets	**140,624,003**	**138,708,400**	**5,460,641**	**22,039,234**	**111,208,525**
Liabilities					
Amounts due to Central Bank	914	928	–	–	928
Amounts due to other banks	5,958,449	6,002,687	–	1,182,111	4,820,576
Amounts due to customers	128,867,691	128,479,792	–	4,468,820	124,010,972
Debt securities issued	2,903,233	2,959,349	–	2,959,349	–
Total liabilities	**137,730,287**	**137,442,756**	**–**	**8,610,280**	**128,832,476**

(*) including bills of exchange eligible for rediscounting at Central Bank.

(in PLN thousand)

31.12.2014	CARRYING AMOUNT	FAIR VALUE	OF WHICH LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	9,226,254	9,226,254	3,399,335	5,826,919	–
Loans and advance to banks	7,169,872	7,197,178	–	5,340,515	1,856,663
Loans and advances to customers (*)	111,872,113	110,749,476	–	7,513,821	103,235,655
Receivables from financial leases	3,112,048	3,165,120	–	–	3,165,120
Debt securities held to maturity	1,601,568	1,616,035	764,589	851,446	–
Total assets	**132,981,855**	**131,954,063**	**4,163,924**	**19,532,701**	**108,257,438**
Liabilities					
Amounts due to Central Bank	971	997	–	–	997
Amounts due to other banks	5,344,702	5,408,323	–	1,126,766	4,281,557
Amounts due to customers	125,609,000	125,249,984	–	5,257,218	119,992,766
Debt securities issued	3,857,043	3,921,735	–	3,921,735	–
Total liabilities	**134,811,716**	**134,581,039**	**–**	**10,305,719**	**124,275,320**

(*) including bills of exchange eligible for rediscounting at Central Bank.

7. Custody activity

Custody activities are performed by virtue of a permit, issued by the Polish Financial Supervision Authority. The Bank's clients include a number of domestic and foreign financial institutions, banks offering custody and investment services, insurance companies, investment and pension funds, as well as non-financial institutions. The Bank provides custody services, including, inter alia, the settlement of transactions effected on domestic and international markets, custody of clients' assets, running of securities accounts, valuation of assets and services related to dividend and interest payments. The Bank also performs the activities of investment and pension funds depository.

As at 31 December 2015 the Bank maintained 12 077 securities accounts (in comparison to 8 812 securities accounts as at 31 December 2014).

8. Brokerage activity

The Group offers a wide range of capital market products and services via specialized Bank's organizational unit – Dom Maklerski Pekao (DM) and by the agency of Centralny Dom Maklerski Pekao S.A. (CDM) and Pekao Investment Banking S.A. (Pekao IB) a subsidiaries of the Bank Pekao S.A.

Dom Maklerski Pekao and Centralny Dom Maklerski Pekao S.A.

Dom Maklerski Pekao is a specialized organizational unit of the Bank designed to sell capital market products. The objective of the entity is to provide the highest quality brokerage services. The comprehensive offer enables investors, especially the individual clients of the Bank to invest in financial instruments traded on the regulated market and on the alternative trading platform organized by the Warsaw Stock Exchange (GPW S.A.) and by the BondSpot (i.e. shares, treasury and corporate bonds, derivatives – futures and options, ETF, certificates, warrants) as well as the instruments traded on the particular foreign markets using any service channel (mobile application, Internet, mobile service, phone, direct contact in the Brokerage Services Spots) after activation of the service. Dom Maklerski Pekao intermediates also in sales of the Structured Certificates of Deposit issued by Bank Pekao S.A., enables investors to acquire instruments in the IPO's and intermediates in transactions on the non-public market. The service for the clients is provided in more than 400 Brokerage Services Spots located in the Bank branches throughout Poland and via remote channels of Pekao24Makler (Internet, mobile service, phone, mobile application) fully integrated with the Bank's electronic banking platform Pekao24.

Centralny Dom Maklerski Pekao S.A. (CDM) is the largest and oldest brokerage firm on the Polish capital market. The aim of CDM is to service investment accounts. The offering enables Clients to invest in inter alia shares, Treasury bonds, corporate bonds, certificates, funds' units, ETF and structured products. CDM grants to clients access to invest on derivatives markets, foreign markets and OTC markets. Clients are served in 69 Consumer Service Spots located mainly in Bank branches throughout Poland, including 13 points dedicated to service for strategic clients and through remote service channels of CDM24 (CDMInternet, TeleCDM, CDM Mobile) enabling connection to electronic banking platform Pekao24.

Notes to the financial statements

(in PLN thousand)

The tight cooperation of Dom Maklerski Pekao and CDM on the realization of the projects conducted on the primary market and in the other areas of market activities of both entities ensures professional and comprehensive brokerage services.

CDM as well as Dom Maklerski Pekao is a member of the Warsaw Stock Exchange (GPW S.A.) and a direct participant in the National Depository of Securities (KDPW).

Both entities conform to the Good Practices Code of Brokerage Firms guaranteeing comprehensive services in accordance with highest ethics standards and are members of the Chamber of Brokerage Houses. Both DM and CDM actively participate in capital market development in Poland.

Pekao Investment Banking S.A.

Pekao Investment Banking S.A. operates as a brokerage house supervised by the Financial Supervision Commission, focusing on the service of institutional and corporate clients. The scope of services provided by Pekao IB comprises in particular acceptance and transfer of orders for purchase or sale of financial instruments, execution of these orders on account of the person or entity placing the order, offering of financial instruments, advisory services for enterprises on capital structure, corporate strategy or other matters related to such structure or strategy as well as advisory services and other services relating to mergers, divisions and acquisitions of companies. Pekao IB also performs the market maker's function both on the capital market and on the derivatives market, being one of the most active market makers.

Pekao Investment Banking S.A. is a member of the Warsaw Stock Exchange (GPW S.A.) and a direct participant in the National Depository of Securities (KDPW).

Information about the financial instruments of the clients held on securities accounts or stored in a form of document

	31.12.2015		31.12.2014	
	QUANTITY (PCS)	VALUE	QUANTITY (PCS)	VALUE
CLIENTS' FINANCIAL INSTRUMENTS				
Held on securities accounts	4,085,831,592	28,594,389	3,707,046,151	20,495,143
Equity securities and rights to such financial assets	4,075,825,419	27,191,398	3,699,876,483	18,868,524
Debt instruments and rights to such financial assets	10,006,173	1,402,991	7,169,668	1,626,619
Stored in a form of document	3,767,973,072	16,232,127	1,917,485,196	16,334,391
Equity securities and rights to such financial assets	3,763,773,072	16,074,480	1,917,485,196	16,334,391
Debt instruments and rights to such financial assets	4,200,000	157,647	–	–

Customers' cash on brokerage accounts

	31.12.2015	31.12.2014
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	857,944	857,732
Other customers' cash	45,571	41,558
Total	**903,515**	**899,290**

Settlements due to unsettled transactions

	31.12.2015	31.12.2014
Receivables from executed transactions	–	28
Liabilities from executed transactions	13,201	2,519

(in PLN thousand)

Settlements with National Depository of Securities (KDPW), KDPW_CCP and other stock exchange clearing houses

	31.12.2015	31.12.2014
Receivables from clearing fund	18,727	1,826
Receivables from margin deposits	29,866	21,518
Other receivables	231	161
Total receivables	**48,824**	**23,505**
Amounts due on margin deposits	4,421	–
Other liabilities	331	315
Total liabilities	**4,752**	**315**

Items concerning the participation in the compensation fund managed by the National Depository of Securities (KDPW)

	31.12.2015	31.12.2014
Receivables from compensation fund	10,914	9,286
Prepaid expenses – system maintenance fees	1,456	1,192
Deferred income – benefits from system	(12,549)	(10,478)
Total net balance sheet items concerning participation in the compensation fund	**(179)**	**–**

Settlement with entities running regulated securities markets and commodity exchanges

	31.12.2015	31.12.2014
Amounts due to Warsaw Stock Exchange	638	187
Total liabilities	**638**	**187**

9. Operating segments

Data reported in the section steem from the application of the management model ('Model') in which the main criterion for segmentation is the classification of customers based on their profile and service model.

Reporting and monitoring of results, for managerial purposes, includes all components of the income statement up to the gross profit level. Therefore, the income from the segment's activities as well as operating costs related to those activities (including direct and allocated costs in line with the allocation model applied) and other components of income statement are attached to each segment.

The Group settles transactions between segments on an arm's length basis by applying current market prices. Fund transfers between retail, private, corporate and investment banking segments, and the assets and liabilities management and other area are based on market prices applicable to the funds' currency and maturity, including liquidity margins.

Operating segments

The operating segments of the Group are as follows:

- Retail banking – all banking activites related to retail customers (excluding private banking customers), small and micro companies with annual turnover not exceeding PLN 20 million, as well as results of the subsidiaries, and shares in net profit of associates accounted for using the equity method, that are assigned to the retail banking activity,
- Private banking – all banking activites related to the most affluent individual customers,
- Corporate and Investment banking – all banking activites related to the medium and large companies, interbank market, debt securities and other instruments, and results of the of the subsidiaries that are assigned to the Corporate and Investment banking activity,
- Assets and liabilities management and other – supervision and monitoring of fund transfers, other activities centrally managded as well as the results of subsidiaries and share in net profit of associated accounted for using equity method that are not assigned to other reported segments.

Notes to the financial statements

(in PLN thousand)

Operating segments reporting for the period from 1 January to 31 December 2015

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	**2,424,906**	**25,716**	**1,523,400**	**258,274**	**4,232,296**
Non-interest income	**1,546,543**	**32,382**	**1,113,612**	**133,749**	**2,826,286**
Operating income	**3,971,449**	**58,098**	**2,637,012**	**392,023**	**7,058,582**
Personnel expenses	(1,132,086)	(23,226)	(261,916)	(491,291)	(1,908,519)
Other administrative expenses	(1,232,117)	(24,966)	(347,807)	625,202	(979,688)
Depreciation and amortisation	(170,218)	(1,571)	(23,181)	(136,495)	(331,465)
Operating costs	**(2,534,421)**	**(49,763)**	**(632,904)**	**(2,584)**	**(3,219,672)**
Gross operating profit	**1,437,028**	**8,335**	**2,004,108**	**389,439**	**3,838,910**
Net impairment losses on loans and off-balance sheet commitments	(253,786)	(1,443)	(283,903)	21,574	(517,558)
Net operating profit	**1,183,242**	**6,892**	**1,720,205**	**411,013**	**3,321,352**
Net result on other provisions	(283)	(388)	14	(28,109)	(28,766)
Guarantee funds charges	(106,880)	(796)	(171,234)	(256,043)	(534,953)
Net result on investment activities	(122)	–	386	73,221	73,485
Profit before tax	**1,075,957**	**5,708**	**1,549,371**	**200,082**	**2,831,118**
Income tax expense					(537,640)
Net profit for the period					**2,293,478**
Attributable to equity holders of the Bank					**2,292,459**
Attributable to non-controling interests					1,019
Allocated assets	59,315,400	295,645	97,538,797	(192,927)	156,956,915
Unallocated assets					11,828,652
Total assets					**168,785,567**
Allocated liabilities	71,986,732	8,149,432	63,840,461	(4,505,321)	139,471,304
Unallocated liabilities					29,314,263
Total liabilities					**168,785,567**

(in PLN thousand)

Operating segments reporting for the period from 1 January to 31 December 2014

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	**2,419,644**	**26,626**	**1,609,713**	**476,819**	**4,532,802**
Non-interest income	**1,608,295**	**30,423**	**1,090,155**	**84,055**	**2,812,928**
Operating income	**4,027,939**	**57,049**	**2,699,868**	**560,874**	**7,345,730**
Personnel expenses	(1,149,051)	(23,151)	(257,232)	(475,636)	(1,905,070)
Other administrative expenses	(1,310,416)	(26,877)	(336,201)	619,476	(1,054,018)
Depreciation and amortisation	(161,164)	(1,139)	(20,602)	(143,774)	(326,679)
Operating costs	**(2,620,631)**	**(51,167)**	**(614,035)**	**66**	**(3,285,767)**
Gross operating profit	**1,407,308**	**5,882**	**2,085,833**	**560,940**	**4,059,963**
Net impairment losses on loans and off-balance sheet commitments	(220,836)	485	(339,651)	427	(559,575)
Net operating profit	**1,186,472**	**6,367**	**1,746,182**	**561,367**	**3,500,388**
Net result on other provisions	62	329	(2,457)	(636)	(2,702)
Guarantee funds charges	(57,006)	(527)	(82,261)	–	(139,794)
Net result on investment activities	59	–	248	1,490	1,797
Profit before tax	**1,129,587**	**6,169**	**1,661,712**	**562,221**	**3,359,689**
Income tax expense					(634,573)
Net profit for the period					**2,725,116**
Attributable to equity holders of the Bank					**2,714,714**
Attributable to non-controling interests					10,402
Allocated assets	53,901,881	248,788	98,057,381	1,445,195	153,653,245
Unallocated assets					13,971,783
Total assets					**167,625,028**
Allocated liabilities	63,281,223	6,862,826	69,615,463	(3,856,684)	135,902,828
Unallocated liabilities					31,722,200
Total liabilities					**167,625,028**

Reconciliation of operating income for reportable segments

	2015	2014
Total operating income for reportable segments	**7,058,582**	**7,345,730**
Share in gains (losses) from associates	(52,091)	(63,210)
Net other operating income and expenses	(160,996)	(74,336)
Refunding of administrative expenses	3,432	3,252
Operating income	**6,848,927**	**7,211,436**

Geographical segment

The operating activity of Bank Pekao S.A. Group is concentrated in Poland through the network of branches and the subsidiaries.

(in PLN thousand)

10. Interest income and expense

Interest income

	2015	2014
Loans and other receivables from customers	4,410,834	4,997,044
Interbank placements	103,034	144,405
Reverse repo transactions	77,626	97,559
Investment securities	699,863	838,554
Hedging derivatives	150,934	137,056
Financial assets held for trading	14,078	10,672
Total	**5,456,369**	**6,225,290**

Interest income for 2015 includes income from impaired financial assets in the amount of PLN 301 340 thousand (in 2014 PLN 322 458 thousand).

Total amount of interest income for 2015 measured at amortized cost using the effective interest rate method, which applies to financial assets not measured at fair value through profit or loss, amounted to PLN 3 730 968 thousand (in 2014 PLN 4 096 079 thousand).

Interest expense

	2015	2014
Deposits from customers	(1,097,030)	(1,516,221)
Interbank deposits	(23,156)	(24,730)
Repo transactions	(59,001)	(80,005)
Loans and advance received	(19,940)	(48,899)
Debt securities issued	(90,672)	(94,141)
Total	**(1,289,799)**	**(1,763,996)**

Total amount of interest expense for 2015, measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 1 094 924 thousand (in 2014 PLN 1 479 896 thousand).

(in PLN thousand)

11. Fee and commission income and expense

Fee and commission income

	2015	2014
Accounts maintenance, payment orders and cash transactions	651,507	677,182
Payment cards	693,067	827,438
Loans and advances	432,269	433,942
Investment products sales intermediation	294,648	281,267
Securities operations	96,794	75,281
Custody activity	69,519	63,867
Pension and investment funds service fees	50,246	53,025
Guarantees, letters of credit and similar transactions	51,050	49,940
Other	49,423	74,339
Total	**2,388,523**	**2,536,281**

Fee and commission expense

	2015	2014
Payment cards	(322,424)	(423,821)
Money orders and transfers	(21,708)	(20,798)
Securities operations and other financial instruments	(13,840)	(24,599)
Accounts maintenance	(4,275)	(3,346)
Custody activity	(13,388)	(12,754)
Pension funds management charges	(868)	(1,876)
Acquisition services	(3,404)	(2,833)
Other	(3,090)	(2,519)
Total	**(382,997)**	**(492,546)**

12. Dividend income

	2015	2014
Issuers of securities held for trading	530	–
From issuers of securities available for sale	13,105	8,298
Total	**13,635**	**8,298**

13. Result on financial assets and liabilities held for trading

	2015	2014
Foreign currency exchange result	367,908	363,435
Gains (losses) on derivatives	64,206	72,376
Gains (losses) on securities	(4,066)	7,490
Total	**428,048**	**443,301**

In 2015, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN 64 586 thousand (in 2014 PLN 76 199 thousand).

(in PLN thousand)

14. Gains (losses) on disposal

Realized gains

	2015	2014
Loans and other financial receivables	534	18,579
Available for sale financial assets – debt instruments	229,592	244,478
Available for sale financial assets – equity instruments	–	9,100
Debt securities issued	6	6
Total	**230,132**	**272,163**

Realized losses

	2015	2014
Available for sale financial assets – debt instruments	(41)	(78)
Debt securities issued	(490)	(30)
Total	**(531)**	**(108)**

Net realized profit	**229,601**	**272,055**

The change in fair value of financial assets available for sale transferred in 2015 directly to equity amounted to PLN 7 573 thousand (decrease), in 2014 PLN 726 466 thousand (increase).

The change in fair value of financial assets, transferred in 2015 from equity to financial income amounted to PLN 229 551 thousand (profit), in 2014 PLN 244 400 thousand (profit).

15. Administrative expenses

Personnel expenses

	2015	2014
Wages and salaries	(1,609,253)	(1,603,460)
Insurance and other charges related to employees	(291,849)	(288,542)
Share-based payments expenses	(7,417)	(13,068)
Total	**(1,908,519)**	**(1,905,070)**

Other administrative expenses

	2015	2014
General expenses	(916,571)	(998,148)
Taxes and charges (*)	(74,850)	(44,854)
Bank Guarantee Fund fee (**)	(509,127)	(137,742)
Financial supervision authority fee (KNF)	(17,525)	(16,320)
Total	**(1,518,073)**	**(1,197,064)**

Total administrative expenses	**(3,426,592)**	**(3,102,134)**

(*) In this the amount of PLN 26 469 thousand representing the cost of provision for the contribution to the Borrowers Support Fund.
(**) In this the amount of PLN 234 081 thousand contributed by the Group to BFG for the purpose of payments of the funds guaranteed to the depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie.

(in PLN thousand)

16. Depreciation and amortization

	2015	2014
Property, plant and equipment	(180,457)	(194,011)
Investment property	(1,654)	(2,940)
Intangible assets	(149,354)	(129,728)
Total	**(331,465)**	**(326,679)**

17. Net other operating income and expenses

Other operating income

	2015	2014
Rental income	22,096	23,727
Miscellaneous income	15,504	18,537
Credit insurance charges	227	21,643
Recovery of debt collection costs	16,369	17,533
Excess payments, repayments	9,152	23,617
Compensation, penalty fees and fines received (including received compensations from damages in relation to fixed assets)	116,510	40,140
Revenues from sale of products, goods and services	5,778	7,277
Revenues from leasing activity	15,559	1,285
Refunding of administrative expenses	3,432	3,252
Income from written-off liabilities	4,624	690
Releases of impairment allowances for litigation and other assets	3,093	1,042
Gains on sale of leasing assets for third person and other assets	764	630
Other	7,328	7,027
Total	**220,436**	**166,400**

Other operating expenses

	2015	2014
Costs related to leasing activity	(2,443)	(9,833)
Credit insurance expenses	(10,101)	(26,138)
Reimbursement and deficiencies	(4,021)	(5,527)
Sundry expenses	(14,541)	(17,617)
Cost from sale of products, goods and services	(2,358)	(2,822)
Customers complaints expense	(2,311)	(2,594)
Impairment allowance for litigations and other assets	(9,167)	(12,030)
Costs of litigation and claims	(2,130)	(1,898)
Compensation, penalty fees and fines paid	(644)	(415)
Losses on disposal of leasing assets for third person and other assets	(604)	–
Other	(11,120)	(13,190)
Total	**(59,440)**	**(92,064)**

Net other operating income and expenses	**160,996**	**74,336**

18. Net impairment losses on financial assets and off-balance sheet commitments

(in PLN thousand)

2015	OPENING BALANCE	INCREASES: IMPARIMENT CHARGES	INCREASES: OTHER (*)	DECREASES: WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	DECREASES: RELEASE OF IMPARIMENT CHARGES	DECREASES: OTHER (*)	CLOSING BALANCE	IMPACT ON INCOME STATEMENT (**)
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks valued at amortized cost	19,360	684	1,541	–	(870)	(941)	19,774	186
Loans and advances to customers valued at amortized cost	5,582,478	1,156,227	100,138	(445,826)	(646,377)	(68,007)	5,678,633	(509,850)
Receivables from financial leases	187,901	23,834	–	(139)	(19,101)	(28,791)	163,704	(4,733)
Financial assets available for sale	122	–	–	–	–	–	122	–
Off-balance sheet commitments	102,386	71,614	1,182	–	(54,411)	–	120,771	(17,203)
Total financial assets and off-balance sheet commitments	**5,892,247**	**1,252,359**	**102,861**	**(445,965)**	**(720,759)**	**(97,739)**	**5,983,004**	**(531,600)**
Impairment of other assets								
Investments in associates	60	–	–	–	–	–	60	–
Intangible assets	10,961	–	–	–	–	–	10,961	–
Property, plant and equipment	6,667	610	1,569	(152)	–	(243)	8,451	(610)
Investment properties	8,682	–	–	–	–	–	8,682	–
Other	76,532	9,167	626	(3,592)	(3,093)	(1,904)	77,736	(6,074)
Total impairment of other assets	**102,902**	**9,777**	**2,195**	**(3,744)**	**(3,093)**	**(2,147)**	**105,890**	**(6,684)**
Total	**5,995,149**	**1,262,136**	**105,056**	**(449,709)**	**(723,852)**	**(99,886)**	**6,088,894**	**(538,284)**

(*) Including foreign exchange differences and transfers between positions.
(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 531 600 thousand and proceeds from recovered bad debt in the amount of PLN 14 042 thousand, the total is PLN minus 517 558 thousand.

(in PLN thousand)

2014	OPENING BALANCE	INCREASES: BUSINESS COMBINATIONS	INCREASES: IMPARIMENT CHARGES	INCREASES: OTHER (*)	DECREASES: WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	DECREASES: RELEASE OF IMPARIMENT CHARGES	DECREASES: OTHER (*)	CLOSING BALANCE	IMPACT ON INCOME STATEMENT (**)
Impairment of financial assets and off-balance sheet commitments									
Loans and advances to banks valued at amortized cost	25,721	–	610	1,176	–	(7,937)	(210)	19,360	7,327
Loans and advances to customers valued at amortized cost	5,028,177	229,996	1,159,782	41,212	(207,144)	(586,612)	(82,933)	5,582,478	(573,170)
Receivables from financial leases	175,111	–	30,304	50	(4)	(17,560)	–	187,901	(12,744)
Financial assets available for sale	123	–	–	–	–	–	(1)	122	–
Off-balance sheet commitments	113,932	–	67,469	709	–	(79,724)	–	102,386	12,255
Total financial assets and off-balance sheet commitments	**5,343,064**	**229,996**	**1,258,165**	**43,147**	**(207,148)**	**(691,833)**	**(83,144)**	**5,892,247**	**(566,332)**
Impairment of other assets									
Investments in associates	60	–	–	–	–	–	–	60	–
Intangible assets	10,961	–	–	–	–	–	–	10,961	–
Property, plant and equipment	6,830	–	–	–	(163)	–	–	6,667	–
Investment properties	3,080	–	–	6,152	–	–	(550)	8,682	–
Other	65,544	–	12,030	–	–	(1,042)	–	76,532	(10,988)
Total impairment of other assets	**86,475**	**–**	**12,030**	**6,152**	**(163)**	**(1,042)**	**(550)**	**102,902**	**(10,988)**
Total	**5,429,539**	**229,996**	**1,270,195**	**49,299**	**(207,311)**	**(692,875)**	**(83,694)**	**5,995,149**	**(577,320)**

(*) Including foreign exchange differences and transfers between positions.
(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 566 332 thousand and proceeds from recovered bad debt in the amount of PLN 6 757 thousand, the total is PLN minus 559 575 thousand.

(in PLN thousand)

19. Gains (losses) on subsidiaries and associates

Share of profit (losses) from associates

	2015	2014
Share in gains (losses) from associates		
Dom Inwestycyjny Xelion Sp.z.o.o.	1,965	1,452
Pioneer Pekao Investment Management S.A.	44,649	51,795
Krajowa Izba Rozliczeniowa S.A.	5,477	9,963
Total share in gains (losses) from associates	**52,091**	**63,210**
Gains on liquidation of subsidiaries	**55**	**–**
Gains (losses) on disposal of associates	**61,057**	**–**
Total gains (losses) from subsidiaries and associates	**113,203**	**63,210**

20. Gains (losses) on disposal of property, plant and equipment, and intangible assets

	2015	2014
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	–	561
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	12,373	1,236
Total gains (losses) on disposal of property plant and equipment and intangible assets	**12,373**	**1,797**

21. Income tax

The below additional information notes present the Group gross profit's.

Reconciliation between tax calculated by applying the current tax rate to accounting profit and the actual tax charge presented in the consolidated income statement.

	2015	2014
Profit before income tax	**2,831,118**	**3,359,689**
Tax charge according to applicable tax rate	**537,912**	**638,341**
Permanent differences:	**(272)**	**(3,768)**
Non taxable income	(28,950)	(30,829)
Non tax deductible costs	29,252	29,400
Impact of other tax rates applied under a different tax jurisdiction	–	–
Impact of utilized tax losses	–	–
Tax relieves not included in the income statement	185	111
Other	(759)	(2,450)
Effective income tax charge on gross profit	**537,640**	**634,573**

The applied tax rate of 19% is the corporate income tax rate binding in Poland.

(in PLN thousand)

The basic components of income tax charge presented in the income statement and equity

	2015	2014
INCOME STATEMENT		
Current tax	**(469,589)**	**(735,376)**
Current tax charge in the income statement	(489,233)	(739,302)
Adjustments related to the current tax from previous years	22,393	7,433
Other taxes (e.g. withholding tax, income tax relating to foreign branch)	(2,749)	(3,507)
Deferred tax	**(68,051)**	**100,803**
Occurrence and reversal of temporary differences	(68,051)	100,803
Tax charge in the consolidated income statement	**(537,640)**	**(634,573)**
EQUITY		
Deferred tax	**60,338**	**(115,110)**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments – cash flows hedges	17,735	(31,941)
revaluation of available for sale financial assets – debt securities	84,422	(92,952)
revaluation of available for sale financial assets – equity securities	(39,368)	1,359
Tax on items that are or may be reclassified subsequently to profit or loss	**62,789**	**(123,534)**
Tax charge on items that will never be reclassified to profit or loss	**(2,451)**	**8,424**
revaluation of the defined benefit liabilities	(2,451)	8,424
Total charge	**(477,302)**	**(749,683)**

Notes to the financial statements

(in PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2015									
	OPENING BALANCE			CHANGES RECOGNIZED		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY
DEFFERED TAX LIABILITY										
Accrued income – securities	–	–	–	–	–	–	–	–	–	–
Accrued income – loans	104,485	104,485	–	24,055	–	–	–	128,540	128,540	–
Change in revaluation of financial assets	258,875	113,075	145,800	(93,473)	(62,789)	59	118	102,790	19,661	83,129
Accelerated depreciation	125,491	125,491	–	(2,165)	–	–	–	123,326	123,326	–
Investment relief	6,459	6,459	–	(735)	–	–	–	5,724	5,724	–
Other	90,351	90,351	–	(233)	–	–	–	90,118	90,118	–
Gross deferred tax liability	**585,661**	**439,861**	**145,800**	**(72,551)**	**(62,789)**	**59**	**118**	**450,498**	**367,369**	**83,129**
DEFFERED TAX ASSET										
Accrued expenses – securities	97,700	97,700	–	(74,334)	–	–	–	23,366	23,366	–
Accrued expenses – loans and deposits	40,482	40,482	–	4,857	–	–	–	45,339	45,339	–
Downward revaluation of financial assets	298,354	298,354	–	(44,155)	–	2,759	–	256,958	256,958	–
Income received to be amortized over time from loans and current accounts	156,639	156,639	–	17,458	–	–	–	174,097	174,097	–
Loan provision expenses	524,936	524,936	–	(31,608)	–	–	–	493,328	493,328	–
Personnel related provisions	105,139	86,205	18,934	9,942	(2,451)	2,027	–	114,657	98,174	16,483
Accruals	25,331	25,331	–	(5,814)	–	–	–	19,517	19,517	–
Previous year loss	–	–	–	(1,412)	–	11,445	–	10,033	10,033	–
Other	212,406	212,406	–	(15,536)	–	26,601	–	223,471	223,471	–
Gross deferred tax asset	**1,460,987**	**1,442,053**	**18,934**	**(140,602)**	**(2,451)**	**42,832**	**–**	**1,360,766**	**1,344,283**	**16,483**
Deferred tax expenses	**x**	**x**	**x**	**(68,051)**	**60,338**	**42,773**	**(118)**	**x**	**x**	**x**
Net deferred tax assets	**877,419**	**1,004,285**	**(126,866)**	**x**	**x**	**x**	**x**	**915,204**	**981,850**	**(66,646)**
Net deferred tax provision	**2,093**	**2,093**	**x**	**x**	**x**	**x**	**x**	**4,936**	**4,936**	**x**

(in PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2014									
	OPENING BALANCE			CHANGES RECOGNIZED		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY
DEFFERED TAX LIABILITY										
Accrued income – securities	–	–	–	–	–	–	–	–	–	–
Accrued income – loans	79,723	79,723	–	24,279	–	483	–	104,485	104,485	–
Change in revaluation of financial assets	70,017	47,751	22,266	65,258	123,534	66	–	258,875	113,075	145,800
Accelerated depreciation	129,630	129,630	–	(4,458)	–	319	–	125,491	125,491	–
Investment relief	6,867	6,867	–	(408)	–	–	–	6,459	6,459	–
Other	72,837	72,837	–	10,368	–	7,146	–	90,351	90,351	–
Gross deferred tax liability	**359,074**	**336,808**	**22,266**	**95,039**	**123,534**	**8,014**	**–**	**585,661**	**439,861**	**145,800**
DEFFERED TAX ASSET										
Accrued expenses – securities	21,676	21,676	–	76,024	–	–	–	97,700	97,700	–
Accrued expenses – loans and deposits	40,449	40,449	–	(720)	–	753	–	40,482	40,482	–
Downward revaluation of financial assets	195,156	195,156	–	103,198	–	–	–	298,354	298,354	–
Income received to be amortized over time from loans and current accounts	129,979	129,979	–	23,227	–	3,433	–	156,639	156,639	–
Loan provision expenses	533,732	533,732	–	(8,796)	–	–	–	524,936	524,936	–
Personnel related provisions	92,651	82,141	10,510	3,650	8,424	414	–	105,139	86,205	18,934
Accruals	18,045	18,045	–	7,231	–	55	–	25,331	25,331	–
Previous year loss	–	–	–	–	–	–	–	–	–	–
Other	219,443	219,443	–	(7,972)	–	935	–	212,406	212,406	–
Gross deferred tax asset	**1,251,079**	**1,240,621**	**10,510**	**195,842**	**8,424**	**5,590**	**–**	**1,460,987**	**1,442,053**	**18,934**
Deferred tax expenses	**x**	**x**	**x**	**100,803**	**(115,110)**	**(2,424)**	**x**	**x**	**x**	**x**
Net deferred tax assets	**895,320**	**907,076**	**(11,756)**	**x**	**x**	**x**	**x**	**877,419**	**1,004,285**	**(126,866)**
Net deferred tax provision	**3,263**	**3,263**	**x**	**x**	**x**	**x**	**x**	**2,093**	**2,093**	**x**

(in PLN thousand)

In the opinion of the Group the deferred tax asset in the amount of PLN 915 204 thousand reported as at 31 December 2015 is sustainable in total amount. The analysis was performed based on the past results of the Group's companies and assumed results in the future periods. The analysis assumed the five years' time horizon.

As at 31 December 2015, there were temporary differences related to investments in subsidiaries and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

The table below presents the amount of negative temporary differences, unrecognized tax losses, unutilized tax reliefs, in relation to which deferred tax asset was not recognized in the statement of financial position as well as the expiration date of temporary differences.

EXPIRATION YEAR OF TEMPORARY DIFFERENCES	AMOUNT OF DIFFERENCES AS AT 31.12.2015	AMOUNT OF DIFFERENCES AS AT 31.12.2014
2015	–	602
2016	20,753	–
2017	13,193	49
2018	10,150	1,959
2019	8,801	–
2020	888	–
No time limits	26,448	26,448
Total	**80,233**	**29,058**

22. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing net profit attributable to equity holders of the Group by the weighted average number of the ordinary shares outstanding during the period.

	2015	2014
Net profit	2,292,459	2,714,714
Weighted average number of ordinary shares in the period	262,470,034	262,470,034
Earnings per share (in PLN per share)	8.73	10.34

Diluted earnings per share

Diluted earnings per share are calculated by dividing net profit attributable to equity holders of the Group by the weighted average number of the ordinary shares outstanding during the given period adjusted for all potential dilution of ordinary shares.

As at 31 December 2015 there no diluting instruments in the form of convertible bonds in the Group.

	2015	2014
Net profit	2,292,459	2,714,714
Weighted average number of ordinary shares in the period	262,470,034	262,470,034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262,470,034	262,470,034
Diluted earnings per share (in PLN per share)	8.73	10.34

(in PLN thousand)

23. Dividend proposal

The Management Board of the Bank has decided to propose to the Ordinary General Meeting of Shareholders a dividend payment for 2015 in the amount of PLN 8.70 per share. Total dividend proposed to be paid amounts to PLN 2 283 489 thousand. The dividend has not been recognized as liabilities and there are no tax consequences for the Bank.

The final decision on the distribution of net profit and its allocating to dividend will be made by the General Meeting of Shareholders.

24. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2015	31.12.2014
Cash	2,951,414	3,399,335
Current account at Central Bank	4,930,181	5,826,907
Other	12	12
Total	**7,881,607**	**9,226,254**

AMOUNTS DUE TO CENTRAL BANK	31.12.2015	31.12.2014
Term deposits	914	971
Total	**914**	**971**

Cash and balances with Central Bank by currencies

31.12.2015	ASSETS	LIABILITIES
PLN	6,900,383	914
EUR	513,012	–
USD	247,073	–
CHF	64,635	–
Other currencies	156,504	–
Total	**7,881,607**	**914**

31.12.2014	ASSETS	LIABILITIES
PLN	7,719,529	971
EUR	834,006	–
USD	246,688	–
CHF	72,104	–
Other currencies	353,927	–
Total	**9,226,254**	**971**

During the day, the Bank may use funds from the mandatory reserve account for ongoing payments pursuant to an instruction, submitted to the National Bank of Poland. It must, however, ensure that the average monthly balance on such accounts comply with the requirements described in the mandatory reserve declaration.

As at 31 December 2015 the interest rate of funds held on the mandatory reserve account is at 1.35% (0.9 of NBP reference rate).
As at 31 December 2014 the interest rate was at 1.8% (0.9 of rediscount rate for bills of exchange).

(in PLN thousand)

25. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2015	31.12.2014
Current accounts	89,553	1,048,021
Interbank placements	3,461,155	2,337,801
Loans and advances	59,224	156,224
Cash collateral	1,675,589	1,675,036
Reverse repo transactions	1,757,063	1,930,808
Cash in transit	291,914	41,342
Total gross amount	**7,334,498**	**7,189,232**
Impairment allowances	(19,774)	(19,360)
Total net amount	**7,314,724**	**7,169,872**

Loans and advances to banks by quality

	31.12.2015	31.12.2014
Loans and advances to banks, including:		
non impaired (gross)	7,314,771	7,170,272
impaired (gross)	19,727	18,960
individual impairment allowances	(9,927)	(9,160)
collective impairment allowances (*)	(9,847)	(10,200)
Total	**7,314,724**	**7,169,872**

(*) Including estimated impairment allowances for losses incurred but not reported (IBNR).

Loans and advances to banks by contractual maturities

	31.12.2015	31.12.2014
Loans and advances to banks, including:		
up to 1 month	6,919,511	6,185,886
between 1 and 3 months	11,481	194,601
between 3 months and 1 year	21,852	408,533
between 1 and 5 years	351,334	367,091
over 5 years	2	–
past due	30,318	33,121
Total gross amount	**7,334,498**	**7,189,232**
Impairment allowances	(19,774)	(19,360)
Total net amount	**7,314,724**	**7,169,872**

Loans and advances to banks by currencies

	31.12.2015	31.12.2014
PLN	2,758,456	2,709,014
CHF	30,586	3,457
EUR	1,959,303	2,739,042
USD	2,214,880	1,553,787
Other currencies	351,499	164,572
Total	**7,314,724**	**7,169,872**

Changes in the level of impairment allowances in 2015 and 2014 are presented in the Note 18.

(in PLN thousand)

26. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
Debt securities	1,124,717	448,453
Equity securities	2,075	–
Total financial assets	**1,126,792**	**448,453**
FINANCIAL LIABILITIES		
Debt securities	611,442	591,311
Total financial liabilities	**611,442**	**591,311**

Debt securities held for trading

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
Debt securities issued by State Treasury	1,003,007	310,653
T – bills	–	–
T – bonds	1,003,007	310,653
Debt securities issued by banks	45,590	54,688
Debt securities issued by business entities	76,120	83,112
Debt securities issued by local governments	–	–
Total financial assets	**1,124,717**	**448,453**
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	611,442	591,311
T – bonds	611,442	591,311
Total financial liabilities	**611,442**	**591,311**

Equity securities held for trading

	31.12.2015	31.12.2014
Shares	2,075	–
Total	**2,075**	**–**

Debt securities held for trading by maturity

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
Debt securities, including:		
up to 1 month	39,222	26,201
between 1 and 3 months	23,294	13,214
between 3 months and 1 year	358,297	65,729
between 1 and 5 years	163,737	163,072
over 5 years	532,443	180,237
unspecified term	7,724	–
Total financial assets	**1,124,717**	**448,453**
FINANCIAL LIABILITIES		
Debt securities, including:		
up to 1 month	–	–
between 1 and 3 months	–	–
between 3 months and 1 year	170,729	362,582
between 1 and 5 years	382,663	173,090
over 5 years	58,050	55,639
Total financial liabilities	**611,442**	**591,311**

(in PLN thousand)

Debt securities held for trading by currency

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
PLN	1,110,529	403,194
EUR	10,072	41,876
USD	4,116	3,383
Total financial assets	**1,124,717**	**448,453**
FINANCIAL LIABILITIES		
PLN	611,442	591,311
Total financial liabilities	**611,442**	**591,311**

27. Derivative financial instruments (held for trading)

Derivative financial instruments at the Group

In its operations the Group uses different financial derivatives for managing risks involved in the Group's business. The majority of derivatives at the Group include over-the-counter contracts. Regulated stock exchange contracts (mainly futures) represent a small part of those derivatives.

Derivative foreign exchange transactions include either the obligation or the right to buy or sell foreign and domestic currency assets. Forward foreign exchange transactions are based on the foreign exchange rates, specified on the transaction date for a predefined future date. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves, relevant for a given market.

Foreign exchange swaps are a combination of a swap of specific currencies as at spot date and of reverse a transaction as at forward date with foreign exchange rates specified in advance on transaction date. Transactions of such type are settled by an exchange of assets. Foreign exchange swap transactions are mostly concluded in the process of managing the Bank's currency liquidity. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves relevant for a given market.

Foreign exchange options with delivery are defined as contracts, where one of the parties, i.e. the option buyer, purchases from the other party, referred to as the option writer, at a so-called premium price the right without the obligation to buy (call option) or to sell (put option), at a specified point of time in the future or during a specified time range a foreign currency amount specified in the contract at the exchange rate set during the conclusion of the option agreement.

In case of options settled in net amounts, upon acquisition of the rights, the buyer receives an amount of money equal to the product of notional and difference between spot ad strike price.

Barrier option with one barrier is a type of option where exercise of the option depends on the underlying crossing or reaching a given barrier level. A barrier may be reached starting from lower ('UP') or from higher ('DOWN') level of the underlying instrument. 'IN' options start their lives worthless and only become active when a predetermined knock-in barrier price is breached. 'OUT' options start their lives active and become null and void when a certain knock-out barrier price is breached.

Foreign exchange options are priced using the Garman-Kohlhagen valuation model (and in case of barrier and Asian options using the so-called expanded Garman-Kohlhagen model). Parameters of the model based on market quotations of plain-vanilla at-the-money options and market spreads for out-of-the-money and in-the-money options (volatility smile) for standard maturities.

Derivatives related to interest rates enable the Group and its customers to transfer, modify or limit interest rate risk.

In the case of Interest Rate Swaps (IRS), counterparties exchange between each other the flows of interest payments, accrued on the nominal amount identified in the contract. These transactions are valued using the discounted cash flow model. Floating (implied) cash flows are estimated on base of respective IRS rates. Floating and fixed cash flows are discounted by relevant zero-coupon yield curves.

Forward Rate Agreements (FRA) involve both parties undertaking to pay interest on a predefined nominal amount for a specified period starting in the future and charged according to the interest rate determined on the day of the agreement The parties settle the transaction on value date using

(in PLN thousand)

the reference rate as a discount rate in the process of discounting the difference between the FRA rate (forward rate as at transaction date) and the reference rate. These transactions are valued using the discounted cash flow model.

Cross currency IRS involves both parties swapping capital and interest flows in different currencies in a specified period. These transactions are valued using the discounted cash flow model. Valuation of Basis Swap transactions (cross currency IRS with floating coupon) takes into account market quotations of basis spread (Basis swap spread).

In the case of forward transactions on securities, counterparties agree to buy or sell specified securities on a forward date for a payment fixed on the date of transaction. Such transactions are measured based upon the valuation of the security (mark-to-market or mark-to-model) and valuation of the related payment (method of discounting cash flows by money market rate).

Interest rate options (cap/floor) are contracts where one of the parties, the option buyer, purchases from the other party, the option writer, at a so-called premium price, the right without the obligation to borrow (cap) or lend (floor) at specified points of time in the future (independently) amounts specified in the contract at the interest rate set during the conclusion of the option. Contracts are net-settled (without fund location) at agreed time. Transactions of this type are valued using the Normal model. The model is parameterized based upon market quotations of at-the-money options as at standard quoted maturities.

Interest rate futures transactions refer to standardized forward contracts purchased on the stock market. Futures contracts are measured based upon quotations available directly from stock exchanges.

Derivative financial instruments embedded in other instruments

The Group uses derivatives financial instruments embedded in complex financial instruments, i.e. such as including both a derivative and base agreement, which results in part of the cash flows of the combined instrument changing similarly to cash flows of an independent derivative. Derivatives embedded in other instruments cause part or all cash flows resulting from the base agreement to be modified as per a specific interest rate, price of a security, foreign exchange rate, price index or interest rate index.

Call options in some of the corporate, municipal bonds and own equity placements are derivatives embedded in balance sheet financial instruments. In this case, embedded financial instruments are closely related to the base contract and thus the embedded derivative does not need to be isolated or recognized and valuated separately.

The Group has deposits and certificates of deposits on offer which include embedded derivatives. As the nature of such instrument is not strictly associated with the nature of the deposit agreement, the embedded instrument is separated and classified into the portfolio held-for-trading. The valuation of such instrument is recognized in the income statement. Embedded instruments include simple options (plain vanilla) and exotic options for single stocks, commodities, indices and other market indices, including interest rate indices, foreign exchange rates and their related baskets.

All embedded options are immediately closed back-to-back on the interbank market.

Currency options embedded in deposits are valued as other currency options.

Other plain vanilla and exotic options embedded in deposits as well as their close positions are valued using the Monte-Carlo simulation technique assuming Geometric Brownian Motion model of risk factors. Model parameters are determined first of all on the basis of quoted options and futures contracts and in their absence based on statistical measures of the underlying instrument dynamic.

The Group carried out an analysis of the portfolio of credit agreements and of regular agreements in order to isolate embedded derivatives and decided that the agreements in question do not require isolation and separate treatment of embedded instruments.

Risk involved in financial derivatives

Market risk and credit risk are the basic types of risk, associated with derivatives.

At the beginning, financial derivatives usually have a small market value or no market value at all. It is a consequence of the fact that derivatives require no initial net investments, or require a very small net investment compared to other types of contracts, which display a similar reaction to changing market conditions.

Derivatives gain positive or negative value as a result of change in specific interest rates, prices of securities, prices of commodities, currency exchange rates, price index, credit standing or credit index or another market parameter. In case of such changes, the derivatives held become more or less advantageous than instruments with the same residual maturities, available at that moment on the market.

Notes to the financial statements

(in PLN thousand)

Credit risk related to derivative contracts is a potential cost of concluding a new contract on the original terms and conditions if the other party to the original contract fails to meet its obligations. In order to assess the potential cost of replacement the Group uses the same method as for credit risk assessment. In order to control its credit risk levels the Group performs assessments of other contract parties using the same methods as for credit decisions.

The following tables present nominal amounts of financial derivatives and fair values of such derivatives. Nominal amounts of certain financial instruments are used for comparison with balance sheet instruments but need not necessarily indicate what the future cash flow amounts will be or what the current fair value of such instruments is and therefore do not reflect the Group's credit or price risk level.

Fair value of trading derivatives

31.12.2015	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2,866,458	2,857,159
Forward Rate Agreements (FRA)	960	906
Options	10,129	10,046
Other	3,515	3,278
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	28,626	99,948
Currency Forward Agreements	80,894	76,309
Currency Swaps (Fx–Swap)	134,707	70,979
Options for currency and for gold	44,658	41,557
Transactions based on equity securities and stock indexes		
Options	8,366	8,366
Other	28	7,725
Transactions based on commodities and precious metals		
Options	12,120	12,182
Other	15,986	15,873
Total	**3,206,447**	**3,204,328**

(in PLN thousand)

Fair value of trading derivatives

31.12.2014	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	3,772,307	3,768,010
Forward Rate Agreements (FRA)	4,558	6,956
Options	13,263	13,076
Other	110	84
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	37,844	70,612
Currency Forward Agreements	149,724	82,594
Currency Swaps (Fx-Swap)	143,469	146,153
Options for currency and gold	46,657	52,016
Transactions based on equity securities and stock indexes		
Options	5,387	5,390
Other	–	–
Transactions based on commodities and precious metals		
Options	41	41
Other	274,615	272,774
Total	**4,447,975**	**4,417,706**

Nominal value of trading derivatives

31.12.2015	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	5,430,113	7,313,716	11,740,420	71,051,076	16,922,760	112,458,085
Forward Rate Agreements (FRA)	2,710,000	1,715,000	2,600,000	–	–	7,025,000
Options	–	–	449,753	4,067,896	–	4,517,649
Other	2,151,319	–	–	–	–	2,151,319
Foreign currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	–	–	190,050	1,767,090	738,117	2,695,257
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	–	–	191,768	1,824,407	738,117	2,754,292
Currency Forward Agreements – currency bought	5,449,992	1,556,316	2,378,828	1,490,042	–	10,875,178
Currency Forward Agreements – currency sold	5,466,131	1,564,270	2,392,129	1,489,816	–	10,912,346
Currency Swaps (Fx-Swap) – currency bought	9,712,492	4,346,841	3,556,983	44,767	–	17,661,083
Currency Swaps (Fx-Swap) – currency sold	9,724,187	4,295,106	3,510,929	43,527	–	17,573,749
Options bought	449,287	437,335	2,339,376	1,921,686	–	5,147,684
Options sold	448,167	437,504	2,335,255	1,921,686	–	5,142,612
Transactions based on equity securities and stock indexes						
Options	83,326	81,857	–	–	–	165,183
Other	–	941	684	–	21,000	22,625
Transactions based on commodities and precious metals						
Options	55,650	38,465	180,543	23,048	–	297,706
Other	647	3,652	143,299	20,985	–	168,583
Total	**41,681,311**	**21,791,003**	**32,010,017**	**85,666,026**	**18,419,994**	**199,568,351**

Notes to the financial statements

(in PLN thousand)

Nominal value of trading derivatives

31.12.2014	CONTRACTUAL MATURITY UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate transactions						
Interest Rate Swaps (IRS)	1,147,611	6,245,573	13,828,726	73,737,584	22,134,988	117,094,482
Forward Rate Agreements (FRA)	1,000,000	3,250,000	14,850,000	–	–	19,100,000
Options	–	–	60,849	3,831,712	175,094	4,067,655
Other	280,688	–	–	–	–	280,688
Foreign currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	–	–	–	1,147,838	663,859	1,811,697
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	–	–	–	1,166,047	663,859	1,829,906
Currency Forward Agreements – currency bought	4,813,416	4,020,619	2,985,569	1,027,281	–	12,846,885
Currency Forward Agreements – currency sold	4,811,056	3,966,133	2,986,073	1,046,140	–	12,809,402
Currency Swaps (Fx-Swap) – currency bought	12,471,749	5,122,372	881,967	–	–	18,476,088
Currency Swaps (Fx-Swap) – currency sold	12,456,157	5,131,739	877,453	–	–	18,465,349
Options bought	279,014	329,465	248,512	1,848,245	–	2,705,236
Options sold	273,929	332,571	248,814	1,848,245	–	2,703,559
Transactions based on equity securities and stock indexes						
Options	–	–	200,058	165,183	–	365,241
Other	–	–	–	–	–	–
Transactions based on commodities and precious metals						
Options	–	–	–	15,313	–	15,313
Other	435,895	–	–	869,387	–	1,305,282
Total	**37,969,515**	**28,398,472**	**37,168,021**	**86,702,975**	**23,637,800**	**213,876,783**

28. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2015	31.12.2014
Mortgage loans	49,206,023	40,799,856
Current accounts	11,230,205	10,892,636
Operating loans	15,070,467	15,253,042
Investment loans	17,071,901	20,177,440
Cash loans	9,087,671	7,804,086
Payment cards receivables	873,287	805,590
Purchased debt receivables	2,636,097	3,135,495
Other loans and advances	1,855,173	2,297,484
Debt securities	12,376,949	10,442,561
Reverse repo transactions	4,755,472	5,789,064
Cash in transit	70,587	57,172
Total gross amount	**124,233,832**	**117,454,426**
Impairment allowances	(5,678,633)	(5,582,478)
Total net amount	**118,555,199**	**111,871,948**

(in PLN thousand)

Loans and advances to customers by customer type

	31.12.2015	31.12.2014
Corporate	58,541,698	56,324,459
Individuals	54,155,797	49,309,571
Budget entities	11,536,337	11,820,396
Total gross amount	**124,233,832**	**117,454,426,**
Impairment allowances	(5,678,633)	(5,582,478)
Total net amount	**118,555,199**	**111,871,948**

Loans and advances to customers by quality

	31.12.2015	31.12.2014
Loans and advances to customers, including:		
non impaired (gross)	116,339,786	109,456,509
impaired (gross)	7,894,046	7,997,917
individual impairment allowances	(3,248,513)	(2,965,669)
collective impairment allowances (*)	(2,430,120)	(2,616,809)
Total	**118,555,199**	**111,871,948**

(*) Including estimated impairment allowances for losses incurred but not reported (IBNR).

Loans and advances to customers by contractual maturities

	31.12.2015	31.12.2014
Loans and advances to customers, including:		
up to 1 month	17,494,117	18,925,405
between 1 and 3 months	4,172,392	3,199,478,
between 3 months and 1 year	12,542,056	10,576,253
between 1 and 5 years	37,537,504	36,359,689
over 5 years	46,398,538	42,303,745
past due	6,089,225	6,089,856
Total gross amount	**124,233,832**	**117,454,426**
Impairment allowances	(5,678,633)	(5,582,478)
Total net amount	**118,555,199**	**111,871,948**

Loans and advances to customers by currencies

	31.12.2015	31.12.2014
PLN	98,406,507	92,504,616
CHF	4,975,796	4,934,512
EUR	11,871,781	11,122,123
USD	3,198,687	3,187,087
Other currencies	102,428	123,610
Total	**118,555,199**	**111,871,948**

Changes in impairment allowances in 2015 and 2014 are presented in the Note 18.

(in PLN thousand)

29. Receivables from finance leases

The Group conducts leasing operations through its subsidiary Pekao Leasing Sp. z o.o.

The value of gross lease investments and minimum lease payments are follows as

31.12.2015	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to 1 year	1,464,287	1,355,346
Between 1 and 5 years	2,156,562	2,037,787
Over 5 years	284,717	274,550
Total	**3,905,566**	**3,667,683**
Unrealized financial income	(237,883)	
Net leasing investment	**3,667,683**	
Unguaranteed residual values accruing to the benefit of the lessor	–	
Present value of minimum lease payments	3,667,683	
Impairment allowances	(163,704)	
Balance sheet value	**3,503,979**	

31.12.2014	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to 1 year	1,400,757	1,270,838
Between 1 and 5 years	1,938,819	1,789,065
Over 5 years	276,817	240,046
Total	**3,616,393**	**3,299,949**
Unrealized financial income	(316,444)	
Net leasing investment	**3,299,949**	
Unguaranteed residual values accruing to the benefit of the lessor	–	
Present value of minimum lease payments	3,299,949	
Impairment allowances	(187,901)	
Balance sheet value	**3,112,048**	

The Group is acting as a lessor in finance leases mainly for transport vehicles, machines and equipment.

Moreover, when the Group is a lessee in a finance lease contract among the Group entities, the inter-company transactions relating to the finance lease are eliminated in the consolidated financial statements.

Lease financing receivables from banks by quality

	31.12.2015	31.12.2014
Receivables from financial leases from banks, including:		
non impaired (gross)	4,334	6,062
impaired (gross)	–	–
individual impairment allowances	–	(41)
collective impairment allowances (*)	(11)	(1)
Total	**4,323**	**6,020**

(*) Including estimated impairment allowances for losses, incurred but not reported (IBNR).

(in PLN thousand)

Lease financing receivables from customers by quality

	31.12.2015	31.12.2014
Receivables from financial leases from customers, including:		
non impaired (gross)	3,435,904	3,054,742
impaired (gross)	227,445	239,145
individual impairment allowances	(31,556)	(40,506)
collective impairment allowances (*)	(132,137)	(147,353)
Total	**3,499,656**	**3,106,028**

(*) Including estimated impairment allowances for losses, incurred but not reported (IBNR).

Receivables from finance leases by currencies

	31.12.2015	31.12.2014
PLN	2,227,320	2,007,147
CHF	2,390	3,483
EUR	1,270,687	1,096,026
USD	3,582	5,392
Total	**3,503,979**	**3,112,048**

Changes in impairment allowances in 2015 and 2014 are presented in the Note 18.

30. Hedge accounting

As at 31 December 2015 the Group applies fair value hedge accounting and cash flow hedge accounting.

In the period from 1 January to 31 December 2015 the Group continued to apply the following hedge accounting:
- fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swap (IRS) transactions – described in point 1 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions – described in point 2 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions – described in point 3 of the table with details of hedging relationships,
- cash flow hedge accounting for variable portfolio of loans in EUR and USD hedged with Fx-Swap instruments – described in point 4 of the table with details of hedging relationships.

In the period from 1 January to 31 December 2015 the Group designated to the fair value hedge accounting fixed coupon debt securities classified as loans and receivables hedged with interest rate swaps (IRS) – described in point 5 of the table with details of hedging relationships.

Notes to the financial statements

(in PLN thousand)

The table below presents the fair values of hedging derivatives

31.12.2015	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	5,737	269,817
Cross-currency interest rate swaps (CIRS)	–	–
Cash flow hedge accounting		
Interest rate swaps (IRS)	355,731	–
Cross-currency interest rate swaps (CIRS)	56,840	1,431,956
Fx-Swaps	3,332	986
Total	**421,640**	**1,702,759**

31.12.2014	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	–	298,881
Cross-currency interest rate swaps (CIRS)	–	–
Cash flow hedge accounting		
Interest rate swaps (IRS)	425,946	–
Cross-currency interest rate swaps (CIRS)	29,120	1,097,779
Fx-Swaps	15,756	87,768
Total	**470,822**	**1,484,428**

The table below presents nominal values of hedging derivatives

	CONTRACTUAL MATURITY					
31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Fair value hedge accounting						
Interest rate swaps (IRS)	–	–	–	1,511,172	1,451,033	2,962,205
Cross-currency interest rate swaps (CIRS)	–	–	–	–	–	–
Cash flow hedge accounting						
Interest rate swaps (IRS)	–	–	215,000	3,775,000	–	3,990,000
Cross-currency interest rate swaps (CIRS)	–	–	2,708,866	10,972,969	4,507,339	18,189,174
Fx-Swaps	992,573	777,310	212,988	–	–	1,982,871
Total	**992,573**	**777,310**	**3,136,854**	**16,259,141**	**5,958,372**	**27,124,250**

	CONTRACTUAL MATURITY					
31.12.2014	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Fair value hedge accounting						
Interest rate swaps (IRS)	–	–	–	1,027,033	1,214,295	2,241,328
Cross-currency interest rate swaps (CIRS)	–	–	–	–	–	–
Cash flow hedge accounting						
Interest rate swaps (IRS)	50,000	80,000	100,000	1,990,000	2,000,000	4,220,000
Cross-currency interest rate swaps (CIRS)	–	–	1,441,928	12,497,315	4,758,167	18,697,410
Fx-Swaps	5,909,479	5,039,957	1,617,926	–	–	12,567,362
Total	**5,959,479**	**5,119,957**	**3,159,854**	**15,514,348**	**7,972,462**	**37,726,100**

(in PLN thousand)

The table below presents the amounts recognized in the income statement and in the revaluation reserves due to cash flow hedge accounting

	2015	2014
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge – gross value)	45,280	138,621
Net interest income on hedging derivatives	208,571	179,276
Ineffective portion in changes in fair value of hedging transactions recognized in income statement	795	527

The table below presents changes in the revaluation reserves during the period due to cash flow hedge accounting

	2015	2014
Opening balance	**138,621**	**(29,488)**
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	(93,277)	168,057
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from revaluation reserves and presented in net profit or loss	(64)	52
Closing balance	**45,280**	**138,621**

The table below presents the amounts recognized in the income statement due to the fair value hedge accounting

TYPE OF GAINS/LOSSES	2015	2014
Gains/losses from revaluation of hedging instruments to fair value	40,167	(146,149)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	(34,620)	128,902
Result on fair value hedge accounting	**5,547**	**(17,247)**
Net interest income of hedging derivatives	(57,637)	(42,220)

(in PLN thousand)

Detailed description of hedging relationships applied by the Group during the period from 1 January to 31 December 2015

DESCRIPTION OF THE HEDGING RELATIONSHIP	HEDGED ITEM	HEDGING DERIVATIVES	FINANCIAL STATEMENTS PRESENTATION	PERIOD IN WHICH THE CASH FLOWS RELATED TO THE HEDGED ITEMS ARE EXPECTED TO OCCUR
1. Fair value hedge of fixed-coupon debt securities				
The Group hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as AFS denominated in PLN, EUR and USD.	The hedging derivatives consist of IRS transactions in PLN, EUR and USD (short position in fixed-rate) for which the Group receives floating-rate payments, and pays fixed-rate.	The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. The remaining portion of the change in the hedged items' fair value (resulting from spread between swap yield curve and bond yield curve) is recognized in accordance with the accounting principles applicable to AFS (i.e. in the revaluation reserve in equity). Interest accrued on AFS bonds is presented in the net interest income. Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 10 May 2027.
2. Cash flow hedge of floating-rate loans and floating-rate deposits				
The Group hedges a portion of the interest rate risk and the foreign currency risk resulting from the volatility of cash flows from floating-rate assets and liabilities with the designated CIRS transactions (basis swap).	Hedged item consists of two separate components, which are cash flows arising from floating-rate assets portfolio and floating-rate liabilities portfolio.	Hedging derivatives consist of a portfolio of CIRS transactions (basis swap), where the Group pays floating-rate currency cash flows, and receives floating-rate PLN/currency cash-flows. CIRS transactions are decomposed into the part hedging the assets portfolio and the part hedging the liabilities portfolio.	The effective portion of the change in fair value of hedging derivatives' is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on CIRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 15 May 2029.
3. Cash flow hedge of floating-rate loans				
The Group hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate assets with the designated IRS transactions.	The hedged items consist of the cash flows from floating-rate assets.	The hedging derivatives consist of portfolio of IRS transactions (short position in floating rate – the Group receives fixed payments and pays floating-rate).	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on IRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 29 April 2020.

(in PLN thousand)

DESCRIPTION OF THE HEDGING RELATIONSHIP	HEDGED ITEM	HEDGING DERIVATIVES	FINANCIAL STATEMENTS PRESENTATION	PERIOD IN WHICH THE CASH FLOWS RELATED TO THE HEDGED ITEMS ARE EXPECTED TO OCCUR
4. Cash flow hedge of floating-rate currency assets hedged with Fx-Swap transactions against the exchange and interest rate risk				
The Group hedges volatility of cash flows constituting floating-rate financial assets (loans in EUR and USD) with Fx-Swap transactions. The currency and interest rate risk is hedged.	Loans with variable interest rate risk, denominated in EUR and USD constitute hedged items.	Fx-Swap transaction portfolio constitutes the hedging position.	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. Settled part of the swap points on the hedging instrument is transferred from the revaluation reserve in equity and recognized in interest income. Currency revaluation regarding the first capital exchange on the hedging instrument is transferred from the revaluation reserve in equity and recognized in the foreign currency exchange result.	It is expected that the cash flows related to the hedged items will occur until 4 March 2016.
5. Fair value hedge of fixed-coupon debt securities				
The Group hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as loans and receivables, denominated in PLN.	The hedging derivatives consist of IRS transactions in PLN (short position in fixed-rate) for which the Group receives floating-rate payments, and pays fixed-rate.	The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on bonds is presented in the net interest income. Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 6 October 2022.

(in PLN thousand)

31. Investment (placement) securities

	31.12.2015	31.12.2014
Debt securities available for sale (AFS)	17,517,884	23,039,453
Equity securities available for sale (AFS)	295,415	71,755
Debt securities held to maturity (HTM)	3,368,424	1,601,568
Total	**21,181,723**	**24,712,776**

Debt securities available for sale (AFS)

	31.12.2015	31.12.2014
Securities issued by State Treasury	15,954,349	15,940,434
T-bills	–	–
T-bonds	15,954,349	15,940,434
Securities issued by Central Banks	628,454	6,147,781
Securities issued by business entities	251,367	248,985
Securities issued by local governments	683,714	702,253
Total	**17,517,884**	**23,039,453**
including impairment of assets	–	–

Equity securities available for sale (AFS)

	31.12.2015	31.12.2014
Shares	295,415	71,755
Total	**295,415**	**71,755**
including impairment of assets	(122)	(122)

The amount of equity securities as at 31 December 2015 includes the fair value of share in Visa Europe.

In December 2015, the Bank received information concerning the proposed allocation of settlement of the purchase of Visa Europe Limited (Visa Europe) by Visa Inc., according to which the total share of the Bank in settlement of the transaction is expected to be 54 891 445 EUR, including:
- 40 866 611 EUR in cash and
- 14 024 834 EUR in shares of Visa Inc.,

with the provision that these amounts may be adjusted in connection with the transaction costs or possible claims of members of Visa Europe Limited for their participation in the settlement of the transaction.

The transaction is subject to receipt of applicable regulatory approvals and closing is expected in the second quarter of 2016.

In connection with the transaction, the Bank re-measured its share in Visa Europe to fair value. For this purpose the fair value to be attributed to Visa Europe share includes only the cash component of the settlement amount, i.e. EUR 40 866 611 (PLN 174 153 063 as at 31 December 2015). The valuation was recognized in 'Revaluation reserve'. The Bank does not take into account in the valuation of equity part, because the Bank was not able to reliably measure its value. Terms of the deal provide that upon settlement of the transaction the Bank will receive preferred shares of Visa Inc., which will then be converted into ordinary shares. The conversion of preference shares into ordinary shares will be carried out in the period from the fourth to the twelfth year after closing of the transaction. For this period any transfer of shares by the Bank is subject to restrictions.

In addition, the transaction between Visa Inc. and Visa Europe provides for the deferred payment of 'earn-out' payable in cash after the 16 quarters of the settlement, but its value is not yet possible to be determined. The condition to participate in the earn-out option is participation in Visa for another 4 years from the date of finalization of the transaction.

(in PLN thousand)

Debt securities held to maturity (HTM)

	31.12.2015	31.12.2014
Securities issued by State Treasury	2,497,324	750,123
T – bills	–	–
T – bonds	2,497,324	750,123
Securities issued by Central Banks	871,100	851,445
Total	**3,368,424**	**1,601,568**
including impairment of assets	–	–

Investment debt securities according to contractual maturities

	31.12.2015	31.12.2014
Debt securities, including:		
up to 1 month	1,499,554	6,999,226
between 1 and 3 months	443,644	–
between 3 months and 1 year	2,696,342	590,517
between 1 and 5 years	10,646,471	13,506,159
over 5 years	5,600,297	3,545,119
Total	**20,886,308**	**24,641,021**

Investment debt securities according to currencies

	31.12.2015	31.12.2014
PLN	17,835,368	20,673,366
EUR	2,635,034	2,027,262
USD	415,906	1,940,393
Total	**20,886,308**	**24,641,021**

Changes in investment (placement) securities

	2015	2014
SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	**23,111,208**	**33,033,967**
Increases (purchase)	217,273,604	351,556,577
Decreases (sale and redemption)	(222,978,862)	(362,969,923)
Changes in fair value	(257,139)	609,034
Exchange rate differences	179,036	301,923
Accrued interest	618,156	661,684
Other changes	(132,704)	(82,054)
Closing balance	**17,813,299**	**23,111,208**
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	**1,601,568**	**1,961,770**
Increases (purchase)	47,236,297	44,003,016
Decreases (sale and redemption)	(45,530,013)	(44,409,321)
Accrued interest	21,238	29,188
Other changes	39,334	16,915
Closing balance	**3,368,424**	**1,601,568**
Net total investment (placement) securities	**21,181,723**	**24,712,776**

(in PLN thousand)

32. Reclassification of securities

IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' provide, under certain conditions, the possibility for reclassification of financial instruments into other categories.

In 2015 and 2014, the Group did not reclassify any financial instruments into other categories.

On 1 October 2008, however, due to the exceptional situation related to the financial crisis, the Group made use of the possibility for reclassification of its financial instruments.

The tables below present the information on the reclassified financial assets

		31.12.2015		31.12.2014	
	AMOUNT OF RECLASSIFICATION	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	1,331,580	68,974	65,191	73,987	69,820
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	602,507	666,725	673,607	672,495	686,090
Total	**1,934,087**	**735,699**	**738,798**	**746,482**	**755,910**

If the Group failed to perform the reclassification, the income and revaluation equity would have changed as follows

31.12.2015	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	–	127
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	(6,713)	–
Total	**(6,713)**	**127**

31.12.2014	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	–	154
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	(5,641)	–
Total	**(5,641)**	**154**

Net interest income on reclassified financial assets

	2015	2014
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	1,998	2,511
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	12,770	15,922
Total	**14,768**	**18,433**

(in PLN thousand)

33. Assets and liabilities held for sale

According to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the Group identified non-current assets meeting requirements of IFRS 5 (concerning classification of non-current assets as held for sale) from the item 'Assets held for sale'.

As at 31 December 2015, non-current assets classified as held for sale are as follows:
- real estate,
- other property, plant and equipment.

Assets held for sale and liabilities associated with assets held for sale are presented below

	31.12.2015	31.12.2014
ASSETS HELD FOR SALE		
Property, plant and equipment	22,787	14,587
Other assets	22,515	22,515
Total assets	**45,302**	**37,102**

In 2015 the Bank sold 3 125 shares of Krajowa Izba Rozliczeniowa S.A. The shares retained by the Bank after the sale have been measured at fair value and are now the component of financial assets.

Effect of disposal of shares in Krajowa Izba Rozliczeniowa S.A. recognized in the income statement of the Group

	2015
Sales proceeds	75,000
Fair value of retained shares	15,000
Carrying amount of the investment at the date the equity method was discontinued	(28,943)
Gross result on sale	**61,057**
Income tax expense	(16,744)
Net result on sale	**44,313**

The changes in the balance of assets held for sale and liabilities associated with assets held for sale are presented in the table below

ASSETS HELD FOR SALE	2015	2014
Opening balance	**37,102**	**45,864**
Increases including:	51,929	5,247
transfer from property, plant and equipment	27,008	–
transfer from investment properties	–	5,150
transfer from investments in associates	24,119	–
other changes	802	97
Decreases including:	(43,729)	(14,009)
transfer from property, plant and equipment	(13,460)	–
transfer from investment properties	–	(13,277)
sale of shares in associate	(24,119)	–
disposal	(5,879)	(732)
other changes	(271)	–
Closing balance	**45,302**	**37,102**

(in PLN thousand)

The effect of disposal of property, plant and equipment and other assets is as follows

	2015	2014
Sales revenues	5,150	1,293
Net carrying amount of disposed assets (including costs to sell)	(5,150)	(732)
Profit/loss on sale before income tax	**–**	**561**

34. Investments in associates

The below tables present the information about associates that are material to the Group

NAME OF ASSOCIATE	COUNTRY OF INCORPORATION AND PLACE OF BUSINESS	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING		MEASUREMENT METHOD	NATURE OF THE RELATIONSHIP
		31.12.2015	31.12.2014		
Dom Inwestycyjny Xelion Sp. z o.o.	Poland	50.00	50.00	Equity,method	The strategic Entity providing affluent customers with services of assets management.
Pioneer Pekao Investment Management S.A.	Poland	49.00	49.00	Equity,method	The Entity deals with management of investment funds assets and is of strategic importance for the Group that distributes and supporting such products.
Krajowa Izba Rozliczeniowa S.A.(*)	Poland	–	34.44	Equity,method	The Entity provides services in the area of interbank clearings and plays a key role for the Group, providing access to such services.

(*) The percentage of the Group's ownership rights in share capital/voting is 5.74% as at 31 December 2015. The shares in the Company have been classified as 'Equity securities available for sale'.

The summarized financial information of the associates are presented below. Considering Pioneer Pekao Investment Management S.A. and Krajowa Izba Rozliczeniowa S.A., the information derives from the financial statements, which are in the process of auditing by the entities authorizing to audit financial statements. The audit opinions on those financial statements will be expressed after the release date of the consolidated financial statements of Bank Pekao S.A. Group.

	DOM INWESTYCYJNY XELION SP. Z O.O.		PIONEER PEKAO INVESTMENT MANAGEMENT S.A.		KRAJOWA IZBA ROZLICZENIOWA S.A.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015(*)	31.12.2014
Current assets	48,090	42,537	313,553	333,727	36,370	48,991
Non-current assets	3,269	4,119	9,295	9,247	71,237	73,171
TOTAL ASSETS	**51,359**	**46,656**	**322,848**	**342,974**	**107,607**	**122,162**
Current liabilities	26,361	25,818	35,284	46,038	21,457	22,287
Non-current liabilities	3,913	3,683	5,070	7,171	2,110	2,121
TOTAL LIABILITIES	**30,274**	**29,501**	**40,354**	**53,209**	**23,567**	**24,408**
NET ASSETS	**21,085**	**17,155**	**282,494**	**289,765**	**84,040**	**97,754**

(*) The data as at the date when the equity method was discontinued.

(in PLN thousand)

	DOM INWESTYCYJNY XELION SP. Z O.O.		PIONEER PEKAO INVESTMENT MANAGEMENT S.A.		KRAJOWA IZBA ROZLICZENIOWA S.A.	
	2015	2014	2015	2014	2015(*)	2014
Revenue	56,331	51,818	383,019	389,431	62,039	124,131
Net profit (loss) for the period from continuing operations	3,930	2,905	91,284	106,006	17,031	30,792
Other comprehensive income	–	–	36	(78)	–	–
Total comprehensive income	**3,930**	**2,905**	**91,320**	**105,928**	**17,031**	**30,792**

(*) The data to the date when the equity method was discontinued.

Reconciliation of the summarized financial information to the carrying amount of the interests in associates

	DOM INWESTYCYJNY XELION SP. Z O.O.		PIONEER PEKAO INVESTMENT MANAGEMENT S.A.		KRAJOWA IZBA ROZLICZENIOWA S.A.		TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014
Group's interest in net assets at beginning of the year	8,577	7,125	141,985	135,649	33,666	33,228	**184,228**	**176,002**
Group's interest in net profit (loss) for the period (*)	1,965	1,452	44,649	51,795	5,477	9,963	**52,091**	**63,210**
Group's interest in other comprehensive income	–	–	18	(38)	–	–	**18**	**(38)**
Dividend received from associates	–	–	(48,229)	(45,421)	(10,200)	(9,525)	**(58,429)**	**(54,946)**
Carrying amount of the investment in Krajowa Izba Rozliczeniowa S.A. at the date the equity method was discontinued	–	–	–	–	(28,943)	–	(28,943)	–
Group's interest in net assets at beginning of the year	10,542	8,577	138,423	141,985	–	33,666	148,965	184,228
Carrying amount of the interests	**10,542**	**8,577**	**138,423**	**141,985**	**–**	**33,666**	**148,965**	**184,228**

(*) Group's interest includes the changes in net profit (loss) for the previous period, that arose after the release date of financial statements of Bank Pekao S.A. Group and before the approval date of financial statements of particular associates.

(in PLN thousand)

35. Intangible assets

	31.12.2015	31.12.2014
Intangible assets, including:	581,197	571,512
research and development expenditures	7,948	10,412
licenses and patents	446,987	436,939
other	11,183	10,845
assets under construction	115,079	113,316
Goodwill	55,520	55,520
Total	**636,717**	**627,032**

The goodwill was transferred to Bank Pekao S.A. on integration with Bank BPH S.A. It represents the goodwill recognized upon acquisition of Pierwszy Komercyjny Bank S.A. in Lublin ('PKBL') by Bank BPH S.A. and relates to those branches of the PKBL which were transferred to Bank Pekao S.A. as a result of integration with Bank BPH S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 51 675 thousand.

Moreover in the line 'Goodwill' are presented:
- goodwill recognized upon acquisition of Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Mikołaja Kopernika by Bank Pekao S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 960 thousand,
- goodwill recognized upon acquisition of Pekao Leasing i Finanse S.A. (formerly BPH Leasing S.A.) by Pekao Leasing Holding S.A. (ex. BPH PBK Leasing S.A.). It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 2 885 thousand.

In respect to the goodwill, the impairment test is performed annually, irrespective of whether there is any indication that it may be impaired.

The impairment test is performed by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. The recoverable amount is estimated on the basis of value in use of the CGU. The value in use is the present, estimated value of the future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU is calculated based on an extrapolation of cash flows projections beyond the forecast period using the growth rate of 2.5%. The forecasts of the future cash flows are based on the assumptions included the Bank's budget for 2016 and financial plan for 2017-2020. To discount the future cash flows, it is applied the discount rate of 7.73%, which includes the risk-free rate and the risk premium.

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

(in PLN thousand)

Changes in 'Intangibles assets' in the course of the reporting period

2015	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**89,362**	**2,132,059**	**49,663**	**113,316**	**2,384,400**
Increases including:	812	157,708	1,677	154,937	315,134
acquisitions	–	2,826	–	154,937	157,763
business combination	–	–	–	–	–
other	–	36,741	–	–	36,741
transfer from investments outlays	812	118,141	1,677	–	120,630
Decreases, including:	–	(10,196)	(14)	(153,174)	(163,384)
liquidation	–	(7,319)	–	–	(7,319)
other	–	(2,877)	(14)	(32,544)	(35,435)
transfer from investments outlays	–	–	–	(120,630)	(120,630)
Closing balance	**90,174**	**2,279,571**	**51,326**	**115,079**	**2,536,150**
ACCUMULATED AMORTIZATION					
Opening balance	**78,950**	**1,695,120**	**27,857**	**–**	**1,801,927**
Amortization	3,276	144,738	1,340	–	149,354
Liquidation	–	(7,228)	(15)	–	(7,243)
Other	–	(46)	–	–	(46)
Closing balance	**82,226**	**1,832,584**	**29,182**	**–**	**1,943,992**
IMPAIRMENT					
Opening balance	**–**	**–**	**10,961**	**–**	**10,961**
Closing balance	**–**	**–**	**10,961**	**–**	**10,961**
NET VALUE					
Opening balance	**10,412**	**436,939**	**10,845**	**113,316**	**571,512**
Closing balance	**7,948**	**446,987**	**11,183**	**115,079**	**581,197**

Notes to the financial statements

(in PLN thousand)

Changes in 'Intangibles assets' in the course of the reporting period

2014	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**90,484**	**2,034,712**	**38,668**	**111,028**	**2,274,892**
Increases including:	2,367	120,668	11,444	125,013	259,492
acquisitions	–	3,510	–	125,013	128,523
business combination	–	411	4,700	–	5,111
other	737	569	6,569	–	7,875
transfer from investments outlays	1,630	116,178	175	–	117,983
Decreases, including:	(3,489)	(23,321)	(449)	(122,725)	(149,984)
liquidation	(3,489)	(15,844)	(449)	(90)	(19,872)
other	–	(7,477)	–	(4,652)	(12,129)
transfer from investments outlays	–	–	–	(117,983)	(117,983)
Closing balance	**89,362**	**2,132,059**	**49,663**	**113,316**	**2,384,400**
ACCUMULATED AMORTIZATION					
Opening balance	**78,453**	**1,586,795**	**26,672**	**–**	**1,691,920**
Amortization	3,925	124,169	1,634	–	129,728
Liquidation	(3,489)	(15,844)	(449)	–	(19,782)
Other	61	–	–	–	61
Closing balance	**78,950**	**1,695,120**	**27,857**	**–**	**1,801,927**
IMPAIRMENT					
Opening balance	**–**	**–**	**10,961**	**–**	**10,961**
Closing balance	**–**	**–**	**10,961**	**–**	**10,961**
NET VALUE					
Opening balance	**12,031**	**447,917**	**1,035**	**111,028**	**572,011**
Closing balance	**10,412**	**436,939**	**10,845**	**113,316**	**571,512**

In the period from 1 January to 31 December 2015, the Group acquired intangible assets in the amount of PLN 157 763 thousand (in 2014 – PLN 128 523 thousand).

In the period from 1 January to 31 December 2015 and in 2014 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 31 December 2015 the contractual commitments for the acquisition of intangible assets amounted to PLN 49 487 thousand, whereas as at 31 December 2014 – PLN 35 372 thousand.

(in PLN thousand)

36. Property, plant and equipment

	31.12.2015	31.12.2014
Non-current assets, including:	1,376,409	1,458,085
land and buildings	1,055,147	1,103,973
machinery and equipment	245,717	261,076
transport vehicles	34,170	47,301
other	41,375	45,735
Non-current assets under construction and prepayments	84,243	86,054
Total	**1,460,652**	**1,544,139**

Changes in 'Property, plant and equipment' in the course of the reporting period

2015	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2,303,114**	**1,495,518**	**94,510**	**344,297**	**86,054**	**4,323,493**
Increases, including:	49,589	79,072	7,718	7,385	110,597	254,361
acquisitions	9,541	12,235	4,324	1,611	110,132	137,843
other	2,228	1,053	3,360	77	465	7,183
transfer from non-current assets under construction	37,820	65,784	34	5,697	–	109,335
Decreases, including:	(74,578)	(121,932)	(19,059)	(25,368)	(111,825)	(352,762)
liquidation and sale	(29,005)	(121,719,)	(11,692)	(25,335)	(53)	(187,804)
transfer to non-current assets held for sale	(26,956)	(52)	–	–	–	(27,008)
other	(18,617)	(161)	(7,367)	(33)	(2,437)	(28,615)
transfer from non-current assets underconstruction	–	–	–	–	(109,335)	(109,335)
Closing balance	**2,278,125**	**1,452,658**	**83,169**	**326,314**	**84,826**	**4,225,092**
ACCUMULATED DEPRECIATION						
Opening balance	**1,196,576**	**1,230,481**	**47,209**	**298,421**	**–**	**2,772,687**
Increases, including:	76,894	93,557	15,331	11,297	–	197,079
depreciation	69,957	84,941	14,923	10,026	–	179,847
other	6,937	8,616	408	1,271	–	17,232
Decreases, including:	(54,391)	(120,948)	(13,541)	(24,897)	–	(213,777)
liquidation and sale	(33,002)	(120,742)	(13,533)	(24,883)	–	(192,160)
transfer to non-current assets held for sale	(13,414)	(47)	–	–	–	(13,461)
other	(7,975)	(159)	(8)	(14)	–	(8,156)
Closing balance	**1,219,079**	**1,203,090**	**48,999**	**284,821**	**–**	**2,755,989**
IMPAIRMENT						
Opening balance	**2,565**	**3,961**	**–**	**141**	**–**	**6,667**
Increases	1,560	35	–	1	583	2,179
Decreases	(226)	(145)	–	(24)	–	(395)
Closing balance	**3,899**	**3,851**	**–**	**118**	**583**	**8,451**
NET VALUE						
Opening balance	**1,103,973**	**261,076**	**47,301**	**45,735**	**86,054**	**1,544,139**
Closing balance	**1,055,147**	**245,717**	**34,170**	**41,375**	**84,243**	**1,460,652**

Notes to the financial statements

(in PLN thousand)

Changes in 'Property, plant and equipment' in the course of the reporting period

2014	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2,277,707**	**1,500,970**	**86,167**	**343,302**	**93,006**	**4,301,152**
Increases, including:	44,678	73,992	29,165	17,494	122,356	287,685
acquisitions	75	1,150	3,128	645	121,022	126,020
business combination	3,006	1,261	144	295	5	4,711
other	–	653	25,893	58	1,329	27,933
transfer from non-current assets under construction	41,597	70,928	–	16,496	–	129,021
Decreases, including:	(19,271)	(79,444)	(20,822)	(16,499)	(129,308)	(265,344)
liquidation and sale	(19,271)	(78,787)	(19,938)	(16,465)	–	(134,461)
transfer to non-current assets held for sale	–	(657)	(884)	(34)	–	(1,575)
other	–	–	–	–	(287)	(287)
transfer from non-current assets underconstruction	–	–	–	–	(129,021)	(129,021)
Closing balance	**2,303,114**	**1,495,518**	**94,510**	**344,297**	**86,054**	**4,323,493**
ACCUMULATED DEPRECIATION						
Opening balance	**1,143,486**	**1,205,363**	**50,168**	**305,669**	**–**	**2,704,686**
Increases, including:	68,106	103,960	13,612	8,949	–	194,627
depreciation	68,106	103,393	13,612	8,900	–	194,011
other	–	567	–	49	–	616
Decreases, including:	(15,016)	(78,842)	(16,571)	(16,197)	–	(126,626)
liquidation and sale	(15,016)	(78,246)	(16,571)	(16,163)	–	(125,996)
transfer to non-current assets held for sale	–	–	–	–	–	–
other	–	(596)	–	(34)	–	(630)
Closing balance	**1,196,576**	**1,230,481**	**47,209**	**298,421**	**–**	**2,772,687**
IMPAIRMENT						
Opening balance	**2,565**	**4,088**	**–**	**177**	**–**	**6,830**
Increases	–	–	–	–	–	–
Decreases	–	(127)	–	(36)	–	(163)
Closing balance	**2,565**	**3,961**	**–**	**141**	**–**	**6,667**
NET VALUE						
Opening balance	**1,131,656**	**291,519**	**35,999**	**37,456**	**93,006**	**1,589,636**
Closing balance	**1,103,973**	**261,076**	**47,301**	**45,735**	**86,054**	**1,544,139**

In the period from 1 January to 31 December 2015 the Group acquired property, plant and equipment in the amount of PLN 137 843 thousand (in 2014 – PLN 126 020 thousand), while the value of property, plant and equipment sold amounted to PLN 7 717 thousand (in 2014 – PLN 6 394 thousand).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2015 stood at PLN 1 995 thousand (PLN 1 661 thousand in 2014).

In 2015 and 2014 there have been no restrictions to legal titles to property, plant and equipment, nor pledges in place as security for liabilities.

Contractual commitments

As at 31 December 2015 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 57 012 thousand, whereas as at 31 December 2014 – PLN 63 077 thousand.

(in PLN thousand)

37. Investment property

The Group values investment property using the historical cost model.

The rights to sell the investment property and the rights to transfer related revenues and profits are not a subject to limitations.

Changes in 'Investment property' in the course of the reporting period

	2015	2014
GROSS VALUE		
Opening balance	**71,461**	**56,054**
Increases, including:	10,341	24,508
acquisitions	324	318
transfer from property plant and equipment	10,017	–
transfer from non-current assets held for sale	–	24,190
Decreases, including:	(15,549)	(9,101)
sale of real estate	(15,437)	(3,951)
transfer to non-current assets held for sale	–	(5,150)
other	(112)	–
Closing balance	**66,253**	**71,461**
ACCUMULATED DEPRECIATION		
Opening balance	**27,484**	**21,843**
Increases, including:	9,628	7,697
depreciation for the period	1,654	2,940
transfer from property plant and equipment	7,974	–
other	–	4,757
Decreases, including:	(9,762)	(2,056)
sale of real estate	(9,650)	(2,056)
other	(112)	–
Closing balance	**27,350**	**27,484**
IMPAIRMENT		
Opening balance	**8,682**	**3,080**
Increases, including:	–	6,152
impairment charges	–	6,152
Decreases, including:	–	(550)
sale of real estate	–	(550)
Closing balance	**8,682**	**8,682**
NET VALUE		
Opening balance	**35,295**	**31,131**
Closing balance	**30,221**	**35,295**

The fair value of investment property as at 31 December 2015 stood at PLN 43 889 thousand (PLN 53 435 thousand as at 31 December 2014). The fair value of investment property are categorized in Level 3 of the fair value hierarchy. The fair value was measured based on valuations of the property appraisers, having appropriate professional qualifications and recent experience in the location of the properties being valued. The valuations of investment property are based on investment method or profits method, taking into account such unobservable input data as expected rental growth rate, void periods, occupancy rate, discount rate.

(in PLN thousand)

The following amounts of revenues and costs associated with investment properties have been recognized in the income statement

	2015	2014
Rental revenues from investment properties	4,319	5,070
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(1,485)	(1,556)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	(371)	(494)

38. Other assets

	31.12.2015	31.12.2014
Prepaid expenses	112,514	108,060
Perpetual usufruct rights	15,181	15,434
Accrued income	52,595	37,203
Interbank and interbranch settlements	1,770	7,461
Other debtors	289,515	942,477
Card settlements	1,808,150	1,746,293
Total	**2,279,725**	**2,856,928**

Prepaid expenses represent expenditures, which will be amortized against income statement in the forthcoming reporting periods.

The item ‘Other debtors’ includes assets for sale in the amount of PLN 90 thousand as at 31 December 2015 (PLN 7 thousand as at 31 December 2014). Assets for sale represent assets taken over for debts. They are presented in a debt value reduced by impairment charge, calculated as a difference between the amount of debt and fair value of taken over assets (if lower than the amount of debt). In case of surplus between the fair value of taken over asset and the amount of debt, the difference is recognized as a liability to debtor.

The Group disposes of the assets for sale taken over for debts. The period in which the assets should be disposed is 5 years for real estate and 3 years for other assets for sale (the period starts from the date of assets’ taken over). When the period expires, the Group reclassifies the carrying value of unsold assets for sales into appropriate category of property, plant and equipment used by the Group.

(in PLN thousand)

39. Assets pledged as collateral

As at 31 December 2015 the Group held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transaction	bonds	3,394,183	3,152,162	3,388,421
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	703,818	680,200	–
Lombard and technical loan	bonds	4,750,392	4,504,675	–
Other loans	bonds, leases encumbrances	490,285	481,200	328,076
Issue of mortgage bonds	receivables backed by mortgage, bonds	1,679,460	1,683,864	1,234,528
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposit	39,296	38,802	–
Derivatives	bonds	45,708	47,163	24,771

As at 31 December 2014 the Group held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transaction	bonds	3,003,206	2,774,855	3,004,383
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	679,338	640,200	–
Lombard and technical loan	bonds	5,338,928	5,008,832	–
Other loans	bonds, leases encumbrances	1,124,328	1,115,790	931,077
Issue of mortgage bonds	receivables backed by mortgage, bonds	1,335,272	1,339,615	1,037,330
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposit	40,698	39,915	–
Derivatives	bonds	47,790	42,160	33,640

The freeze on securities is a consequence of:
- in case of Repo and Sell-buy-back transactions – binding money market standards for such transactions,
- in case of freeze to the benefit of BFG – binding provisions of the Law on Banking Guaranty Fund BFG,
- in case of lombard and technical loans – policy and standards, applied by the National Bank of Poland NBP,
- in case of other loans, deposits and derivatives – terms and conditions of the agreement, entered between Bank Pekao S.A. and its clients,
- in case of issue of mortgage bonds – binding provisions of the Law on Mortgage Bonds and Mortgage Banks,
- in case of freeze to the benefit of KDPW – with the status of the clearing member for brokerage transactions.

(in PLN thousand)

40. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2015	31.12.2014
Current accounts	1,121,885	1,503,821
Interbank deposits and other liabilities	581,301	455,673
Loans and advances received	3,263,303	3,243,612
Repo transactions	963,830	126,277
Cash in transit	28,130	15,319
Total	**5,958,449**	**5,344,702**

Amounts due to other banks by currencies

	31.12.2015	31.12.2014
PLN	1,379,402	2,335,096
CHF	744,746	713,045
EUR	3,774,189	2,218,925
USD	50,277	42,023
Other currencies	9,835	35,613
Total	**5,958,449**	**5,344,702**

41. Amounts due to customers

Amounts due to customers by product type

	31.12.2015	31.12.2014
Amounts due to corporate, including:	55,167,425	58,339,752
current accounts	29,048,523	24,353,752
term deposits and other liabilities	26,118,902	33,986,000
Amounts due to budget entities, including:	5,610,623	6,210,671
current accounts	4,689,452	5,090,071
term deposits and other liabilities	921,171	1,120,600
Amounts due to individuals, including:	63,434,250	55,407,585
current accounts	33,827,209	30,404,771
term deposits and other liabilities	29,607,041	25,002,814
Repo transactions	4,468,820	4,979,370
Cash in transit	186,573	671,622
Total	**128,867,691**	**125,609,000**

Amounts due to customers by currencies

	31.12.2015	31.12.2014
PLN	106,548,096	106,221,889
CHF	234,011	205,950
EUR	13,215,198	11,882,782
USD	8,013,651	6,611,746
Other currencies	856,735	686,633
Total	**128,867,691**	**125,609,000**

(in PLN thousand)

42. Debt securities issued

Debt securities issued by type

	31.12.2015	31.12.2014
Certificates of deposit	1,668,706	2,819,713
Mortgage bonds	1,234,527	1,037,330
Total	**2,903,233**	**3,857,043**

The Group redeems its own debt securities issued on a timely basis.

Debt securities issued by currencies

	31.12.2015	31.12.2014
PLN	2,592,848	3,679,880
EUR	310,385	177,163
USD	–	–
Total	**2,903,233**	**3,857,043**

Changes in debt securities issued

	2015	2014
Opening balance	**3,857,043**	**3,063,737**
Increase (issuance)	3,966,098	6,015,875
Decrease (redemption)	(4,999,636)	(5,312,326)
Decrease (partial redemption)	(7,903)	(1,838)
Foreign currency exchange differences	(1,053)	2,686
Purchase	(33)	(64,625)
Sale	90,989	136,141
Other	(2,272)	17,393
Closing balance	**2,903,233**	**3,857,043**

43. Provisions

Change in provisions in the reporting period

2015	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**37,873**	**267,991**	**102,386**	**34,206**	**442,456**
Provision charges/revaluation	31,147	23,655	71,614	5,814	132,230
Provision utilization	(56,417)	(10,246)	–	(14,435)	(81,098)
Provision releases	(2,310)	(84)	(54,411)	(76)	(56,881)
Foreign currency exchange differences	–	–	1,182	–	1,182
Other changes	315	(12,458)	–	(372)	(12,515)
Closing balance	**10,608**	**268,858**	**120,771**	**25,137**	**425,374**
Short term	4,113	21,180	67,527	145	92,965
Long term	6,495	247,678	53,244	24,992	332,409

(in PLN thousand)

Change in provisions in the reporting period

2014	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**34,986**	**207,297**	**113,932**	**37,322**	**393,537**
Provision charges/revaluation	5,129	22,657	67,469	13,245	108,500
Provision utilization	(3,053)	(6,487)	–	(13,878)	(23,418)
Provision releases	(2,998)	–	(79,724)	–	(82,722)
Foreign currency exchange differences	–	–	709	134	843
Other changes	3,809	44,524	–	(2,617)	45,716
Closing balance	**37,873**	**267,991**	**102,386**	**34,206**	**442,456**
Short term	9,308	17,087	45,842	1,242	73,479
Long term	28,565	250,904	56,544	32,964	368,977

Provisions for litigation and claims

Provisions for litigation and claims include court, administrative and other legal proceedings. The provisions were estimated in the amount of expected outflow of resources embodying econimic benefits.

Provisions for defined benefit plans

Detailed information in respect to provisions for defined benefit plans were presented in Note 45.

Other provisions

Other provisions include in particular provisions for other employee benefits.

44. Other liabilities

	31.12.2015	31.12.2014
Deferred income	120,308	122,764
Provisions for holiday leave	56,983	55,894
Provisions for other employee-related liabilities	255,274	189,982
Provisions for administrative costs	103,348	132,718
Other costs to be paid	162,048(*)	54,099
Other creditors	274,565	389,985
Interbank and interbranch settlements	515,533	658,461
Card settlements	192,476	157,519
Total	**1,680,535**	**1,761,422**

(*) in this PLN 104 122 thousand of provision for future refunds of the part of the remuneration for sale of insurance products linked to loans

45. Defined benefit plans

Based on internal regulations in respect to remuneration, the employees of the Group or their families are entitled to defined benefits other than remuneration:
a) retirement benefits,
b) death-in-service benefits.

The present value of such obligations is measured by an independent actuary using the projected unit credit method.

The amount of the retirement benefits and death-in-service benefits is dependent on length of service and amount of remuneration. The expected amount of the benefits is discounted actuarially, taking into account the financial discount rate and the probability of an individual get to the retirement age or die while working respectively. The financial discount rate is determined by reference to market yields at the end of reporting period on government bonds. The probability of an individual get to the retirement age or die while working is determined using the multiple decrement model, taking into consideration the following risks: possibility of dismissal from service, risk of total disability to work and risk of death.

(in PLN thousand)

These defined benefit plans expose the Group to actuarial risk, such as:
- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,
- remuneration risk – the increase in remuneration of the Group's employees would increase the defined benefit plans obligations,
- longevity risk – the increase in life expectancy of the Group's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions as at 31 December 2015 are as follows:
- the discount rate at the level of 2.90% (2.60 % as at 31 December 2014),
- the future salary growth rate at the level of 2.50% (2.50 % as at 31 December 2014),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Group.

Reconciliation of the present value of defined benefit plans obligations

The following table presents a reconciliation from the opening balances to closing balances for the present value of defined benefit plans obligations.

	2015	2014
Opening balance	**267,991**	**207,297**
Current service cost	16,594	13,409
Interest expense	6,978	9,248
Remeasurements of the defined benefit obligations:	(12,900)	44,338
actuarial gains and losses arising from changes in demographic assumptions	(134)	152
actuarial gains and losses arising from changes in financial assumptions	(9,611)	48,648
actuarial gains and losses arising from experience adjustments	(3,155)	(4,462)
Contributions paid by the employer	(10,247)	(6,301)
Business combination	442	–
Closing balance	**268,858**	**267,991**

Sensitivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent.

	DEFINED BENEFIT PLANS OBLIGATIONS	
31.12.2015	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(28,208)	34,057
Future salary growth rate	34,158	(28,801)

	DEFINED BENEFIT PLANS OBLIGATIONS	
31.12.2014	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(29,330)	35,584
Future salary growth rate	34,256	(28,732)

Maturity of defined benefit plans obligations

The following table presents the maturity profile of the defined benefit plans obligations.

	31.12.2015	31.12.2014
The weighted average duration of the defined benefit plans obligations (in years)	11.7	12.2

(in PLN thousand)

46. Share-based payments

The UniCredit Group incentive program

In the current and comparative reporting periods the following incentive programs granted to employees of the Bank Pekao Group by the UniCredit Group existed:

- The long-term UniCredit Group Incentive Program 2007 in respect to share options. The rights to exercise the option were acquired in 2011. Strike price is EUR 7.094. The option will expire in 2017,
- The long-term UniCredit Group Incentive Program 2008 in respect to share options. The rights to exercise the option were acquired in 2012. Strike price is EUR 4.185. The option will expire in 2018,
- Employee Share Ownership Plan that offers to eligible UniCredit Group employees the possibility to buy UniCredit ordinary shares with the following advantages: obtaining Free Shares ('Free Shares') granted free of charge based on the number of the Investment shares purchased by each participant. The granting of free ordinary shares depends on the vesting conditions stated in the rules of the Plan.

The above mentioned share-based payments are recognized as cash-settled transactions.

The fair value of share options and shares of UniCredit S.p.A. was established based on the Hull and White model.

The tables below present changes in the number of stock options and performance shares of UniCredit S.p.A., as well as the weighted average exercise prices

	STOCK OPTIONS		PERFORMANCE SHARES	
2015	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2,345,563	17.84/30.24	–	–
Granted during the year	–	–	–	–
Redeemed during the year	(55,848)	–	–	–
Exercised during the year	–	–	–	–
Terminated during the year	–	–	–	–
Existing at the period-end	2,289,715	17.83/30.23	–	–
Executable at the period-end	2,289,715	17.83/30.23	–	–

(*) The value of PLN 17.83 relates to the stock options program 2008, whereas the value of PLN 30.23 relates to the stock options program 2007.

	STOCK OPTIONS		PERFORMANCE SHARES	
2014	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2,345,563	17.36/29.42	–	–
Granted during the year	–	–	–	–
Redeemed during the year	–	–	–	–
Exercised during the year	–	–	–	–
Terminated during the year	–	–	–	–
Existing at the period-end	2,345,563	17.84/30.24	–	–
Executable at the period-end	2,345,563	17.84/30.24	–	–

(*) The value of PLN 17.84 relates to the stock options program 2008, whereas the value of PLN 30.24 relates to the stock options program 2007.

(in PLN thousand)

The table below presents the conditions of Employee Share Ownership Plan in 2015

	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	30 January 2015	31 July 2015
Vesting Period Start-Date	30 January 2015	31 July 2015
Vesting Period End-Date	31 January 2016	31 July 2016
'Free Shares' Fair Value (per unit in EUR)	5.280	6.078

The table below presents the conditions of Employee Share Ownership Plan in 2014

	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	31 January 2014	31 July 2014
Vesting Period Start-Date	31 January 2014	31 July 2014
Vesting Period End-Date	31 January 2015	31 July 2015
'Free Shares' Fair Value (per unit in EUR)	5.774	5.972

The fair value of granted rights to shares under Employee Share Ownership Plan until 31 December 2015 amounted to PLN 2 415 thousand as at 31 December 2015 (PLN 654 as at 31 December 2014).

The remuneration expenses for 2015 relating to the incentive programs granted to the emloyees of the Bank by UniCredit Group amounted to PLN 1 608 thousand (in 2014 – PLN 322 thousand).

System of Variable Remuneration for the Management Team

The system of variable remuneration is addressed to Employees defined in the Bank as persons in managerial positions, who are key employees for the fulfillment of the Bank's strategy, risk management and long-term increase of the Bank's income. The aim of the system is to support the execution of the Bank's operational strategy, its risk management and to limit conflict of interests.

Under the system the participant can receive the variable compensation, which is paid out based on a bonus pool approach providing for a comprehensive performance measurement at individual level, level of his/her organizational unit and results of the entire Bank as well as verification of the Participant's compliant behaviour with respect to law provisions and standards adopted by the Bank.

The compensation consists of cash payment and cash-settled share based payment realized in the form of phantom shares as cash equivalent amounting to the value of granted phantom shares.

Notes to the financial statements

(in PLN thousand)

During the reporting period ending on 31 December 2015 the Bank had the following share-based payments transactions

	SYSTEM 2011	SYSTEM 2012	SYSTEM 2013	SYSTEM 2014	SYSTEM 2015
Transaction type	Cash-settled share based payments				
Start date of the assessment period	1 January 2011	1 January 2012	1 January 2013	1 January 2014	1 January 2015
Program announcement date	April 2011	April 2012	April 2013	June 2014	July 2015
Program granting date	1 June 2012	12 June 2013	12 June 2014	30 April 2015	Date of General Shareholders Meeting
Number of instruments granted (pcs)	87 901	80 003	76 013	68 040	Will be defined on granting date
Maturity date	31 July 2016	31 July 2017	31 July 2018	31July 2020	31 July 2021
Vesting date for Management Board Members and Executive Vice President	• 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date	• 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date	• 40% in the year of program granting (settlement after 2 year retention period) • 40% after 2 years from program granting date (settlement after 1 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period)	• 40% in the year of program granting (settlement after 3 year retention period) • 30% after 3 years from program granting date (settlement after 1 year retention period) • 30% after 4 years from program granting date (settlement after 1 year retention period)	• 40% in the year of program granting (settlement after 2 year retention period) • 24% after 2 years from program granting date (settlement after 1 year retention period) • 12% after 3 years from program granting date (settlement after 1 year retention period) • 24% after 4 years from program granting date (settlement after 1 year retention period)
Vesting date for remaining participants	• 50% after 2 years from program granting date • 50% after 3 years from program granting date	• 20% after 1 years from program granting date • 40% after 2 years from program granting date • 40% after 3 years from program granting date	• 20% after 1 year from program granting date • 40% after 2 years from program granting date • 40% after 3 years from program granting date	• 60% in the year of program granting (settlement after 3 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) • 20% after 4 years from program granting date (settlement after 1 year retention period)	• 60% in the year of program granting (settlement after 3 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) • 20% after 4 years from program granting date (settlement after 1 year retention period)
Vesting conditions	Compliance assessment, Continuous employment, Reaching the aim based on financial results of the Bank for a given period				
Program settlement	On the vesting date, the participant will receive a cash payment amounting to the number the possessed phantom shares times the arithmetic mean of the Bank's share prices at the Warsaw Stock Exchange in the calendar month preceding the month of cash-settlement.				

For the System 2011, 2012, 2013 and 2014 the fair value of the program was estimated based upon the Bank's shares price on the WSE as of the balance sheet date and expected number of phantom shares to which the rights will be acquired.

For the System 2015, as of 31 December 2015 the Bank prepared the program valuation, presuming that the phantom shares were granted on 31 December 2015. This value will be changed at the actual date of granting the program.

The system of variable remuneration realized in the form of phantom shares is a program settled in cash, and therefore its fair value is adjusted on each balance sheet date until the the program settlement, which in case of this program coincides with the vesting date.

(in PLN thousand)

The carrying amount of liabilities for cash-settled phantom shares amounted to PLN 24 534 thousand as at 31 December 2015 (as at 31 December 2014 – PLN 32 003 thousand).

The total intrinsic value of liabilities for vested rights to phantom shares amounted to PLN 27 417 thousand as at 31 December 2015 (as at 31 December 2014 – PLN 35 642 thousand).

The remuneration expenses for 2015 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 6 312 thousand (in 2014 – PLN 13 796 thousand).

The table below presents changes in the number of Bank's phantom shares

	2015	2014
Opening balance	199,452	167,904
Granted during the year	68,040	76,013
Redeemed during the year	–	–
Exercised during the year	76,432	44,466
Terminated during the year	–	–
Existing at the period-end	191,060	199,452

The table above does not present the number of shares granted in respect of System 2015. This number will be determined in 2016 after approval of the financial statements for 2015 by the General Shareholder's Meeting. The hypothetical number of shares determined on the basis of the base value of the granted bonus to each of the program participants and arithmetic mean of the Bank's share price on the WSE in December 2015 amounts to 100 088.

System of Variable Remuneration for the Management Team of the subsidiaries

In order to meet requirements concerning rules of establishing policy of variable remuneration's component for individuals in managerial positions (Resolution No. 258/2011 of the Polish Financial Supervision Authority issued on 4 October 2011 and the Minister of Finance Regulation dated 2 December 2011, Official Journal from 2011, No. 263, item 1569), the following subsidiaries: Centralny Dom Maklerski Pekao S.A., Pekao Bank Hipoteczny S.A., Pekao Leasing Sp. z o.o., Pekao Investment Banking S.A. and Pekao Financial Services Sp. z o.o. have implemented System of Variable Remuneration for the Management Team.

Within the system participant can receive the bonus depending on the performance and results of work of the participant, of the business unit and the company's results in the area of responsibility of the person, taking into account the results of the whole company, as well as verification of the compliance of Participant's behaviour with respect to law provisions and standards adopted by the company.

At least 40 % components of variable renumerations is settled and paid in the time-period of 3 to 5 years since the granting date.

The companies measure the future employees benefits at fair value of accepted liabilities, in accordance with IAS 19 'Employee benefits'. Results of liabilities meassurement at fair value are presented in income statement as personnel expenses.

The carrying amount of liabilities for cash-settled phantom shares amounted to PLN 4 030 thousand as at 31 December 2015 (as at 31 December 2014 – PLN 3 934 thousand).

The remuneration expenses for 2015 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 127 thousand (in 2014 – PLN 907 thousand).

47. Operating lease

The Group as a Lessor

In operating lease of buildings classified as investment properties the Group acts as a lessor.

(in PLN thousand)

The amount of future minimum lease payments expected to be received under non-cancellable operating lease can be summarized as follows

	31.12.2015	31.12.2014
Up to 1 year	7,334	12,129
Between 1years and 5 years	2,869	15,240
Over 5 years	498	8,893
Total	**10,701**	**36,262**

The amount of the minimum operating lease payments classified as income in 2015 amounted to PLN 19 262 thousand (PLN 20 664 thousand in 2014).

The Group as Lessee

The Group is a lessee of buildings' lease contracts classified as operating lease.

The amount of future minimum lease payments expected to be paid under non-cancellable operating lease can be summarized as follows

	31.12.2015	31.12.2014
Up to 1 year	111,591	119,923
Between 1years and 5 years	243,264	261,232
Over 5 years	105,814	160,483
Total	**460,669**	**541,638**

The amount of the minimum operating lease payments recognized as an expense in 2015 amounted to PLN 186 023 thousand (expense in 2014 amounted to PLN 198 670 thousand).

The lease agreements are usually entered into for an indefinite period. In case of lease agreements concluded for an indefinite term, the minimum lease payments are determined based upon notice of termination periods ensuing from relevant contracts. The notice period is usually fixed at 3 or 6 months. Lease agreements are denominated in PLN as well as in foreign currencies. Payments are made in PLN, regardless of the contract currency.

48. Contingent commitments

Litigation

In the entire year of 2015 the total value of the litigation subject in the ongoing court proceedings against the Group was PLN 1 142 702 thousand (in 2014 it was PLN 1 205 592 thousand).

In 2015 there were no proceedings before the court or state administration bodies related to the receivables or payables of the Bank and its subsidiaries in which the pursued claim value (amount to be paid) is at least 10% of the Group's equity.

In 2015 still going on was the court litigation against the Group entities, Bank Pekao SA and Pekao SA Central Brokerage House, brought by private individuals for the payment of damage arising from the purchase of stocks and the financial compensation for the injury resulting from the execution process, in which the value of the litigation subject, as at 31 December 2015, was PLN 206 422 thousand (previously PLN 306 622 thousand). In the first half of 2015 the sentence dismissing the plaint against defendants was adjudicated. The sentence is not legally binding. The plaintiffs lodged an appeal against the sentence, i.e. its part related to the amount of PLN 206 422 thousand. In the opinion of the Bank appeal is unfounded.

Moreover against the Group currently are pending the following essential litigations:

- proceedings instigated in the second quarter of 2014 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 55 996 thousand as the bank guarantee drawing,
- proceedings instigated in 2013 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 43 760 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2014 as a result of the plaint brought by guarantee beneficiaries for the payment of PLN 32 750 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2015 as a result of the plaint brought by guarantee beneficiary for the payment of PLN 29 205 thousand as the bank guarantee drawing.

Given the analysis of facts and legal aspects, the Bank evaluates the risk of outflow of funds in these four lawsuits as possible.

(in PLN thousand)

As at 31 December 2015, the Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the above provisions as at 31 December 2015 is PLN 10 608 thousand (PLN 37 873 thousand as at 31 December 2014).

UOKIK proceedings

On 4 April 2015 the President of the Office of Competition and Consumer Protection ('UOKIK') issued a decision to initiate proceedings regarding Bank Pekao S.A. in relation to suspected application of a practice contradictory to established customs, which may infringe collective interests of consumers involving a provision, contradicting agreements for mortgage loans expressed/ denominated/ indexed in CHF – not to take into account, when calculating the interest rate on these loans, the negative LIBOR value, when this index is higher than the value of the margin specified in the loan agreement.

On 20 August 2015 the Bank submitted a response in which it presented its position on the allegations justifying that the Bank's practice does not infringe collective interests of consumers.

So far the proceedings have not been closed with a final decision of the UOKIK President.

On 30 December 2015 the UOKIK President issued a decision to initiate proceedings regarding practices which may infringe collective interests of consumers, involving notifying the consumers of changes of the agreement terms during the agreement effective period only via Pekao24 electronic banking system, which does not constitute a permanent information carrier as defined in the Payment Services Act of 19 August 2011, which may breach the obligation arising from the Payment Services Act, and involving non-inclusion, in communication addressed to consumers related to a unilateral change of the agreement terms, of important information allowing the consumers to determine whether the proposed changes are acceptable and also involving a unilateral modification of agreement templates when there are no legal grounds for making such modifications, which may be contradictory to established customs.

On 25 January 2016 the Bank submitted its response in which it addressed the presented allegations arguing that the Bank's practice does not infringe collective interests of consumers.

So far the proceedings have not been closed with a final decision of the UOKIK President.

Financial off–balance commitments granted

Financial commitments granted by entities

	31.12.2015	31.12.2014
Financial commitments to:		
financial entities	700,755	626,967
non – financial entities	29,386,749	25,804,627
budget entities	848,356	944,954
Total	**30,935,860**	**27,376,548**

Off–balance guarantees issued

Guarantees issued by entities

	31.12.2015	31.12.2014
Issued to financial entities, including:	1,311,490	1,015,435
guarantees	1,308,840	971,814
sureties	–	42,990
confirmed export letters of credit	2,650	631
Issued to non-financial entities, including:	12,393,161	13,041,275
guarantees	7,510,192	7,474,912
securities' underwriting guarantees	4,806,284	5,566,363
sureties	76,685	–
Issued to budget entities, including:	368,176	151,974
guarantees	28,176	13,007
securities' underwriting guarantees	340,000	138,967
Total	**14,072,827**	**14,208,684**

Notes to the financial statements

(in PLN thousand)

Securities underwriting

As at 31 December 2015, the following securities programs have been in place, covered by underwriting

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE
Client 1	bonds	1,385,000	23.07.10 – 30.06.20
Client 2	bonds	458,000	21.06.12 – 31.12.17
Client 3	bonds	99,220	06.12.12 – 31.03.16
Client 4	bonds	52,400	28.12.12 – 30.03.16
Client 5	bonds	76,900	28.12.12 – 30.03.16
Client 6	bonds	164,700	01.07.11 – 20.12.17
Client 7	bonds	11,430	20.05.13 – 24.02.16,
Client 8	bonds	17,200	14.04.15 – 10.06.16
Client 9	bonds	78,000	14.04.15 – 10.06.16
Client 10	bonds	484,880	22.10.13 – 14.12.16
Client 11	bonds	50,000	22.10.13 – 14.12.16
Client 12	bonds	16,250	27.01.14 – 30.09.16
Client 13	bonds	6,500	15.05.14 – 31.12.16
Client 14	bonds	700	31.05.14 – 31.12.16
Client 15	bonds	157,510	30.06.14 – 31.03.17
Client 16	bonds	61,710	22.07.14 – 31.07.16
Client 17	bonds	6,530	22.07.14 – 31.07.16
Client 18	bonds	100,000	30.07.14 – 30.06.19
Client 19	bonds	830	29.07.14 – 30.06.16
Client 20	bonds	20,450	29.07.14 – 30.09.16
Client 21	bonds	25,000	25.08.14 – 31.08.16
Client 22	bonds	45,770	29.05.14 – 30.04.16
Client 23	bonds	29,050	15.09.14 – 31.12.16
Client 24	bonds	20,000	15.09.14 – 31.12.16
Client 25	bonds	5,600	15.09.14 – 31.12.16
Client 26	bonds	33,790	31.10.14 – 31.03.16
Client 27	bonds	50,000	22.12.14 – 30.06.17
Client 28	bonds	52,135	30.12.14 – 30.06.16
Client 29	bonds	1,378	30.12.14 – 31.03.16
Client 30	bonds	198,780	30.12.14 – 09.03.16
Client 31	bonds	20,500	30.12.14 – 31.12.16
Client 32	bonds	230,000	23.02.15 – 30.06.17
Client 33	bonds	100,000	23.02.15 – 30.11.22
Client 34	bonds	350,000	20.02.15 – 30.04.16
Client 35	bonds	16,000	27.01.15 – 31.12.16
Client 36	bonds	74,000	31.12.15 – 31.12.16
Client 37	bonds	39,000	14.10.15 – 31.12.17
Client 38	bonds	12,500	14.10.15 – 31.12.17
Client 39	bonds	154,955	18.12.15 – 30.09.16
Client 40	bonds	30,000	28.12.15 – 31.12.17
Client 41	bonds	409,616	25.08.14 – 31.12.16

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and are not a subject to regulated off-the-floor trading.

(in PLN thousand)

As at 31 December 2014, the following securities programs have been in place, covered by underwriting

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE
Client 1	bonds	1,385,000	23.07.10 – 30.06.20
Client 2	bonds	540,000	29.07.12 – 15.12.17
Client 3	bonds	60,000	29.07.12 – 15.12.17
Client 4	bonds	544,000	21.06.12 – 31.12.17
Client 5	bonds	156,720	06.12.12 – 31.03.16
Client 6	bonds	132,400	28.12.12 – 31.03.15
Client 7	bonds	78,700	28.12.12 – 31.03.15
Client 8	bonds	164,700	01.07.11 – 20.12.17
Client 9	bonds	14,640	19.03.13 – 30.06.15
Client 10	bonds	7,500	06.05.13 – 15.05.15
Client 11	bonds	4,600	06.05.13 – 15.05.15
Client 12	bonds	16,407	24.05.13 – 31.01.15
Client 13	bonds	20,000	29.04.13 – 31.03.15
Client 14	bonds	140,110	20.05.13 – 30.12.15
Client 15	bonds	950	16.08.13 – 31.12.15
Client 16	bonds	80,000	16.09.13 – 10.06.16
Client 17	bonds	11,000	28.10.13 – 30.12.16
Client 18	bonds	73,600	31.10.13 – 30.06.15
Client 19	bonds	25,000	31.10.13 – 30.06.15
Client 20	bonds	565,000	22.10.13 – 30.12.15
Client 21	bonds	50,000	22.10.13 – 30.11.15
Client 22	bonds	10,000	22.11.13 – 31.12.15
Client 23	bonds	3,983	20.12.13 – 31.12.15
Client 24	bonds	25,020	27.01.14 – 31.03.16
Client 25	bonds	84,140	30.04.14 – 30.12.15
Client 26	bonds	13,100	30.04.14 – 30.12.15
Client 27	bonds	31,570	30.04.14 – 30.12.15
Client 28	bonds	15,000	30.04.14 – 30.12.15
Client 29	bonds	14,000	15.05.14 – 31.12.16
Client 30	bonds	5,700	31.05.14 – 31.12.16
Client 31	bonds	1,200	24.06.14 – 31.12.15
Client 32	bonds	183,180	30.06.14 – 31.03.17
Client 33	bonds	61,040	22.07.14 – 31.07.15
Client 34	bonds	4,170	22.07.14 – 31.07.15
Client 35	bonds	100,000	30.07.14 – 30.06.19
Client 36	bonds	26,870	29.07.14 – 30.06.16
Client 37	bonds	9,780	29.07.14 – 30.06.16
Client 38	bonds	800	08.07.14 – 31.12.15
Client 39	bonds	13,000	14.08.14 – 31.12.15
Client 40	bonds	25,000	25.08.14 – 31.08.16
Client 41	bonds	3,580	29.05.14 – 30.04.15
Client 42	bonds	50,000	14.09.14 – 30.06.15
Client 43	bonds	6,500	08.09.14 – 31.12.16
Client 44	bonds	950	09.12.13 – 31.12.15
Client 45	bonds	8,544	03.09.14 – 31.12.15
Client 46	bonds	16,000	09.10.14 – 31.12.15
Client 47	bonds	3,500	09.10.14 – 31.12.15

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE
Client 48	bonds	46,140	31.10.14 – 31.03.16
Client 49	bonds	4,700	28.11.14 – 31.12.15
Client 50	bonds	3,000	15.12.14 – 31.12.15
Client 51	bonds	50,000	22.12.14 – 30.06.17
Client 52	bonds	119,500	30.12.14 – 31.12.15
Client 53	bonds	100,000	30.12.14 – 30.06.16
Client 54	bonds	7,500	30.12.14 – 31.03.16
Client 55	bonds	198,780	30.12.14 – 09.03.16
Client 56	bonds	20,500	30.12.14 – 31.12.16
Client 57	bonds	368,256	25.08.14 – 31.12.16

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and are not a subject to regulated off-the-floor trading.

Off-balance commitments received

Commitments received by entities

	31.12.2015	31.12.2014
Financial commitments from:	285,084	496,467
financial entities	285,084	496,467
non – financial entities	–	–
budget entities	–	–
Guarantees from:	11,674,503	12,175,488
financial entities	1,161,416	1,324,576
non – financial entities	9,759,234	10,102,000
budget entities	753,853	748,912
Total	**11,959,587**	**12,671,955**

Moreover, the Group can to obtain financing from the National Bank of Poland pledged on securities.

49. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ ISSUE	EQUITY COVERAGE	REGISTRATION DATE	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137,650,000	137,650	fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7,690,000	7,690	fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10,630,632	10,631	fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9,777,571	9,777	fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373,644	374	fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621,411	621	fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	603,377	603	fully paid-up	29.08.2003	15.05.2008
H	Common bearer stock	359,840	360	fully paid-up	12.08.2004	01.01.2004
I	Common bearer stock	94,763,559	94,764	fully paid-up	29.11.2007	01.01.2008
Total number of Shares (pcs)		**262,470,034**				
Total share capital in PLN thousand			**262,470**			
Nominal value per share = PLN 1.00						

(in PLN thousand)

Change in the number of shares (pcs)

2015	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262,470,034	262,470,034
Closing balance	262,470,034	262,470,034

2014	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262,470,034	262,470,034
Closing balance	262,470,034	262,470,034

50. Other capital and reserves, retained earnings and profit for the period

The table below presents the structure of the Group's equity attributable to equity holders of the Bank

	31.12.2015	31.12.2014
Reserve capital, including:	9,474,405	9,464,071
issue of shares above face value	9,137,221	9,137,221
other	337,184	326,850
Revaluation reserve, including:	283,597	540,806
remeasurements of the defined benefit liabilities	(86,777)	(99,699)
deferred tax	16,488	18,943
revaluation of financial assets portfolio available for sale	391,616	628,740
deferred tax	(74,407)	(119,461)
revaluation of financial hedging instruments portfolio	45,280	138,621
deferred tax	(8,603)	(26,338)
Foreign currency translation differences, including:	–	1,169
foreign currency translation differences	–	1,169
deferred tax	–	–
General Banking Risk Fund	1,975,415	1,937,850
Other reserve capital	9,092,740	9,002,629
Bonds convertible into shares – equity component	28,819	28,819
Funds for brokerage activities	15,000	15,000
Total other capital	**20,869,976**	**20,990,344**
Profit (loss) from previous periods, allocated to Bank's shareholders	(16,676)	50,161
Net profit for the period, allocated to Bank's shareholders	2,292,459	2,714,714
Total retained earnings and profit for the period	**2,275,783**	**2,764,875**
Total	**23,145,759**	**23,755,219**

The net profit of the Bank for 2014 in the amount of PLN 2 662 266 thousand was distributed in the following way: PLN 2 624 701 thousand – to dividend, PLN 37 565 thousand – to General Banking Risk Fund.

From 1982 to 1984 and from 1988 to 1996, the Group operated in a hyperinflationary economic environment.

IAS 29 (Financial Reporting in Hyperinflationary Economies) requires restatement of each component of owners' equity (except for retained earnings and revaluation surplus) by applying a general price index for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital and other reserves and a decrease in retained earnings in equivalent amounts. This restatement would not have any effect on the total amount of the Group's equity.

(in PLN thousand)

51. Non – controlling interests

The below table presents the information for each of the subsidiaries that have non-controlling interests that are material to the Group

NAME OF THE SUBSIDIARY	COUNTRY OF INCORPORATION AND PLACE OF BUSINESS	PERCENTAGE SHARE OF NON-CONTROLLING INTERESTS IN SHARE CAPITAL / VOTING RIGHTS		NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		ACCUMULATED NON-CONTROLLING INTERESTS	
		31.12.2015	31.12.2014	2015	2014	31.12.2015	31.12.2014
Pekao Leasing Sp. z o.o.	Poland	–	–	–	4,891	–	4,891
Pekao Leasing Holding S.A.	Poland	–	–	–	119	–	119
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Poland	35.00	35.00	1,019	5,392	15,964	23,033
TOTAL				**1,019**	**10,402**	**15,964**	**28,043**

The summarized financial information of each of the subsidiaries that are material to the Group are presented below

	PEKAO LEASING SP. Z O.O.		PEKAO LEASING HOLDING S.A.		PEKAO PIONEER POWSZECHNE TOWARZYSTWO EMERYTALNE S.A.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans and advances to banks	–	169,936	82,931	70	44,995	65,366
Receivables from finance leases	3,530,228	3,145,745	–	–	–	–
Investments (placement) securities	–	–	–	48,190	–	–
Investments in subsidiaries	–	–	194,140	194,140	–	–
Income tax assets	184,080	193,560	3	3	177	546
Other items of assets	99,991	77,093	223	3	2,653	2,352
TOTAL ASSETS	**3,814,299**	**3,586,334**	**277,297**	**242,406**	**47,825**	**68,264**
Amounts due to other banks	3,199,168	2,818,791	–	–	–	–
Amounts due to customers	45,268	50,944	–	–	–	–
Debt securities issued	–	48,190	–	–	–	–
Other items of liabilities	63,011	120,248	84	82	2,214	2,458
TOTAL LIABILITIES	**3,307,447**	**3,038,173**	**84**	**82**	**2,214**	**2,458**

	PEKAO LEASING SP. Z O.O.		PEKAO LEASING HOLDING S.A.		PEKAO PIONEER POWSZECHNE TOWARZYSTWO EMERYTALNE S.A.	
	2015	2014	2015	2014	2015	2014
Revenue	153,496	169,394	61,795	1,399	14,714	18,423
Net profit for the period	53,904	54,585	61,436	995	2,913	15,405
Total comprehensive income	**53,904**	**54,585**	**61,436**	**995**	**2,913**	**15,405**
Dividends paid to non-controlling interests	–	–	–	–	8,088	4,823
Cash flows from operating activities	(350,717)	13,878	(576)	(392)	3,662	16,116
Cash flows from investing activities	(1,966)	(826)	109,985	298	(925)	30,857
Cash flows from financing activities	182,747	156,862	(26,548)	–	(23,108)	(13,781)
Net change in cash and cash equivalents	(169,936)	169,914	82,861	(94)	(20,371)	33,192
Cash and cash equivalents at the beginning of the period	169,936	22	70	164	65,366	32,174
Cash and cash equivalents at the end of the period	–	169,936	82,931	70	44,995	65,366

(in PLN thousand)

52. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	31.12.2015	31.12.2014
Cash and amounts due from Central Bank	7,881,607	9,226,254
Loans and receivables from banks with maturity up to 3 months	6,631,788	6,329,930
Cash and Cash equivalents presented in the cash flow statement	**14,513,395**	**15,556,184**

Restricted availability cash and cash equivalents as at 31 December 2015 amounted to PLN 4 338 995 thousand (PLN 4 021 406 thousand as at 31 December 2014).

53. Related party transactions

Transactions between the Bank and related parties are typical transactions arising from current operating activities conducted by the Bank. Such transactions mainly include loans, deposits, foreign currency transactions and guarantees.

The credit granting process applicable to the Bank's management and entities related to the Bank

According to the Banking Act, credit transactions with Members of the Bank Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, shall be effected according to Regulation adopted by the Supervisory Board of the Bank.

The Regulation provides detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels, authorized to take decisions. In particular, transactions with Members of the Bank's Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank's Management Board and Supervisory Board.

Members of the Bank's Management Board and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is performed using the methodology applied by the Bank, tailored to the client's segment and type of transaction.

In case of entities related to the Bank, the standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank's Head Office.

(in PLN thousand)

Related party transactions

Related party transactions as at 31 December 2015

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	605,703	–	–	605	1,209	–	2,415
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1,114,848	7,724	55,861	4,843	1,507,266	653,064	966
Associates of Bank Pekao S.A Group							
Dom Inwestycyjny Xelion Sp. z o.o.	–	–	–	3	25,262	–	29
Pioneer Pekao Investment Management S.A.	–	–	–	35	162,752	–	23
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	–	–	–	16,323	115,116	–	21
Total Associates of Bank Pekao S.A. Group	**–**	–	**–**	**16,361**	**303,130**	**–**	**73**
Key management personnel of the Bank and UniCredit S.p.A.	8,568	–	–	–	22,180	–	–
Total	**1,729,119**	**7,724**	**55,861**	**21,809**	**1,833,785**	**653,064**	**3,454**

Receivables from loans and deposits by contractual maturity

31.12.2015	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	8,497	597,206	–	–	–	–	605,703
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	616,160	94,797	482	779	402,630	–	1,114,848
Associates of Bank Pekao S.A Group	–	–	–	–	–	–	–
Key management personnel of the Bank and UniCredit S.p.A.	–	5,999	–	37	186	2,346	8,568
Total	**624,657**	**698,002**	**482**	**816**	**402,816**	**2,346**	**1,729,119**

(*) Current receivables includude Nostro accounts and cash collaterals.

Liabilities due to loans and deposits by contractual maturity

31.12.2015	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	1,209	–	–	–	–	–	1,209
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	160,673	8,458	963,829	–	374,306	–	1,507,266
Associates of Bank Pekao S.A Group	16,224	92,203	194,703	–	–	–	303,130
Key management personnel of the Bank and UniCredit S.p.A.	4,474	4,007	9,841	3,808	50	–	22,180
Total	**182,580**	**104,668**	**1,168,373**	**3,808**	**374,356**	**–**	**1,833,785**

(*) Current liabilities include Loro accounts and cash collaterals.

(in PLN thousand)

Receivables from loans and deposits by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	243,767	350,936	–	11,000	–	605,703
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	598,100	403,900	7	67,079	45,762	1,114,848
Associates of Bank Pekao S.A Group	–	–	–	–	–	–
Key management personnel of the Bank and UniCredit S.p.A.	–	–	–	8,568	–	8,568
Total	**841,867**	**754,836**	**7**	**86,647**	**45,762**	**1,729,119**

Liabilities due to loans and deposits by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	–	–	–	1,209	–	1,209
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1,010,843	261	374,306	121,856	–	1,507,266
Associates of Bank Pekao S.A Group	–	–	–	303,130	–	303,130
Key management personnel of the Bank and UniCredit S.p.A.	7,129	920	–	14,128	3	22,180
Total	**1,017,972**	**1,181**	**374,306**	**440,323**	**3**	**1,833,785**

Related party transactions as at 31 December 2014

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	183,634	–	13	15,339	–	654
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1,496,697	456,005	4,493	1,048,862,	1,002,599	866
Associates of Bank Pekao S.A Group						
Dom Inwestycyjny Xelion Sp. z o.o.	–	–	3	22,812	–	36
Pioneer Pekao Investment Management S.A.	–	–	–	154,825	–	3
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	–	–	23,067	144,297	–	9
Krajowa Izba Rozliczeniowa S.A.	–	–	–	7,766	–	–
Total Associates of Bank Pekao S.A. Group	**–**	**–**	**23,070**	**329,700**	**–**	**48**
Key management personnel of the Bank and UniCredit S.p.A.	6,385	–	–	33,291	–	–
Total	**1,686,716**	**456,005**	**27,576**	**1,427,192**	**1,002,599**	**1,568**

Receivables from loans and deposits by contractual maturity

31.12.2014	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	4,766	178,868	–	–	–	–	183,634
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	621,804	117,883	43,218	351,637	362,155	–	1,496,697
Associates of Bank Pekao S.A Group	–	–	–	–	–	–	–
Key management personnel of the Bank and UniCredit S.p.A.	2	5,998	–	–	48	337	6,385
Total	**626,572**	**302,749**	**43,218**	**351,637**	**362,203**	**337**	**1,686,716**

(*) Current receivables include Nostro accounts and cash collaterals.

Notes to the financial statements

(in PLN thousand)

Liabilities due to loans and deposits by contractual maturity

31.12.2014	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	15,339	–	–	–	–	–	15,339
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	126,309	539,530	277	14,061	7,596	361,089	1,048,862
Associates of Bank Pekao S.A Group	28,208	102,192	198,800	500	–	–	329,700
Key management personnel of the Bank and UniCredit S.p.A.	15,644	8,679	8,425	443	100	–	33,291
Total	**185,500**	**650,401**	**207,502**	**15,004**	**7,696**	**361,089**	**1,427,192**

(*) Current liabilities include Loro accounts and cash collaterals.

Receivables from loans and deposits by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	3,581	180,053	–	–	–	183,634
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	606,379	714,067	6	142,632	33,613	1,496,697
Associates of Bank Pekao S.A Group	–	–	–	–	–	–
Key management personnel of the Bank and UniCredit S.p.A.	–	–	–	6,385	–	6,385
Total	**609,960**	**894,120**	**6**	**149,017**	**33,613**	**1,686,716**

Liabilities due to loans and deposits by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	–	–	–	15,339	–	15,339
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	347,597	140	336,914	364,211	–	1,048,862
Associates of Bank Pekao S.A Group	–	–	–	329,700	–	329,700
Key management personnel of the Bank and UniCredit S.p.A.	2,894	845	–	22,843	6,709	33,291
Total	**350,491**	**985**	**336,914**	**732,093**	**6,709**	**1,427,192**

Income and expenses from transactions with related parties for the period from 1 January 2015 to 31 December 2015

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	216	(246)	1,689	(3,070)	811	(15,664)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	42,043	(4,242)	9,388	(1,329)	41,577	(6,896)
Associates of Bank Pekao S.A Group						
Pioneer Pekao Investment Management S.A.	–	(2,761)	357	–	26	–
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	–	(1,973)	226,313	–	–	–
Dom Inwestycyjny Xelion Sp.z o.o.	–	(361)	64	(117)	314	(1)
Krajowa Izba Rozliczeniowa S.A.(*)	–	(135)	57	–	–	(4,303)
Total Associates of Bank Pekao S.A. Group	**–**	**(5,230)**	**226,791**	**(117)**	**340**	**(4,304)**
Key management personnel of the Bank and UniCredit S.p.A.	253	(419)	17	–	–	–
Total	**42,512**	**(10,137)**	**237,885**	**(4,516)**	**42,728**	**(26,864)**

(*) until sale's date 3 125 shares.

(in PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2014 to 31 December 2014

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	181	(11)	342	(2,742)	1,108	(13,639)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	48,602	(15,493)	7,666	(236)	7,874	(26,722)
Associates of Bank Pekao S.A Group						
Pioneer Pekao Investment Management S.A.	–	(3,841)	464	–	27	–
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	–	(3,221)	229,919	–	–	(8)
Dom Inwestycyjny Xelion Sp.z o.o.	–	(565)	70	(24)	313	–
Krajowa Izba Rozliczeniowa S.A.	–	(148)	162	–	–	(9,380)
Total Associates of Bank Pekao S.A. Group	**–**	**(7,775)**	**230,615**	**(24)**	**340**	**(9,388)**
Key management personnel of the Bank and UniCredit S.p.A.	261	(633)	15	–	–	–
Total	**49,044**	**(23,912)**	**238,638**	**(3,002)**	**9,322**	**(49,749)**

Off-balance sheet financial liabilities and guarantees as at 31 December 2015

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEE
UniCredit S.p.A. – the Bank's parent entity	48,223	236,659	14,588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	179,072	890,343	34,490
Associates of Bank Pekao S.A Group			
Dom Inwestycyjny Xelion Sp. z o.o.	2,000	–	–
Pioneer Pekao Investment Management S.A.	15	–	–
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	52	–	–
Total Associates of Bank Pekao S.A. Group	**2,067**	**–**	**–**
Key management personnel of the Bank and UniCredit S.p.A.	697	**–**	**–**
Total	**230,059**	**1,127,002**	**49,078**

As at 31 December 2015, the Group did not have off-balance sheet financial commitments received from related parties.

Notes to the financial statements

(in PLN thousand)

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2015	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	–	–	–	28,223	–	20,000	48,223
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	–	–	–	179,072	–	–	179,072
Associates of Bank Pekao S.A Group	–	–	–	2,007	60	–	2,067
Key management personnel of the Bank and UniCredit S.p.A.	30	515	5	18	129	–	697
Total	**30**	**515**	**5**	**209,320**	**189**	**20,000**	**230,059**
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	–	2,631	17,719	66,440	83,818	66,051	236,659
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	–	16,189	98,861	90,053	322,855	362,385	890,343
Total	**–**	**18,820**	**116,580**	**156,493**	**406,673**	**428,436**	**1,127,002**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	–	–	–	11,300	3,288	–	14,588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	–	–	553	30,406	3,531	–	34,490
Total	**–**	**–**	**553**	**41,706**	**6,819**	**–**	**49,078**

Off-balance sheet financial commitments and guarantees by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	28,223	–	–	20,000	–	48,223
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	77,772	–	–	101,300	–	179,072
Associates of Bank Pekao S.A Group	–	–	–	2,067	–	2,067
Key management personnel of the Bank and UniCredit S.p.A.	–	–	–	697	–	697
Total	**105,995**	**–**	**–**	**124,064**	**–**	**230,059**
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	10,497	–	–	226,162	–	236,659
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	60,778	–	–	829,565	–	890,343
Total	**71,275**	**–**	**–**	**1,055,727**	**–**	**1,127,002**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	3,288	–	–	11,300	–	14,588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	8,147	–	–	26,343	–	34,490
Total	**11,435**	**–**	**–**	**37,643**	**–**	**49,078**

(in PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2014

NAME OF ENTITY	GRANTED FINANCIAL	GRANTED GUARANTEES	RECEIVED FINANCIAL	RECEIVED GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	39,009	270,784	–	25,121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	96,655	557,728	9,885	51,596
Associates of Bank Pekao S.A Group				
Dom Inwestycyjny Xelion Sp. z o.o.	10,030	–	–	–
Pioneer Pekao Investment Management S.A.	15	–	–	–
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	54	–	–	–
Krajowa Izba Rozliczeniowa S.A.	–	500	–	–
Total Associates of Bank Pekao S.A. Group	**10,099**	**500**	**–**	**–**
Key management personnel of the Bank and UniCredit S.p.A.	874	–	–	–
Total	**146,637**	**829,012**	**9,885**	**76,717**

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2014	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	–	–	–	39,009	–	–	39,009
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	–	–	–	96,464	191	–	96,655
Associates of Bank Pekao S.A Group	–	–	–	10,015	84	–	10,099
Key management personnel of the Bank and UniCredit S.p.A.	20	516	5	50	273	10	874
Total	**20**	**516**	**5**	**145,538**	**548**	**10**	**146,637**
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	–	–	700	84,875	42,909	142,300	270,784
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	–	1,214	1,228	44,810	307,825	202,651	557,728
Associates of Bank Pekao S.A Group	–	–	–	500	–	–	500
Total	**–**	**1,214**	**1,928**	**130,185**	**350,734**	**344,951**	**829,012**
FINANCIAL RECEIVED							
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	9,885	–	–	–	–	–	9,885
Total	**9,885**	**–**	**–**	**–**	**–**	**–**	**9,885**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	–	1,211	725	14,994	6,699	1,492	25,121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	–	–	550	32,986	15,912	2,148	51,596
Total	**–**	**1,211**	**1,275**	**47,980**	**22,611**	**3,640**	**76,717**

Notes to the financial statements

(in PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	39,009	–	–	–	–	39,009
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	35,164	–	–	61,491	–	96,655
Associates of Bank Pekao S.A Group	–	–	–	10,099	–	10,099
Key management personnel of the Bank and UniCredit S.p.A.	–	–	–	874	–	874
Total	**74,173**	**–**	**–**	**72,464**	**–**	**146,637**
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	9,607	–	–	261,177	–	270,784
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	46,734	–	–	510,994	–	557,728
Associates of Bank Pekao S.A Group	–	–	–	500	–	500
Total	**56,341**	**–**	**–**	**772,671**	**–**	**829,012**
FINANCIAL RECEIVED						
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	–	–	–	9,885	–	9,885
Total	**–**	**–**	**–**	**9,885**	**–**	**9,885**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	18,130	–	–	6,991	–	25,121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	18,336	–	–	33,260	–	51,596
Total	**36,466**	**–**	**–**	**40,251**	**–**	**76,717**

Remuneration of Bank’s Management Board and Supervisory Board Members

Short-term employee benefits related to the Management Board of the Bank in of 2015 amounted to PLN 17 144 thousand, compared to PLN 15 652 thousand in 2014. Short-term employee benefits included: base salary, bonuses and other benefits due in next 12 months from the balance sheet date.

Long-term benefits related to the Management Board of the Bank amounted to PLN 2 453 thousand in 2015, compared to PLN 2 171 thousand in 2014 and comprised of provisions for deferred bonus payments.

The expenses in 2015 included PLN 3 473 thousand in respect of share-based payments, compared to PLN 7 294 thousand in 2014. The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of phantom shares, granted to the Members of the Bank’s Management Board.

Remuneration expenses of Supervisory Board of the Bank, comprising short-term employee benefits, amounted to PLN 978 thousand in 2015, compared to PLN 925 thousand in 2014.

The Bank’s Management Board and Supervisory Board Members did have not received any remuneration from subsidiaries and associates in 2015 and 2014.

Remuneration of Supervisory Boards and Management Boards of subsidiaries

Remuneration expenses of Management Boards of Group’s subsidiaries, comprising short-term employee benefits, amounted to PLN 14 427 thousand in 2015, compared to PLN 13 351 thousand in 2014.

Remuneration expenses of Supervisory Boards of Group’s subsidiaries, comprising short-term employee benefits, amounted to PLN 183 thousand in 2015, compared to PLN 38 thousand in 2014.

(in PLN thousand)

54. Repo and reverse repo transactions

The Group increases its funds by sales transactions with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities composing the balance sheet portfolio of the Group as well as securities with obligation of resale (reverse repo and buy-sell back transactions) may be a subject to repo and sell-buy back transactions.

Securities composing the balance sheet portfolio of the Group and treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Group holds all the benefits and the risk deriving from these assets.

	31.12.2015		31.12.2014	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES
Financial assets available for sale				
up to 1 month	2,359,798	2,357,096	2,585,701	2,585,918
from 1 to 3 months	1,032,882	1,029,821	141,383	141,419
from 3 months to 1 year	1,503	1,504	–	–
Total financial assets available for sale	**3,394,183**	**3,388,421**	**2,727,084**	**2,727,337**
Financial assets purchased under reverse-repo and buy-sell back				
up to 1 month	2,050,199	2,044,228	2,380,498	2,378,310
Total financial assets purchased under reverse-repo and buy-sell back	**2,050,199**	**2,044,228**	**2,380,498**	**2,378,310**
Total	**5,444,382**	**5,432,649**	**5,107,582**	**5,105,647**

The Group purchases financial instruments with the obligations of repurchase or resale (reverse-repo and buy-sell back) at the same price increased by interest.

Securities treated as reverse-repo and buy-sell back transactions are not disclosed at the statement of financial position due to the fact that the Group do not holds all the advantages of risks and awareness deriving from these assets.

	31.12.2015		31.12.2014	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS
Loans and advances from banks				
up to 1 month	1,757,063	1,757,459	1,930,808	1,930,148
Total loans and advances from bank	**1,757,063**	**1,757,459**	**1,930,808**	**1,930,148**
Loans and advances from customers				
up to 1 month	4,755,472	4,762,663	5,684,231	5,681,251
from 1 to 3 months	–	–	104,833	104,701
Total loans and advances from customers	**4,755,472**	**4,762,663**	**5,789,064**	**5,785,952**
Total	**6,512,535**	**6,520,122**	**7,719,872**	**7,716,100**

Financial assets subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Group, which the Group has the right to sell or pledge.

	31.12.2015	31.12.2014
Fair value of assets pledged as collaterals, in this:	6,520,122	7,716,100
Short sale	611,442	591,311
Reverse repo transactions/ buy-sell back	2,050,199	2,380,498

(in PLN thousand)

55. Company Social Benefits Fund ('ZFŚS')

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank and Group companies employing at least 20 staff have created the ZFŚS Fund and are making periodic charges to the ZFŚS Fund in amounts required by the Act. The basic aim of the ZFŚS Fund is to subsidize social assistance in benefit of the employees, former employees (pensioners and the retired) and entitled members of their families.

The liabilities of the ZFŚS Fund represent the accumulated value of charges made by the Company towards the ZFŚS Fund decreased by the amount of non-returnable expenditures of the ZFŚS Fund.

In the consolidated statement of financial position, the Group netted the ZFŚS Fund assets against the ZFŚS Funds value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Group. For this reason the amount pertaining to the ZFŚS Fund in the consolidated statement of financial position as at 31 December 2015 and 31 December 2014 was zero.

The table below presents the assets according to type and book value, the balance of the Fund and costs related to ZFŚS

	31.12.2015	31.12.2014
Loans granted to employees	44,030	47,099
Cash at ZFŚS account	8,576	4,045
ZFŚS assets	**52,606**	**51,144**
ZFŚS value	**52,606**	**51,144**
	2015	**2014**
Deductions made to ZFŚS during fiscal period	25,888	25,910

56. Subsequent events

Tax on certain financial institutions

After the balance sheet date the Act of 15 January 2016 on tax on certain financial institutions was announced (Journal of Laws of 2016 Pos. 68). The Act regulates the taxation on assets of certain financial institutions. In the case of the Bank, the taxable amount will be excess of the total assets of more than PLN 4 billion. The law provides for the possibility of reducing the tax base, in the case of the Bank, among others by the value of own funds and the value of assets in the form of Treasury securities as at the last day of the month. The tax will amount to 0.0366% of the tax base per month. The Act comes into force on 1 February 2016.

The amount of tax which will actually be paid will depend on the tax base, which will be determined in the future at the end of each month. The Bank estimates that the monthly tax burden will range between PLN 40 million and PLN 50 million. The amounts paid will not be deductible for the purposes of income tax. The first accounting period for which the Bank will make the calculation and payment of the tax will be February 2016.

Signatures of all Management Board Members

08.02.2016 Date	**Luigi Lovaglio** Name/Surname	**President of the Management Board, CEO** Position/Function	Signature
08.02.2016 Date	**Diego Biondo** Name/Surname	**Vice President of the Management Board** Position/Function	Signature
08.02.2016 Date	**Andrzej Kopyrski** Name/Surname	**Vice President of the Management Board** Position/Function	Signature
08.02.2016 Date	**Adam Niewiński** Name/Surname	**Vice President of the Management Board** Position/Function	Signature
08.02.2016 Date	**Grzegorz Piwowar** Name/Surname	**Vice President of the Management Board** Position/Function	Signature
08.02.2016 Date	**Stefano Santini** Name/Surname	**Vice President of the Management Board** Position/Function	Signature
08.02.2016 Date	**Marian Ważyński** Name/Surname	**Vice President of the Management Board** Position/Function	Signature

Glossary

IFRS – International Financial Reporting Standards – the standards, interpretations and their structure adopted by the International Accounting Standards Board (IASB).

IAS – International Accounting Standards – previous name of the standards forming part of the current IFRS.

IFRIC – International Financial Reporting Interpretations Committee – the committee operating under the International Accounting Standards Board publishing interpretations of IFRS.

CIRS – Currency Interest Rate Swap – the transaction exchange of principal amounts and interest payments in different currencies between two counterparties.

IRS – Interest Rate Swap – the agreement between two counterparties, under which the counterparties pay each other (at specified intervals during the contract life) interest on contractual principal of the contract, charged at a different interest rate.

FRA – Forward Rate Agreement – the contract under which two counterparties fix the interest rate that will apply in the future for a specified amount expressed in currency of the transaction for a predetermined period.

CAP – the financial agreement, which limits the risk borne by lender on a variable interest rate, exposed to the potential loss as a result of increase in interest rates. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer the compensation of the additional interest costs, that the buyer must pay if the interest rate on loan increases above the fixed interest rate.

FLOOR – the financial agreement, which limits the risk of incurring losses resulting from decrease in interest rates by the lender providing the loan at a variable interest rate. Floor option is a series of put options on interest rates, in which the issuer guarantees the interest to be paid on the loan if the interest rate on the loan decreases below the fixed interest rate.

IBNR – Incurred But Not Reported losses.

PD – Probability Default – the parameter used in Internal Ratings-Based Approach which determines the likelihood that the debtor will be unable to meet its obligation. PD is a financial term describing the likelihood of a default over an one year time horizon.

LGD – Loss Given Default – the percentage of loss over the total exposure when bank's counterparty goes to default.

EAD – Exposure At Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

A-IRB – Advanced Internal Ratings-Based Approach – advanced method where all parameters of risk (PD, LGD, EAD) are estimated by the bank using its own quantitative model for calculating the risk weighted assets (RWA).

VaR – Value at Risk – the risk measure by which the market value of an asset or portfolio may be reduced for a given assumptions, probability and time horizon.

EaR – Earnings at Risk – the maximum decrease of earnings, relative to specific goal, which might occur due to impact of market risk on specific risk factors for the given time horizon and confidence level.

ICAAP – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.

UniCredit Group Profile

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Highlights

UniCredit is a leading European commercial bank operating in **17** countries with more than **144,000** employees, over **7,900** branches and with an international network spanning in about **50** markets.
UniCredit benefits from a strong European identity, extensive international presence and broad customer base.
Our strategic position in Western and Eastern Europe gives us one of the region's highest market shares.

Over
144,000
EMPLOYEES[1]

Over
7,900
BRANCHES[2]

Financial Highlights (€ m)

Operating income
22,405

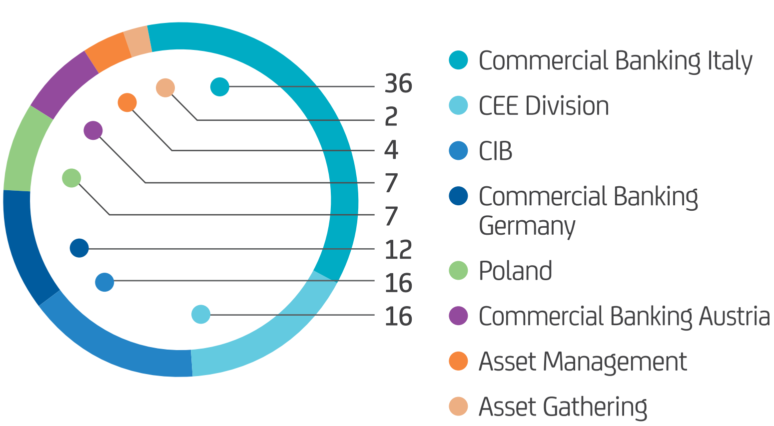
Net profit
1,694

Shareholder's equity
50,087

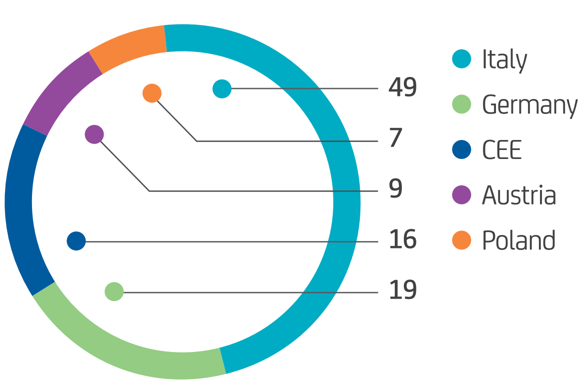
Total assets
860,433

Common Equity Tier 1 ratio*
10.73%

Revenues by Business Lines** (%)



Revenues by Region** (%)

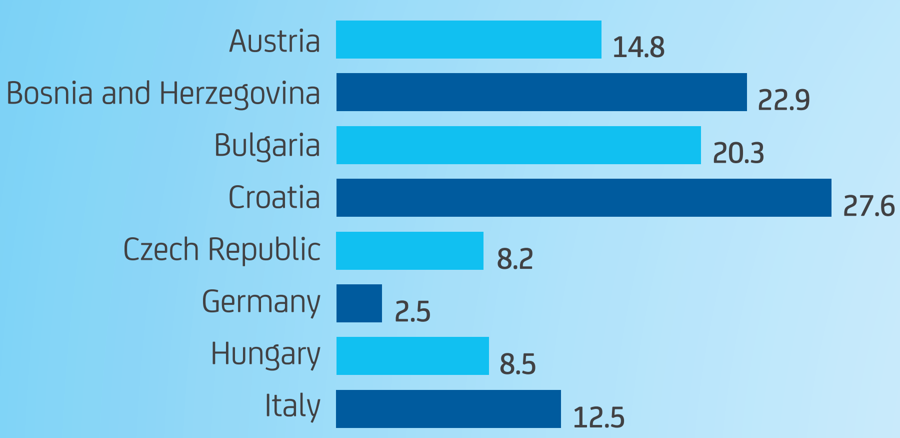


1. Data as at December 31, 2015. FTE = “Full Time Equivalent”: number of employees counted for the rate of presence. Figures include all employees of Yapi Kredi Group (Turkey).
2. Data as at December 31, 2015. Figures include all branches of Yapi Kredi Group (Turkey).
* CET 1 transitional pro-forma for 2015 scrip dividend of 12 €cents per share assuming 75%-25% shares-cash acceptance.
** Data as at December 31, 2015.

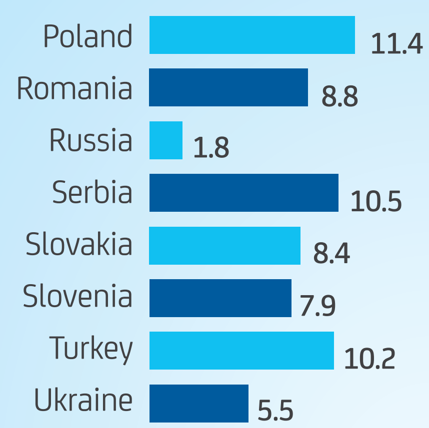
Where we are

Austria
Azerbaijan
Bosnia
And Herzegovina
Bulgaria
Croatia
Czech republic
Germany
Hungary
Italy
Poland
Romania
Russia
Serbia
Slovakia
Slovenia
Turkey
Ukraine

Market Shares[3] (%)



Market Shares[3] (%)



3. Market Shares in terms of Total Loans as at December 31, 2015.
Source: Company data, National Central Banks.
Total Loans definition includes corporate, household, self-employed, non-profit institutions serving household, insurances, pension funds, other financial intermediaries, local government, central government. For Poland and Romania central government is not included.

Industrial Plan

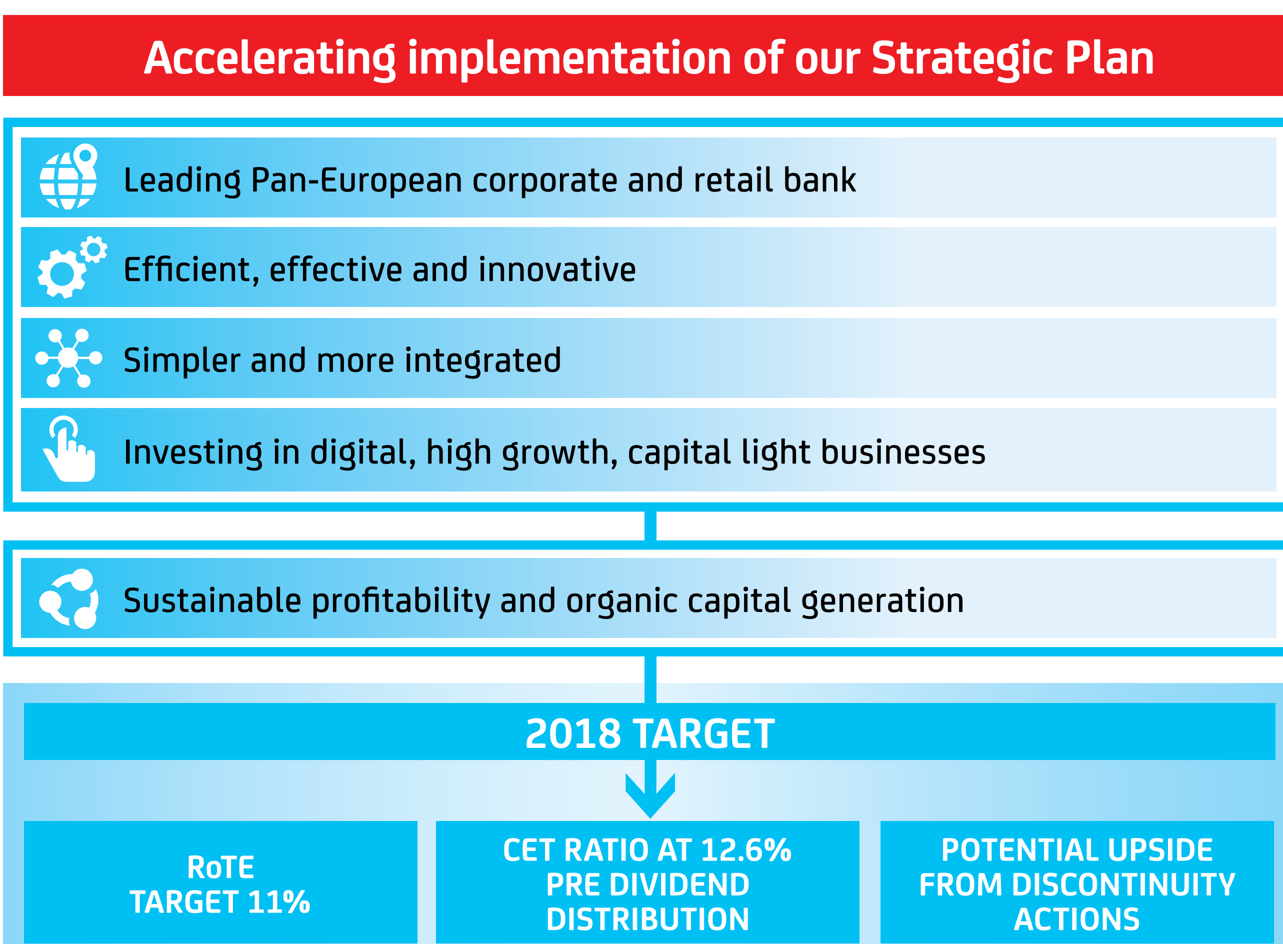
UniCredit intends to reaffirm its standing as a **rock-solid European commercial bank**, backed by a well-diversified presence in 17 countries and an international network that spans in 50 markets.

Due to the challenging and rapidly changing business environment, UniCredit has elected to accelerate its transformation by adopting **a strategy that aims to achieve growth and development through increased efficiency and simplification.** This is the direction outlined in the Strategic Plan approved by UniCredit's Board of Directors on November 11, 2015.

First and foremost, UniCredit will be **a bank that is efficient, integrated and easy to deal with.** The Group is working to reduce its cost base and streamline its structure. This will enable it to be more responsive and more effectively allocate resources by leveraging its pan-European profile.

UniCredit will also **invest in the growth** of traditional businesses by providing credit to the real economy, and in areas with significant growth potential such as corporate & investment banking, asset management, asset gathering and, in general, in Central and Eastern Europe.

The result will be a rock-solid, profitable bank that is able to generate sustainable value, maintain a strong balance sheet and transform challenges into opportunities.



Digital Strategy

Digitization is essential to successfully addressing ongoing changes and sustain growth.

UniCredit has decided to invest heavily in this area to make the Group highly competitive in the new digital arena.

The first order of work will be to **accelerate the Group's digital transformation.** This will improve the speed and quality of our services, as well as the experiences of our customers. We will do this with a full commitment to creating an excellent and engaging digital user experience through better accessibility and instant feedback from our clients. In short: Providing a complete, multi-channel service.

Second, we **will develop our future digital business model**, which will be based on a new IT infrastructure. This model will meet customers' basic needs, reducing our cost-to-serve. The **buddybank** initiative will be key to the success of this endeavor. A clear discontinuity from traditional banking, buddybank will absorb less capital and be accessible solely via mobile devices, with customer service available 24/7.

Digital strategy to accelerate retail multichannel transformation

Supported by EUR 1.2 bn Investments (2016-2018)

ACCELERATE THE DIGITAL TRANSFORMATION

DELIVERY MODEL UPDATE	**Continue transaction migration** to remote channels **Right-sizing footprint** with new and flexible formats
SIMPLIFICATION AND PROCESS DIGITALIZATION	Digitalize and simplify **back-end processes** **Fully-digitalized** document management **Credit Revolution** program aiding real time automatic credit decisions
INCREASE SALES	Extend end-to-end

BUILD A FUTURE DIGITAL BUSINESS MODEL

A NEW DIGITAL CORE BANKING SYSTEM	New cheaper **IT infrastructure** to serve customers' basis purchase behaviors, **reducing cost-to-serve**
buddybank	**1st molecular bank** offering a **pure mobile customer experience with a 24/7 live-caring concierge** **Plug-and-play platform to facilitate new markets entrance** Implementation started, launch early 2017

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Separators: Complete information about products and services of the Bank, including Fees and Charges Table,
are available at www.pekao.com.pl and in all branches of Bank Pekao S.A.

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