The Bank Pocztowy S.A. Capital Group

Consolidated financial statements for the year ended 31 December 2014

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Consolidated income statement

for the year ended 31 December 2014

	Note	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
Continuing operations*)		**PLN'000**	**PLN'000**
Interest income	7	416 278	423 400
Interest expense	7	(148 128)	(179 593)
Net interest income		**268 150**	**243 807**
Fee and commission income	8	102 304	73 006
Fee and commission expense	8	(42 647)	(31 378)
Net fee and commission income		**59 657**	**41 628**
Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions	9	2 763	2 905
Profit/loss on other financial instruments	10	1 770	5 980
General and administrative expenses	11	(218 622)	(212 738)
Net impairment losses	13	(61 013)	(42 398)
Other operating revenue	14	8 736	8 739
Other operating expenses	15	(6 296)	(4 663)
Operating profit/loss		**55 145**	**43 260**
Gross profit		**55 145**	**43 260**
Income tax	16	(11 506)	(7 233)
Net financial profit/loss for the current period		**43 639**	**36 027**
Including attributable to:			
- shareholders of the parent		43 639	36 027
Weighted average number of ordinary shares		9 729 040	9 729 040
Basic earnings per ordinary share (in PLN)**		4.49	3.70

* In the year ended 31 December 2014 and in the comparable period no operations were discontinued in the Capital Group.

** The Capital Group does not calculate diluted earnings per share, because in the current period and in the preceding years there have been no capital categories resulting in share dilution.

Consolidated statement of other comprehensive income

for the year ended 31 December 2014

	Note	Period from 1 January 2014 to 31 December 2014 PLN'000	Period from 1 January 2013 to 31 December 2013 PLN'000
Net financial profit/loss for the current period		**43 639**	**36 027**
Items that may be reclassified to profit or loss in future:			
Gain/loss on measurement of financial assets available for sale, including:	24, 35.3.	4 697	(11 321)
- deferred tax	16	(1 102)	2 655
Gain/loss on sales of financial assets available for sale reclassified to profit or loss, including:		1 227	5 881
- deferred tax	16	(288)	(1 379)
Settlement of measurement of financial assets available for sale reclassified to assets held to maturity		(1 820)	(319)
- deferred tax	16	428	75
Items that will not be reclassified to profit or loss in future:			
Actuarial gains and losses on measurement of defined benefit plans, including:		124	27
- deferred tax	16	(29)	(7)
Other comprehensive income total	35.3.	**4 228**	**(5 732)**
Total income		**47 867**	**30 295**
Including attributable to:			
- shareholders of the parent		47 867	30 295

Consolidated statement of financial position

as at 31 December 2014

Assets	Note	Balance as at 31 December 2014 PLN'000	Balance as at 31 December 2013 PLN'000
Cash in hand and deposits with the Central Bank	19	757 643	327 242
Receivables from other banks	20	158 269	36 329
Financial assets held for trading	22	1 336	1 369
Loans and advances granted to clients	23	5 151 777	5 055 712
Investments in financial assets:	24	1 519 266	1 842 036
- available for sale	24	1 100 547	1 455 018
- held to maturity	24	418 719	387 018
Property, plant and equipment	25	47 921	44 666
Intangible assets	26	32 401	30 215
Current income tax receivables	16	120	98
Net deferred tax asset (asset items)	16	21 020	18 004
Other assets	27	29 274	27 074
Total assets		**7 719 027**	**7 382 745**

Liabilities and equity	Note	Balance as at 31 December 2014 PLN'000	Balance as at 31 December 2013 PLN'000
Liabilities to the Central Bank	28	11	11
Liabilities to other banks	29	4 020	41 762
Liabilities arising from sold securities (repo)	21	177 701	49 610
Financial liabilities held for trading	22	94	17
Liabilities to clients	30	6 492 023	6 230 578
Liabilities arising from issue of debt securities	31	358 256	431 597
Subordinated liabilities	32	142 090	142 027
Current income tax liabilities	16	2 979	3 138
Provisions	33	2 855	3 419
Other liabilities	34	99 366	88 821
Total liabilities		**7 279 395**	**6 990 980**
Share capital		97 290	97 290
Supplementary capital		34 068	34 068
Revaluation reserve		2 877	(1 351)
Other reserve capitals		267 238	242 207
Retained earnings		38 159	19 551
Total equity	35	**439 632**	**391 765**
Total liabilities and equity		**7 719 027**	**7 382 745**

Notes to the consolidated financial statements on pages 9 to 135 constitute an integral part hereof.

Consolidated statement of cash flows

for the year ended 31 December 2014

	Note	Period from 1 January 2014 to 31 December 2014 PLN'000	Period from 1 January 2013 to 31 December 2013 PLN'000
Cash flows from operating activities			
Net financial profit/loss for the current period		43 639	36 027
Total adjustments:		**508 408**	**(824 396)**
Amortization/ depreciation	11	20 804	21 939
Interest accrued (from the income statement)		(268 150)	(243 807)
Interest paid		(126 364)	(158 897)
Interest received		377 379	372 684
Gain/loss on investing activities		(55)	(13)
Change in the balance of receivables from other banks	39	(121 102)	(8 180)
Change in financial assets held for trading		33	(603)
Change in loans and advances to customers	39	(64 862)	(422 186)
Change in investment financial assets available for sale	39	367 305	(384 898)
Change in investment financial assets held to maturity	39	(32 227)	6 028
Change in the balance of other assets		(2 200)	(11 797)
Change in liabilities to the Central Bank		0	5
Change in liabilities to other banks	39	(37 699)	38 894
Change in liabilities arising from securities sold under sell-and-buy-back arrangements		128 091	49 610
Change in financial assets held for trading		77	0
Change in liabilities to customers	39	260 475	(88 349)
Change in provisions		(564)	(576)
Change in other liabilities	39	10 851	12 011
Income tax paid		(15 695)	(13 746)
Tax expense recognized in the income statement		11 506	7 233
Other items	39	805	252
Net cash from operating activities		**552 047**	**(788 369)**
Cash flows from investing activities			
Receipts from investing activities		**71**	**58**
Sale of property, plant and equipment		71	58
Payments to investing activities		**26 913**	**25 527**
Acquisition of intangible assets		11 415	12 828
Acquisition of property, plant and equipment		15 498	12 699
Net cash from investing activities		**(26 842)**	**(25 469)**
Cash flows from financing activities			
Proceeds from financing activities		**330 000**	**227 850**
Issue of debt securities		330 000	227 850
Payments to financing activities		**424 421**	**23 657**
Payment of lease liabilities		311	623
Bond buyback		400 000	0
Payment of interest on issued financial instruments and contracted subordinated liabilities		24 110	23 034
Net cash from financing activities		**(94 421)**	**204 193**
Net increase (decrease) in cash and cash equivalents		**430 784**	**(609 645)**
including net exchange differences		71	(127)
Cash and cash equivalents at the beginning of the period		**331 700**	**941 345**
Cash and cash equivalents at the end of the period	39	**762 484**	**331 700**

Notes to the consolidated financial statements on pages 9 to 135 constitute an integral part hereof.

(Figures in PLN'000)

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Consolidated statement of changes in equity

for the year ended 31 December 2014

		Share capital	Supplementary capital		Revaluation reserve	Other reserve capitals	Retained earnings		Total equity
			Statutory supplementary capital	Share premium			Undistributed profit/loss	Net financial profit/loss for the current period	
	Note	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
As at 1 January 2014		**97 290**	**25 468**	**8 600**	**(1 351)**	**242 207**	**(16 476)**	**36 027**	**391 765**
Profit for the period		0	0	0	0	0	0	43 639	**43 639**
Total comprehensive income		0	0	0	4 228	0	0	0	**4 228**
Comprehensive income		**0**	**0**	**0**	**4 228**	**0**	**0**	**43 639**	**47 867**
Profit distribution		0	0	0	0	25 031	10 996	(36 027)	**0**
As at 31 December 2014	35	**97 290**	**25 468**	**8 600**	**2 877**	**267 238**	**(5 480)**	**43 639**	**439 632**

for the year ended 31 December 2013

		Share capital	Supplementary capital		Revaluation reserve	Other reserve capitals	Retained earnings		Total equity
			Statutory supplementary capital	Share premium			Undistributed profit/loss	Net financial profit/loss for the current period	
	Note	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
As at 1 January 2013		**97 290**	**25 161**	**8 600**	**4 381**	**195 070**	**(7 981)**	**38 949**	**361 470**
Profit for the period		0	0	0	0	0	0	36 027	**36 027**
Total comprehensive income		0	0	0	(5 732)	0	0	0	**(5 732)**
Comprehensive income		**0**	**0**	**0**	**(5 732)**	**0**	**0**	**36 027**	**30 295**
Profit distribution		0	307	0	0	47 137	(8 495)	(38 949)	**0**
As at 31 December 2013	35	**97 290**	**25 468**	**8 600**	**(1 351)**	**242 207**	**(16 476)**	**36 027**	**391 765**

Notes to the consolidated financial statements on pages 9 to 135 constitute an integral part hereof.

(Figures in PLN'000)

Notes to the consolidated financial statements

1. General information

Bank Pocztowy S.A. ("Bank'', "Parent") is the parent company in the Bank Pocztowy S.A. Capital Group ("Group"). The Bank was established pursuant to a decision of the President of the National Bank of Poland No. 18 dated 5 April 1990 on establishing Bank Pocztowy Spółka Akcyjna in Bydgoszcz.

On 16 May 1990 the Bank was entered to the Commercial Register, section B by the Business Division of the District Court in Bydgoszcz under No. RHB 1378. The Bank has been entered into the National Court Register under No. 0000010821.

The REGON statistical number assigned to the Bank is 002482470.

According to the Company's Charter, its duration is unlimited.

As at 31 December 2014 the Bank's shareholders were the following:

Entity's name	Number of shares	Number of votes	Nominal value per share in PLN	Interest in the share capital
Poczta Polska S.A.	7 296 770	7 296 770	10	74.9999%
Powszechna Kasa Oszczędności Bank Polski S.A.	2 432 270	2 432 270	10	25.0001%
	9 729 040	**9 729 040**		**100%**

No changes in the shareholding structure occurred since 31 December 2013.

The Bank's core business includes domestic and international banking activities and other activities related to banking in compliance with the applicable law.

In line with the Polish Classification of Business Activity (PKD 2007), the core business of the Bank has been classified to other monetary intermediation (6419Z).

The Bank operates based on the provisions of the binding law as well as the Bank's Charter.

2. Composition of the Group

As at 31 December 2014 the Capital Group included Bank Pocztowy S.A. and the following subsidiaries consolidated using the full method:

Entity	Registered of Core business		Percentage interest in the Bank's share capital	
			31 December 2014	31 December 2013
Centrum Operacyjne Sp. z o.o.	Bydgoszcz	Financial services support activities	100%	100%
Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	Warsaw	Financial intermediation	100%	100%

As at 31 December 2014 and 31 December 2013, the share in the total number of votes held by the Bank in the General Shareholders' Meeting of subsidiaries was equal to the interest in their capitals. Moreover, the Bank has the right to designate a majority of members of the Supervisory Board in each company and therefore it is authorized to take key decision, such as appointing all Management Board Members in each company.

Centrum Operacyjne Spółka z ograniczoną odpowiedzialnością ("Centrum Operacyjne") was established by the Bank on 20 May 2010. It commenced its operations on 28 May 2010.
Centrum Operacyjne was established in order to provide process administration services for products and services of entities from the financial sector. In line with the Polish Classification of Business Activity (PKD 2007) the core business of the entity was classified as *other auxiliary activity related to financial services, excluding insurance and pension funds* (6619Z).

In 2014 Centrum Operacyjne Sp. z o.o. provided services to the Bank, Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. and Pocztowe Towarzystwo Ubezpieczeń Wzajemnych, entities from the Poczta Polska Capital Group.

As at 31 December 2014 and 31 December 2013 the share capital of Centrum Operacyjne amounted to PLN 3 284 thousand (including a contribution of PLN 784 thousand).

Spółka Dystrybucyjna Banku Pocztowego Spółka z ograniczoną odpowiedzialnością ("Spółka Dystrybucyjna") was established by the Bank on 20 May 2010. It commenced its operations on 28 May 2010.
Spółka Dystrybucyjna was established in order to organize operations and operate within mobile sales structures for financial products and services, in particular those related to the cooperation with the Bank. In line with the Polish Classification of Business Activity (PKD 2007) the core business of Spółka Dystrybucyjna is *other forms of loan granting* (6492Z).

In 2014 Spółka Dystrybucyjna cooperated mainly with the Bank, distributing its products.

As at 31 December 2014 and 31 December 2013 the share capital of the Spółka Dystrybucyjna amounted to PLN 2 680 thousand (including a contribution of PLN 680 thousand).

3. Identification and approval of the consolidated financial statements

The Bank prepared the consolidated financial statements for the year ended 31 December 2014. They were approved by the Management Board of the Bank on 19 March 2015.

4. Composition of the Management Board of the Parent

As at 31 December 2014 the composition of the Management Board was the following:

- **Tomasz Bogus –** Chairman of the Management Board,
- **Szymon Midera –** Deputy Chairman of the Management Board,
- **Michał Sobiech –** Member of the Management Board,
- **Paweł Spławski –** Member of the Management Board.

On 12 May 2014 the Supervisory Board of the Bank adopted a resolution to dismiss Radosław Sałata from the position of a Member of the Management Board of the Bank as of 12 May 2014. Moreover the Supervisory Board of the Bank adopted a resolution to appoint Paweł Spławski to the position of a Member of the Management Board of the Bank as of 19 May 2014.
On 16 January 2015, Tomasz Bogus resigned from the position of the Chairman of the Management Board of the Bank and from membership in the Management Board of the Bank as of 19 January 2015.
On 16 January 2015, the Supervisory Board decided that Szymon Midera, Deputy Chairman of the Management Board of the Bank, would act as the Chairman of the Management Board of the Bank as of 20 January 2015. Moreover, the Supervisory Board of the Bank adopted a resolution to appoint Szymon Midera to the position of the Chairman of the Management Board of the Bank. The resolution will come into force on the day following the day when the Polish Financial Supervision Authority approves appointing Szymon Midera to this position.
Moreover, on 12 February 2015 the Supervisory Board of the Bank adopted a resolution to appoint Hubert Meronk the position of a Member of the Management Board of the Bank as of 12 February 2015.

As at the date of approving the consolidated financial statements, the composition of the Management Board of the Bank was the following:

- **Szymon Midera –** Deputy Chairman of the Management Board, Acting Chairman of the Board
- **Hubert Meronk** – Member of the Management Board,
- **Michał Sobiech –** Member of the Management Board,
- **Paweł Spławski** – Member of the Management Board.

5. Accounting principles

5.1. Basis for preparation of the consolidated financial statements and the statement of their compliance with applicable accounting principles

The consolidated financial statements have been prepared in accordance with the historical cost principle, except for available-for-sale financial assets and held-for-trading financial assets, including derivatives, which are measured at fair value.

These consolidated financial statements have been presented in Polish zlotys (PLN) and all figures are in PLN thousand, unless stated otherwise.

Statement of compliance with IFRS

These consolidated financial statements have been prepared in line with International Financial Reporting Standards, International Accounting Standards with their interpretations ("IFRS") endorsed by the European Union ("EU"). With regard to issues not regulated by the aforementioned standards and interpretations, they are compliant the provisions of the Accounting Act of 29 September 1994 (uniform text: Journal of Laws of 2013, item 330, as amended) ("Accounting Act") and secondary legislation were applied. The consolidated financial statements are compliant with all standards and related interpretations endorsed by the EU, except for standards and interpretations specified below, which are awaiting approval of the EU, or have been approved by the EU, but they have entered into force after the balance sheet date or will enter into force in future. In the period covered by the financial statements, the Group decided not to use the opportunity of earlier application of standards and interpretations, which were endorsed by the EU, but which have entered into force after the balance sheet date or will enter into force in future.

Standards and interpretations published and endorsed by the EU, applied by the Group for the first time as of 1 January 2014

The following standards, revised standards and interpretations issued by the International Accounting Standards Board (IASB) and endorsed by the EU have entered into force as of 1 January 2014:

- IFRS 10 "Consolidated Financial Statements", published by IASB on 12 May 2011.
  IFRS 10 replaces the consolidation guidance included in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" introducing a single control-based consolidation model for all entities, regardless of the investment nature (i.e. whether an entity is controlled through investor's voting rights or through other contractual arrangements commonly used in special purpose entities). According to IFRS 10, an investor has control over an investee if:
  1) it has power over the investee;
  2) it is exposured or entitled to variable returns from its involvement with the investee;
  3) it has the ability to use its power over the investee to affect the amount of the investor's returns.

  The Group analyzed the requirements of the new standard. Application of the standard has not materially affected the consolidated financial statements.

- IFRS 11 "Joint Arrangements", published by IASB on 12 May 2011. IFRS 11 introduces new accounting regulations regarding joint arrangements and replaces IAS 31 "Interests in Joint Ventures". Proportional consolidation is no longer allowed for jointly controlled entities. Further, IFRS 11 eliminates jointly controlled assets maintaining the classification into joint operations and joint ventures. Joint operations are joint arrangements under which the parties jointly control the rights to entity's assets and liabilities. A joint venture is a joint arrangement whereby the parties have joint control of the rights to the net assets.

  The Group analyzed the requirements of the new standard. Application of the standard has not materially affected the consolidated financial statements.

- IFRS 12 "Disclosure of Interests in Other Entities", published by IASB on 12 May 2011.
  IFRS 12 requires enhanced disclosures regarding both consolidated and not consolidated entities the reporting entity holds interests in. The purpose of IFRS 12 is to provide users of financial statements with information allowing their assessment of the control basis, restrictions placed on consolidated assets and liabilities, risk exposure arising from involvement in structured vehicles not included in consolidation and involvement of NCI in operations of consolidated entities.

  The Group analyzed the requirements of the new standard. Application of the standard has not materially affected the consolidated financial statements.

- IFRS 27 "Separate Financial Statements" (2011), published by IASB on 12 May 2011.
  Requirements regarding separate financial statements have not changed and are included in the amended IAS 27. Other parts of the standard have been replaced by IFRS 10.

  The Group has analyzed amendments to this standard. The amendments did not materially affect the consolidated financial statements

- IFRS 28 "Investments in Associates and Joint Ventures" (2011), published by IASB on 12 May 2011.
  The amendments result from publication of IFRS 10, IFRS 11 and IFRS 12.

  The Group has analyzed amendments to this standard. The amendments did not materially affect the consolidated financial statements

- Revised IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" – guidance on transitional provisions published by IASB on 28 June 2012.
  The purpose of the amendments is to provide additional guidance regarding transitional provisions in IFRS 10, IFRS 11 and IFRS 12 in a manner limiting the restatement of comparative data to the directly preceding reporting period. Amendments to IFRS 11 and IFRS 12 are also to eliminate the requirement to present comparative data for periods earlier than the directly preceding one.

  The Group has analyzed amendments to these standards. The amendments did not materially affect the consolidated financial statements

- Revised IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – investment vehicles – published by IASB on 31 October 2012.
  The amendments relieve investment vehicles from the consolidation requirement included in IFRS 10 and require them to recognize their subsidiaries in fair value through profit or loss instead. Further, the amendments clarify disclosure requirements for investment entities.

  The Group has analyzed amendments to these standards. The amendments did not materially affect the consolidated financial statements

- Revised IFRS 32 "Financial Instruments: Presentation"- Offsetting Financial Assets and Financial Liabilities – published by IASB on 16 December 2011.

  The changes clarify the offsetting principles and focus on four key areas:

  1) explaining what is "a legally enforceable right to set off the recognized amounts";
  2) performing offset and settlement at the same time;
  3) offsetting hedges;
  4) unit of account used for offsetting purposes.

  The Group has analyzed amendments to this standard. The amendments did not materially affect the consolidated financial statements

- Revised IFRS 36 "Impairment of Assets"- Recoverable Amount Disclosures for Non-Financial Assets – published by IASB on 29 May 2013.

  Amendments to IAS 36 regard disclosures of recoverable value of assets with recognized impairment losses and when the recoverable amount is calculated as fair value less costs of disposal.

  The Group has analyzed amendments to this standard. The amendments did not materially affect the consolidated financial statements

- Revised IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, published by IASB on 29 May 2013.

  The amendments allow continuing application of hedge accounting for novation of a derivative (designated as a hedging instrument) when the derivative is novated to a central counterparty provided certain conditions are met.

  The Group has analyzed amendments to this standard. The amendments did not materially affect the consolidated financial statements

Standards and interpretations published and endorsed by the EU, but not yet effective

Preparing these consolidated financial statements the Capital Group did not apply the following standards, amendments to standards and interpretations that had been published by the IASB and approved for use in the EU, but which had not yet come into force:

- Changes to various standards "Amendments to IFRS (2010-2012)" published on 12 December 2013.

  The amendments to various standards and interpretations result from the annual quality improvement project (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38) focusing mainly on solving inconsistencies and clarifying the wording. The introduced changes have refined the required accounting treatment in cases where previously free choice was allowed. The essential ones include new or amended requirements regarding:

  1) definition of "vesting condition";
  2) settlement of contingent consideration in business combinations;
  3) aggregation of operating segments and reconciliation of the total assets of reporting segments to the entity's assets;
  4) measurement of short-term receivables and liabilities;
  5) proportional restatement of accumulated depreciation in the remeasurement model;
  6) defining key management members.

  The Group has analyzed amendments to these standards. The amendments will not materially affect the consolidated financial statements

- Changes to various standards "Amendments to IFRS (2011-2013)" published on 12 December 2013.

  The amendments to various standards and interpretations result from the annual quality improvement project (IFRS 1, IFRS 3, IFRS 13 and IAS 40) focusing mainly on solving inconsistencies and clarifying the wording. The introduced changes have refined the required accounting treatment in cases where previously free choice was allowed. The essential ones include new or amended requirements regarding:

  1) importance of the applicable IFRS for IFRS 1;
  2) the scope of exemptions regarding joint ventures;

3) the scope of IFRS 13.52 (portfolio exemption);
4) clarification of the relationships between IFRS 3 and IAS 40 with regard to classification of property as investment or used for internal purposes.

The Group has analyzed amendments to these standards. The amendments will not materially affect the consolidated financial statements

- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions- published by IASB on 21 November 2013.
  The changes regard the scope of applying the standard to employee or third party premiums contributed to defined benefit plans. The purpose of the changes is to simplify the settlement of premiums independent from the years in service (e.g. calculated as a fixed percentage of remuneration).

  The Group has analyzed amendments to this standard. The amendments will not materially affect the consolidated financial statements

- IFRIC 21 "Levies", published by IASB on 20 May 2013.
  This is the interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". IAS 37 defines criteria of recognizing liabilities, including the requirement to have a present obligation of the entity arising from past events (an obligating event). The interpretation explains that an event obligating to pay a levy is operation subject to levies determined in relevant legal regulations.

  The Group analyzed the requirements of the new interpretation. Application of the interpretation will not considerably affect the consolidated financial statements.

Standards and interpretations issued by IASB, but not yet approved by the EU

IFRS in the form approved by the EU do not differ significantly from the regulations adopted by the IASB, except for the following standards, amendments to the standards and interpretations, which as at 31 December 2014 had not yet been adopted for use:

- IFRS 9 "Financial Instruments" – published on 24 July 2014 replaces IAS 39 "Financial Instruments: Recognition and Measurement".
  IFRS 9 determines requirements regarding recognition, measurement, impairment, derecognition and hedge accounting.

  Classification and measurement: IFRS 9 introduces a new approach to classification of financial instruments, depending on cash flow characteristics and business model related to a given asset.

  Impairment: IFRS 9 introduces a new model of calculating impairment based on expected losses, which requires ongoing recognition of expected credit losses. In particular, the new standard requires reporting entities to recognize expected credit losses upon first-time recognition of financial instruments and to recognize all expected losses for the entire instrument's lifetime faster than before.

  Hedge accounting: IFRS 9 introduces a new hedge accounting model with extended requirements regarding risk management disclosures. The new model constitutes a significant change in hedge accounting, which is to adjust the relevant accounting principles to risk management practice.

  Own credit risk: IFRS 9 eliminates variability of the financial profit/loss arising from changes in own credit risk related to liabilities designated for fair value measurement.

  For IFRS 9, application of the standard with regard to classification and measurement of financial instruments and recognition of impairment losses on financial instruments shall materially impact the consolidated financial statements of the Group. The Group is analyzing and estimating the impact of IFRS 9 on its financial performance.

- Revised IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – mandatory effective date and transitional provisions, published by IASB on 16 December 2011. The amendments defer the mandatory effective date from 1 January 2013 to 1 January 2015. Further, they introduce an exemption from the obligatory restatement of comparative data in financial statements related to application of IFRS 9. The exemption was first available only to entities that had decided to apply IFRS 9 before 2012. Instead, additional disclosures are required regarding the effects of transitioning to new standards, prepared in a manner helping investors in understanding of the effects of initial application of IFRS 9 on classification and measurement of financial instruments.

For IFRS 9, application of the standard with regard to classification and measurement of financial instruments and recognition of impairment losses on financial instruments shall materially impact the consolidated financial statements of the Group. The Group is analyzing and estimating the impact of IFRS 9 on its financial performance.

- IFRS 14 "Regulatory Deferral Accounts", published by IASB on 30 January 2014.
  The Standard is to allow first-time adopters that at present recognize regulatory deferral accounts in accordance with previously applied GAAP continuing their application after transition to IFRS.

  The Group analyzed the requirements of the new standard. Application of the standard will not materially affect the consolidated financial statements.

- IFRS 15 "Revenue from Contracts with Customers", published by IASB on 28 May 2014.
  The Standard specifies when and how to recognize the revenue and requires more detailed disclosures. It replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of interpretations related to revenue disclosure. It applies to nearly all customer contracts (exceptions include leases, financial instruments and insurance contracts). The new standard introduces a new key principle to recognize revenue in a manner reflecting transfer of goods or services to customers in the amount reflecting the consideration (i.e. payment) to which the entity expects to be entitled in exchange for these goods or services. The Standard provides also guidance regarding recognition of transactions that have not been regulated in detail by the existing standards (e.g. revenue from services or amendments to contracts) and provides more extensive explanation regarding recognition of multiple-element arrangements.

  The Group analyzed the requirements of the new standard. Application of the standard will not materially affect the consolidated financial statements.

- Revised IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture , published on 11 September 2014.
  The changes are aimed at eliminating inconsistencies between the requirements of IAS 28 and IFRS 10 and explain that the method of profit or loss recognition in transactions involving an associate or a joint venture depends on whether the sold or contributed assets constitute a business or not.

  The Group has analyzed amendments to these standards. The amendments will not materially affect the consolidated financial statements

- Revised IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception; published on 18 December 2014.
  Amendments to IFRS 10, IFRS 12 and IAS 28 introduce explanations regarding settlement of investment entities. In special cases, certain exemptions are available.

  The Group has analyzed amendments to these standards. The amendments will not materially affect the consolidated financial statements

- Revised IFRS 11 "Joint Arrangements", Accounting for Acquisitions of Interests in Joint Operations, published by IASB on 6 May 2014.
  The amendments provide new guidance regarding accounting for acquisition of shares in joint operations in the form of a business.

  The Group has analyzed amendments to this standard. The amendments will not materially affect the consolidated financial statements

- Amendments to IFRS 1 "Presentation of Financial Statements" - Disclosure Initiative - published on 18 December 2014.
  The amendments to IAS 1 are to encourage entities to apply professional judgment in order to determine which information should be disclosed in financial statements. For example, they clearly indicate that the materiality principle applies to financial statements as a whole and that disclosure of certain immaterial data may reduce usefulness of disclosures in the financial statements.

  The Group has analyzed amendments to this standard. The amendments will not materially affect the consolidated financial statements

- Revised IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortization, published by IASB on 12 May 2014.
  The changes clarify that the use of revenue-based methods to calculate the depreciation of a fixed asset is not appropriate, since revenue on activities that include the use of the asset usually reflects other factors than consumption of economic benefits derived from that asset. Further, the amendments clarify that assuming revenue as the basis to measure the consumption of economic benefits derived from a given intangible asset is in principle deemed incorrect. Certain exceptions are allowed in precisely determined cases.

  The Group has analyzed amendments to these standards. The amendments will not materially affect the consolidated financial statements

- Revised IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants, published by IASB on 30 June 2014.
  The amendments include bearer plants in the scope of IAS 16 and therefore require accounting for them in the same manner as for property, plant and equipment.

  The Group has analyzed amendments to these standards. The amendments will not materially affect the consolidated financial statements

- Revised IFRS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements - published by IASB on 12 August 2014.
  The amendments are aimed at reintroducing the equity method as and additional option of accounting for investments in subsidiaries, associates and joint ventures in separate financial statements.

  The Group has analyzed amendments to this standard. The amendments will not materially affect the consolidated financial statements

- Changes to various standards "Amendments to IFRS (2012-2014)" published on 25 September 2014.
  The amendments to various standards and interpretations result from the annual quality improvement project (IFRS 5, IFRS 7, IAS 19, and IAS 34) focusing mainly on solving inconsistencies and clarifying the wording. The introduced changes have refined the required accounting treatment in cases where previously free choice was allowed. The amendments include new or amended requirements regarding:
  1) changes in the methods of disposal;
  2) servicing contracts;
  3) application of Amendments to IFRS 7 to condensed interim financial statements;
  4) discount rate application to bonds issued in other countries;
  5) disclosing information "elsewhere in the interim financial report".

  The Group has analyzed amendments to these standards. The amendments will not materially affect the consolidated financial statements

Scope and period of the consolidated financial statements

The consolidated financial statements of the Group cover the period from 1 January 2014 to 31 December 2014 and include comparable data:

– for items of the consolidated statement of financial position as at 31 December 2013,
– for items of the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the period from 1 January 2013 to 31 December 2013.

Going concern

The consolidated financial statements of the Group have been prepared on the assumption the Capital Group entities will continue as a going concern for at least 12 months after the end of the reporting period, i.e. 31 December 2014.

According to the Management Board of the Bank, as at the date of approval of these consolidated financial statements for publication no facts and circumstances indicated a risk to the Group entities' ability to continue as a going concern over a 12-month period after the end of the reporting period due to intended or forced discontinuation or material limitation of their activities.

Discontinued operations

In the period from 1 January 2014 to 31 December 2014 and in the comparable period no operations were discontinued in the Capital Group.

Consolidation principles

The consolidated financial statements cover the financial statements of the Bank and financial statements of its subsidiaries for the 12-month period ended 31 December 2014.

The financial statements of the subsidiaries, including the adjustments made to ensure their compliance with IFRS, have been prepared for the same reporting period as the financial statements of the parent, in line with consistent accounting policies for similar transactions and business events. Adjustments are applied in order to prevent any discrepancies between the adopted accounting principles.

All material balances and transactions between the Group companies, including revenue and expense, unrealized gains and gains and losses on intra-Group transactions, have been eliminated in whole. Unrealized losses are eliminated, unless they are indications of impairment.

The subsidiaries are consolidated using the full method in the period from the date when the parent assumed control to the date when the control has no longer been exercised. The parent's control exists when the parent has the power over the subsidiary, related exposure to variable returns or right to variable returns and the ability to use the power to affect its returns from the investee.

5.2. Professional judgment

The following issues of the accounting principles (policy) were largely influenced by the accounting estimates and the professional judgment of the management:

Impairment of financial assets

The Group assesses whether there is any objective indication of impairment of a financial asset or a group of financial assets. Indications of impairment are events or groups of events that took place after the initial recognition of an asset or a group of assets and could have adverse effect on the expected future cash flows of the financial asset or group of financial assets. Impairment loss is estimated at the moment of recognition of indications of impairment.

More information on impairment of financial assets has been presented in Notes 5.5.7, 13, 20 and 23.

Deferred tax asset

The Group recognizes the deferred tax asset based on the assumption that it will generate tax profit sufficient to apply the asset. Deterioration of future tax performance could make the assumption groundless.

Details on deferred tax assets have been presented in Note 16.

Classification of leases

The Group classifies leases to operating and finance leases based on the attribution of risks and benefits from the object of lease to the lessor or the lessee. The assessment is based on the economic substance of each transaction. Lease agreements have been presented in detail in Notes 37 and 38.

5.3. Estimation uncertainty

Presented below are the main assumptions concerning the future and other key uncertainties as at the end of the reporting period posing the risk of material adjustment of the carrying amount of assets and liabilities in the next financial year.

Estimates and assumptions adopted by the Group are reviewed on a current basis. Estimate adjustments are recognized in the period when the estimates have been changed if the adjustments pertain to that period only. If the adjustments affect both the current and future periods, they are recognized both in the period when introduced and in future periods.

Fair value of financial instruments

Financial assets and liabilities carried at fair value in the balance sheet with no identifiable active market are measured using generally applied measurement models based to the maximum extent possible on variables observable in market environment and professional judgment. Relevant measurement methods and input data are verified on a regular basis.

The method of determining the fair value of each financial instrument and their carrying amounts has been presented in Note 36.

Effects of market interest rate changes by + 1 b.p./- 1 b.p. on the fair value of financial instruments recognized in the statement of financial position at fair value have been presented in the table below:

	Balance as at 31 December 2014		Balance as at 31 December 2013	
	-1 b.p.	+1 b.p.	-1 b.p.	+1 b.p.
	PLN'000	**PLN'000**	**PLN'000**	**PLN'000**
Investment assets available for sale	(106)	106	(91)	91
Financial assets and liabilities held for trading	(5)	5	(7)	7

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is any objective indication of impairment of a financial asset or a group of financial assets.

The estimated impact of changes in the present value of estimated cash flows on the change in impairment losses for individual items of "Loans and advances granted to clients" has been presented in the table below.

	Balance as at 31 December 2014		Balance as at 31 December 2013	
	' +10 % scenario	' -10 % scenario	' +10 % scenario	' -10 % scenario
	PLN'000	PLN'000	PLN'000	PLN'000
Estimated change in allowances	(2 098)	3 015	(3 080)	4 408

Fair value of collateral provided for exposures granted

Fair value of collateral provided for exposures granted is determined using measurement techniques and real estate market analysis. The list of collateral accepted by the Group with the fair value specification (for mortgages) has been presented in Note 46.1 hereto.

The Group has adopted the following key principles of measurement for most popular collateral types:

No.	Collateral type	General measurement principles
1	Mortgage on real estate	Measurement of real estate performed by a certified appraiser for collateral-related purposes or a document confirming the purchase of a real estate, or preliminary sale agreement in case of funding housing for individuals
2	Ownership transfer, registered pledge, pledge on movable fixed assets	Measurement of movable assets performed by a certified appraiser for collateral-related purposes or an insurance policy if the movables concerned are commonly traded commodities; or purchase cost if movables concerned are new, purchased on the market and liquid
3	Ownership transfer, registered pledge, pledge on current movable assets	Purchase price after verification against exchange / market / commision sales prices or insurance policy after verification against exchange / market / commision sales prices or documented exchange / market / commision sale price of an asset
4	Endorsements and avals	The endorser's income level must be close to that of the applicant or if the endorser does not meet the above requirement, the amount adopted to determine the collateral value is the value of a loan the endorser could be granted by the Bank with its current financial standing or if the endorser is an entity, collateral is accepted only if the total amount of endorsement granted to a single debtor does not exceed 15% of the endorser's net assets reduced by capital contributions due but unpaid to joint stock companies and cooperatives.
5	Transfer of contractual receivables	Net value of goods and services without VAT, including individual contract terms, i.e. payment deadlines, complaint handling, performance bond
6	Insurance	In case of life insurance, the sum insured should cover the loan amount, while in case of job insurance, the sum insured regarding one type of incident should be the higher of: the equivalent of six loan installments or PLN 9,000. The coverage and insurer's indemnity arising from the insurance policy are each time subject to the Bank's acceptance

Useful life of property, plant and equipment and intangible assets

Useful life of property, plant and equipment and intangible assets is estimated taking into consideration the following factors:

- the so-far observed average useful lives, reflecting physical wear and tear, intensity of usage, etc.;
- technological obsolescence;
- period of control over the asset, legal and other limitations on period in use;
- co-relation between the useful life of the asset in question and those of other assets;
- other factors that may affect useful life of a given type of non-current assets.

The expected useful life of a given asset is equal to its period in use defined under terms of the appropriate contract. If, however, the expected useful life of an asset is shorter than its contractual period in use, than the asset is depreciated/amortized over its useful life.

Every year the Group verifies the adopted useful lives of fixed assets and intangible assets based on the current estimates. Detailed information on useful lives of property, plant and equipment and intangible assets has been presented in Note 5.5.9 and 5.5.10.

The impact of changes in useful lives of the key groups of property, plant and equipment and intangible assets items subject to depreciation/amortization by +/- year on the consolidated costs of the Capital Group has been presented below.

	Balance as at 31 December 2014		Balance as at 31 December 2013	
	'+1 year scenario	'-1 year scenario	'+1 year scenario	'-1 year scenario
	PLN'000	PLN'000	PLN'000	PLN'000
Buildings and structures	(21)	25	(15)	16
Plant and equipment	(965)	1 438	(787)	1 208
Leasehold improvements	(362)	529	(353)	513
Fittings	(487)	686	(542)	806
R&D expenses	(163)	269	(75)	113
Copyrights, licenses, concessions and software	(1 399)	2 282	(1 741)	2 934

Provision for retirement and disability benefits (determined benefit plans)

The provision for retirement and disability benefits is calculated by an independent actuary in line with an actuarial method as the present value of future liabilities of the Group towards employees based on the number of employees and remuneration as at the date of revaluation. Provisions are calculated in accordance with a number of assumptions concerning discount rates, projected remuneration increases, employee turnover, mortality rate and other factors. All assumptions are reviewed at each year-end.

Carrying amounts of provisions recognized have been presented in Note 33.

The effects of changes in the discount rate and pay growth rate on the provision for pension and disability benefits are presented in the following table.

	Balance as at 31 December 2014		Balance as at 31 December 2013	
	+0.5 % p.p. scenario	-0.5 % p.p. scenario	+0.5 % p.p. scenario	-0.5 % p.p. scenario
	PLN'000	PLN'000	PLN'000	PLN'000
Discount rate	(36)	40	(44)	49
Pay growth rate	40	(37)	49	(45)

5.4. Changes in estimates

In the current reporting period and in the comparable period, the Group did not considerably change estimates, which could significantly affect the current or future financial performance.

5.5. Key accounting principles

5.5.1. Initial recognition of financial assets and liabilities

The Group recognizes a financial asset or liability in the consolidated statement of financial position only when it becomes a party to the contractual provisions of the instrument.

The Group classifies a financial asset at initial recognition.

Financial assets and liabilities included in IAS 39 are classified as follows:

– financial assets measured at fair value through profit or loss (the class includes financial assets and liabilities held for trading, including derivatives, as well as financial assets and liabilities designated as measured at fair value through profit or loss at initial recognition);
– financial assets available for sale;
– loans and receivables;
– financial assets held to maturity;
– other financial liabilities.

Upon initial recognition, a financial asset or liability is measured at fair value, and in the case of a financial asset or liability which does not qualify for measurement at fair value through profit or loss, the fair value is increased by the transaction costs which may be directly attributed to the acquisition or issue of the financial asset or liability.

A regular way purchase or sale of the financial asset is recognized off the statement of financial position at the trade date, i.e. on the day when the Group commits to acquire a financial asset, while it is recognized in the statement of financial position at the settlement date. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned.

5.5.2. Subsequent measurement of financial assets and liabilities

Financial assets and liabilities held for trading

Financial derivatives

Derivative financial instruments are measured at fair value. Derivatives with a positive fair value as at the measurement date are disclosed in the consolidated statement of financial position as assets, while those with a negative value from measurement - as liabilities. Fair value changes of derivatives held for trading are recognized in the consolidated income statement in “Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions”.

Other financial assets and liabilities held for trading

Financial assets and liabilities held for trading include financial instruments acquired or incurred for resale or repurchase in near term or those being a part of a portfolio of identified financial instruments that are manager jointly and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets and liabilities other than derivative instruments classified as held for trading are carried at fair value in the consolidated statement of financial position. Fair value changes are recognized in the consolidated income statement in “Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions”. Interest income and expense are recognized in “Interest income” or "Interest expense", respectively.

Financial assets held to maturity

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

- financial assets and liabilities designated at measured at fair value through profit or loss at initial recognition;
- financial assets designated as financial assets available for sale; and
- financial assets qualifying as loans and receivables.

Following initial recognition, financial assets held to maturity are measured at amortized cost using the effective interest method.

The settlement of amortized cost using the effective interest method is recognized under "Interest income" in the income statement. Impairment losses are recognized in the income statement in "Net impairment losses".

The effective interest method is a method of accruing the amortized cost of financial assets or liabilities (or a group of financial assets or financial liabilities) and assigning interest income and expenses to relevant periods. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating an effective interest rate, the Bank estimates cash flows including all contractual terms but without potential future losses related to irrecoverability of loans. The calculation includes all commissions paid and received by the contractual parties and points that constitute an integral part of the effective interest rate, costs of transaction and any other premiums or discounts.

The Bank applies simplified methods, the results of which do not differ considerably from those based on calculations made using the effective interest method to account for fees and commissions and selected external cost of a financial instrument and for instruments with determined cash flow schedules for which the effective interest method cannot be applied for technical or compliance reasons.

Loans and receivables

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

- financial assets that the Group intends to sell immediately or in the near term, which are classified as held for trading, and those that the Group designated upon initial recognition as measured at fair value through profit or loss;
- financial asses that the Group designated upon initial recognition as available for sale; or
- financial assets for which the Group may not recover substantially all of its initial investment, for reasons other than loan service deterioration, which are classified as available for sale.

Following the initial recognition, loans and receivables are measured at depreciated cost using the effective interest method. The settlement of amortized cost using the effective interest method is recognized under "Interest income" in the consolidated income statement. Impairment losses for items other than "Other assets" are recognized in the consolidated income statement in "Net impairment losses".

Financial assets available for sale

Financial assets available for sale are those not classified as derivatives, designed as available for sale, or not classified as any of the classes mentioned above.

Following initial recognition financial assets available for sale are measured at fair value, whereas any gains and losses resulting from changes in the fair value estimates are recognized in other comprehensive income (other comprehensive income is accumulated in equity in "Revaluation reserve"). Revaluation reserve is accounted for in the consolidated income statement in time of sale of the asset or its impairment, while the accumulated gains and losses are recognized under "Gain/loss on other financial instruments".

For debt instruments, interest income and discount or bonus are accounted for using the effective interest method and recognized under "Interest revenue" in the consolidated income statement. Dividends on equity instruments are recognized in the consolidated income statement in "dividend income" when the entity's right to receive dividend arises.

If the fair value of equity instruments cannot be determined, the assets are measured at cost less any impairment losses. Impairment losses are recognized in the consolidated income statement in "Net impairment losses" and cannot be reversed.

Financial liabilities measured at amortized cost

Financial liabilities other than those measured at fair value through profit or loss are measured at amortized using the effective interest method. If a cash flow schedule cannot be determined for a given financial liability and therefore the effective interest rate cannot be reliably estimated, such a liability is measured at amount due.

Financial guarantee contracts

In line with IAS 39 financial guarantee contract is a contract that requires the Group, i.e. the issuer, to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. At initial recognition, financial guarantee contracts are measured at fair value adjusted by costs of transaction directly attributable to extending the guarantee. Subsequently, liabilities are measured at the higher of: best estimates of costs necessary to repay current liabilities at the end of the reporting period and the initial value less any depreciation charges in line with IAS 18.

5.5.3. Reclassification of financial assets

The Group may reclassify a non-derivative financial asset from held-for-trading assets to loans and receivables if it is no longer held with the intention to be sold or repurchased in near term. A financial asset can be reclassified if it fulfils the conditions specified in the definition of loans and receivables and if the Group has a positive intention and ability to hold the financial asset item in foreseeable future or until maturity.

Reclassified financial assets are measured at fair value at the date of reclassification. If an item is reclassified from held-for-trading financial assets, any gain or loss recognized in the income statement is not reversed. The fair value of a financial asset shall become a new amortized cost at the date of reclassification.

For financial assets reclassified from available-for-sale financial assets to held-to-maturity financial assets or loans and receivables (if meeting all classification criteria), any gain or loss related to the asset which was previously charged to revaluation reserve is accounted for in the following manner:

– for a financial asset with fixed maturity, accumulated gains or losses charged to revaluation reserve by the reclassification date are amortized and recognized in the consolidated income statement in the term to maturity, using the effective interest method;
– for a financial asset with undetermined maturity, accumulated gains or losses are charged to revaluation reserve until sale or disposal, when it is disclosed in the consolidated income statement.

5.5.4. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or a part of a financial asset or a group of similar financial assets) is derecognized from the consolidated statement of financial position if:

– the contractual rights to the cash flows from the financial asset expire;
– the Group has transferred the rights to receive cash flows from the financial asset or committed to transfer cash flows received to a third party without undue delay as a transaction intermediary and:
  (a) it has transferred substantially all risks and rewards of ownership of the financial asset; or
  (b) it has neither transferred not retained substantially all the risks and rewards of ownership of the financial asset, but it has transferred control over the financial asset.

If the Group has transferred its title to cash flows from the asset to another entity or committed to intermediate in a transaction but it has neither transferred nor retained substantially all risks and rewards of ownership and the transfer in question has not resulted in the transfer of control, the asset is recognized to an extent the Group holds its exposure in the given asset.

Exposure in a financial asset in the form of a financial guarantee contract is measured at the lower of: initial carrying amount of the asset and the maximum amount the Group may be obliged to pay for the asset.

Financial liabilities

The Group derecognizes a financial liability from its consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired.

Replacement of an existing debt instrument with an instrument with substantially different terms performed by the same entities is recognized as expiration of the initial financial liability and recognition of a new one. Similarly, significant modification of contractual terms and conditions regarding the existing financial liability is recognized as an expiration of the initial liability and recognition of a new one. The difference of corresponding carrying amounts resulting from the replacement is recognized in the consolidated income statement.

5.5.5. Repurchase/resale and security loan agreements

Securities sold under repurchase and sell-buy-back agreements are included in the balance sheet provided that the Group retains substantially all risks and benefits arising from a given asset. Liabilities to a counterparty are accounted for as “Liabilities arising from securities sold under repo, sell-buy-back agreements”.

For securities puchased under reverse repo, buy-sell-back agreements, where counterparties retain substantially all risks and benefits regarding these securities, receivables arising from the concluded transactions are recognized as receivables from securities purchased under reverse repo, buy-sell-back agreements.

Transactions of selling securities under repo, sell-buy-back agreements and purchasing securities under reverse repo, buy-sell-back agreements are measured at amortized cost using the effective interest method, while the securities sold under repurchase/sell-buy-back agreements are measured according to principles determined for each security portfolio.

The difference between the sale and repurchase agreement is treated as interest expense/income and settled over the duration of the agreement using the effective interest method.

For sales of securities purchased under reverse repo/buy-sell-back agreements, the liability reflecting the obligation to return the assets is recognized under “Financial liabilities measured at fair value through profit or loss”.

5.5.6. Fair value of financial instruments

Fair value is a price the Group would receive for sale of an asset or pay for transfer of a liability in a transaction carried out on arms-length terms as at the measurement date.

The fair value of financial instruments quoted in an active organized financial market is determined in relation to the current purchase price (for assets) or the current sales price (for liabilities).

Fair value of financial instruments with no active market available is determined using various valuation methods, with the Group maximizing the use of observable inputs, such as estimating the price of a financial instrument based on a publicly announced price quoted in an active regulated market, a price of a similar financial instrument or prices of components of a complex financial instrument or by estimating the price of a financial instrument using generally accepted estimation methods.

The fair value of individual financial assets and financial liabilities and methods of its estimation are described in details in Note 36.

5.5.7. Impairment of financial assets

As at each balance sheet date, the Group evaluates whether there is any indication of impairment of a financial asset or a group of financial assets. Impairment loss is identified when there is objective evidence of impairment associated with one or more events that took place after the initial recognition of an asset (”loss generating event”) and the loss generating event affects the expected future cash flows from a financial asset or group of financial assets the value of which can be reliably estimated. Objective evidence of impairment is e.g. considerable financial difficulty of the debtor, default under timely payment of the principal amount or interest, high probability of bankruptcy, other financial reorganization of the debtor or factors indicating a measurable decrease in estimated future cash flows.

Indications of impairment for individually material exposures have been divided into two groups:

1) Quantitative (obligatory):
    a) payment of the principal amount or interest delayed by over 90 days;
    b) for government and self-government sector, payment of the principal amount or interest delayed by over 30 days;
    c) exposure classified as “at risk” (i.e. risk categories “below standard”, “doubtful”, “loss”) according to the Ordinance of the Minister of Finance on recognizing provisions for risks related to banking operations.
2) Qualitative criteria:
    a) Hard (mandatory) criteria:
        - application (including that filed by the bank) for instigation of collection, liquidation, bankruptcy or remedial proceedings with regard to the debtor;
        - debtor's questioning the balance sheet credit exposure in court proceedings;
        - termination of a facility agreement;

- partial forgiveness of debt, arrangement, composition,

b) Soft criteria (factors analyzed by a professional analyst):
  - obtaining information that a bankruptcy or other reorganization procedures have been instigated with a counterparty;
  - high probability of bankruptcy or other financial reorganization of the counterparty;
  - unknown residence or undisclosed assets of a counterparty;
  - an active market of a given balance sheet credit exposure disappearing due to financial problems;
  - default under payment or under timely payment of the principal or interest within last 3 months;
  - significant court dispute lost, which may lead to considerable costs;
  - obtaining information about counterparty's financial problems (e.g. reduced income, increased debt, payment default with other institutions);
  - major financial difficulties of the counterparty (based on a negative assessment of the financial position of the debtor indicated in the monitoring process);
  - debt restructuring;
  - significant deterioration of the client's rating or scoring (e.g. to a category in which a client would not be granted a loan at all or would not be granted exposure on terms applicable in time of concluding the agreement or would receive a lower amount);
  - a recognized rating institution (credit rating agency) lowering the credit rating of a counterparty, of the country or the rating of any debt securities issued by the counterparty;
  - debtor's accounts being seized;
  - loss of sales markets or key clients;
  - deterioration of macroeconomic factors affecting the obligor's industry;
  - default under other material contract terms resulting in a drop in estimated future cash flows;
  - adverse changes in the internal organizational structure or the management structure of the borrower;
  - change in regulations adversely affecting the borrower's operations;
  - significant drop in market prices of collateral;
  - borrower's failure to provide documents concerning its business and financial position;
  - other factors which may affect expected future cash flows.

For individually immaterial loans analyzed on a collective basis, the Group identifies the following impairment indications:

1) Quantitative (obligatory):
   a) payment of the principal amount or interest delayed by over 90 days;
   b) termination of a facility agreement;
   c) the exposure bears characteristics of a *fraud*;
   d) the exposure is restructured;
   e) exposure subject to collection proceedings;
   f) the Group having obtained information about an event that may impact projected cash flows;
   g) exposure classified as "at risk" (i.e. risk categories "below standard", "doubtful", "loss") according to the Ordinance of the Minister of Finance on recognizing provisions for risks related to banking operations.
2) Soft criteria (factors analyzed by an expert):
   a) disappearance of an active market for a selected group of credit exposures due to financial difficulties of counterparties (e.g. significant deterioration of issuers' financial standing resulting in a reduction in trading of selected assets, which in turn disallows their reliable measurement);
   b) observable inputs indicate a measurable decrease in estimated future cash flows related to a group of balance sheet credit exposures after their initial recognition, although drops regarding individual assets in the group cannot be measured, to include:
      - adverse changes in counterparties' payment status in the group (e.g. an increased number of delayed payments or an increased number of credit card holders who have reached their credit limit and keep repaying the minimum monthly installments); or
      - the standing of the domestic or local market related to the default in credit exposure payment in the group (e.g. increased unemployment in the counterparty's location; for mortgage loans, a decrease in real property prices in a given region; adverse changes in the standing of a given industry that impact a group

of counterparties).

Receivables from other banks; loans and advances to customers

For receivables from other banks and loans and advances granted to clients measured at amortized cost using the effective interest method, the Group checks if any indication of impairment of individually significant financial assets and aggregate individually insignificant assets have occurred. If the analysis shows that there is no objective indication that an individually evaluated financial asset may be impaired, irrespective of whether it is material or not, the Group includes the asset in the group of financial assets with a similar credit risk and jointly determines their impairment. Assets which are individually tested for impairment and for which an impairment loss has been recognized or it has been determined that the previous one will not change, are not included in the general test of asset impairment.

If there is any evidence of impairment, an impairment loss equals the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future credit losses). The carrying mount of the asset is reduced using a reserve account and the loss amount is recognized in the consolidated income statement under "Net impairment losses".

For financial assets for which an impairment loss has been recognized, interest income is calculated with the use of the interest rate applied to discount future cash flows for the purpose of estimating the impairment loss amount. Credit facilities with related impairment losses are written off when their recovery is highly improbable and all collateral has been realized and transferred to the Group. If in the subsequent period impairment loss is decreased or increased as a result of an event following impairment recognition, the previously recognized loss is increased or decreased by way of making an adjustment of the reserve account.

The present value of estimated future cash flows is calculated using the original effective interest rate for a given financial instrument. For floating interest loans or receivables, the discount rate used for measuring impairment is the present effective interest rate. Computation of the present value of estimated cash flows related to an asset collateralized with a pledge reflects cash flows which may arise as a result of enforcement of collateral, reduced by costs of establishing or selling the collateral (in portfolio analysis, the costs are not included since there is no possibility to clearly assign each cost to a relevant credit exposure, and the inclusion of the costs is considered immaterial based on analyses carried out), irrespective of enforcement probability.

For purposes of aggregate impairment testing, financial assets are aggregated based on the credit risk factors determining the borrower's ability to repay the entire contractual obligations, e.g. based on credit risk assessment or assessment in line with a given scale considering asset type, industry, location, collateral type, default under timely payments and other significant issues.

Future cash flows in the group of financial assets collectively tested for impairment are estimated based on history of losses for assets of similar credit risk characteristics.

Impairment losses determined for a group of financial assets collectively tested for impairment, including IBNR losses, are estimated in accordance with the incurred but not reported loss concept based on risk parameters commonly applied in the sector: PD and LGD. When estimating provisions for off-balance sheet credit exposures, the Group additionally includes the credit conversion factor (CCF). The values of PD, LGD and CCF parameters are estimated with the use of statistical methods based on observation of historical losses for assets with similar credit risk characteristics using the *point in time* (PIT) principle, through weighting of historical observations and including factors that arise from current market conditions. If necessary, historical data regarding the losses are adjusted based on available current data in order to reflect the impact of present conditions that did not influence the historical period from which the historical loss data are derived and to eliminate factors that affected historical data but do not occur now.

Additionally, in order to ensure adequacy of impairment losses, the Group's calculation model is subject to the model management process (including regular validation) and *backtest*ed once a year.

Financial assets held to maturity

As at each reporting date, the Group individually evaluates whether there is any indication of impairment of financial assets held to maturity. If there is any evidence of impairment, an impairment loss equals the difference between the carrying amount of a given asset and the present value of estimated future cash flows. The carrying amount of an asset is reduced and an impairment loss is recognized in the consolidated income statement in "Net impairment losses".

If in the subsequent period impairment loss is decreased and the decrease may be objectively linked to the event following impairment recognition, the previously recognized loss is reversed. The reversed impairment loss is recognized in the consolidated income statement in "Net impairment losses".

Financial assets available for sale

As at each reporting date, the Group evaluates whether there is any indication of impairment of a financial asset or a group of financial assets available for sale.

As regards capital investments available for sale, a decrease in the fair value of the financial assets below the cost for a significant or extended period is objective evidence of impairment.

In case of impairment of financial assets, accumulated losses constituting the difference between the cost and the present fair value, less any impairment losses on the assets recognized in the consolidated income statement are derecognized from revaluation reserve and recognized in the consolidated income statement in "Net impairment losses".

Impairment losses on investments in equity instruments are not reversed through the income statement. The increase in their fair value after impairment loss recognition is charged directly in other comprehensive income.

Debt instruments classified as available for sale are tested for any indication of impairment of a financial asset in line with the same principles as those applied to financial assets measured at amortized cost.

For financial assets for which an impairment loss has been recognized, interest income is calculated with the use of the interest rate applied to discount future cash flows for the purpose of estimating the impairment loss amount.

If in the subsequent period fair value of an available-for-sale debt instrument increases, and the increase may be objectively related to an event occurring after the recognition of the impairment loss in the consolidated income statement, the reversed impairment loss amount is recognized in the consolidated income statement in "Net impairment losses".

Financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument which is not measured at fair value (as the fair value may not be determined reliably) has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets. Impairment losses determined in this manner are not reversed.

5.5.8. Cash and cash equivalents

Cash and cash equivalents include cash in hand and on the nostro (current) account in the National Bank of Poland as well as receivables from other banks on the current account, and other cash with maturity of up to 3 months, disclosed at the nominal value and financial assets with high liquidity, i.e. current financial assets (with the maturity period of up to three months from the acquisition date).

5.5.9. Property, plant and equipment

Property, plant and equipment are recognized at cost, less depreciation charges and impairment losses. The initial amount of fixed assets includes their cost increased by all costs directly related to their purchase and adaptation for use. The cost includes also cost of replacement of parts of plant and machinery when incurred, if the recognition criteria are met. Costs incurred after the date of commissioning, such as costs of maintenance and repair, are charged to profit or loss when incurred. Land is not depreciated. Depreciation of other property, plant and equipment is calculated according to the straight-line method over the estimated useful life of an asset:

Type	Period
Buildings and structures	25, 40 years
Technical equipment and machines	5 - 20 years
Office equipment	5 - 20 years
Vehicles	5 years
Computers	3 - 10 years
Leasehold improvements	3.5 – 10 years (not more than the lease period)

Depreciation charge on property, plant and equipment whose useful life is limited is recognized in the consolidated income statement in "General and administrative expense".

Any gain or loss (calculated as a difference between possible net inflows from sales and the carrying amount of the item) resulting from derecognition of the asset from the balance sheet is charged to profit or loss for the period of the derecognition under other operating revenue or other operating expense, respectively.

Investments in progress are related to fixed assets under construction or assembly and are recognized at cost less impairment losses, if any. Fixed assets under construction are not depreciated until their construction is completed and until they are commissioned.

5.5.10. Intangible assets

Intangible assets acquired in a separate transaction are initially measured at acquisition price or manufacturing cost. After the initial recognition, intangible assets are recognized at cost, less accumulated amortization and impairment loss. Expenditures on internally generated intangible assets, except for capitalized development expenditures, are recognized in expenses of the period in which they were incurred.

Amortization of intangible assets is calculated using the straight-line method in order to spread out the initial asset value over the useful life, i.e. 2 years, and in justified cases for expected useful lives from 3 to 20 years.

Amortization charges on intangible assets whose useful life is limited is recognized in the consolidated income statement in “General and administrative expense”.

Gains or losses on derecognition of intangible assets are recognized in the consolidated income statement under other operating revenue or other operating expenses, respectively.

Other research expenses are recognized in profit or loss when they are incurred.

Intangible assets arising from R&D works are recognized in the statement of financial position only if the following conditions have been met:

– completion of an intangible asset so that it is fit for sale or use is technically possible;
– the intent to complete the asset, its use and sale can be proven;
– the asset will be fit for use or sale;
– the manner in which the asset will generate future economic benefits is known;
– technical resources and funds necessary to complete R&D work, the use and sale of the asset will be provided;
– outlays incurred in the course of R&D work can be reliably measured.

The initial value of an internally manufactured intangible asset is the total of expenditures incurred from the date when the asset has first met the recognition criteria (see above). If costs of R&D works related to internally produced intangible assets cannot be recognized in the balance sheet, they are recognized in the income statement of the period when incurred.

Following initial recognition, intangible assets produced internally in the course of R&D works are recognized at an amount reduced by accumulated amortization and total impairment losses, similarly to acquired intangible assets.

5.5.11. Lease

Group as a lessee

The Group is a party to finance lease agreements based on which it uses third-party fixed assets for a period of time agreed therein in return for a fee.

Finance leases transfer to the Capital Group basically the entire risks and rewards of holding the lease object recognized in the statement of financial position as at the lease commencement date at the lower of the following two amounts: fair value of a leased asset or current value of minimum lease payments. Lease payments are split between financial expenses and a decrease in the balance of lease liabilities in order to obtain a fixed interest rate on the outstanding liability. Financial expenses are charged directly to the income statement. Fixed assets used based on finance leases are depreciated with the straight line method over the shorter of the following two periods: estimated useful life or lease term.

Moreover, the Group is a party to operating lease agreements whereby the lessor retains substantially all the risks and rewards of ownership of an asset. Payments arising from operating leases are recognized as expenses in the income statement in accordance with the straight-line method over the lease term.

The Group as a lessor

The Group is a party to operating lease agreements based on which it lets out fixed assets to be used or generate rewards for a period of time agreed in the agreement in return for a payment.

Payments arising from operating leases are recognized as "other operating revenue" in the income statement in accordance with the straight-line method over the lease term.

5.5.12. Impairment of non-financial non-current assets

Once a year the Group evaluates whether any circumstances indicating impairment of non-financial non-current assets have occurred. If there is any indication of impairment or if an annual impairment test is required under the IFRS, the Group estimates the recoverable amount of a given asset.

The recoverable amount of an asset corresponds to the fair value of the asset or a cash-generating unit (CGU) less costs to sell or its value in use, whichever is higher. The recoverable amount is determined for individual assets, unless a given asset does not generate cash inflows which are largely independent of those generated by other assets or groups of assets. If the carrying amount of an asset or a CGU is higher that its recoverable amount, the asset has been impaired and is written down to a relevant recoverable amount. At the time of estimation of the value in use, projected cash flows are discounted to their present value using the discount rate before the effects of tax, reflecting the current market valuation of the time value of money and the risk characteristic of a given asset.

A model appropriate for measuring a given asset item is applied to determine the fair value less costs to sell. The computations are confirmed using measurements made based on other sources and other available methods of determining the fair value.

Impairment losses for assets are recognized in the consolidated income statement, excluding assets already remesured, in case of which the remeasurement has been charged to equity. In such a case, impairment losses are also recognized in equity up to earlier remeasurement amounts.

At the end of each financial year the Group evaluates whether the indications of impairment still occur and whether the impairment losses should be reduced. If there is such indication, the Group estimates the recoverable amount of the asset or a cash-generating unit. Impairment loss is reversed only when the estimations used to determine the recoverable amount of the asset have changed since the last impairment loss recognition. If so, the carrying amount of the asset is increased to its recoverable amount.

The increased amount should not exceed the carrying amount of the asset which would have been determined (including amortization), had the Company not recognized an impairment loss for the asset. A reversal of an impairment loss is recognized immediately in the consolidated income statement, unless the relevant asset is carried at a remeasured amount, in which case the reversal of the impairment loss is treated as a revaluation reserve increase.

The criteria specified above also apply to assessing impairment of intangible assets. The test is performed for individual asset items or cash-generating units and if any indications of impairment occur.

5.5.13. Provisions

Provisions are recognized, if the Group has a present obligation (legal or constructive) as a result of a past events and when it is probable (i.e. more likely than not) 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 Group expects reimbursement of the expenditure required to settle the provision (for example, through insurance contracts), the reimbursement is recognized as a separate asset, but only when it is virtually certain that reimbursement will be received. The expenses relating to the provision less the amount recognized for reimbursement are disclosed in the consolidated income statement.

If the impact of the time value of money is material, the provision is discounted using the current interest rate (tax not included), reflecting possible risk related to a given liability. If the provision has been discounted, the increase in the provision due to the passage of time is recognized as interest expense.

Provisions for disputes

Provisions for disputes are recognized for court cases, administrative proceedings and other legal disputes. The Group keeps a detailed record of disputes. Provisions are recognized if the Group is subject to a legal or customary obligation resulting from past events, and if there is a probability that fulfillment of the obligation will result in an outflow of funds. Any future claims are charged to the provisions. The Group has recognized provisions for all estimated losses. As a rule, estimated term of provisions for disputes exceeds one year.

Provisions for retirement and disability benefits

In accordance with IAS 19, retirement and disability benefits are post-employment defined benefit plans. The provision for retirement and disability benefits has been determined based on the Compensation Policies applicable in the Group. The present value of provisions for retirement and disability benefits and the related current and past service costs are measured by an independent actuary using the projected unit credit method. Revaluation of provisions for retirement and disability benefits is composed of the following elements:

– employment costs (including costs of current and past employment);
– net interest income or expense and
– actuarial gains or losses.

Employment costs and net interest income or expense are recognized in the income statement, while actuarial gains and losses are recognized in the statement of financial position and charged to revaluation reserve in the period of incurring.

Provisions for off-balance sheet liabilities

Guarantees granted and unconditional financial commitments are treated as an exposure bearing credit risk. While calculating provisions for off-balance sheet liabilities, the Bank uses the credit conversion factor (CCF). Detailed principles of recognizing impairment losses for exposures bearing credit risk, including loans and advances, have been presented in Note 5.5.7

5.5.14. Other assets

"Other assets" include in particular: prepaid expenses and accrued revenue, advance payments, payment cards settlements, inventory related to auxiliary activities of the Group and receivables from counterparties.

Accrued revenue is the revenue pertaining to the profit/loss of a given reporting period, receivable by the Group in a subsequent period, related to bank fees and commissions for keeping accounts and carrying out other banking activities.

Prepaid expenses are costs incurred in a given reporting period pertaining to the following reporting periods, in particular insurance costs, subscriptions and premiums for Guaranteed Employee Benefit Fund.

Receivables from contractors are recognized at fair value plus transaction costs (if any) in line with IAS 39.

Acquired or occurred inventories of tangible current assets are recognized in the accounting records at cost as at the date of acquisition or occurance.

Receivables are revalued based on the probability of their payment with recognition of an impairment loss, which is recognized in the income statement in other operating expense or commission expense.

Inventory is revalued based on its cost compared to the net realizable value. The write-down of inventory to its net realizable value is recognized in the income statement under "other operating expenses".

5.5.15. Other liabilities

Other liabilities include: provisions for administrative costs resulting from performances rendered for the Group by its counterparties, which will be settled in the following reporting periods, liabilities due to unused paid vacations, bonuses, advance payments received and other liabilities from counterparties, inter-bank settlements, settlements under public law and settlements with Poczta Polska due to substitution services. These items are recognized at amounts due.

5.5.16. Revenue recognition

Net interest income

For all financial assets and liabilities measured at amortized cost and interest-bearing financial assets classified as available for sale, intrest expense is recognized with the effective interest rate method under "Interest income" or "Interest expense". When calculating an effective interest rate, the Group estimates cash flows including all contractual terms but without potential future losses related to irrecoverability of loans. If the Group changes estimated payments disbursed or received, it also adjusts the carrying amount of a given financial asset or liability. The adjustment is calculated using the original effective interest rate of the financial instrument and recognized as interest income or expense in the consolidated income statement.

Interest income from debt securities classified as held for trading or designated as measured at fair value through profit or loss at initial recognition is recognized in interest income.

For financial assets or a group of similar assets for which an impairment loss was recognized, interest income is calculated from the current amount receivable (i.e. their amount reduced by the impairment loss) with the use of the interest rate applied to discount future cash flows for the purpose of estimating the impairment loss amount.

Net fee and commission income

Fees and commissions, which do not constitute an integral part of the effective interest rate, i.e. those not accounted for using the effective interest method but in accordance with the straight-line method or recognized on a one-off basis in the income statement, are recognized in "Fee and commission income" or "Fee and commission expense". Commissions on overdrafts are included in deferred revenue and accounted for using the straight-line method.

Commission income recognized on one-off basis includes:

- fees paid to post offices for concluded term deposit contracts are recognized in the income statement when incurred, provided that the contracts are independent from the (term) deposits;
- fees paid to post offices for conclusion of plenipotentiary agreements, provided they do not regard specific deposits but a variety of deposits, are recognized in the income statement when incurred;
- fees paid to post offices for cancellation of plenipotentiary agreements are recognized in the income statement when incurred;
- fees paid to post offices for disposition of accounts in the case of death are recognized in the income statement when incurred.

Revenue and expenses related to sales of insurance products

The Group generates bancassurance revenue on sales of insurance products in the banking channels. At the same time, when the insurance coverage is valid, the Group may provide additional services to insurance companies, in the form of post-sale service of insurance policies.
The Group recognizes the fee for offering insuarance products based on a professional judgment regarding the scope of sale: whether it is limited to the sales agency service, or whether the sales of insurance are linked to sales of credit products. The assessment is based on the economic contents of credit and insurance products offered. The purpose of the judgment is to economically separate revenue that constitutes:

- an integral part of a fee related to a credit product offered;
- a fee for agency services;
- a fee for additional services provided after sale of an insurance product.

Evaluation of a direct relation is based mostly on the following criteria:

- ability to purchase a credit product without an insurance product (a facility agreement unrelated to an insurance agreement);
- the average actual annual interest on each facility in the Group's portfolio classified as including insurance coverage or without an insurance component;
- the voluntary nature of insurance;
- client's ability to provide an insurance policy issued by any insurer without the Group's participation;
- profitability assessment of a credit product based on management reports including the performance as an agent selling insurance products;
- assessment of the sales of bancassurance products, i.e. the percentage share of credit products with insurance coverage in the number of credit facility agreements in the Group's portfolio;
- number of resignations and amount of commissions refunded – broken down by loan type offered by the Group, insurance products and insurance groups; the level of insurance contracts continued after the initial term.

Analysis of the direct link between an insurance product and a credit facility results in division of bancassurance products, i.e. separation of the fair value of a loan offered and the fair value of an insurance products sold with the loan. If the Group acts as an agent, the receivable fee is divided into a portion classified as a component of amortized cost of credit recognized Interest income and a portion constituting the agent's fee recognized under the fee and commission income. The fee is divided based on the identifiable portion of the fair value of the loan and the fair value of the agency service referred to the total of both amounts.

If it is probable that the Group will be obliged to provide further services during the life of the insurance contract, the commission or its part is deferred and recognized over time in line with the matching principle.

The fair value is determined as follows:

- agency service - based on market data involving the reference to prices and other market information generated by identical or comparable market transactions on insurance products sold separately from credit products;

- fair value of a credit facility - determining future principal and interest payments including future impairment losses of the fair value and its projected recovery, discounted with the market interest rate curve increased by current margins offered by the Group for a given loan type;
- with relation to the fee for other activities performed by the Group for the insurer in the insurance term, estimation of the fair value for allocation purposes based on analysis of costs incurred with relation to the service provision.

Additionally, the Group carries out reliable estimates of provisions for refunds, i.e. the amount that should reduce the Group's fee for distribution of insurance products. The estimates of provisions for refunds are based on historical data regarding actual refunds of the fee in the past, and on the Group's projections of future trends. The provision for refunds is settled porportionally to the division of the fee between agency services and the integral part of the effective interest rate on a loan.

Insurance selling expenses are recognized proportionally to the income division into that recognized under the calculation of amortized cost (recognized as "Interest income") and income recognized on a one-off basis as a fee due to agency services and disclosed as "Fee and commission expense".

The Group recognizes the revenue and expense due to sale of bancassurance products related to credit facilities in the following manner:

- cash loans with insurance policy – from 6% to 17% of the revenue due to sale of bancassurance products related to cash loans is recognized on a one-off basis as commission income, while the remaining portion of the income is accounted for as interest income using the effective interest method or a simplified method during the credit financing period;
- mortgage loans with insurance policy – from 0% to 15% of the revenue due to sale of bancassurance products related to mortgage loans is recognized on a one-off basis as commission income, while the remaining portion of the income is accounted for as interest income using the effective interest method or a simplified method during the credit financing period.

Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions

"Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions" includes all gains and losses on the sale and gains or losses on fair value measurement of financial assets and liabilities designated as measured at fair value through profit or loss.

The item also includes a gain/loss on foreign exchange transactions, i.e. exchange gains and losses, both realized and unrealized, resulting from everyday measurement of foreign currency assets and liabilities at the average exchange rate of the National Bank of Poland applicable at the end of a reporting period.

Profit/loss on other financial instruments

"Gain/loss on other financial instruments"

- Gain/loss on sale of financial assets designated as available-for-sale (AVS) financial assets and the effects of settling gains or losses on financial assets recognized in the revaluation reserve and initially designated as AVS financial assets and then reclassified to HTM (held to maturity) investments settled using the effective interest rate method;
- Gain/loss on sale of securities designated as loans and receivables.

Employee benefit costs

Payments due to remunerations, premiums and paid vacations are recognized as "Employee benefit costs" in the period of employees' employment.

Payments to defined pension plans, i.e. Social Insurance Institution, pension funds and Employee Pension Scheme constitute defined contribution plans and are recognized as expenses in "Employee benefit costs" once employees have performed services qualifying them as plan participants.

Other operating revenue and expense

Operating revenue and expense include items that are not directly related to the core operating activities of the entity.

Other operating revenue includes in particular gains on sale of fixed assets, damages and fines received, revenue due to collection of overdue and cancelled receivables and bad debts, reimbursement of collection costs, reversal of provision for future liabilities and sundry income of the Group.

Other operating expense includes mainly the costs of selling/liquidating fixed assets and intangible assets, costs of damages and fines, costs of receivables written off, impairment allowances for receivables from various debtors and other operating expense.

5.5.17. Taxes

Current tax

Current income tax liabilities and receivables for the current and prior periods are measured at projected amounts payable to tax authorities (for tax receivables - reimbursable) using tax rates and regulations valid as at the end of the reporting period, or regulations whose endorsement had been considered completed.

Income tax on items not recognized in profit or loss is recognized in other comprehensive income for items recognized there or directly in equity for items recognized directly in equity.

Deferred tax

For the purposes of financial reporting, deferred income tax is calculated using the balance sheet liability method based on temporary differences that occur as at the end of the reporting period between the tax value of assets and liabilities and their carrying amount recognized in the consolidated financial statements.

The deferred tax liability is recognized in relation to all taxable temporary differences, except where the deferred tax liability arises from initial recognition of goodwill or another asset or liability item in a transaction that is not a business combination and at the time of the transaction affects neither gross accounting profit/loss nor taxable profit (tax loss).

A deferred income tax asset is recognized for all deductible temporary differences, carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the above differences, assets and losses can be utilized except where except where the deferred tax asset relating to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

The carrying amount of the deferred tax asset is verified as at each balance sheet date and is reduced as appropriate, taking into account the reduction of the probability of achieving taxable income sufficient for the realization of the deferred tax asset in part or in whole. An undisclosed deferred tax asset is remeasured as at the end of each financial year and recognized up to the amount reflecting probable taxable income which will facilitate realization of the asset.

Deferred tax asset and liability are measured with the application of tax rates expected to be applicable in the period when the asset is realized or provision released, based on tax rates (tax regulations) applicable as at the end of the reporting period or rates whose endorsement had been considered completed.

Income tax on items not recognized in profit or loss is recognized in other comprehensive income for items recognized there or directly in equity for items recognized directly in equity.

The Group offsets its deferred tax assets and deferred tax liabilities only if it has an enforceable legal title to offset its current tax assets with liabilities and the deferred income tax is related to the same taxpayer and the same tax authority.

5.5.18. Equity

Share capital is recognized in the amount compliant with the Bank's charter and the entry in the court register at the nominal value.

Other items of equity are recognized in the consolidated statement of financial positon by type and in accordance with the principles defined in legal regulations and the provisions of the Bank's charter. Such items include:

- supplementary capital created from the share premium and mandatory 8% appropriation of the net profit and reclassification from the revaluation reserve;
- In line with the Banking Law of 29 August 1997 (uniform text: Journal of Laws of 2012, item 1376 as amended) (the "Banking Law") and the Bank's charter, the reserve capital is created from net profit distribution;
- the net profit for the reporting period and undistributed profit or uncovered loss from prior periods (presented jointly in "Retained earnings/Uncovered losses");
- revaluation reserve.

5.5.19. Net earnings per share

Net earnings per share for a given period are calculated by dividing the net profit for the period by the weighted average number of shares in the period.

The Group does not present diluted earnings per share, because there are no potential ordinary shares which would dilute weighted average number of ordinary shares.

5.5.20. Contingent liabilities

The Bank concludes transactions that are not recognized as assets or liabilities in the statement of financial position when concluded but give rise to contingent liabilities. Contingent liability is:

– a possible obligation arising from past events whose occurrence shall be confirmed only upon occurrence of one or more uncertain future events not fully controlled by the Bank;
– an existing obligation arising from past events, which has not been recognized in the statement of financial position since the need to spend cash or other assets to fulfil the obligation is improbable or its amount cannot be reliably measured.

Provisions are established for off-balance sheet liabilities granted which bear the risk that the mandator will not fulfill contractual terms. Off-balance sheet liabilities include in particular credit lines and guarantees granted. Upon initial recognition, financial guarantee agreements are measured at fair value. Following the initial recognition, they are measured at the higher of:

– amount determined in line with IAS 37 and
– initial value decreased if appropriate by accumulated amortization charges recognized in line with IAS 18.

5.5.21. Company Social Benefits Fund

The Group has established a Social Benefits Fund in accordance with the Act on Social Benefits Funds of 4 March 1994 (uniform text: Journal of Laws of 2012 item 592 as amended). The purpose of the fund is to finance social benefits for employees. The fund's liabilities comprise accumulated appropriations made by the Bank and Group entities to the Social Benefits Fund less non-refundable expenses from that fund.

The Group does not recognize Social Benefit Fund assets, as the entire Social Benefits Fund liabilities are expressed in cash accumulated on a separate bank account.

For the purposes of presentation in these consolidated financial statements the Group has set off Social Benefits Fund liabilities against assets, because they do not constitute the Group's assets.

5.5.22. Measurement of items denominated in foreign currencies

The consolidated financial statements have been prepared in the Polish zloty (PLN), which is the functional currency of the Group. It is also the currency of the key business environment of the Group.

Foreign currency transactions are translated into the Polish zloty by reference to the exchange rate effective as at the date of the transaction.

As at the end of the reporting period, monetary assets and liabilities denominated in currencies other than the Polish zloty are translated into PLN at the average exchange rate effective as at the end of the reporting period and determined for the currency by the National Bank of Poland. Forex differences from translation are recognized in the consolidated income statement in "Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions". Non-monetary assets and liabilities recognized at historical cost in a foreign currency are recognized at the historical exchange rate effective as at the date of the transaction. Non-monetary assets and liabilities recognized at fair value in a foreign currency are translated by reference to the exchange rate effective as at the fair value measurement date.

(Figures in PLN'000)

Exchange rates applied for the purpose of balance sheet measurement:

31 December 2014	31 December 2013
USD 1 = PLN 3.5072	USD 1 = PLN 3.0120
EUR 1 = PLN 4.2623	EUR 1 = PLN 4.1472
CAD 1 = PLN 3.0255	CAD 1 = PLN 2.8297
CHF 1 = PLN 3.5447	CHF 1 = PLN 3.3816
GBP 1 = PLN 5.4648	GBP 1 = PLN 4.9828
DKK 1 = PLN 0.5725	DKK 1 = PLN 0.5560
SEK 1 = PLN 0.4532	SEK 1 = PLN 0.4694

5.5.23 Hedge accounting

The Group does not apply hedge accounting.

6. Segment reporting

As intended by IFRS 8, financial information on segments is reported on the same basis as is used internally in reports presented to the Management Board of the Bank for the purpose of allocating resources to segments and evaluating their performance.

The Group's operations have been divided into segments in accordance with products sold, services provided and types of clients, for management purposes. The following operating segments have been identified: consumer, institution and settlement and treasury departments.

Detailed principles of separating revenue, expenses, assets and liabilities in each segment are described in internal regulations of the Bank. The operations are focused on the Polish market – the client base is composed mainly of local individuals and corporations. The Group's activities are not exposed to the risk of fluctuations resulting from seasonality of operations.

The Bank's Management Board assesses segment financial performance based on the following figures:

– Operating profit after any impairment losses including other operating revenue and expenses;
– General and administrative expenses;
– C/I (*cost/income*).

Consumer segment of the Group

From management accounting perspective the consumer segment offers products targeted at individuals and microenterprises (sole proprietorships). The offer consists of saving and settlement accounts, savings accounts, term deposits, consumer loans (including cash loans and overdrafts), mortgage loans (including housing loans, mortgage loans and consolidation loans), credit cards, insurance products and investment products and funds. It is sold through traditional distribution channels in a country-wide network of branches and sales points (incldiung the sales network of Poczta Polska and financial agents), Pocztowy24 Internet banking, PocztowySMS mobile banking and a Contact Centre.

Institutional segment of the Group

For management accounting purposes institutional segment includes operating profit/loss from services provided to business entities with legal personality, individuals and entities with no legal personality carrying out business activities under applicable regulations and central and local administration entities.

Products offered in the institutional segment include: credit products (working capital loans including revolving loans, overdrafts, investment loans, loans with thermal improvement and refurbishment premium, mortgage loans and bank guarantees), deposits (current accounts, standards and individually negotiated deposits, savings accounts) and settlement services with reasonably priced cash management offer. Products are offered through the Bank's own network, the network of Poczta Polska S.A. and financial agents.

Settlement and treasury segment of the Group

For management accounting purposes, the settlement and treasury segment includes the profit or loss from settlement services and treasury activities. The Group offers comprehensive settlement services of unique quality, based on access to Poczta Polska's infrastructure. The services include: managing documents of payments to the Social Security Institution and Tax Offices. Further, the settlement product offer includes cash payments to third parties available in the network of Poczta Polska S.A. and in the Bank's own network, cash payments to accounts in the network of Poczta Polska S.A. and in the Bank's own network, mass domestic and international non-cash payment orders in PLN and payments made by clients in ADMs.

Operations of the treasury function include treasury transactions, financial markets, management of liquidity, interest rate and currency risks. The department concludes transactions in the interbank market (e.g. deposits), buys and sells securities (Treasury bonds, debt instruments issued by the National Bank of Poland, bank bonds) and enters into *sell-buy-back* and *buy-sell-back* transactions and derivative transactions such as FRA, IRS or *swap*. It repurchases client funds obtained by operating segments at a transfer rate and sells the funds to finance their credit operations.

Unallocated items, adjustments and exclusions

Unallocated items, adjustments and exclusions include revenue and expenses not classified in the above segments, as well as income tax.

Changes in operational segment reporting

In 2014 the Bank introduced changes in operational segment reporting. The changes resulted from a revised allocation key applied to operating expenses of the Bank's branches assigned to consumer and institutional segments and changes in the allocation key applied to the net interest income of the treasury function. Moreover, following organizational structure changes introduced in 2014, microenterprises have been moved from the institutional segment to the consumer segment. Data for the 12-month period ended 31 December 2013 and as at that date presented in the consolidated financial statements have been recalculated to ensure data comparability.

As the Management Board of the Bank analyses the aggregate net interest income, no interest revenue or interest expense has been separated in financial performance of individual segments.

Period From 1 January 2014 to 31 December 2014	Consumer segment	Institutional segment	Segment of settlement and treasury	Unallocated items	Adjustments and eliminations	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Net interest income	**222 091**	**28 631**	**18 083**	**(655)**	**0**	**268 150**
- sales to external clients	222 291	22 738	0	(655)	23 776	**268 150**
- sale to other segments	(200)	5 893	18 083	0	(23 776)	**0**
Net fee and commission income	**31 975**	**10 599**	**15 519**	**1 564**	**0**	**59 657**
Other revenue and expenses related to banking operations*	0	0	4 533	0	0	**4 533**
Operating profit	**254 066**	**39 230**	**38 135**	**909**	**0**	**332 340**
Other operating revenue and expense	3 906	(288)	17	(1 195)	0	**2 440**
General and administrative expenses including:	**(178 694)**	**(21 013)**	**(15 475)**	**(3 440)**	**0**	**(218 622)**
- amortization	(18 209)	(1 010)	(1 013)	(572)	0	**(20 804)**
Net impairment losses	**(49 130)**	**(11 883)**	**0**	**0**	**0**	**(61 013)**
Operating profit/loss	30 148	6 046	22 677	(3 726)	0	**55 145**
Gross profit (loss)	**30 148**	**6 046**	**22 677**	**(3 726)**	**0**	**55 145**
Income tax	0	0	0	(11 506)	0	**(11 506)**
Net financial profit/loss for the current period	**30 148**	**6 046**	**22 677**	**(15 232)**	**0**	**43 639**

* The item includes: gain/loss on financial instruments measured at fair value through profit or loss, gain/loss on foreign exchange transactions and gain/loss on other financial instruments.

Balance as at 31 December 2014	Consumer segment	Institutional segment	Segment of settlement and treasury	Unallocated items	Adjustments and eliminations	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Segment assets	6 271 572	1 461 631	0	(14 176)	0	**7 719 027**
Segment liabilities and equity	5 493 265	2 239 938	0	(14 176)	0	**7 719 027**

Period From 1 January 2013 to 31 December 2013	Consumer segment	Institutional segment	Segment of settlement and treasury	Unallocated items	Adjustments and eliminations	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Net interest income	**205 027**	**29 663**	**8 269**	**848**	**0**	**243 807**
- sales to external clients	182 324	29 589	0	848	31 046	**243 807**
- sales to other segments	22 703	74	8 269	0	(31 046)	**0**
Net fee and commission income	**6 270**	**12 544**	**19 624**	**3 190**	**0**	**41 628**
Other revenue and expenses related to banking operations*	0	0	8 885	0	0	**8 885**
Operating profit	**211 297**	**42 207**	**36 778**	**4 038**	**0**	**294 320**
Other operating revenue and expense	4 349	463	494	(1 230)	0	**4 076**
General and administrative expenses including:	**(164 650)**	**(28 950)**	**(15 343)**	**(3 795)**	**0**	**(212 738)**
- amortization	(17 603)	(2 289)	(1 519)	(528)	0	**(21 939)**
Net impairment losses	**(32 503)**	**(9 895)**	**0**	**0**	**0**	**(42 398)**
Operating profit/loss	18 493	3 825	21 930	(988)	0	**43 260**
Gross profit (loss)	**18 493**	**3 825**	**21 930**	**(988)**	**0**	**43 260**
Income tax	0	0	0	(7 233)	0	**(7 233)**
Net financial profit/loss for the current period	**18 493**	**3 825**	**21 930**	**(8 221)**	**0**	**36 027**

* The item includes: gain/loss on financial instruments measured at fair value through profit or loss, gain/loss on foreign exchange transactions and gain/loss on other financial instruments.

Segment assets include items directly allocated to the segment, such as: net loans and advances to the Bank's customers and the following items allocated to the segment for management accounting purposes: cash and other assets deposited in the Central Bank, receivables from other banks, investment financial assets, property, plant and equipment, intangible assets, net deffered tax assets and other assets.

Segment liabilities include liabilities directly allocated to clients, to the Central Bank and other banks and the following liabilities and equity items allocated to the segment for management accounting purposes: liabilities held for trading, provisions, current income tax liabilities, other liabilities, subordinated liabilities, liabilities due to issue of debt securities and total equity.

Balance as at 31 December 2014	Consumer segment	Institutional segment	Segment of settlement and treasury	Unallocated items	Adjustments and eliminations	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Segment assets	6 271 572	1 461 631	0	(14 176)	0	**7 719 027**
Segment liabilities and equity	5 493 265	2 239 938	0	(14 176)	0	**7 719 027**

Balance as at 31 December 2013	Consumer segment	Institutional segment	Segment of settlement and treasury	Unallocated items	Adjustments and eliminations	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Segment assets	5 746 154	1 646 580	0	(9 989)	0	**7 382 745**
Segment liabilities and equity	4 902 270	2 490 464	0	(9 989)	0	**7 382 745**

In 2014, revenue from the key counterparty of the Bank amounted to PLN 16,648 thousand compared to PLN 22,785 thousand in 2013.

7. Net interest income

Interest income including:	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Income on receivables from other banks	**9 064**	**9 607**
Income on loans and advances to clients, including:	**361 466**	**355 103**
overdraft facilities	7 125	7 480
credit facilities and term loans	354 341	347 623
- individuals	309 011	294 269
- institutional clients	34 300	37 980
- local authorities	11 030	15 374
Income on investment financial assets classified as:	**45 447**	**58 541**
available for sale	25 361	37 891
held to maturity	20 086	20 650
Income on financial assets held for trading	**301**	**149**
Total	**416 278**	**423 400**

In 2014 interest income on impaired receivables amounted to PLN 14,738 thousand, while in 2013 it was PLN 14,224 thousand.

Interest expense including:	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Expense due to liabilities to other banks	**(419)**	**(450)**
Expense due to liabilities to customers, including:	**(121 894)**	**(156 552)**
current accounts	(31 603)	(43 503)
term deposits	(90 291)	(113 049)
- individuals	(71 031)	(82 795)
- institutional clients	(18 157)	(28 780)
- local authorities	(1 103)	(1 474)
Costs arising from issue of debt securities and subordinated loan	**(23 199)**	**(21 312)**
Costs of sell-buy-back securities sold	**(2 616)**	**(1 279)**
Total	**(148 128)**	**(179 593)**

8. Net fee and commission income

Fee and commission income, including:	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
settlement and cash transactions	42 783	36 742
keeping bank accounts	27 589	10 568
payment and credit cards	21 028	17 126
sale of insurance products	4 717	3 589
originated loans and advances	855	747
other	5 332	4 234
Total	**102 304**	**73 006**

Fee and commission expense, including:	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
keeping current accounts and term deposits	(18 108)	(14 788)
managing payment cards, ATM and POS cash withdrawals	(10 746)	(8 012)
cash management services for the Group	(8 513)	(5 901)
other services	(5 280)	(2 677)
Total	**(42 647)**	**(31 378)**

9. Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Gain/loss on financial instruments held for trading, including:	1 239	(628)
- IRS	852	(35)
- debt securities held for trading	835	(568)
- OIS	18	(17)
- FRA	(466)	(8)
Gain/loss on foreign exchange transactions	1 524	3 533
Total	**2 763**	**2 905**

10. Profit/loss on other financial instruments

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Gain/loss on financial assets available for sale	1 515	5 980
Gain/loss on securities designated as loans and receivables	255	0
Total	**1 770**	**5 980**

11. General and administrative expenses

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Employee benefits	**(99 398)**	**(92 372)**
Payroll	(84 054)	(78 216)
Payroll charges	(13 416)	(12 283)
Appropriations to the Company's Social Benefit Fund	(1 928)	(1 873)
Administrative costs	**(98 420)**	**(98 427)**
Other employee benefits	(6 688)	(6 184)
Materials	(3 385)	(4 289)
Costs of external services, including:	(50 398)	(49 006)
- costs of telecommunication services	(12 412)	(13 497)
- costs of services related to bank settlements	(5 692)	(5 652)
- costs of repair and renovation	(1 456)	(1 561)
- costs of advisory, audit and legal services	(5 636)	(4 323)
- cost of software maintenance and IT services	(16 851)	(15 083)
- costs of public utilities, security and monitoring services	(5 394)	(5 274)
- other	(2 957)	(3 616)
Costs of insurance and lease payments	(16 519)	(19 744)
Costs of promotion and advertising	(10 220)	(11 526)
Other non-personnel costs	(1 566)	(814)
Taxes and charges	(3 099)	(3 193)
Costs incurred for the benefit of Bank Guarantee Fund	(6 545)	(3 671)
Depreciation/amortization, including:	**(20 804)**	**(21 939)**
Depreciation of fixed assets	(11 937)	(11 986)
Amortization of goodwill	(8 867)	(9 953)
Total	**(218 622)**	**(212 738)**

12. Employee benefits

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Remuneration, including:	(84 054)	(78 216)
- employee pension plan	(1 434)	(1 583)
- provisions for unused paid vacation	(337)	(38)
- provision for retirement and disability benefits	(107)	(143)
Payroll charges	(13 416)	(12 283)
Appropriations to the Company's Social Benefit Fund	(1 928)	(1 873)
Total	**(99 398)**	**(92 372)**

13. Net impairment losses

	Period from 1 January 2014 to 31 December 2014						Period from 1 January 2013 to 31 December 2013					
	Exposures evaluated on the portfolio level			Exposures evaluated individually		Total	Exposures evaluated on the portfolio level			Exposures evaluated individually		Total
	On-balance sheet	Off-balance sheet	Incl. IBNR	On-balance sheet	Off-balance sheet		On-balance sheet	Off-balance sheet	Incl. IBNR	On-balance sheet	Off-balance sheet	
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Loans and advances granted to clients, including:	(57 388)	492	(8 411)	(4 119)	2	(61 013)	(32 214)	(441)	(382)	(9 743)	0	(42 398)
individuals	(48 403)	63	(7 471)	(399)	0	(48 739)	(28 844)	(357)	98	(2 921)	0	(32 122)
overdraft facilities	(628)	63	189	0	0	(565)	(1 144)	(148)	(368)	0	0	(1 292)
- consumer loans	(42 882)	(17)	(8 017)	(399)	0	(43 298)	(16 648)	(7)	(2 040)	(2 921)	0	(19 576)
- real estate loans	(3 963)	20	477	0	0	(3 943)	(10 241)	11	2 597	0	0	(10 230)
- credit card debt	(930)	(3)	(120)	0	0	(933)	(811)	(213)	(91)	0	0	(1 024)
institutional clients	(8 944)	429	(944)	(3 720)	2	(12 233)	(3 758)	(87)	(871)	(6 822)	0	(10 667)
local authorities	(41)	0	4	0	0	(41)	388	3	391	0	0	391
Total	(57 388)	492	(8 411)	(4 119)	2	(61 013)	(32 214)	(441)	(382)	(9 743)	0	(42 398)

Net impairment losses include a change in provisions for balance sheet and off-balance sheet exposures and provisions applied due to charging off and selling receivables.

14. Other operating revenue

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Income from repayment of cost of collection of receivables, court and bailiff enforcement	2 698	2 267
Derecognition of impairment losses	277	116
Revenue from sales of on-balance sheet receivables	1 858	626
Derecognition of provisions for future liabilities	643	1 949
Sundry income of the Group:	1 896	2 433
- revenue from sales of goods and services	754	1 541
- other sundry income	1 142	892
Other operating revenue	1 364	1 348
Total	**8 736**	**8 739**

15. Other operating expenses

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Costs of impairment losses on receivables	(2 523)	(1 642)
Costs of writing off receivables	(1 812)	(1 301)
Costs of provisions for future liabilities	(576)	(823)
Profit/loss on sale or liquidation of property, plant and equipment	(595)	(201)
Costs of donations made	(371)	(372)
Other	(419)	(324)
Total	**(6 296)**	**(4 663)**

The Group recognized impairment allowances for receivables from various debtors, write-downs of inventories and impairment allowances for accrued revenue (overdue receivables due to commissions), taking into account probability of payment and number days past due. Impairment losses for overdue receivables due to commissions for keeping current accounts are disclosed in "Net fee and commission income" in the consolidated income statement.

16. Income tax

Consolidated income statement	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Current income tax	(15 513)	(9 022)
Deferred income tax	4 007	1 789
Tax expense charged to the consolidated income statement	**(11 506)**	**(7 233)**

Consolidated statement of other comprehensive income	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Deferred income tax related to items recognized in comprehensive income	(991)	1 344
Tax charge disclosed in the consolidated statement of other comprehensive income	**(991)**	**1 344**

Reconciliation of the effective tax rate	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Gross financial profit/loss before tax	**55 145**	**43 260**
Tax at the statutory tax rate applicable in Poland (19%)	(10 478)	(8 219)
Items increasing/decreasing the effective tax rate not included in the deferred tax	**(1 028)**	**986**
- premiums to National Fund for Rehabilitation of the Disabled (PFRON)	(286)	(290)
- costs of writing off overdue receivables and bad debts	(537)	(224)
- impairment allowances for future liabilities and provisions for various debtors	(404)	85
- decrease/increase in impairment allowances with probable lack of realization	0	556
- costs related to the share issue scheme	(103)	0
- prudence payments to the Bank Guarantee Fund	(264)	0
- technology tax credit	483	914
- costs of establishing IBNR up to the amount of appropriation to the general risk fund	225	0
- other expenses	(142)	(55)
Total current tax expense charged to consolidated income statement	**(11 506)**	**(7 233)**

	Statement of financial position		Statement of comprehensive income	
	Balance as at 31 December 2014	Balance as at 31 December 2013	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
Deferred tax assets	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**
Interest due on deposits	5 802	3 740	2 062	(496)
Cost of debt securities (premium, EIR)	1 028	839	189	273
Interest due on debt securities	621	1 289	(668)	(541)
Negative measurement of derivatives	78	165	(87)	(67)
Provisions for due costs by type	8 623	1 953	6 670	(692)
Commissions and interest accounted for using the effective interest method	14 497	15 389	(892)	4 103
Impairment losses on receivables from financial entities	31	43	(12)	19
Impairment losses on receivables from non-financial entities	13 878	11 316	2 562	2 318
Allowances for current account commissions	2 162	1 631	531	851
Difference between balance-sheet amortization and tax amortization	550	1 097	(547)	196
Contribution to non-bank company	0	7	(7)	7
Other	12	82	(70)	(39)
Net deferred income tax assets or asset items charged to profit or loss	**47 282**	**37 551**	**9 731**	**5 932**
Net deferred income tax assets or asset items charged to equity	**457**	**529**	**(72)**	**512**
Total deferred tax assets	**47 739**	**38 080**	**9 659**	**6 444**
Deferred tax liability	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**
Interest receivable accrued on loans	(5 080)	(3 968)	(1 112)	(616)
Discounting and interest on securities	(686)	(1 866)	1 180	299
Positive measurement of derivatives	(314)	(421)	107	(47)
Difference between balance-sheet amortization and tax amortization	(4 255)	(3 552)	(703)	(256)
Commissions with tax withholding paid to credit agents	(15 251)	(10 053)	(5 198)	(3 529)
Social Benefits Fund	0	(2)	2	6
Provision for deferred income tax charged to profit or loss	**(25 586)**	**(19 862)**	**(5 724)**	**(4 143)**
Deferred tax liability charged to equity	**(1 133)**	**(214)**	**(919)**	**832**
Total deferred tax liability	**(26 719)**	**(20 076)**	**(6 643)**	**(3 311)**
Presentation in the statement of financial position and income statement:	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**
Deferred tax asset recognized in the income statement	47 282	37 551	9 731	5 932
Deferred tax liability charged to the income statement	(25 586)	(19 862)	(5 724)	(4 143)
Deferred tax liability / asset – effect on the income statement	**21 696**	**17 689**	**4 007**	**1 789**
Presentation in the statement of financial position and other comprehensive income:	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**
Deferred tax asset recognized in other comprehensive income	457	529	(72)	512
Deferred tax liability charged to other comprehensive income	(1 133)	(214)	(919)	832
Deferred tax liability / asset - effect on other comprehensive income	**(676)**	**315**	**(991)**	**1 344**

Current income tax liabilities/receivables

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Current income tax receivables	120	98
Current income tax liabilities	2 979	3 138

17. Distribution of profit

In 2014 and in the comparable period the Bank did not pay out any dividend.

In accordance with the Resolution No. 5 of the Ordinary General Shareholders' Meeting of Bank Pocztowy S.A. dated 14 April 2014, the Bank's profit for 2013 of PLN 36,870,353.25 was allocated to:

- covering a prior year loss related to adjustment of the opening balance for 2013 in the amount of PLN 11,841,415.02;
- reserve capital of PLN 23,028,938.23;
- general risk reserve of PLN 2,000,000.00.

The Management Board of the Bank recommended allocating the entire net profit for 2014 to reserve capital and general risk fund of the Bank to the General Shareholders' Meeting.

18. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Presented below is information about the profit and shares which served as the basis for calculation of the basic earnings per share:

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
Net profit (loss) attributable to equity holders of the parent (PLN'000)	43 639	36 027
Weighted average number of ordinary shares (items)	9 729 040	9 729 040
Earnings per share (PLN)	**4.49**	**3.70**

Diluted earnings per share

In the current period and in prior years, the Bank did not issue any convertible bonds or share options. The share capital is composed of ordinary shares only (no shares with preference for profit distribution). Consequently, diluted earnings per share are equal to basic earnings per share. Between the end of the financial period and the date of preparation of these consolidated financial statements, there were no other transactions involving ordinary shares or potential ordinary shares.

19. Cash in hand and deposits with the Central Bank

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Cash in hand	4 074	3 576
Cash in the current account at Central Bank	753 569	323 666
Total	**757 643**	**327 242**

The Group uses cash in the current account at Central Bank to cover the required reserve and carry out current cash settlements during a given day. The Group, however, has to provide an average monthly level of cash in the account in order to satisfy the minimum reserves requirements declared.

The Group maintains a mandatory provision of 3.5% of deposits received in the current account with the National Bank of Poland. The arithmetic average of the mandatory provision maintained with the National Bank of Poland amounted to:

- PLN 206,213 thousand in the period from 31 December 2013 to 30 January 2014;
- PLN 216,147 thousand in the period from 31 December 2014 to 1 February 2015.

A considerable portion of cash in the current account in the Central Bank include short-term transfers from Poczta Polska S.A., in particular:

- retirement and disability allowances, transfered by Poczta Polska S.A. to pensioners and individuals entitled to disability allowances in cash;
- mass payments, such as public utility bills paid through the sales network of Poczta Polska S.A.;
- own funds of Poczta Polska S.A., mainly overnight deposits.

The funds's volatility is high and reaches several hundred million zlotys during one month, which results in considerable changes in the balance sheet total of the Group at individual balance sheet dates.

Transfer payments from Poczta Polska S.A. are not recognized in the calculation of the stable deposit base used to finance the core activities of the Group.

20. Receivables from other banks

20.1. Net receivables from other banks

Structure by type	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Current accounts	4 841	4 458
Other receivables, including:	153 428	31 871
- debt securities of banks	151 818	30 182
Gross receivables from banks	**158 269**	**36 329**
Impairment losses on receivables	0	0
Net receivables from banks	**158 269**	**36 329**

By maturity	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Up to 1 month	6 451	6 147
From 1 to 3 months	0	0
From 3 months to 1 year	10 004	181
From 1 year to 5 years	64 639	10 000
Over 5 years	77 175	20 001
Total	**158 269**	**36 329**

20.2. Receivables from other banks by method of estimating the impairment allowance and indications of impairment

All receivables from other banks are analyzed individually. As at 31 December 2014 and 31 December 2013 no impairment allowances were recognized for receivables from other banks.

20.3. Change in impairment allowances

As at 31 December 2014 and 31 December 2013 no impairment allowances were recognized for receivables from other banks.

21. Receivables and liabilities arising from purchased/sold securities (repo and sell-buy-back transactions)

Receivables and liabilities arising from purchased/sold securities (repo and sell-buy-back transactions; by counterparty)

	Balance as at 31 December 2014		Balance as at 31 December 2013	
	Receivables	Liabilities	Receivables	Liabilities
	PLN'000	PLN'000	PLN'000	PLN'000
- from banks	0	172 389	0	41 428
- from customers	0	5 312	0	8 182
Total	**0**	**177 701**	**0**	**49 610**

Receivables and liabilities arising from purchased/sold securities (repo and sell-buy-back transactions; by type)

	Balance as at 31 December 2014		Balance as at 31 December 2013	
	Receivables	Liabilities	Receivables	Liabilities
	PLN'000	PLN'000	PLN'000	PLN'000
- Treasury bonds	0	177 701	0	49 610
Total	**0**	**177 701**	**0**	**49 610**

Receivables and liabilities arising from purchased/sold securities (repo and sell-buy-back transactions; by maturity)

	Balance as at 31 December 2014		Balance as at 31 December 2013	
	Receivables	Liabilities	Receivables	Liabilities
	PLN'000	PLN'000	PLN'000	PLN'000
Up to 1 month	0	173 381	0	49 610
From 1 to 3 months	0	4 320	0	0
Total	**0**	**177 701**	**0**	**49 610**

22. Financial assets and liabilities held for trading

Financial assets held for trading	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Derivative instruments	1 336	1 369
Total	**1 336**	**1 369**

Financial liabilities held for trading	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Derivative instruments	94	17
Total	**94**	**17**

Derivatives by type	Balance as at 31 December 2014		Balance as at 31 December 2013	
	Assets	Liabilities	Assets	Liabilities
	PLN'000	PLN'000	PLN'000	PLN'000
Currency swap	0	9	0	0
FRA	0	85	0	0
IRS	1 336	0	1 369	0
OIS	0	0	0	17
Total	**1 336**	**94**	**1 369**	**17**

The face value of instruments with the time to maturity as at 31 December 2014

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
FX derivatives:						
Currency swap	**1 763**	**0**	**0**	**0**	**0**	**1 763**
purchase	886	0	0	0	0	**886**
sale	877	0	0	0	0	**877**
Interest rate derivatives:						
FRA	**0**	**0**	**100 000**	**0**	**0**	**100 000**
purchase	0	0	100 000	0	0	**100 000**
IRS	**0**	**0**	**100 000**	**40 000**	**0**	**140 000**
purchase	0	0	50 000	20 000	0	**70 000**
sale	0	0	50 000	20 000	0	**70 000**
Total derivatives	**1 763**	**0**	**200 000**	**40 000**	**0**	**241 763**

The face value of instruments with the time to maturity as at 31 December 2013

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Interest rate derivatives:						
IRS	**0**	**0**	**100 000**	**100 000**	**0**	**200 000**
purchase	0	0	50 000	50 000	0	**100 000**
sale	0	0	50 000	50 000	0	**100 000**
OIS	**200 000**	**0**	**0**	**0**	**0**	**200 000**
purchase	100 000	0	0	0	0	**100 000**
sale	100 000	0	0	0	0	**100 000**
Total derivatives	**200 000**	**0**	**100 000**	**100 000**	**0**	**400 000**

23. Loans and advances to customers (net)

23.1. Loans and advances to customers (by type)

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
individuals	**4 423 563**	**4 143 207**
- overdraft facilities	35 836	37 515
- consumer loans	1 925 801	1 723 116
- real estate loans	2 444 023	2 367 726
- credit card debt	17 903	14 850
institutional clients	**598 760**	**680 683**
- overdraft facilities	34 627	42 111
- real estate loans	297 997	293 502
- operating loans	78 595	96 644
- investment loans	147 337	161 494
- mortgage loans	37 063	58 993
- other receivables	3 141	27 939
local authorities	**303 362**	**356 614**
- real estate loans	507	664
- operating loans	0	2 611
- investment loans	302 855	353 339
Gross loans and advances	**5 325 685**	**5 180 504**
Impairment losses on receivables	173 908	124 792
Net loans and advances	**5 151 777**	**5 055 712**

23.2. Loans and advances to customers (by maturity)

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Up to 1 month	88 663	92 682
From 1 to 3 months	91 010	96 644
From 3 months to 1 year	377 408	387 644
From 1 year to 5 years	1 354 549	1 363 562
Over 5 years	3 122 273	3 023 725
Past due	117 874	91 455
Total	**5 151 777**	**5 055 712**

23.3. Loans and advances to customers by method of estimating the impairment allowance

Balance as at 31 December 2014	Loans and advances to customers (gross)		Impairment allowance			Loans and advances to customers (net)		Total
	assessed invididually	assessed collectively	assessed invididually	assessed collectively		assessed invididually	assessed collectively	
				no indications of impairment	indication of impairment			
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals	6 231	4 417 332	3 320	19 357	103 944	2 911	4 294 031	4 296 942
- overdraft facilities	0	35 836	0	422	3 044	0	32 370	32 370
- consumer loans	6 231	1 919 570	3 320	16 384	67 014	2 911	1 836 172	1 839 083
- real estate loans	0	2 444 023	0	2 293	31 768	0	2 409 962	2 409 962
- credit card debt	0	17 903	0	258	2 118	0	15 527	15 527
institutional clients	47 005	551 755	27 089	4 358	15 775	19 916	531 622	551 538
local authorities	0	303 362	0	20	45	0	303 297	303 297
Total	53 236	5 272 449	30 409	23 735	119 764	22 827	5 128 950	5 151 777

Balance as at 31 December 2013	Loans and advancesto customers (gross)		Impairment allowance			Loans and advancesto customers (net)		Total
	assessed invididually	assessed collectively	assessed invididually	assessed collectively		assessed invididually	assessed collectively	
				no indications of impairment	indication of impairment			
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals	6 012	4 137 195	2 921	11 853	75 223	3 091	4 050 119	4 053 210
- overdraft facilities	0	37 515	0	547	2 291	0	34 677	34 677
- consumer loans	6 012	1 717 104	2 921	8 386	44 308	3 091	1 664 410	1 667 501
- real estate loans	0	2 367 726	0	2 751	27 347	0	2 337 628	2 337 628
- credit card debt	0	14 850	0	169	1 277	0	13 404	13 404
institutional clients	64 754	615 929	23 369	2 974	8 428	41 385	604 527	645 912
local authorities	0	356 614	0	24	0	0	356 590	356 590
Total	70 766	5 109 738	26 290	14 851	83 651	44 476	5 011 236	5 055 712

Individually significant exposures with indications of impairment, but with no actual impairment finally confirmed are included in collective calculation of IBNR.

23.4. Loans and advances to customers (by indication of impairment)

Balance as at 31 December 2014	Loans and advances to customers (gross)		Impairment allowance		Loans and advances to customers (net)		
	impaired	not impaired	impaired	not impaired	impaired	not impaired	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals	**247 265**	**4 176 298**	**107 264**	**19 357**	**140 001**	**4 156 941**	**4 296 942**
- overdraft facilities	5 457	30 379	3 044	422	2 413	29 957	**32 370**
- consumer loans	161 356	1 764 445	70 334	16 384	91 022	1 748 061	**1 839 083**
- real estate loans	76 414	2 367 609	31 768	2 293	44 646	2 365 316	**2 409 962**
- credit card debt	4 038	13 865	2 118	258	1 920	13 607	**15 527**
institutional clients	**78 026**	**520 734**	**42 864**	**4 358**	**35 162**	**516 376**	**551 538**
local authorities	**100**	**303 262**	**45**	**20**	**55**	**303 242**	**303 297**
Total	**325 391**	**5 000 294**	**150 173**	**23 735**	**175 218**	**4 976 559**	**5 151 777**

Balance as at 31 December 2013	Loans and advances to customers (gross)		Impairment allowance		Loans and advances to customers (net)		
	impaired	not impaired	impaired	not impaired	impaired	not impaired	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals	**193 465**	**3 949 742**	**78 144**	**11 853**	**115 321**	**3 937 889**	**4 053 210**
- overdraft facilities	4 103	33 412	2 291	547	1 812	32 865	**34 677**
- consumer loans	114 152	1 608 964	47 229	8 386	66 923	1 600 578	**1 667 501**
- real estate loans	72 761	2 294 965	27 347	2 751	45 414	2 292 214	**2 337 628**
- credit card debt	2 449	12 401	1 277	169	1 172	12 232	**13 404**
institutional clients	**83 776**	**596 907**	**31 797**	**2 974**	**51 979**	**593 933**	**645 912**
local authorities	**0**	**356 614**	**0**	**24**	**0**	**356 590**	**356 590**
Total	**277 241**	**4 903 263**	**109 941**	**14 851**	**167 300**	**4 888 412**	**5 055 712**

Bank Pocztowy

23.5. Change in impairment allowances

Changes in impairment allowances on loans and advances to customers in individual reporting periods have been presented below:

	Balance of impairment allowances as at 1 January 2014	Recognized in the period	Derecognized in the period	Applied*	Balance of impairment allowances as at 31 December 2014
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals	**89 997**	**60 138**	**(11 336)**	**(12 178)**	**126 621**
- overdraft facilities	2 838	1 808	(1 180)	0	3 466
- consumer loans	55 615	49 709	(6 428)	(12 178)	86 718
- real estate loans	30 098	7 426	(3 463)	0	34 061
- credit card debt	1 446	1 195	(265)	0	2 376
institutional clients	**34 771**	**17 413**	**(4 749)**	**(213)**	**47 222**
local authorities	**24**	**45**	**(4)**	**0**	**65**
Total	**124 792**	**77 596**	**(16 089)**	**(12 391)**	**173 908**

* Amounts charged to provisions and sale of receivables

	Balance of impairment allowances as at 1 January 2013	Recognized in the period	Derecognized in the period	Applied*	Balance of impairment allowances as at 31 December 2013
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals	**70 131**	**44 900**	**(13 135)**	**(11 899)**	**89 997**
- overdraft facilities	1 693	1 823	(678)	0	2 838
- consumer loans	46 880	28 713	(9 146)	(10 832)	55 615
- real estate loans	20 921	13 426	(3 184)	(1 065)	30 098
- credit card debt	637	938	(127)	(2)	1 446
institutional clients	**24 563**	**13 966**	**(3 386)**	**(372)**	**34 771**
local authorities	**412**	**4**	**(392)**	**0**	**24**
Total	**95 106**	**58 870**	**(16 913)**	**(12 271)**	**124 792**

* Amounts charged to provisions and sale of receivables

24. Investments in financial assets

Balance as at 31 December 2014	Available for sale	Held to maturity	Total
	PLN'000	PLN'000	PLN'000
Quoted	**620 592**	**393 688**	**1 014 280**
Treasury bonds, including	611 726	393 688	**1 005 414**
- covering Bank Guarantee Fund	0	37 383	**37 383**
Bank bonds and certificates of deposit	8 866	0	**8 866**
Unquoted	**479 955**	**25 031**	**504 986**
Shares	8	0	**8**
Debt instruments issued by the National Bank of Poland	479 947	0	**479 947**
Bank bonds and certificates of deposit	0	25 031	**25 031**
Total investments in financial assets	**1 100 547**	**418 719**	**1 519 266**

Balance as at 31 December 2013	Available for sale	Held to maturity	Total
	PLN'000	PLN'000	PLN'000
Quoted	**615 185**	**372 080**	**987 265**
Treasury bonds, including:	585 445	372 080	**957 525**
- covering Bank Guarantee Fund	0	37 484	**37 484**
Bank bonds and certificates of deposit	29 740	0	**29 740**
Unquoted	**839 833**	**14 938**	**854 771**
Shares	8	0	**8**
Debt instruments issued by the National Bank of Poland	839 825	0	**839 825**
Bank bonds and certificates of deposit	0	14 938	**14 938**
Total investments in financial assets	**1 455 018**	**387 018**	**1 842 036**

Investment assets available for sale – by maturity

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Up to 1 month	479 947	839 825
From 1 to 3 months	0	0
From 3 months to 1 year	91 491	212 630
From 1 year to 5 years	520 235	327 620
Over 5 years	8 866	74 935
With unspecified maturity	8	8
Total	**1 100 547**	**1 455 018**

Investment financial assets held to maturity – by maturity

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Up to 1 month	4 996	4 996
From 1 to 3 months	9 957	9 942
From 3 months to 1 year	214 905	54 153
From 1 year to 5 years	178 233	317 927
Over 5 years	10 628	0
Total	**418 719**	**387 018**

Reclassificaton of securities

In 2010 and in 2014, following the intended use change, the Group reclassified securities from available for sale to held to maturity, in accordance with classification criteria described in IAS 39.

The face value, the carrying amount and the fair value of reclassified securities as at 31 December 2014 and 31 December 2013 have been presented in detail in the table below.

Item	Balance as at 31 December 2014			Balance as at 31 December 2013		
	Nominal value subject to reclassification	Carrying amount	Fair value	Nominal value subject to reclassification	Carrying amount	Fair value
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
treasury bonds	382 271	393 688	406 348	359 271	372 080	384 652
Total	**382 271**	**393 688**	**406 348**	**359 271**	**372 080**	**384 652**

Figures which would have been recognized in the income statement and other comprehensive income if the reclassification had not been carried out

Item	Period from 1 January 2014 to 31 December 2014		Period from 1 January 2013 to 31 December 2013	
	Income statement	Other comprehensive income	Income statement	Other comprehensive income
	PLN'000	PLN'000	PLN'000	PLN'000
Treasury bonds	12 501	2 160	12 707	6 563
Total	**12 501**	**2 160**	**12 707**	**6 563**

Figures recognized in the income statement and other comprehensive income following the reclassification

Item	Period from 1 January 2014 to 31 December 2014		Period from 1 January 2013 to 31 December 2013	
	Income statement	Other comprehensive income	Income statement	Other comprehensive income
	PLN'000	PLN'000	PLN'000	PLN'000
Treasury bonds	12 294	(2 248)	13 100	(394)
Total	**12 294**	**(2 248)**	**13 100**	**(394)**

25. Property, plant and equipment

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Buildings and structures	12 521	13 057
Land and other	499	499
Leasehold improvements	6 674	6 353
Plant and equipment	16 079	14 422
Fixed assets under construction	7 385	3 510
Vehicles	0	59
Fittings	4 763	6 460
Fixed assets under finance lease	0	306
Total	**47 921**	**44 666**

As at 31 December 2014, the Group was a party to agreements resulting in contractual liabilities due to acquisition of property, plant and equipment of PLN 3 695 thousand.

Change in property, plant and equipment in the period from 1 January 2014 to 31 December 2014

	Buildings and structures	Land and other	Leasehold improvements	Machines and equipment	Fixed assets under construction	Vehicles	Fittings	Lease	Total fixed assets
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Gross value of fixed assets at the beginning of the reporting period	**19 469**	**499**	**23 331**	**44 062**	**3 510**	**230**	**27 566**	**2 188**	**120 855**
Increases	**44**	**0**	**2 873**	**7 340**	**9 491**	**7**	**1 323**	**0**	**21 078**
Direct purchases	44	0	1 018	3 924	9 491	2	1 008	0	15 487
Other increases	0	0	1 855	3 416	0	5	315	0	5 591
Decreases	**0**	**0**	**(9 396)**	**(1 978)**	**(5 616)**	**(13)**	**(1 360)**	**(2 188)**	**(20 551)**
Sales, liquidation	0	0	(9 396)	(1 978)	(25)	(13)	(1 360)	(2 188)	(14 960)
Other decreases	0	0	0	0	(5 591)	0	0	0	(5 591)
Gross value of fixed assets at the end of the reporting period	**19 513**	**499**	**16 808**	**49 424**	**7 385**	**224**	**27 529**	**0**	**121 382**
Accumulated depreciation at the beginning of the reporting period	**6 412**	**0**	**16 978**	**29 640**	**0**	**171**	**21 106**	**1 882**	**76 189**
Increases	**580**	**0**	**2 372**	**5 654**	**0**	**60**	**2 982**	**306**	**11 954**
Depreciation	580	0	2 362	5 647	0	60	2 982	306	11 937
Other increases	0	0	10	7	0	0	0	0	17
Decreases	**0**	**0**	**(9 216)**	**(1 949)**	**0**	**(7)**	**(1 322)**	**(2 188)**	**(14 682)**
Sales, liquidation	0	0	(9 216)	(1 944)	0	(7)	(1 302)	(2 188)	(14 657)
Other decreases	0	0	0	(5)	0	0	(20)	0	(25)
Accumulated depreciation at the end of the reporting period	**6 992**	**0**	**10 134**	**33 345**	**0**	**224**	**22 766**	**0**	**73 461**
Net value of fixed assets at the beginning of the reporting period	**13 057**	**499**	**6 353**	**14 422**	**3 510**	**59**	**6 460**	**306**	**44 666**
Net value of fixed assets at the end of the reporting period	**12 521**	**499**	**6 674**	**16 079**	**7 385**	**0**	**4 763**	**0**	**47 921**

Change in property, plant and equipment in the period from 1 January 2013 to 31 December 2013

	Buildings and structures	Land and other	Leasehold improvements	Machines and equipment	Fixed assets under construction	Vehicles	Fittings	Lease	Total fixed assets
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Gross value of fixed assets at the beginning of the reporting period	**19 046**	**499**	**22 201**	**38 345**	**3 104**	**210**	**27 144**	**2 188**	**112 737**
Increases	**423**	**0**	**2 292**	**7 787**	**6 201**	**44**	**2 296**	**0**	**19 043**
Direct purchases	238	0	323	5 418	6 201	14	505	0	12 699
Other increases	185	0	1 969	2 369	0	30	1 791	0	6 344
Decreases	**0**	**0**	**(1 162)**	**(2 070)**	**(5 795)**	**(24)**	**(1 874)**	**0**	**(10 925)**
Sales, liquidation	0	0	(1 162)	(2 070)	(32)	(24)	(1 293)	0	(4 581)
Other decreases	0	0	0	0	(5 763)	0	(581)	0	(6 344)
Gross value of fixed assets at the end of the reporting period	**19 469**	**499**	**23 331**	**44 062**	**3 510**	**230**	**27 566**	**2 188**	**120 855**
Accumulated depreciation at the beginning of the reporting period	**5 848**	**0**	**15 392**	**26 365**	**0**	**113**	**19 507**	**1 299**	**68 524**
Increases	**564**	**0**	**2 655**	**5 304**	**0**	**59**	**3 313**	**583**	**12 478**
Depreciation	564	0	2 653	4 817	0	59	3 310	583	11 986
Other increases	0	0	2	487	0	0	3	0	492
Decreases	**0**	**0**	**(1 069)**	**(2 029)**	**0**	**(1)**	**(1 714)**	**0**	**(4 813)**
Sales, liquidation	0	0	(1 069)	(2 029)	0	(1)	(1 229)	0	(4 328)
Other decreases	0	0	0	0	0	0	(485)	0	(485)
Accumulated depreciation at the end of the reporting period	**6 412**	**0**	**16 978**	**29 640**	**0**	**171**	**21 106**	**1 882**	**76 189**
Net value of fixed assets at the beginning of the reporting period	**13 198**	**499**	**6 809**	**11 980**	**3 104**	**97**	**7 637**	**889**	**44 213**
Net value of fixed assets at the end of the reporting period	**13 057**	**499**	**6 353**	**14 422**	**3 510**	**59**	**6 460**	**306**	**44 666**

26. Intangible assets

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
R&D expenses	6 537	4 012
Copyrights, licenses, concessions and software	22 279	23 840
Payments to intangible assets	3 585	2 363
Total intangible assets	**32 401**	**30 215**

As at 31 December 2014, the Group was a party to agreements resulting in contractual liabilities due to acquisition of intangible assets of PLN 2 598 thousand.

Change in intangible assets in the period from 1 January 2014 to 31 December 2014

	R&D expenses	Copyrights, licenses, concessions and software	Payments to intangible assets	Total intangible assets
	PLN'000	PLN'000	PLN'000	PLN'000
Gross value of intangible assets at the beginning of the reporting period	**4 482**	**79 945**	**2 363**	**86 790**
Increases	**3 762**	**6 235**	**6 984**	**16 981**
Reclassification from expenditures	2 355	3 211	0	**5 566**
Direct purchases	1 407	3 024	6 984	**11 415**
Decreases	**(187)**	**(2 989)**	**(5 762)**	**(8 938)**
Sales, liquidation	(187)	(2 989)	(196)	**(3 372)**
Expenditure settlement	0	0	(5 566)	**(5 566)**
Gross value of intangible assets at the end of the reporting period	**8 057**	**83 191**	**3 585**	**94 833**
Accumulated amortization at the beginning of the reporting period	**470**	**56 105**	**0**	**56 575**
Increases	**1 071**	**7 796**	**0**	**8 867**
Amortization	1 071	7 796	0	**8 867**
Decreases	**(21)**	**(2 989)**	**0**	**(3 010)**
Sales, liquidation	(21)	(2 989)	0	**(3 010)**
Accumulated amortization at the end of the reporting period	**1 520**	**60 912**	**0**	**62 432**
Net value of intangible assets at the beginning of the reporting period	**4 012**	**23 840**	**2 363**	**30 215**
Net value of intangible assets at the beginning of the reporting period	**6 537**	**22 279**	**3 585**	**32 401**

Change in intangible assets in the period from 1 January 2013 to 31 December 2013

	R&D expenses	Copyrights, licenses, concessions and software	Payments to intangible assets	Total intangible assets
	PLN'000	PLN'000	PLN'000	PLN'000
Gross value of intangible assets at the beginning of the reporting period	**2 137**	**67 404**	**4 557**	**74 098**
Increases	**2 345**	**12 678**	**7 554**	**22 577**
Reclassification from expenditures	2 345	7 403	0	**9 748**
Direct purchases	0	5 275	7 554	**12 829**
Decreases	**0**	**(137)**	**(9 748)**	**(9 885)**
Sales, liquidation	0	(137)	0	**(137)**
Expenditure settlement	0	0	(9 748)	**(9 748)**
Gross value of intangible assets at the end of the reporting period	**4 482**	**79 945**	**2 363**	**86 790**
Accumulated amortization at the beginning of the reporting period	**4**	**46 755**	**0**	**46 759**
Increases	**466**	**9 487**	**0**	**9 953**
Amortization	466	9 487	0	**9 953**
Decreases	**0**	**(137)**	**0**	**(137)**
Sales, liquidation	0	(137)	0	**(137)**
Accumulated amortization at the end of the reporting period	**470**	**56 105**	**0**	**56 575**
Net value of intangible assets at the beginning of the reporting period	**2 133**	**20 649**	**4 557**	**27 339**
Net value of intangible assets at the end of the reporting period	**4 012**	**23 840**	**2 363**	**30 215**

27. Other assets

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Accrued revenue	17 669	17 187
Various debtors and other assets	15 432	14 010
Accrued expenses	2 914	3 484
Payment card settlements	6 854	1 547
Inventory related to the Bank's sundry operations	1 284	690
Other assets	254	366
Total other gross assets	**44 407**	**37 284**
Impairment losses on other assets	(15 133)	(10 210)
Total other net assets	**29 274**	**27 074**

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Impairment losses on other assets at the beginning of the reporting period	**10 210**	**5 161**
Impairment loss recognized/revalued	5 779	5 182
Impairment loss applied	(4)	(17)
Impairment loss derecognized	(852)	(116)
Impairment losses on other assets at the end of the reporting period	**15 133**	**10 210**

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Up to 1 month	26 329	22 190
From 1 to 3 months	180	193
From 3 months to 1 year	2 695	4 613
Short-term total	**29 204**	**26 996**
From 1 year to 5 years	4	5
Over 5 years	0	0
Long-term total	**4**	**5**
Unspecified maturity	66	73
Total other net assets	**29 274**	**27 074**

28. Liabilities to the Central Bank

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Current loro accounts	11	11
Total liabilities to the Central Bank	**11**	**11**

29. Liabilities to other banks

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Current accounts	4 020	3 719
Term deposits	0	38 043
Total liabilities to other banks	**4 020**	**41 762**
including:		
Short-term (up to 1 year)	4 020	41 762
Long-term (over 1 year)	0	0

As at 31 December 2013, term deposits included mainly O/N and short-term (maturing within 3 months) deposits.

30. Liabilities to clients

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Institutional clients:		
Current accounts	593 056	584 135
Term deposits	1 173 795	1 386 033
Other liabilities, including:	17 021	4 494
- due to cash collateral	13 427	1 977
Total - institutional clients	**1 783 872**	**1 974 662**
Individual clients:		
Current accounts	2 265 200	2 209 188
Term deposits	2 323 793	1 899 036
Other liabilities, including:	61 333	48 947
- due to cash collateral	4	4
Total - individual clients	**4 650 326**	**4 157 171**
Government agencies and local authorities		
Current accounts	50 312	84 987
Term deposits	7 506	13 751
Other liabilities, including:	7	7
- due to cash collateral	7	7
Total - government agencies and local authorities	**57 825**	**98 745**
Total	**6 492 023**	**6 230 578**
including:		
Short-term (up to 1 year)	3 206 320	3 037 883
Long-term (over 1 year)	377 128	314 385
With unspecified maturity	2 908 575	2 878 310

31. Liabilities arising from issue of debt securities

Classification	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Financial instruments measured at amortized cost	358 256	431 597
Total	**358 256**	**431 597**

By maturity	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Up to 1 month	0	34 204
From 1 to 3 months	232	0
From 3 months to 1 year	826	249 543
From 1 year to 5 years	357 198	147 850
Total	**358 256**	**431 597**

Balance as at 31 December 2014 Item	Bond series number	Par value	Interest	Maturity	Balance of liabilities
	PLN'000				PLN'000
Bonds					
Quoted	B2	147 850	WIBOR 6M + 1.40pp	13 December 2016	147 845
Unquoted	B4	170 000	WIBOR 6M + 1.45pp	17 December 2018	169 847
Unquoted	B3	40 000	4%	20 August 2018	40 564
Total		**357 850**			**358 256**

In the first quarter of 2014 the Bank offered B2 series bonds to be traded on the Over-The-Counter market of the Warsaw Stock Exchange (*Catalyst*). In the third quarter of 2014 the Bank issued long-term straight B3 series bonds with the face value of PLN 40 000 thousand. In the fourth quarter of 2014 the Bank issued B4 series bonds with a four-year term to maturity and the face value of PLN 170 000 thousand. All bonds issued are unsecured bonds. The Bank fulfilled all its obligations arising from the bond issues.

Balance as at 31 December 2013 Item	Bond series number	Par value	Interest	Maturity	Balance of liabilities
	PLN'000				PLN'000
Bonds					
Quoted	B	200 000	WIBOR 6M + 1.70pp	10 July 2014	204 127
Unquoted	D2	30 000	zero-coupon bonds	8 January 2014	29 982
Unquoted	D3	50 000	zero-coupon bonds	2 June 2014	49 325
Unquoted	B2	147 850	WIBOR 6M + 1.40pp	13 December 2016	148 163
Total		**427 850**			**431 597**

In the year ended 31 December 2013 the Bank fulfilled all its obligations arising from the bond issues. All bonds issued are unsecured bonds.

32. Subordinated liabilities

Classification	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Financial instruments measured at amortized cost, including:		
- loans	43 106	43 036
- bonds	98 984	98 991
Total	**142 090**	**142 027**

On 8 January 2014, the Bank entered into a subordinated loan agreement with Poczta Polska S.A. in the amount of PLN 43 000 thousand. The loan was granted for a term of seven years. At the same time, the parties concluded an arrangement concerning early repayment of the subordinated loan granted by Poczta Polska S.A. under the agreement of 8 July 2011.

On 21 March 2014 the Polish Financial Supervision Authority (KNF) approved classification of cash from a subordinated loan granted by Poczta Polska S.A. under the agreement of 8 January 2014 to Tier 2 capital of the Bank. Moreover, the Polish Financial Supervision Authority approved early repayment of the subordinated loan granted by Poczta Polska S.A. under the agreement of 8 July 2011 classified to Tier 2 capital of the Bank. Following the approval, funds from the subordinated loan granted by Poczta Polska S.A. under the agreement of 8 July 2011 were repaid by the Bank on 26 March 2014.

Balance as at 31 December 2014 Item	Par value	Interest	Maturity	Balance of subordinated liabilities
	PLN'000			PLN'000
Loans				
Poczta Polska	43 000	WIBOR6M+3.25pp	15 January 2021	43 106
Bonds				
Quoted	47 340	WIBOR6M+3.75pp (by 8 July 2016) WIBOR6M+3.75pp + 1.5pp (between 9 July 2016 and 8 July 2021)	8 July 2021	48 714
Quoted	50 000	WIBOR6M+3.50pp	5 October 2022	50 270
Total	**140 340**			**142 090**

Subordinated bonds are traded on the Over-The-Counter market of the Warsaw Stock Exchange (*Catalyst*).

Balance as at 31 December 2013 Item	Par value	Interest	Maturity	Balance of subordinated liabilities
	PLN'000			PLN'000
Loans				
Poczta Polska	43 000	WIBOR6M+3pp	8 July 2016	43 036
Bonds				
Quoted	47 340	WIBOR6M+3.75pp (by 8 July 2016) WIBOR6M+3.75pp + 1.5pp (between 9 July 2016 and 8 July 2021)	8 July 2021	48 707
Quoted	50 000	WIBOR6M+3.50pp	5 October 2022	50 284
Total	**140 340**			**142 027**

Subordinated bonds are traded on the Over-The-Counter market of the Warsaw Stock Exchange (*Catalyst*).

33. Provisions

	Provisions for disputes	Provision for retirement and disability benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Balance as at 1 January 2014	**1 371**	**757**	**1 125**	**166**	**3 419**
Recognized provisions	576	107	2 225	224	**3 132**
Revised provisions	0	(153)	0	0	**(153)**
Applied provisions	(44)	(43)	0	(94)	**(181)**
Derecognized provisions	(643)	0	(2 719)	0	**(3 362)**
Other	0	0	0	0	**0**
Balance as at 31 December 2014	**1 260**	**668**	**631**	**296**	**2 855**
including:					
Short-term (up to 1 year)	1 225	15	631	296	**2 167**
Long-term (over 1 year)	35	653	0	0	**688**
Balance as at 31 December 2014	**1 260**	**668**	**631**	**296**	**2 855**

	Provisions for disputes	Provision for retirement and disability benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Balance as at 1 January 2013	**2 470**	**675**	**684**	**166**	**3 995**
Recognized provisions	823	143	4 304	0	**5 270**
Revised provisions	84	(34)	0	0	**50**
Applied provisions	(57)	(27)	0	0	**(84)**
Derecognized provisions	(1 949)	0	(3 863)	0	**(5 812)**
Balance as at 31 December 2013	**1 371**	**757**	**1 125**	**166**	**3 419**
including:					
Short-term (up to 1 year)	1 371	51	1 125	166	**2 713**
Long-term (over 1 year)	0	706	0	0	**706**
Balance as at 31 December 2013	**1 371**	**757**	**1 125**	**166**	**3 419**

(Figures in PLN'000)

Description of the major disputes entered into by the Group

In 2001, the President of the Office of Competition and Consumer Protection ("OCCP President") initiated anti-monopoly proceedings against card associations (Visa, Europay) and banks (issuers of Visa and Europay/Eurocard/Mastercard cards) concerning anti-competitive practices in the Polish payment card market, which consisted, allegedly, in common determination of the interchange fee for transactions made with Visa and Europay/Eurocard/Mastercard cards.

On 29 December 2006, OCCP President decided that practices consisting in the banks' common determination of the interchange fee reduced competition in the market of acquiring services relating to payment of consumers' liabilities to merchants, arising from payments for goods and services purchased by consumers with the use of payment cards in Poland, and ordered their discontinuation, imposing, at the same time, financial penalties on the banks, including the Bank, equal to PLN 2 895 thousand (participating only in the VISA system) (OCCP President's decision No. DAR 15/2006). The Bank recognized a provision for the full amount of the aforesaid penalty.

An appeal against the abovementioned decision was filed with the Court of Competition and Consumer Protection ("CCCP") by the Bank and other parties to the proceedings. As a result, in its judgment of 12 November 2008 CCCP reversed the decision concluding that no anti-competitive practices had been followed by the banks in the aforesaid case. Following an appeal filed by OCCP President, the Court of Appeals reversed the judgment in whole on 22 April 2010 and remanded the case for further proceedings at CCCP.

In its judgment of 21 November 2013, CCCP:

- reversed the decision appealed against in respect of the amount of financial penalties imposed on the banks specified in the judgment;
- dismissed the appeals in the remaining scope;
- cancelled the costs of the proceedings.

On 3 February 2014, the Bank appealed against the judgment with respect to dismissal of the appeal. On 12 February 2014, OCCP President filed an appeal against the judgment with respect to the penalties and costs of the proceedings. Considering the appeals filed by OCCP President and some banks, the judgment is not final.

Having considered the assessment of the probability that the lower penalty imposed on the Bank would not be changed and having analyzed the position of OCCP President and CCCP on determination of the amount of the penalties levied, along with the scenarios concerning further course of the proceedings, the Bank estimated the provision for the potential financial penalty assuming that the judgment of the Court of Appeals would be favorable for OCCP President, in the amount of PLN 1 043 thousand as at 31 December 2014.

Key items affecting the provision for retirement and disability benefits

As the Bank estimates its provisions for retirement and disability benefits using actuarial methods, it is exposed to the actuarial risk, including mainly the interest rate, longevity and compensation risk.

Risk	Effect on measurement
Interest rate risk	A drop in interest rates on financial instruments which are not exposed to credit risk results in higher present value of provisions for retirement and disability benefits.
Longevity risk	The present value of liabilities under the defined benefit plan is determined by reference to best estimates of program participants' mortality both during and following the term of service. Any increase in the program participants' life expectancy results in a rise in the value of provisions for retirement and disability benefits.
Compensation risk	The present value of liabilities under the defined benefit plan is determined by reference to program participants' future compensation level. Therefore, any increase in the program participants' compensation results in a rise in the value of provisions for retirement and disability benefits.

Key parameters used for determining the provision for retirement and disability benefits have been presented below.

	Balance as at 31 December 2014	Balance as at 31 December 2013
Discount rates	3.5%	4.0%
Anticipated pay growth rate	2% - 3,5%	2% - 5%
Mortality tables used for calculation purposes*	100% PTTZ 2013	100% PTTZ 2012
Inflation rate	2.5%	2.5%
Turnover (p.a.)	6,0% - 10,0%	5,0% - 9,0%

* it is assumed that mortality of those employed is reduced by 10%

The table below presents amounts recognized in profit or loss and in other comprehensive income with respect to the defined benefit plan.

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Provisions for retirement and disability benefits at the beginning of the reporting period	**757**	**675**
Amounts recognized in the consolidated profit or loss, including:		
- current service cost	65	111
- past service cost	11	0
- net interest expense	31	32
Expense recognized in the consolidated profit or loss	**107**	**143**
Amounts recognized in consolidated other comprehensive income, including:		
- actuarial gains and losses due to changes in demographic assumptions	(60)	(145)
- actuarial gains and losses due to changes in financial assumptions	(93)	111
Expense items recognized in consolidated other comprehensive income	**(153)**	**(34)**
Benefits paid	(43)	(27)
Provisions for retirement and disability benefits at the end of the reporting period	**668**	**757**

34. Other liabilities

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Trade liabilities	38 912	38 656
Settlements with Poczta Polska due to cash processing services	23 338	29 171
Prepaid expenses	15 792	7 312
Provisions for bonuses and remuneration	7 009	847
Interbank settlements	4 410	3 892
Settlements under public law	4 364	5 022
Deferred income	2 136	1 542
Provisions for paid vacation	2 038	1 822
Payment card settlements	1 367	251
Finance lease liabilities	0	306
Total	**99 366**	**88 821**
including:		
Short-term (up to 1 year)	99 079	88 580
Long-term (over 1 year)	287	241

35. Equity

35.1. Share capital

	Balance as at 31 December 2014		
	number of shares	year of registration	value PLN'000
Registered shares, A series/face value of PLN 10 each	291 300	2011	2 913
Registered shares, B series/face value of PLN 10 each	9 437 740	2011	94 377
Total	**9 729 040**		**97 290**

	Balance as at 31 December 2013		
	number of shares	year of registration	value PLN'000
Registered shares, A series/face value of PLN 10 each	291 300	2011	2 913
Registered shares, B series/face value of PLN 10 each	9 437 740	2011	94 377
Total	**9 729 040**		**97 290**

As at 31 December 2014, the Bank's share capital was composed of 9 729 040 shares with the face value of PLN 10 each. The Bank's shares were fully paid up. General description of shares:

– 291 300 registered A series shares (held by Poczta Polska S.A.) carrying no voting preference, but carrying preferential rights to asset distribution in case of liquidation of the Bank in proportion of 5 to 1 versus ordinary shares. The preference is lost if a given A series share is sold to an entity not being a founder-shareholder;
– 7 005 470 registered B series shares (held by Poczta Polska S.A.) and 2 432 270 registered B series shares (held by Powszechna Kasa Oszczędności Bank Polski S.A.) carrying no preference.

As at 31 December 2014 there were no changes in the share capital of the Bank as compared to 31 December 2013.

Each ordinary share gives its holder a title to dividend and one vote at General Shareholders' Meeting.

35.2. Supplementary capital

Supplementary capital is created from the share premium and mandatory 8% appropriation of the net profit. Individual supplementary capital items have been presented in the statement of changes in equity.

35.3. Revaluation reserve

Revaluation reserve is created upon recognition of the effects of measurement of financial instruments classified as available for sale on a net basis as well as net actuarial gains and losses arising from measurement of post-employment defined benefit plans (provisions for retirement and disability benefits).

The items in question are reclassified from the revaluation reserve (except for net actuarial gains/losses arising from measurement of post-employment defined benefit plans) when the assets measured are derecognized in whole or in part or when impairment is recognized (at which time the effects of measurement are recognized in profit or loss).

	Balance as at 31 December 2014	Balance as at 31 December 2013	Change 2014/2013
	PLN'000	PLN'000	PLN'000
Measurement of financial assets available for sale	5 005	(2 309)	7 314
Measurement of financial assets available for sale reclassified to assets held to maturity	(1 882)	366	(2 248)
Actuarial gains and losses on measurement of liabilities under the defined benefit plan	430	277	153
Deferred tax on measurement of financial assets recognized in the revaluation reserve	(593)	369	(962)
Deferred tax on measurement of actuarial gains/losses recognized in the revaluation reserve	(83)	(54)	(29)
Total revaluation reserve	**2 877**	**(1 351)**	**4 228**

35.4. Other reserve capitals

The reserve capital is established from profit distribution in accordance with the Banking Law and the Bank's charter. It encompasses a general risk reserve and reserve capital. The general risk reserve and the reserve capital have been presented below.

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
General risk reserve	108 345	106 345
Reserve capital	158 893	135 862
Other reserve capitals	**267 238**	**242 207**

36. Fair value of financial instruments

Fair value is a price the Group would receive for sale of an asset or pay for transfer of a liability in a transaction carried out on arms-length terms as at the measurement date.

As at 31 December 2014 and 31 December 2013, the Group classified financial assets and liabilities measured at fair value in the statement of financial position as well as financial assets and liabilities which are not measured at fair value on an ongoing basis in the following manner:

- Level I: financial assets/liabilities measured based on quoted (unadjusted) prices on active markets for identical assets or liabilities, available to the Group at the measurement date.
- Level II: financial assets/liabilities measured based on input data other than quoted prices, as specified for Level I, observable for an asset or liability either indirectly or directly.
- Level III: financial assets/liabilities measured based on non-observable input data concerning an asset or liability.

A. Financial instruments which are not measured at fair value in the consolidated statement of financial position

The main classes of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position are items measured at amortized cost or historical cost, such as:

- originated loans, advances and other receivables not held for trading;
- financial assets held to maturity;
- financial liabilities not held for trading.

Cash in hand, deposits with the Central Bank and receivables from other banks

This item includes the Group's cash in current accounts with other banks and debt securities of banks classified as loans and receivables.

The fair value of current receivables and term deposits of the Group, maturing within one year, and other receivables is consistent with the carrying amount.

Fair value of debt securities issued by banks, classified as loans and receivables, is measured by discounting future payments from these instruments using spread determined at the transaction date. Debt securities with embedded call option are measured with the assumption that the call option will be realized in the nearest possible term. Call option embedded in a security is measured at the end of the reporting period by way of determining the difference between security measurement assuming the realization of the call option in the nearest possible term and discounted cash flows from the security held to maturity.

Loans and advances granted to clients

"Loans and advances granted to clients" include loans and advances as well as debt securities classified as loans and receivables in accordance with IAS 39.

The fair value of loans and advances is determined by calculating the carrying amount - fair value adjustment for each loan. The adjustment was calculated as the difference between the total future cash flows related to such loan, discounted using the market interest rate (in line with the yield curve based on WIBOR, FRA and IRS quoted) increased by the market product markup and the value of the loan not matured as at the end of the reporting period. The said future cash flows included those related to the principal (as specified in the agreement) and those related to interest, calculated on in line with the market yield curve based on WIBOR, FRA and IRS quoted at the end of the reporting period, increased by individual contract markup for each loan. The market product markup has been determined as the average effective principal-weighted markup for a similar group of products extended in the three-month period immediately preceding the end of the reporting period. The carrying amount adjustment to the fair value has been determined for facilities, whose future cash flows are predictable, while for other exposures, such as overdrafts, impaired exposures with impairment loss recognized, the adjustment was assumed at zero.

Fair value of corporate debt securities is measured by discounting future payments from these instruments using spread determined at the transaction date. Securities with embedded call option are measured with the assumption that the call option will be realized in the nearest possible term. Call option embedded in a security is measured at the end of the reporting period by way of determining the difference between bond measurement assuming the realization of the call option in the nearest possible term and discounted cash flows from the bond held to maturity.

Investment financial assets held to maturity

The fair value of treasury bonds is determined directly based on prices quoted on the active market.

Fair value of other debt securities classified as financial assets held to maturity, is measured by discounting future payments from these instruments using spread determined at the transaction date. Debt securities with embedded call option are measured with the assumption that the call option will be realized in the nearest possible term. Call option embedded in a security is measured at the end of the reporting period by way of determining the difference between the debt security measurement assuming the realization of the call option in the nearest possible term and discounted cash flows from the debt security held to maturity.

The tables below present the differences between the carrying amount (carrying amount of interest-bearing financial assets and liabilities has been presented with interest accrued) and the estimated fair value of financial assets and liabilities of the Group as well as fair value hierarchy classification of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position of the Group.

Other financial assets/liabilities not carried at fair value in the consolidated statement of financial position

In case of financial assets and liabilities recognized at the amount due less impairment loss, the Group assumes that the fair value equals the carrying amount due to the nature of such groups of assets, e.g. short term to maturity, unique nature of the instrument. This concerns, in particular, cash and monetary assets, current receivables, current liabilities and liabilities under finance leases. The fair value of term deposits of banks, maturing within one year, and other financial liabilities is equal to the carrying amount.

Liabilities to clients

The fair value of "Liabilities to clients" was determined by calculating the carrying amount - fair value adjustment for each term deposit. The adjustment was calculated as the difference between the total future cash flows related to the principal and interest accrued from the end of the reporting period to the maturity date, discounted using the market interest rate (in line with the yield curve based on WIBOR, FRA and IRS) increased by the applicable product markup and the carrying amount of the deposit balance. The applicable product markup has been determined as the average markup for a similar group of products extended in the three-month period immediately preceding the end of the reporting period as the average difference between the effective interest rate of the deposit and the base rate as of the end of the reporting period. The carrying amount adjustment to the fair value has been determined for deposits, whose future cash flows are predictable, while for other exposures, such as term deposits maturing within up to 3 months of the balance sheet date, the adjustment was assumed at zero.

Subordinated liabilities and liabilities arising from issue of debt securities

Fair value of the subordinated loan and liabilities arising from issued debt securities is measured by discounting future payments from these instruments using spread determined at the transaction date.

The tables below present the differences between the carrying amount (carrying amount of interest-bearing financial assets and liabilities has been presented with interest accrued) and the estimated fair value of financial assets and liabilities of the Group as well as fair value hierarchy classification of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position of the Group.

	Balance as at 31 December 2014		Balance as at 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	PLN'000	PLN'000	PLN'000	PLN'000
Cash in hand and deposits with the Central Bank	757 643	757 643	327 242	327 242
Receivables from other banks	158 269	164 343	36 329	36 327
Loans and advances granted to clients, including:	5 151 777	5 022 830	5 055 712	4 988 692
individuals	4 296 942	4 207 427	4 053 210	3 998 915
- overdraft facilities	32 370	32 370	34 677	34 677
- consumer loans	1 839 083	1 695 226	1 667 501	1 522 188
- real estate loans	2 409 962	2 464 304	2 337 628	2 428 646
- credit card debt	15 527	15 527	13 404	13 404
institutional clients	551 538	512 111	645 912	634 252
local authorities	303 297	303 292	356 590	355 525
Investment financial assets held to maturity	418 719	431 636	387 018	399 701
Other assets	29 274	29 274	27 074	27 074
Liabilities to the Central Bank	11	11	11	11
Liabilities to other banks	4 020	4 020	41 762	41 762
Liabilities to clients	6 492 023	6 506 449	6 230 578	6 250 590
Liabilities arising from issue of debt securities	358 256	359 920	431 597	427 256
Subordinated liabilities	142 090	140 563	142 027	140 974
Other liabilities	99 366	99 366	88 821	88 821

Balance as at 31 December 2014	Level I	Level II	Level III	Total
	PLN'000	PLN'000	PLN'000	PLN'000
Cash in hand and deposits with the Central Bank	0	757 643	0	757 643
Receivables from other banks	0	6 452	157 891	164 343
Loans and advances granted to clients, including:	0	75 139	4 947 691	5 022 830
individuals	0	47 897	4 159 530	4 207 427
- overdraft facilities	0	32 370	0	32 370
- consumer loans	0	0	1 695 226	1 695 226
- real estate loans	0	0	2 464 304	2 464 304
- credit card debt	0	15 527	0	15 527
institutional clients	0	27 242	484 869	512 111
local authorities	0	0	303 292	303 292
Investment assets held to maturity	406 556	0	25 080	431 636
Other assets	0	0	29 274	29 274
Liabilities to the Central Bank	0	11	0	11
Liabilities to other banks	0	4 020	0	4 020
Liabilities to clients	0	2 907 744	3 598 705	6 506 449
Liabilities arising from issue of debt securities	0	0	359 920	359 920
Subordinated liabilities	0	0	140 563	140 563
Other liabilities	0	0	99 366	99 366

Balance as at 31 December 2013	Level I	Level II	Level III	Total
	PLN'000	PLN'000	PLN'000	PLN'000
Cash in hand and deposits with the Central Bank	0	327 242	0	327 242
Receivables from other banks	0	6 147	30 180	36 327
Loans and advances granted to clients, including:	0	85 029	4 903 663	4 988 692
individuals	0	48 081	3 950 834	3 998 915
- overdraft facilities	0	34 677	0	34 677
- consumer loans	0	0	1 522 188	1 522 188
- real estate loans	0	0	2 428 646	2 428 646
- credit card debt	0	13 404	0	13 404
institutional clients	0	36 948	597 304	634 252
local authorities	0	0	355 525	355 525
Investment assets held to maturity	384 760	0	14 941	399 701
Other assets	0	0	27 074	27 074
Liabilities to the Central Bank	0	11	0	11
Liabilities to other banks	0	41 762	0	41 762
Liabilities to clients	0	2 876 961	3 373 629	6 250 590
Liabilities arising from issue of debt securities	0	0	427 256	427 256
Subordinated liabilities	0	0	140 974	140 974
Other liabilities	0	0	88 821	88 821

B. Financial instruments which are measured at fair value in the consolidated statement of financial position

The table below presents classification of financial assets and liabilities which are measured at fair value based on the fair value hierarchy in the consolidated statement of financial position.

Balance as at 31 December 2014	Level I	Level II	Level III	Total
	PLN'000	PLN'000	PLN'000	PLN'000
Financial assets, including:	**611 726**	**481 283**	**8 866**	**1 101 875**
Financial assets held for trading	0	1 336	0	**1 336**
Investments in financial assets	611 726	479 947	8 866	**1 100 539**
- available for sale	611 726	479 947	8 866	**1 100 539**
Financial liabilities, including:	0	94	0	**94**
Financial liabilities held for trading	0	94	0	**94**

Balance as at 31 December 2013	Level I	Level II	Level III	Total
	PLN'000	PLN'000	PLN'000	PLN'000
Financial assets, including:	**585 445**	**841 194**	**29 740**	**1 456 379**
Financial assets held for trading	0	1 369	0	**1 369**
Investments in financial assets	585 445	839 825	29 740	**1 455 010**
- available for sale	585 445	839 825	29 740	**1 455 010**
Financial liabilities, including:	0	17	0	**17**
Financial liabilities held for trading	0	17	0	**17**

No reclassifications between Level I and Level II took place in the analyzed period. No items were reclassified from or to Level III, either.

As the scale of derivative transactions, which are entered into with banks which have been assigned investment rating, is inconsiderable, the Group's measurement of derivatives does not take into account the counterparty credit risk or own credit risk, which the Group believes exerts a marginal effect on measurement of its derivatives.

Reconciliation of the change in the balance of Level III financial instruments in 2014, whose fair value is determined using measurement methods based on non-observable input data, has been presented below.

Level III	Investment assets available for sale
	PLN'000
Balance as at 1 January 2014	**29 740**
Gains or losses	**1 595**
recognized in profit or loss:	**1 771**
- interest income	3 072
- profit/loss on other financial instruments	(1 301)
recognized in other comprehensive income:	**(176)**
- gain/loss on measurement of financial assets available for sale	(176)
Purchases	103 427
Sales	(118 500)
Interest paid	(7 396)
Transfers	0
Balance as at 31 December 2014	**8 866**

Level III	Investment assets available for sale
	PLN'000
Balance as at 1 January 2013	9 068
Gains or losses	1 024
recognized in profit or loss:	1 056
- interest income	1 404
- profit/loss on other financial instruments	(348)
recognized in other comprehensive income:	(32)
- gain/loss on measurement of financial assets available for sale	(32)
Purchases	21 461
Sales	0
Interest paid	(1 813)
Transfers	0
Balance as at 31 December 2013	29 740

Given a rise in the credit spread by 1 b.p., the potential effect on a change in the fair value of Level III financial instruments would be PLN -2 thousand, whereas given a drop in the credit spread by 1 b.p., the potential effect would be PLN 2 thousand.

Inputs used for fair value measurement of assets and liabilities have been presented in the table below.

No.	Financial assets/liabilities	Fair value as at		Fair value hierarchy	Measurement methods and basic input data	Significant non-observable information	Fair value dependency on non-observable information
		31 December 2014	31 December 2013				
		PLN'000	PLN'000				
1	Treasury bills and bonds	Assets: 611 726	Assets: 585 445	Level 1	BID price for the long position and ASK price for the short position in the security, quoted on an active interbank market	n/a	n/a
2	Money bills	Assets: 479 947	Assets: 839 825	Level 2	Discounted cash flows from the security with discount rate equal to purchased yield	n/a	n/a
3	Interest Rate Swaps	Assets: 1 336 Liabilities: 0	Assets: 1 369 Liabilities: 17	Level 2	Discounted future cash flows. Future cash flows and discounting are calculated on the basis of yield curves built on quoted WIBOR/LIBOR, FRA and IRS rates.	n/a	n/a
4	FRA	Liabilities: 85	n/a	Level 2	Discounted future cash flows. Future cash flows and discounting are calculated on the basis of yield curves built on quoted WIBOR/LIBOR, FRA and IRS rates.	n/a	n/a
5	FX Swap	Liabilities: 9	n/a	Level 2	Discounted future cash flows. Yield curves used for discounting purposes are built on quoted depo rates and swap points for currency pairs.	n/a	n/a
6	Debt securities (commercial bonds)	Assets: 8 866	Assets: 29 740	Level 3	Discounted future cash flows. Future payments from the security are discounted based on yield curves increased by credit spread due to counterparty risk.	Spreads applied as at 31 December 2014: BPS bonds: 463b.p. Spreads applied as at 31 December 2013: BPS bonds: 391b.p. IPS1014 bonds: 14b.p.	The higher the spread, the lower the fair value.

"Investment financial assets available for sale" in the consolidated statement of financial position present the Group's equity instruments with the carrying amount of PLN 8 thousand, which are measured at cost as their fair value may not be measured reliably. Such instruments are not subject to the fair value hierarchy analysis performed for investment financial assets available for sale.

37. Operating leases

Group as a lessee

The Group is a party to lease agreements based on which it uses third-party fixed assets and derives economic benefits therefrom for a contractual period of time in return for a payment.

Operating lease agreements with the Group as the lessee:

- lease of space - the standard term of these agreements is 5 years with a rollover option;
- lease of cars – the term of these agreements is 48 months (the leased assets may be bought at a price similar to the market price).

Agreements concluded for an indefinite term have been taken into account based on the notice period.

No significant contingent lease payments or non-cancellable sublease agreements occurred.

As at the end of the reporting period, the Bank was a party to two significant operating lease agreements concerning space:

– master agreement for the lease of real estate of Poczta Polska S.A. by Bank Pocztowy S.A. entered into on 2 September 2011. The agreement covers the lease of space for the Bank's sales points. The agreement has been concluded for five years. If neither party terminates the agreement twelve months before the end of the agreement period at the latest, after the end of the original five-year period the master agreement shall become an agreement with an indefinite term which can be terminated with an 18-month notice period. Lease agreements for individual sales points of the Bank are concluded in line with the terms of the master agreement.

– lease agreement concerning office space for the Bank's headoffice in Warsaw. The agreement was concluded on 21 May 2013 for a fixed term (until 14 June 2019) and it may be extended for another five years.

Future minimum lease payments under non-cancellable operating lease as at 31 December 2014 and 31 December 2013:

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Up to 1 year	9 606	11 701
1–5 years	15 145	22 350
Over 5 years	0	0
Total	**24 751**	**34 051**

The Group as a lessor

The Group is a party to lease agreements based on which it offers own fixed assets and economic benefits to be dereived therefrom for an agreed period of time in return for a payment.

Operating lease agreements, where the Group acts a lessor, concern maninly the lease of space and office space for the headoffice in Bydgoszcz. The agreements have been concluded for an indefinite term.

Agreements concluded for an indefinite term have been taken into account based on the notice period.

No significant contingent lease payments or non-cancellable sublease agreements occurred.

Future minimum lease payments under non-cancellable operating lease as at 31 December 2014 and 31 December 2013:

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Up to 1 year	254	823
1–5 years	150	238
Over 5 years	0	0
Total	**404**	**1 061**

38. Finance leases

Group as a lessee

As at 31 December 2014 and 31 December 2013 the Group did not report any significant finance lease agreements.

39. Additional information to the statement of cash flows

Cash and cash equivalents

The balance of cash and cash equivalents recognized in the consolidated statement of cash flows includes the following cash and cash equivalent items maturing within three months.

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Cash in hand and deposits with the Central Bank	757 643	327 242
Current accounts	4 841	4 458
Total	**762 484**	**331 700**

Differences between balance sheet changes in certain items and changes in the balance of the same items in the consolidated statement of cash flows for the years ended 31 December 2014 and 31 December 2013:

Change in the balance of receivables from other banks	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Balance-sheet change	(121 940)	(6 480)
Change in nostro accounts balance - cash	382	(2 143)
Difference between interest accrued and received in cash in the reporting period	456	443
Change presented in the consolidated statement of cash flows	**(121 102)**	**(8 180)**

Change in loans and advances to customers	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Balance sheet change in loans and advances to customers	(96 065)	(456 167)
Difference between interest accrued and received in cash in the reporting period	31 203	33 981
Change presented in the consolidated statement of cash flows	**(64 862)**	**(422 186)**

Change in investment financial assets available for sale	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Balance sheet change in investments financial assets available for sale in operating activities	354 471	(393 793)
Measurement of financial assets available for sale, recognized in the revaluation reserve, and effect of reclassification of financial assets between their classes	5 066	(7 110)
Difference between interest accrued and received in cash in the reporting period	7 768	16 005
Change presented in the consolidated statement of cash flows	**367 305**	**(384 898)**

Change in investment financial assets held to maturity	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Balance sheet change in investment financial assets held to maturity	(31 701)	5 744
Difference between interest accrued and received in cash in the reporting period	(526)	284
Change presented in the consolidated statement of cash flows	**(32 227)**	**6 028**

Change in liabilities to other banks	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Balance sheet change in liabilities to other banks	(37 742)	38 938
Difference between interest accrued and paid in cash in the reporting period	43	(44)
Change presented in the consolidated statement of cash flows	**(37 699)**	**38 894**

Change in liabilities to customers	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Balance sheet change in liabilities to customers	261 445	(87 371)
Difference between interest accrued and paid in cash in the reporting period	(970)	(978)
Change presented in the consolidated statement of cash flows	**260 475**	**(88 349)**

Change in other liabilities	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Balance sheet change in other liabilities	10 545	11 428
Payment of finance lease liabilities	306	583
Change presented in the consolidated statement of cash flows	**10 851**	**12 011**

Other items	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Liquidation of fixed assets and intangible assets	649	219
Measurement of actuarial gains	156	33
Other items	**805**	**252**

The Group decided to apply the following classification to operating, investing and financing activities in the consolidated statement of cash flows.
Operating activities constitute the core business of the Group which cannot be classified to investing or financing activities.
Investing activities involve acquisition and sale of property, plant and equipment and intangible assets as well as receiving cash flows from dividend due to interests in subsidiaries.
Financing activities involve entering into long-term financial contracts (for more than 12 months) constituting the source of the financing for the Group's activities, i.e. issuing debt securities, taking up loans, redeeming debt securities issued and repaying loans with accrued interest.

40. Off-balance seet contingent liabilities

Off-balance seet contingent liabilities granted

Off-balance seet contingent liabilities granted by type	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Financial	**125 543**	**261 402**
- unused credit lines	111 666	204 504
- originated deposit lines	0	40 000
- credit card limits	13 877	16 898
Guarantees	**49 959**	**47 166**
- guarantees granted	49 959	47 166
Total	**175 502**	**308 568**

Off-balance seet contingent liabilities granted by maturity	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Financial	**125 543**	**261 402**
Undetermined maturity	79 479	131 249
Up to 1 month	3 017	9 548
From 1 to 3 months	7 964	23 828
From 3 months to 1 year	21 034	72 709
From 1 year to 5 years	14 049	24 068
Guarantees	**49 959**	**47 166**
Up to 1 month	1 087	34
From 1 to 3 months	98	22
From 3 months to 1 year	3 564	155
From 1 year to 5 years	45 210	46 955
Total	**175 502**	**308 568**

The majority of contingent liabilities are credit lines. Guarantees granted and unconditional financial commitments are treated as an exposure bearing credit risk. Assessment of risk resulting from guarantees and unconditional financial commitments is a part of the credit risk assessment process related to other credit products held by the clients, i.e. all credit products, including guarantees, granted to specified obligors are reviewed both for indications of impairment and assessment of impairment losses.

Gross off-balance sheet exposures (credit lines, guarantees) to five key clients in a given year as at 31 December 2014 and 31 December 2013 have been presented below:

Obligor's name	Balance as at 31 December 2014
	PLN'000
Client 1	48 800
Client 2	12 923
Client 3	10 832
Client 4	4 643
Client 5	1 611
Total selected clients	**78 809**

Obligor's name	Balance as at 31 December 2013
	PLN'000
Client 1	73 753
Client 2	20 736
Client 3	8 551
Client 4	6 559
Client 5	4 100
Total selected clients	**113 699**

As at 31 December 2014 the provision for guarantees and financial committments amounted to PLN 631 thousand (as at 31 December 2013 it was PLN 1 125 thousand). Provisions for off-balance sheet liabilities are recognized in balance sheet accounts and presented in Note 32 as "Provisions for off-balance sheet liabilities".

Off-balance seet contingent liabilities received

Off-balance seet contingent liabilities received by type	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Guarantees	**1 235**	**2 970**
- guarantees received	1 235	2 970
Total	**1 235**	**2 970**

Off-balance seet contingent liabilities received by maturity	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Guarantees	**1 235**	**2 970**
Up to 1 month	60	0
From 1 to 3 months	234	1 458
From 3 months to 1 year	941	1 032
From 1 year to 5 years	0	357
Over 5 years	0	123
Total	**1 235**	**2 970**

The key item of contingent liabilities received is a guarantee received securing the Group's liabilities under office space lease agreement.

Litigation

In 2014, the Group was not a party to any proceedings held before a court or public administration body, whose value would be equal to or higher than 10% percent of the Group's equity. Any risks related to court or public administration proceedings have been adequately secured with relevant provisions.

The total value of claims related to litigation in which the Group is a defendant, where the probability of losing is estimated by the Group below 50%, was PLN 323 thousand as at 31 December 2014 and PLN 473 thousand as at 31 December 2013, respectively.

Bank Pocztowy

41. Assets used as collateral for liabilities

Balance as at 31 December 2014			
Bank's assets used as collateral	**Liability type**	**Nominal value of collateralized liabilities**	**Carrying amount of assets used as collateral**
		PLN'000	**PLN'000**
Treasury bonds	Capital Guarantee Fund *	34 415	37 383
	Pledge under cooperation agreement on payment and credit card services **	variable	9 088
	Liabilities arising from sold securities (repo and sell-buy-back transactions) ***	177 674	177 701
Total		**212 089**	**224 172**

* the collateral covers the value of the Bank Guarantee Fund in accordane with Article 25 of the Act on Bank Guarantee Fund of 14 December 1994 (consolidated text: Journal of Laws of 2009, No. 84, item 711 as amended).

Treasury bonds with term to maturity compliant with the requirements of the applicable Act constitute the carrying amount of assets collateralizing the Bank Guarantee Fund. Every year, on 1 July, the Fund is increased or decreased, as appropriate, depending on the amount underlying the calculation of the mandatory reserve amount.

** all liabilities under the cooperation agreement on VISA/MasterCard payment card personalization, handling and clearing transactions made in Poland and abroad with the use of VISA/MasterCard cards of Bank Pocztowy S.A. and credit card account management are collateralized.

*** the collateral covers the obligation to buy back securirities under sell-buy-back transactions

Balance as at 31 December 2013			
Bank's assets used as collateral	**Liability type**	**Nominal value of collateralized liabilities**	**Carrying amount of assets used as collateral**
		PLN'000	**PLN'000**
Treasury bonds	Capital Guarantee Fund *	35 206	37 484
	Pledge under cooperation agreement on payment and credit card services **	variable	9 089
	Liabilities arising from sold securities (repo and sell-buy-back transactions) ***	49 599	49 610
Total		**84 805**	**96 183**

* The collateral covers the value of the Bank Guarantee Fund in accordance with Article 25 of the Act on Bank Guarantee Fund of 14 December 1994 (consolidated text: Journal of Laws of 2009, No. 84, item 711 as amended).

Treasury bonds with term to maturity compliant with the requirements of the applicable Act constitute the carrying amount of assets collateralizing the Bank Guarantee Fund. Every year, on 1 July, the Fund is increased or decreased, as appropriate, depending on the amount underlying the calculation of the mandatory reserve amount.

** all liabilities under the cooperation agreement on VISA/MasterCard payment card personalization, handling and clearing transactions made in Poland and abroad with the use of VISA/MasterCard cards of Bank Pocztowy S.A. and credit card account management are collateralized.

*** the collateral covers the obligation to buy back securirities under *sell-buy-back* transactions

42. Sale of packages of receivables

In 2014 the Bank sold two packages of credit exposures and one individual credit exposure from the institutional segment. The former sale of credit exposure package was concluded on 10 June 2014, while the latter – on 21 November 2014. The indiviual credit exposure from the institutional segment was sold under an agreement of 15 October 2014. The exposure packages were acquired by securitization funds offering the highest prices in the tender proceedings. The institutional loan was acquired by a business entity (the nominal value of the principal amount was PLN 2.81 million, while the sales price for the exposure reached PLN 2.84 million).

Under the first sales transaction a package sold included 1 719 credit exposures whose substantial portion had been impaired, with the nominal value of the principal of PLN 7.35 million and interest with other expenses amounting to PLN 5.39 million. Following the sale, the Bank reduced its impairment loss on these assets by PLN 6.76 million. The gross profit on the sale of the first package of exposures was PLN 1.23 million and was recognized under Other operating revenue in the income statement.

Under the second sales transaction a package sold included 785 credit exposures with the nominal value of the principal of PLN 6.22 million and interest with other expenses amounting to PLN 2.70 million. Like in the first transaction, a considerable portion of the exposures had been impaired. Following the sale, the Bank reduced its impairment loss on these assets by PLN 5.64 million. The gross profit on the sale of the second package of exposures was PLN 619 thousand and was also recognized under Other operating revenue in the income statement.

Under both sales transactions in 2014 the Bank sold 2 504 credit exposures with the nominal value of the principal of PLN 13.57 million and interest with other expenses amounting to PLN 8.09 million. Following the two sales transactions in question the Bank reduced the impairment loss on these assets by PLN 12.40 million and generated the total gross profit on the sale of PLN 1.85 million.

43. Related parties

The Group's related parties are:

- Parent: Poczta Polska S.A.;
- entity exercising significant influence on the Bank: PKO Bank Polski S.A.;
- other entities from the Poczta Polska Capital Group;
- other subsidiaries of PKO Bank Polski S.A.;
- key management personnel: members of the Management and Supervisory Board, directors of the Bank;
- key management personnel of the Bank's Parent.

In accordance with IAS 24, the Group treats the subsidiaries of the State Treasury of the Republic of Poland as its related parties, since the State Treasury controls the Bank through its majority shareholder. For the purposes of consolidated financial statements, subsidiaries of the State Treasury are companies wholly-owned by the State Treasury, state-owned enterprises and entities with the State Treasury as the majority shareholder, whose list is published on the website of the Ministry of State Treasury, as well as local government entities.

In 2014, non-standard, significant related-party transactions whose nature and terms were not related to ongoing business operations were not concluded. All transactions were concluded on the arm's length basis.

Presented below is the nature of significant agreements with related parties:

- agreements concerning financial intermediation services provided on behalf of and for the Bank in respect of a wide array of products and services of the Bank, including, in particular, the Agency Agreement concluded with Poczta Polska S.A. on 2 September 2011;
- agreements related to financial intermediation services provided by the Bank on behalf of and for a related party – Poczta Polska S.A. (including a bank account agreement with additional products);
- a package of agreements regarding financial services peformed by the Bank, in particular with regard to *cash processing* (agreement with Poczta Polska S.A. on cash services for the Bank's own sales outlets);
- a lease agreement setting out the terms and conditions of leasing/sub-leasing space or premises to be used as the Bank's branches as part of the sales outlet infrastructure of Poczta Polska S.A.;
- an agreement on the lease of hardware, use of an operating system and databases.

Receivables, liabilities, revenue and expenses arising from related-party transactions have been presented below.

Balance as at 31 December 2014	Parent	Entity exercising significant influence on the Group and its	Key management personnel	Other entities in the Poczta Polska S.A. Capital Group
	PLN'000	PLN'000	PLN'000	PLN'000
Receivables	**57 611**	**12**	**11 304**	**294**
Nostro accounts	0	12	0	0
Originated loans	0	0	11 304	0
Other receivables	57 611	0	0	294
Liabilities	**764 578**	**0**	**2 808**	**68 838**
Deposits received*	646 738	0	2 808	60 441
Liabilities due to sold securities (repo and sell-buy-back transactions)	0	0	0	5 312
Other liabilities	117 840	0	0	3 085
Off-balance sheet transactions	**48 800**	**941**	**155**	**277**
Off-balance sheet contingent liabilities	48 800	941	155	277
- originated	48 800	0	155	277
- received	0	941	0	0

* including transfer payments, Social Security payments and standard payments

Period from 1 January 2014 to 31 December 2014	Parent	Entity exercising significant influence on the Group and its	Key management personnel	Other entities in the Poczta Polska S.A. Capital Group
	PLN'000	PLN'000	PLN'000	PLN'000
Revenue	**16 648**	**157**	**522**	**30 767**
- interest	0	0	504	4
- fees	16 607	157	16	30 589
- other revenue	41	0	2	174
Expenses	**(61 565)**	**(2 645)**	**(18 532)**	**(945)**
- interest	(9 570)	0	(78)	(737)
- fees	(35 463)	(1 102)	(32)	0
- non-personnel expenses	(16 532)	(1 543)	0	(208)
- personnel expenses	0	0	(18 422)	0

Balance as at 31 December 2013	Parent	Entity exercising significant influence on the Group and its	Key management personnel	Other entities in the Poczta Polska S.A. Capital Group
	PLN'000	PLN'000	PLN'000	PLN'000
Receivables	**43 251**	**41**	**12 970**	**364**
Nostro accounts	0	41	0	0
Originated loans	0	0	12 970	341
Other receivables	43 251	0	0	23
Liabilities	**1 008 516**	**16**	**2 806**	**58 556**
Deposits received*	900 085	16	2 806	49 929
Liabilities due to sold securities (repo and sell-buy-back transactions)	0	0	0	8 182
Other liabilities	108 431	0	0	445
Off-balance sheet transactions	**73 753**	**2 374**	**409**	**205**
Off-balance sheet contingent liabilities	73 753	2 374	409	205
- originated	73 753	0	409	205
- received	0	2 374	0	0

* including transfer payments, Social Security payments and standard payments

Period from 1 January 2013 to 31 December 2013	Parent	Entity exercising significant influence on the Group and its	Key management personnel	Other entities in the Poczta Polska S.A. Capital Group
	PLN'000	PLN'000	PLN'000	PLN'000
Revenue	**22 785**	**347**	**635**	**28 803**
- interest	0	0	603	48
- fees	22 360	347	31	28 721
- other revenue	425	0	1	34
Expenses	**(64 310)**	**(2 219)**	**(20 510)**	**(1 759)**
- interest	(17 138)	0	(115)	(968)
- fees	(28 700)	(609)	(50)	0
- non-personnel expenses	(18 472)	(1 610)	0	(770)
- personnel expenses	0	0	(20 345)	(21)

Receivables, liabilities, revenue and costs of transactions with State Treasury entities and local authorities excluding companies from the Poczta Polska Capital Group and PKO Bank Polski S.A. Capital Group.

	Balance as at 31 December 2014		Balance as at 31 December 2013	
	Companies with interest of the State Treasury	Government agencies and local authorities	Companies with interest of the State Treasury	Government agencies and local authorities
	PLN'000	PLN'000	PLN'000	PLN'000
Receivables	**131 775**	**303 395**	**40 885**	**356 680**
Receivables from other banks	131 775	0	20 179	0
Loans and advances granted to	0	303 395	0	356 673
Investments in financial assets	0	0	20 706	0
Other receivables	0	0	0	7
Liabilities	**22 132**	**57 826**	**36 649**	**98 747**
Deposits received	22 132	57 825	36 649	98 746
Other liabilities	0	1	0	1

	Period from 1 January 2014 to 31 December 2014		Period from 1 January 2013 to 31 December 2013	
	Companies with interest of the State Treasury	Government agencies and local authorities	Companies with interest of the State Treasury	Government agencies and local authorities
	PLN'000	PLN'000	PLN'000	PLN'000
Revenue	**2 753**	**11 243**	**1 620**	**15 736**
- interest	2 655	11 018	1 525	15 350
- fees	98	215	95	382
- other revenue	0	10	0	4
Expenses	**(591)**	**(2 030)**	**(786)**	**(3 890)**
- interest	(279)	(1 965)	(343)	(3 848)
- fees	0	(57)	(1)	(39)
- non-personnel expenses	(312)	0	(442)	0
- other expenses	0	(8)	0	(3)

Transactions with subsidiaries of the State Treasury other than those from the Poczta Polska S.A. Capital Group and PKO Bank Polski S.A. Capital Group are related to banking operations (funding, deposits).

Loans and advances provided to members of the Management and Supervisory Board of the Bank and the Bank's Parent

Transactions with the management are in line with the standard product offering.

Balance as at 31 December 2014	Members of the Management Board of the Bank	Supervisory Board of the Bank	Members of the Management Board of the Bank's Parent
	PLN'000	PLN'000	PLN'000
Receivables	**392**	**0**	**167**
Originated loans	392	0	167
Liabilities	**56**	**50**	**44**
Deposits received	56	50	44

Period from 1 January 2014 to 31 December 2014	Members of the Management Board of the Bank	Supervisory Board of the Bank	Members of the Management Board of the Bank's Parent
	PLN'000	PLN'000	PLN'000
Revenue	**14**	**0**	**9**
- interest	14	0	9
Expenses	**(3)**	**0**	**(7)**
- interest	(1)	0	0
- fees	(2)	0	(7)

Balance as at 31 December 2013	Members of the Management Board of the Bank	Supervisory Board of the Bank	Members of the Management Board of the Bank's Parent
	PLN'000	PLN'000	PLN'000
Receivables	**0**	**0**	**91**
Originated loans	0	0	91
Liabilities	**1**	**50**	**1**
Deposits received	1	50	1

Period from 1 January 2013 to 31 December 2013	Members of the Management Board of the Bank	Supervisory Board of the Bank	Members of the Management Board of the Bank's Parent
	PLN'000	PLN'000	PLN'000
Revenue	**0**	**0**	**10**
- interest	0	0	8
- fees	0	0	2
Expenses	**(2)**	**0**	**(9)**
- interest	(2)	0	(1)
- fees	0	0	(8)

Remuneration paid or due to the Management and Supervisory Boards of the Bank and its subsidiaries

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Management Board	**3 065**	**2 650**
Short-term employee benefits (payroll, bonuses and payroll charges)	2 818	2 556
Termination benefits	247	94
Supervisory Board	**2 193**	**2 138**
Short-term employee benefits (payroll, bonuses and payroll charges)	2 193	2 138
Total	**5 258**	**4 788**

Remuneration paid or due to other senior management of the Bank and its subsidiaries

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
Short-term employee benefits (payroll, bonuses and payroll charges)	13 047	15 487
Termination benefits	117	70
Total	**13 164**	**15 557**

44. Employment structure

The Group's employment structure in the year ended 31 December 2014 and 31 December 2013:

FTEs	Balance as at 31.12.2014	Balance as at 31.12.2013
Head Office of the Bank	669	727
Local offices and branches	178	244
Microbranches	554	490
Subsidiaries	232	239
Total Capital Group	**1 633**	**1 700**

45. Events after the end of the reporting period

Until the date hereof, no events that would have significant effects on the material and financial standing of the Group occurred.

46. The Group's risk management objectives and policy

The key objective of risk management in the Group is to ensure security of funds deposited by its clients as well as effective accomplishment of the Group's strategic objectives through decisions focused on maximization of income generated over a longer time horizon, with an acceptable level of accompanying risks.

Risk management in the Group is an integrated process based on supervisory requirements and internal regulations approved by the Supervisory and Management Board of the Bank. Internal regulations in force are reviewed on a periodic basis, taking into account the developments in the Group's external and internal environment. The Bank is the entity that integrates the risk management approach within the Group.

The Group has adopted a three-level system of organizing internal risk management regulations.

The general risk management framework has been determined in the following documents adopted by the Supervisory Board:

- General Risk Management Policy of Bank Pocztowy S.A.;
- General Capital Management Policy of Bank Pocztowy S.A.;
- Growth Strategy of Bank Pocztowy S.A. for 2014-2017;
- Financial Plan of Bank Pocztowy S.A. for 2014;
- Risk Management Strategy of Bank Pocztowy S.A. for 2014.

Individual risk management policies, approved by the Management Board, provide detailed guidance in this regard. They delegate duties to individual Departments and Offices and provide detailed guidance in this regard. Based thereon, detailed operating procedures with descriptions of individual activities (including controls) to be performed by the Departments, Teams and Positions, have been developed.

The risk management system includes:

- the Supervisory Board;
- the Management Board;
- risk management committees established by the Management Board pursuant to internal regulations in force;
- organizational units managing individual risk types;
- control units (including the internal audit and compliance unit);
- other organizational units;
- selected organizational units of the subsidiaries.

The Supervisory Board oversees the risk management system and individual risk management process control, approving its key objectives and guidelines.

The Management Board is in charge of overall risk management in the Bank and in the Capital Group as well as strategic decisions affecting the risk scale and structure. The Management Board approves risk management approach for each risk type, to include identification, measurement, monitoring and control, reporting, preventive measures, as well as review and verification of selected risk management processes.

Risk management committees in the Bank are established by the Management Board and participate in the risk management process. Their other roles include consulting and making recommendations for the Management Board with regard to risk management strategies, principles and procedures applicable to individual risk management stages as well as making decisions within the scope of authorization delegated by the Management Board. This concerns, in particular, determining limits and monitoring compliance therewith as well as taking credit decisions in accordance with the limit-related decision-making system adopted by the Bank.

Due to a broad scope and interrelations among different risk types, each type has its leading unit in charge of coordination of its management. These units are responsible for identification, measurement, monitoring and coordination of preventive measures regarding each risk type. Their other tasks include development of risk management procedures applicable to individual stages of the process.

The Bank has an internal audit unit in charge of independent and unbiased audit and assessment of adequacy and effectiveness of the internal control system, procedures and controls, as well as consulting the Bank management system to include effectiveness of its operational risk management. Additionally, to ensure compliance with the applicable regulations, laws and standards, the Bank has established a separate compliance unit in charge of compliance risk management.

The target risk structure at the level of the Bank and the Capital Group depends on the defined risk appetite. The risk appetite determines the readiness of the Bank and the Group to assume a specific risk within a determined time horizon and it is subject to acceptance by the Management Board. The risk appetite is a substantial element of the Bank's Strategy and Financial Plan approved by the Supervisory Board.

Identification and measurement of each risk type result in determining those which are material for the Group, classifying them from the permanent materiality assessment perspective (permanently and temporarily material risks) and for the purpose of capital coverage.

The following risk types are classified as permanently material for the Group:

- credit risk;
- operational risk;
- interest rate risk related to the banking book;
- liquidity risk.

Additionally, the Group identifies the following material risk types:

- strategic risk;
- compliance risk;
- business cycle risk;
- outsourcing risk;
- reputational risk
- Pillar 2 credit risk;
- residual risk;
- concentration risk;
- price risk related to debt instruments in the trading book.

In 2014 activities of the Bank and Group complied with regulatory requirements arising from Regulation of the European Parliament and of the Council (EU) no. 2014 of 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the Regulation (EU) no. 648/2012 and Directive of the European Parliament and of the Council no. 2013/36/EU of 26 June 2013 on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and amending Directive 2002/87/EC and cancelling Directives 2006/48/EC and 2006/49/EC.

46.1. Credit risk

Credit risk is the risk assumed by the Group under credit transactions and resulting in its inability to recover the amounts disbursed, loss of income or a financial loss. It is the outcome of credit product development and launch as well as the lending process on the one hand and measures employed with a view to reducing the probability of losses, on the other. The Group's credit risk includes both counterparty and settlement risk.

While developing its current credit risk management policy, the Group aims to maintain the risk appetite defined in its strategy and measured with the NPL ratio and the specified cost of risk as well as an appropriate level of equity, comply with the credit limits set by the Group, analyze both strengths and weaknesses of its lending process and anticipate the opportunities and threats for its further growth. The Group's acceptable credit risk policy also takes into account cyclicality of economic processes and changes in the credit portfolio itself.

The Group has adopted the following principles for the credit risk management process:

- analyzing credit risk of individual exposures, the entire portfolio and the capital requirement related to credit risk;
- applying internal and external limits arising from risk appetite in various areas of the credit portfolio and from the Banking Law and implemented recommendations of PFSA, respectively;
- functions related to direct analysis of applications, risk assessment and credit related decision making are separated from those focused on client attraction (sales of banking products);
- credit capacity and creditworthiness are the main criteria underlying all credit transactions with clients;
- credit decisions are made in the Group in accordance with procedures and competencies determined in internal regulations on credit risk assessment and credit decision making;
- each credit transaction is monitored from its conclusion to full settlement in terms of utilization, timely repayment, legal security, equity and organizational relationships of the obligor and, in the case of institutional clients, also in terms of their current economic and financial position;

– the financial and economic standing of each insurance company supplying credit collateral, as well as delivery of insurance policies and assignment of rights related thereto by clients are monitored on a regular basis;
– developments in the real estate market as well as the legal and economic assumptions and framework for valuation of property provided as collateral for credit exposures are monitored on a periodic basis.

Credit risk management in the Group is based on written policies and procedures defining methods of identification, measurement, monitoring, limiting and reporting of credit risk. The regulations determine the scope of competencies assigned to each unit of the Group in the credit risk management process.

In order to determine the credit risk level, the Group uses the following measures:
– probability of default (PD);
– recovery rate (RR);
– loss given default (LGD);
– loss identification period (LIP);
– share and structure of impaired loans (NPL);
– coverage of impaired loans with impairment losses (NPL coverage);
– Scoring model efficiency measures (among others GINI, PSI Ratio);
– cost of risk.

The Group carries out regular review of implementation of the adopted credit risk management policy. The review and modification includes mostly:
– internal regulations regarding client's credit risk assessment and monitoring, as well as verification of the value of legal security, which are adjusted to changing market conditions, business specifics of each client type (group), loan purpose and determination of the minimum requirements regarding the obligatory forms of legal security;
– internal system of limiting credit activities and determining decision-making powers regarding loans;
– a system of identifying, assessing and reporting credit risk to Credit Committees, Management and Supervisory Board of the Bank;
– maximum adequacy levels of ratios used to assess credit risk and acceptable forms of own contribution for retail housing loans;
– scoring models and IT tools used in the credit risk management process.

The Group's reporting system includes among others:
– reporting on credit risk level, to include vintage analyses, information regarding the use of limits, quality and efficiency of credit processes;
– reports on stress tests, limit review and back-test analyses for impairment losses;
– analyses of real property market and verification of the current value of security for credit exposures;
– review of implemented credit risk policy.

The Group prepares the following cyclical reports on its credit risk exposure:
– monthly report for the Management Board and Credit Committee of the Bank;
– quarterly report for the Supervisory and Management Board.

Maximum credit risk exposure (by classes of financial instruments)

	Net carrying amount	
	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Cash in hand and deposits with the Central Bank	757 643	327 242
Receivables from other banks	158 269	36 329
Financial assets held for trading	1 336	1 369
Loans and advances granted to clients, including:	5 151 777	5 055 712
- individuals	4 296 942	4 053 210
- institutional clients	551 538	645 912
- local authorities	303 297	356 590
Investment assets available for sale:	1 100 547	1 455 018
- quoted	620 592	615 185
- not quoted	479 955	839 833
Investment assets held to maturity:	418 719	387 018
- quoted	393 688	372 080
- not quoted	25 031	14 938
Other assets	29 274	27 074
Total	**7 617 565**	**7 289 762**

Additionally, the Group is exposed to credit risk arising from concluded transactions recognized as off-balance sheet liabilities. The maximum exposure to credit risk related to the said transactions is expressed by their off-balance sheet value presented in Note 41.

In order to prevent overly concentration of exposure, the Group applies internal and external limits arising from risk appetite in various areas of the credit portfolio and from the Banking Law and implemented recommendations of PFSA. Limit types and levels applied by the Group with regard to credit operations are determined by internal regulations regarding the limiting of credit operations related among others to large exposures, industrial concentration, exposure concentration by type of collateral or product.

The Group operates only in Poland. The following tables present balance sheet and off-balance sheet exposure regarding loans and advances granted to clients in each province.

Geographical structure of the credit portfolio (net carrying amounts)

Balance as at 31 December 2014	Loans and advances granted to clients, including: individuals: overdraft facilities	individuals: consumer loans	individuals: real estate loans	individuals: credit card debt	institutional clients	local authorities	Total	Net share in the loan portfolio
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	%
Mazowieckie	2 759	170 239	405 864	1 575	67 911	13 807	662 155	12.9%
Wielkopolskie	5 365	217 087	313 678	2 089	64 589	30 977	633 785	12.3%
Kujawsko-pomorskie	4 226	142 540	321 838	1 154	45 372	28 108	543 238	10.5%
Dolnośląskie	1 349	197 412	236 999	1 082	54 880	36 802	528 524	10.3%
Śląskie	3 670	246 760	137 499	1 847	31 102	24 912	445 790	8.7%
Pomorskie	1 890	130 742	215 618	1 064	58 188	7 931	415 433	8.1%
Łódzkie	1 563	107 717	156 638	809	56 742	17 140	340 609	6.6%
Warmińsko-mazurskie	1 212	82 025	129 312	656	41 008	55 332	309 545	6.0%
Zachodniopomorskie	2 593	119 415	115 494	1 219	53 005	5 324	297 050	5.8%
Małopolskie	2 222	118 363	119 321	1 123	15 708	32 836	289 573	5.6%
Lubuskie	1 038	73 929	75 422	724	26 963	9 134	187 210	3.6%
Lubelskie	1 880	76 174	66 710	627	28 340	10 943	184 674	3.6%
Podkarpackie	783	57 802	39 155	467	3 858	29 601	131 666	2.6%
Opolskie	520	37 225	23 353	316	1 241	450	63 105	1.2%
Świętokrzyskie	610	34 104	22 636	440	1 356	0	59 146	1.1%
Podlaskie	690	25 577	30 426	333	1 143	0	58 169	1.1%
Not assigned	0	1 971	0	2	132	0	2 105	0.0%
Total	**32 370**	**1 839 082**	**2 409 963**	**15 527**	**551 538**	**303 297**	**5 151 777**	**100.0%**

Balance as at 31 December 2013	Loans and advances granted to clients, including:						Total	Net share in the loan portfolio
	individuals				institutional clients	local authorities		
	overdraft facilities	consumer loans	real estate loans	credit card debt				
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	%
Mazowieckie	3 068	155 154	400 893	1 222	90 759	16 358	**667 454**	**13.2%**
Wielkopolskie	5 870	201 417	311 279	1 905	83 720	35 436	**639 627**	**12.7%**
Kujawsko-pomorskie	4 601	139 811	309 928	1 112	54 293	32 236	**541 981**	**10.7%**
Dolnośląskie	1 332	149 411	215 008	888	66 809	51 835	**485 283**	**9.6%**
Śląskie	3 659	224 186	136 240	1 497	31 087	28 157	**424 826**	**8.4%**
Pomorskie	2 057	124 415	207 071	955	67 571	8 653	**410 722**	**8.1%**
Łódzkie	1 701	101 319	151 041	723	64 674	19 288	**338 746**	**6.7%**
Warmińsko-mazurskie	1 284	76 540	122 882	561	44 514	63 031	**308 812**	**6.1%**
Małopolskie	2 421	110 616	113 127	918	20 314	40 424	**287 820**	**5.7%**
Zachodniopomorskie	2 810	106 945	113 162	1 075	55 235	6 149	**285 376**	**5.6%**
Lubuskie	1 075	66 745	77 411	597	30 026	9 756	**185 610**	**3.7%**
Lubelskie	2 092	67 966	65 649	557	24 409	11 826	**172 499**	**3.4%**
Podkarpackie	766	48 349	38 922	413	5 881	31 643	**125 974**	**2.5%**
Podlaskie	780	26 356	31 272	306	4 152	0	**62 866**	**1.2%**
Opolskie	525	32 535	20 937	262	1 258	500	**56 017**	**1.1%**
Świętokrzyskie	595	28 829	22 806	358	1 206	1 298	**55 092**	**1.1%**
Not assigned	41	6 907	0	55	4	0	**7 007**	**0.1%**
Total	**34 677**	**1 667 501**	**2 337 628**	**13 404**	**645 912**	**356 590**	**5 055 712**	**100.0%**

Geographical structure of the credit portfolio (net off-balance sheet amounts)

The net value of off-balance sheet exposure regarding loans and advances includes the amount of provisions for off-balance sheet exposures, presented in Note 34.

Balance as at 31 December 2014	Loans and advances granted to clients, including:						Total	Share in off-balance sheet net exposure
	individuals				institutional clients	local authorities		
	overdraft facilities	consumer loans	real estate loans	credit card debt				
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	%
Mazowieckie	3 353	2 970	5 454	1 415	51 659	0	**64 851**	**37.1%**
Śląskie	2 730	2 476	1 083	1 958	13 256	0	**21 503**	**12.3%**
Łódzkie	1 389	1 458	1 157	714	15 750	0	**20 468**	**11.7%**
Wielkopolskie	4 328	1 339	2 614	1 659	1 401	0	**11 341**	**6.5%**
Dolnośląskie	1 010	2 076	3 370	869	2 053	0	**9 378**	**5.4%**
Kujawsko-pomorskie	4 075	1 089	1 211	989	350	0	**7 714**	**4.4%**
Pomorskie	1 300	1 064	1 647	879	1 781	0	**6 671**	**3.8%**
Lubelskie	1 717	1 129	1 059	722	1 771	0	**6 398**	**3.7%**
Małopolskie	1 623	1 411	1 045	1 098	225	0	**5 402**	**3.1%**
Zachodniopomorskie	1 842	978	657	818	239	0	**4 534**	**2.6%**
Warmińsko-mazurskie	886	499	1 708	460	540	0	**4 093**	**2.3%**
Lubuskie	1 030	813	330	482	1 187	0	**3 842**	**2.2%**
Podkarpackie	916	487	866	623	54	0	**2 946**	**1.7%**
Podlaskie	1 210	263	204	285	85	0	**2 047**	**1.2%**
Świętokrzyskie	748	223	397	316	67	0	**1 751**	**1.0%**
Opolskie	348	545	99	326	14	0	**1 332**	**0.8%**
Not assigned	13	564	0	23	0	0	**600**	**0.3%**
Total	**28 518**	**19 384**	**22 901**	**13 636**	**90 432**	**0**	**174 871**	**100.0%**

Balance as at 31 December 2013	Loans and advances granted to clients, including:						Total	Share in off-balance sheet net exposure
	individuals				institutional clients	local authorities		
	overdraft facilities	consumer loans	real estate loans	credit card debt				
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	%
Mazowieckie	3 336	2 691	7 197	1 732	85 647	0	100 603	37.6%
Łódzkie	1 333	1 175	2 661	884	35 599	0	41 652	15.6%
Dolnośląskie	1 180	2 213	7 249	1 203	8 420	0	20 265	7.6%
Wielkopolskie	4 281	1 251	4 827	2 167	5 922	0	18 448	6.9%
Kujawsko-pomorskie	4 104	672	4 235	1 267	2 416	0	12 694	4.7%
Lubelskie	1 817	391	1 936	837	6 747	0	11 728	4.4%
Śląskie	2 701	2 916	2 110	1 808	1 961	0	11 496	4.3%
Zachodniopomorskie	1 855	959	2 087	1 237	2 742	0	8 880	3.3%
Pomorskie	1 292	1 087	2 731	1 181	2 525	0	8 816	3.3%
Małopolskie	1 752	719	1 993	923	3 263	0	8 650	3.2%
Lubuskie	972	559	319	664	5 829	0	8 343	3.1%
Warmińsko-mazurskie	937	617	1 988	740	1 965	0	6 247	2.3%
Podkarpackie	928	522	1 144	636	78	0	3 308	1.2%
Podlaskie	1 311	51	285	539	95	0	2 281	0.9%
Świętokrzyskie	712	374	167	478	127	0	1 858	0.7%
Opolskie	391	512	389	320	171	0	1 783	0.7%
Not assigned	9	180	0	42	160	0	391	0.1%
Total	**28 911**	**16 889**	**41 318**	**16 658**	**163 667**	**0**	**267 443**	**100.0%**

Industry structure of the credit portfolio

The following table presents the Group's exposure concentration by industry. The Group's portfolio is dominated by loans granted to individuals.

	Balance as at 31 December 2014				Balance as at 31 December 2013			
	Net carrying amount	Net off-balance sheet amount	Total net credit exposure	Interest (%)	Net carrying amount	Net off-balance sheet amount	Total net credit exposure	Interest (%)
	PLN'000	PLN'000	PLN'000	%	PLN'000	PLN'000	PLN'000	%
Individuals	4 296 942	84 439	4 381 381	82.3%	4 053 386	103 776	4 157 162	78.1%
Property market services	330 901	24 023	354 924	6.7%	355 685	49 568	405 253	7.6%
Public administration, national defense, mandatory social insurance	303 297	0	303 297	5.7%	356 367	0	356 367	6.7%
Accommodation	29 779	10 913	40 692	0.8%	25 181	72	25 253	0.5%
Manufacture of paper and paper products	20 851	1 694	22 545	0.4%	16 871	6 608	23 479	0.4%
Wholesale, excluding motor vehicles	16 315	372	16 687	0.3%	31 566	2 534	34 100	0.6%
Education	14 794	14	14 808	0.3%	16 054	634	16 688	0.3%
Retail sale, excluding motor vehicles	14 484	245	14 729	0.3%	14 402	4 593	18 995	0.4%
Financial services, excluding insurance and pension funds	14 142	0	14 142	0.3%	29 395	238	29 633	0.6%
Other activity	110 272	53 171	163 443	3.1%	156 805	99 420	256 225	4.8%
Total	**5 151 777**	**174 871**	**5 326 648**	**100.0%**	**5 055 712**	**267 443**	**5 323 155**	**100.0%**

Group's gross exposure to ten largest clients

Balance as at 31 December 2014 Obligor's name	Industry according to Polish Classification of Activity	Total exposure	Balance sheet exposure (principal)	Off-balance sheet exposure	Share in the gross credit portfolio
		PLN'000	PLN'000	PLN'000	
Client 1	Postal and courier services	49 077	0	49 077	0.9%
Client 2	Property market services	29 653	16 730	12 923	0.6%
Client 3	Public administration, national defense, mandatory social insurance	23 625	23 625	0	0.4%
Client 4	Manufacture of paper and paper products	20 746	19 135	1 611	0.4%
Client 5	Accommodation	17 500	6 668	10 832	0.3%
Client 6	Accommodation	16 851	16 692	159	0.3%
Client 7	Public administration, national defense, mandatory social insurance	14 203	14 203	0	0.3%
Client 8	Public administration, national defense, mandatory social insurance	14 200	14 200	0	0.3%
Client 9	Public administration, national defense, mandatory social insurance	12 582	12 582	0	0.2%
Client 10	Public administration, national defense, mandatory social insurance	11 100	11 100	0	0.2%
		209 537	**134 935**	**74 602**	**3.9%**

Balance as at 31 December 2013 Obligor's name	Industry according to Polish Classification of Activity	Total exposure	Balance sheet exposure (principal)	Off-balance sheet exposure	Share in the gross credit portfolio
		PLN'000	PLN'000	PLN'000	
Client 1	Postal and courier services	73 753	0	73 753	1.4%
Client 2	Public administration, national defense, mandatory social insurance	28 750	28 750	0	0.6%
Client 3	Manufacture of paper and paper products	21 618	15 059	6 559	0.4%
Client 4	Property market services	20 736	0	20 736	0.4%
Client 5	Accommodation	17 521	17 472	49	0.3%
Client 6	Public administration, national defense, mandatory social insurance	16 003	16 003	0	0.3%
Client 7	Public administration, national defense, mandatory social insurance	15 098	15 098	0	0.3%
Client 8	Public administration, national defense, mandatory social insurance	14 281	14 281	0	0.3%
Client 9	Property market services	13 762	13 375	387	0.3%
Client 10	Public administration, national defense, mandatory social insurance	12 930	12 930	0	0.2%
		234 452	**132 968**	**101 484**	**4.5%**

Quality structure

The Group has identified the following quality structure of financial assets:

- current, no indications of impairment;
- overdue, no indications of impairment;
- indications of impairment identified, but no impairment detected;
- indications of impairment identified, impairment and the related loss recognized.

The following tables present the summary of the above quality classes of each financial assets type as at 31December 2014 and 31 December 2013.

A. Quality structure of receivables from other banks

	Balance as at 31 December 2014				Balance as at 31 December 2013			
	Gross carrying amount	Allowance	Net carrying amount	Share in net on-balance sheet exposure	Gross carrying amount	Allowance	Net carrying amount	Share in net on-balance sheet exposure
	PLN'000	PLN'000	PLN'000	%	PLN'000	PLN'000	PLN'000	%
Current receivables from other banks, no impairment indication	158 269	0	158 269	100.0%	36 329	0	36 329	100.0%
Overdue receivables from other banks, no impairment indication	0	0	0	0.0%	0	0	0	0.0%
Receivables from other banks with indications of impairment identified, but no impairment detected	0	0	0	0.0%	0	0	0	0.0%
Receivables from other banks with indications of impairment identified, impairment and the related loss recognized	0	0	0	0.0%	0	0	0	0.0%
Total	**158 269**	**0**	**158 269**	**100.0%**	**36 329**	**0**	**36 329**	**100.0%**

B. Quality structure of investment assets

	Balance as at 31 December 2014				Balance as at 31 December 2013			
	Gross carrying amount	Allowance	Net carrying amount	Share in net on-balance sheet exposure	Gross carrying amount	Allowance	Net carrying amount	Share in net on-balance sheet exposure
	PLN'000	PLN'000	PLN'000	%	PLN'000	PLN'000	PLN'000	%
Current investment assets, no indications of impairment	1 519 266	0	1 519 266	100.0%	1 842 036	0	1 842 036	100.0%
Overdue investment assets, no indications of impairment	0	0	0	0.0%	0	0	0	0.0%
Investment assets, indications of impairment identified, but no impairment detected	0	0	0	0.0%	0	0	0	0.0%
Investment assets, indications of impairment identified, impairment and the related loss recognized	0	0	0	0.0%	0	0	0	0.0%
Total	**1 519 266**	**0**	**1 519 266**	**100.0%**	**1 842 036**	**0**	**1 842 036**	**100.0%**

C. Quality structure of originated loans and advances

Balance as at 31 December 2014	Gross carrying amount	Allowance	Net carrying amount	Share in net on-balance sheet exposure	Gross off-balance sheet amount	Allowance	Net off-balance sheet amount	Share in net off-balance sheet exposure
	PLN'000	PLN'000	PLN'000	%	PLN'000	PLN'000	PLN'000	%
Current loans and advances, no impairment indication	4 689 905	10 334	4 679 571	90.8%	172 907	389	172 518	98.7%
Overdue loans and advances, no impairment indication	256 774	12 534	244 240	4.7%	1 154	60	1 094	0.6%
Loans and advances with indications of impairment, but no impairment detected	53 615	867	52 748	1.0%	496	4	492	0.3%
Loans and advances with indications of impairment, impairment and the related loss recognized	325 391	150 173	175 218	3.4%	945	178	767	0.4%
Total	**5 325 685**	**173 908**	**5 151 777**	**100.0%**	**175 502**	**631**	**174 871**	**100.0%**

Balance as at 31 December 2013	Gross carrying amount	Allowance	Net carrying amount	Share in net on-balance sheet exposure	Gross off-balance sheet amount	Allowance	Net off-balance sheet amount	Share in net off-balance sheet exposure
	PLN'000	PLN'000	PLN'000	%	PLN'000	PLN'000	PLN'000	%
Current loans and advances, no impairment indication	4 499 939	6 183	4 493 756	88.9%	264 194	816	263 378	98.5%
Overdue loans and advances, no impairment indication	365 669	8 352	357 317	7.1%	2 792	102	2 690	1.0%
Loans and advances with indications of impairment, but no impairment detected	37 655	316	37 339	0.7%	1 023	9	1 014	0.4%
Loans and advances with indications of impairment, impairment and the related loss recognized	277 241	109 941	167 300	3.3%	559	198	361	0.1%
Total	**5 180 504**	**124 792**	**5 055 712**	**100.0%**	**268 568**	**1 125**	**267 443**	**100.0%**

Loans and advances to customers, current, no impairment indication

Loans and advances granted to customers, not overdue and without impairment indication, bear an acceptable level of credit risk.

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
individuals	**3 929 739**	**3 603 478**
- overdraft facilities	28 280	31 297
- consumer loans	1 595 544	1 384 710
- real estate loans	2 293 433	2 176 293
- credit card debt	12 482	11 178
institutional clients	**458 448**	**546 180**
local authorities	**301 718**	**350 281**
Total	**4 689 905**	**4 499 939**
Allowance	10 334	6 183
Total net amount	**4 679 571**	**4 493 756**
Off-balance sheet gross amount	**172 907**	**264 194**
Off-balance sheet allowance	389	816
Off-balance sheet net amount	**172 518**	**263 378**

Loans and advances to customers, overdue, no impairment indication

The following tables present the ageing analysis of loans and advances granted to customers, overdue, but no impairment detected.

Balance as at 31 December 2014	1–30 days	31–60 days	61–90 days	Total
	PLN'000	PLN'000	PLN'000	PLN'000
individuals	**200 482**	**31 470**	**14 607**	**246 559**
- overdraft facilities	1 702	237	160	**2 099**
- consumer loans	131 406	25 221	12 274	**168 901**
- real estate loans	66 429	5 761	1 986	**74 176**
- credit card debt	945	251	187	**1 383**
institutional clients	**6 526**	**1 410**	**735**	**8 671**
local authorities	**1 544**	**0**	**0**	**1 544**
Total gross amount	**208 552**	**32 880**	**15 342**	**256 774**
Allowance	5 315	3 588	3 631	**12 534**
Total net amount	**203 237**	**29 292**	**11 711**	**244 240**
Off-balance sheet gross amount	**774**	**230**	**150**	**1 154**
Off-balance sheet allowance	16	21	23	**60**
Off-balance sheet net amount	**758**	**209**	**127**	**1 094**

Balance as at 31 December 2013	1–30 days	31–60 days	61–90 days	Total
	PLN'000	PLN'000	PLN'000	PLN'000
individuals	**314 138**	**25 364**	**6 685**	**346 187**
- overdraft facilities	1 667	347	82	**2 096**
- consumer loans	199 783	18 960	5 507	**224 250**
- real estate loans	111 926	5 730	962	**118 618**
- credit card debt	762	327	134	**1 223**
institutional clients	**13 102**	**47**	**0**	**13 149**
local authorities	**6 333**	**0**	**0**	**6 333**
Total gross amount	**333 573**	**25 411**	**6 685**	**365 669**
Allowance	4 918	2 040	1 394	**8 352**
Total net amount	**328 655**	**23 371**	**5 291**	**357 317**
Off-balance sheet gross amount	**2 444**	**271**	**77**	**2 792**
Off-balance sheet allowance	59	19	24	**102**
Off-balance sheet net amount	**2 385**	**252**	**53**	**2 690**

Loans and advances to customers with indications of impairment, but no impairment detected

The following tables present loans and advances granted to customers, with indication of impairment, but with no impairment detected, including the financial effect of collateral on the impairment loss.

Balance as at 31 December 2014	Indications of impairment identified, but no impairment detected, including:							
	Gross carrying amount	Gross off-balance sheet amount	Allowance recognized excluding the financial effect of security		Financial effect of security included in the allowance		Allowance recognized including the financial effect of security	
			On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
- overdraft facilities	0	0	0	0	0	0	0	0
- consumer loans	0	0	0	0	0	0	0	0
- real estate loans	0	0	0	0	0	0	0	0
- credit card debt	0	0	0	0	0	0	0	0
institutional clients	**53 615**	**496**	**19 806**	**348**	**18 939**	**344**	**867**	**4**
local authorities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**53 615**	**496**	**19 806**	**348**	**18 939**	**344**	**867**	**4**

Balance as at 31 December 2013	Indications of impairment identified, but no impairment detected, including:							
	Gross carrying amount	Gross off-balance sheet amount	Allowance recognized excluding the financial effect of security		Financial effect of security included in the allowance		Allowance recognized including the financial effect of security	
			On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
- overdraft facilities	0	0	0	0	0	0	0	0
- consumer loans	0	0	0	0	0	0	0	0
- real estate loans	0	0	0	0	0	0	0	0
- credit card debt	0	0	0	0	0	0	0	0
institutional clients	**37 655**	**1 023**	**17 690**	**436**	**17 374**	**427**	**316**	**9**
local authorities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**37 655**	**1 023**	**17 690**	**436**	**17 374**	**427**	**316**	**9**

Loans and advances to customers with indications of impairment identified, impairment and the related loss recognized

The following tables present loans and advances granted to customers, with indication of impairment, impairment detected and impairment loss recognized, including the financial effect of collateral on the impairment loss.

Balance as at 31 December 2014	Indications of impairment identified, impairment and the related loss recognized, including:							
	Gross carrying amount	Gross off-balance sheet amount	Allowance recognized excluding the financial effect of security		Financial effect of security included in the allowance		Allowance recognized including the financial effect of security	
			On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals	**247 265**	**825**	**110 177**	**163**	**2 913**	**0**	**107 264**	**163**
- overdraft facilities	5 457	10	3 044	3	0	0	3 044	3
- consumer loans	161 356	0	73 247	0	2 913	0	70 334	0
- real estate loans	76 414	69	31 768	21	0	0	31 768	21
- credit card debt	4 038	746	2 118	139	0	0	2 118	139
institutional clients	**78 026**	**120**	**62 661**	**15**	**19 797**	**0**	**42 864**	**15**
local authorities	**100**	**0**	**45**	**0**	**0**	**0**	**45**	**0**
Total	**325 391**	**945**	**172 883**	**178**	**22 710**	**0**	**150 173**	**178**

Balance as at 31 December 2013	Indications of impairment identified, impairment and the related loss recognized, including:							
	Gross carrying amount	Gross off-balance sheet amount	Allowance recognized excluding the financial effect of security		Financial effect of security included in the allowance		Allowance recognized including the financial effect of security	
			On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals	**193 465**	**488**	**81 235**	**193**	**3 091**	**0**	**78 144**	**193**
- overdraft facilities	4 103	9	2 291	3	0	0	2 291	3
- consumer loans	114 152	4	50 320	1	3 091	0	47 229	1
- real estate loans	72 761	69	27 347	21	0	0	27 347	21
- credit card debt	2 449	406	1 277	168	0	0	1 277	168
institutional clients	**83 776**	**71**	**64 171**	**28**	**32 374**	**23**	**31 797**	**5**
local authorities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**277 241**	**559**	**145 406**	**221**	**35 465**	**23**	**109 941**	**198**

The financial effect of recovery based on collateral for receivables analyzed on a case-by-case basis amounted to PLN 42.0 million as at 31 December 2014 and PLN 53.3 million as at 31 December 2013. This amount would increase the required impairment losses if cash flows related to the collateral were not included in the calculation.

For receivables analyzed on a case-by-case basis, impairment losses not including the financial effect of recovery based on collateral would be PLN 68.6 million as at 31 December 2014 vs. PLN 77.0 million as at 31 December 2013.

Collateral and other items improving the loan terms:

- mortgage placed in the land and mortgage register as a senior lien or junior lien (if the total value of all liens does not exceed 50% of the market value of the property); liens representing 100% of the transaction value are recorded to collateralize principal increased by at least 60% of the transaction value to secure payment of interest, fees and charges as well as the Bank's costs related to the obligor's delinquencies;
- assignment of rights under property insurance policies covering fire and other accidents;
- statement of submission to enforcement proceedings by the obligor (and/or guarantor) up to 150% of the gross loan amount, with the date by which the Group may apply for a writ of execution;
- statement of submission to enforcement proceedings by the property owner up to the amount of the mortgage lien(s) created on the owned property (properties), with the date by which the Group may apply for a writ of execution based thereon;
- blank promissory note with a promissory note agreement for the Group;
- for construction of a house/premises – assignment of receivables under the construction contract concluded with the property developer/housing cooperative;
- transfer of the obligor's cash to the Group's account pursuant to Article 102 of the Banking Law (deposits);
- registered pledge blocking the rights attached to securities issued by the State Treasury and the National Bank of Poland (treasury bills and bonds);
- assignment of rights arising from participation units in an investment fund management company accepted by the Group;
- assignment of rights under an insurance policy taken out from an insurance undertaking accepted by the Group;
- financial pledge, registered pledge, assignment, deposit or blocking of other investment products approved on a case-by-case basis when making the loan decision.

As at 31 December 2014 the fair value of mortgage collateral for the related exposures amounted to PLN 4,651.7 million compared to PLN 4,639.5 million as at 31 December 2013.

Forbearance of loans

Forbearance of selected credit exposures means a forced modification of the initial repayment terms as determined in a loan agreement following a motion of the bank or obligor, resulting from inability to repay the loan on the initial terms due to an event that has deteriorated the financial standing of the obligor and resulted in repayment arrears or adversely affected the repayment projections. The purpose of the forbearance procedures is to:

– adjust the terms of repayment of liabilities arising from a credit transaction to the current solvency level of a debtor;
– allow the debt restructuring by a debtor without the Group's commencing collection procedures that make the entire debt immediately payable and further reduce debtor's solvency;
– improve the collection standing of the Group through acceptance of additional security;
– allow debtor's restructuring of the debt following the commencement of collection procedures by the Group;
– minimize losses incurred by the Group.

The Group applies the following forms of debt forbearance:

– amending the repayment schedule within the initial repayment period (i.e. temporary reduction in the installment amount to the level proposed by a debtor or determined by its solvency);
– extending the loan term;
– change in the installment repayment date;
– deferred repayment terms;
– change in interest calculation principles;
– assuming or accessing the debt by a third party;
– changing the repayment algorithm from diminishing to equal installments;
– determining the repayment schedule for current account and revolving loans or a diminishing balance of used loan transaction;
– changing the repayment manner: principal first, interest later;
– temporary suspension of interest repayment;
– capitalizing interest/principal;
– establishing an additional transaction security;
– sale of receivables;
– conversion;
– assuming collateral and offsetting it with the debt;
– concluding a new loan agreement/forbearance arrangement;
– other measures aimed at minimizing Group's losses.

Restructured transactions are recorded and monitored on an ongoing basis. Correct implementation of terms of a restructuring annex / new agreement / forbearance arrangement is monitored in particular for compliance with the debt repayment with deadlines and amounts determined therein. Should a threat to the implementation of a restructuring annex / new agreement / forbearance arrangement occur, the organizational unit monitoring the restructuring terms initiates measures aimed at renegotiation of these terms or commencement of collection proceedings. The record is built and updated on an ongoing basis based on relevant entries in IT systems of the Bank. Results of monitoring transactions subject to restructuring are presented on a quarterly basis at the Bank's Credit Committee. At the end of each quarter, review of restructured transactions marking is performed under control procedures.

According to Recommendation R, restructuring is an impairment indication for credit exposure, and each restructured exposure is measured for impairment.

The following tables present amounts of loans and advances subject to restructuring as at 31 December 2014 and 31 December 2013.

	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Gross loans and advances granted to clients, including:	**5 325 685**	**5 180 504**
Gross Loans and advances granted to forbearance clients:	**57 772**	**36 349**
individuals:	**8 094**	**254**
- consumer loans	2 416	141
- real estate loans	5 678	113
institutional clients:	**49 678**	**36 095**
- overdraft facilities	4 262	3 742
- operating loans	12 342	1 294
- investment loans	28 140	27 069
- other loans	4 934	3 990
local authorities	**0**	**0**
Impairment losses on loans and advances to forbearance clients:	**(17 529)**	**(11 553)**
Net loans and advances to forbearance clients	**40 243**	**24 796**

Gross loans and advances to clients by forbearance changes in repayment terms *	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
- change in repayment schedule	38 918	31 471
- extending the loan term	32 246	21 137
- grace period	22 409	9 761
- determining the repayment schedule for a limit	650	665
- change in interest calculation principles	25 827	19 676
- change of security	422	0
- accession to debt	249	254

Repayment terms of one loan / advance may be changed several times.

Quality structure of loans and advances subject to restructuring as at 31 December 2014 and 31 December 2013:

Balance as at 31 December 2014	Loans and advances to clients (gross)		Impairment allowance		Loans and advances granted to clients (net)		
	impaired	not impaired	impaired	not impaired	impaired	not impaired	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals:	**7 984**	**110**	**2 205**	**0**	**5 779**	**110**	**5 889**
- consumer loans	2 416	0	441	0	1 975	0	**1 975**
- real estate loans	5 568	110	1 764	0	3 804	110	**3 914**
institutional clients:	**25 298**	**24 380**	**14 926**	**398**	**10 372**	**23 982**	**34 354**
- overdraft facilities	3 891	371	1 747	6	2 144	365	**2 509**
- operating loans	5 996	6 346	3 450	103	2 546	6 243	**8 789**
- investment loans	10 477	17 663	7 718	289	2 759	17 374	**20 133**
- other loans	4 934	0	2 011	0	2 923	0	**2 923**
local authorities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**33 282**	**24 490**	**17 131**	**398**	**16 151**	**24 092**	**40 243**

Balance as at 31 December 2013	Loans and advances to clients (gross)		Impairment allowance		Loans and advances granted to clients (net)		
	impaired	not impaired	impaired	not impaired	impaired	not impaired	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals:	**141**	**113**	**21**	**0**	**120**	**113**	**233**
- consumer loans	141	0	21	0	120	0	**120**
- real estate loans	0	113	0	0	0	113	**113**
institutional clients:	**35 910**	**185**	**11 530**	**2**	**24 380**	**183**	**24 563**
- overdraft facilities	3 557	185	1 358	2	2 199	183	**2 382**
- operating loans	1 294	0	304	0	990	0	**990**
- investment loans	27 069	0	7 952	0	19 117	0	**19 117**
- other loans	3 990	0	1 916	0	2 074	0	**2 074**
local authorities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**36 051**	**298**	**11 551**	**2**	**24 500**	**296**	**24 796**

The following tables present changes in carrying amounts of loans and advances subject to restructuring process for each reporting period.

	Net value as at 1 January 2014	Gross value of exposures recognized in the period	Gross value of exposures eliminated in the period	Repayment of receivables in the period	Change in impairment losses in the period	Net value as at 31 December 2014
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals:	**233**	**7 889**	**0**	**(49)**	**(2 184)**	**5 889**
- consumer loans	120	2 321	0	(46)	(420)	1 975
- real estate loans	113	5 568	0	(3)	(1 764)	3 914
institutional clients:	**24 563**	**16 699**	**0**	**(3 116)**	**(3 792)**	**34 354**
- overdraft facilities	2 382	1 013	0	(493)	(393)	2 509
- operating loans	990	11 268	0	(220)	(3 249)	8 789
- investment loans	19 117	1 507	0	(436)	(55)	20 133
- other loans	2 074	2 911	0	(1 967)	(95)	2 923
local authorities	**0**	**0**	**0**	**0**	**0**	**0**
Total	**24 796**	**24 588**	**0**	**(3 165)**	**(5 976)**	**40 243**

	Net value as at 1 January 2013	Gross value of exposures recognized in the period	Gross value of exposures eliminated in the period	Repayment of receivables in the period	Change in impairment losses in the period	Net value as at 31 December 2013
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
individuals:	**0**	**254**	**0**	**0**	**(21)**	**233**
- consumer loans	0	141	0	0	(21)	120
- real estate loans	0	113	0	0	0	113
institutional clients:	**30 388**	**8 441**	**0**	**(12 238)**	**(2 028)**	**24 563**
- overdraft facilities	1 022	3 157	0	(751)	(1 046)	2 382
- operating loans	1 602	1 294	0	(1 607)	(299)	990
- investment loans	27 764	0	0	(9 880)	1 233	19 117
- other loans	0	3 990	0	0	(1 916)	2 074
local authorities	**0**	**0**	**0**	**0**	**0**	**0**
Total	**30 388**	**8 695**	**0**	**(12 238)**	**(2 049)**	**24 796**

Interest income on loans and advances subject to restructuring in 2014 and 2013:

	Period from 1 January 2014 to 31 December 2014	Period from 1 January 2013 to 31 December 2013
	PLN'000	PLN'000
individuals:	**227**	**4**
- consumer loans	103	1
- real estate loans	124	3
institutional clients:	**1 228**	**1 289**
- overdraft facilities	45	180
- operating loans	226	23
- investment loans	791	860
- other loans	166	226
local authorities	**0**	**0**
Total	**1 455**	**1 293**

46.2. Liquidity risk

Liquidity risk is the risk of the Group's losing the capacity to pay its liabilities on a timely basis due to an unfavorable structure of its assets and liabilities. Liquidity risk may arise from a cash flow mismatch, sudden withdrawal of deposits, concentration of funding sources and the credit portfolio, inadequate level of liquid assets, limited liquidity of assets, the Bank and the Group's clients' default on their obligations or other unexpected developments in the financial market.

The Group's liquidity risk is managed at the level of the Bank as the liquidity risk assumed by the subsidiaries is immaterial considering the nature of their business.

The objective of liquidity risk management is to balance proceeds and payments of funds under on- and off-balance sheet transactions in order to ensure cost-effective funding sources, generating of cash surpluses and their appropriate use. The Bank builds the structure of its assets and liabilities so as to ensure the achievement of defined financial ratios with the liquidity risk level accepted by the Bank and in accordance with the risk appetite defined by the Supervisory Board.

The following principles are followed by the Bank in the liquidity risk management process:

- maintaining an acceptable liquidity level based on an appropriate portfolio of liquid assets;
- stable funds being the key source of funding for the Bank's assets;
- undertaking initiatives aimed at maintaining the liquidity risk level within the accepted risk profile;
- maintaining supervisory liquidity measures above the defined limits.

Liquidity risk management in the Bank is based on written policies and procedures defining the methods of identification, measurement, monitoring, limiting and reporting of liquidity risk. The regulations determine also the scope of competencies assigned to each unit of the Bank in the liquidity risk management process.

In order to ensure high standards of liquidity risk management, compliant with best banking practices, at least once a year the Bank reviews and verifies the policies and procedures, including internal liquidity limits.

In order to determine the liquidity risk level, the Bank uses a number of measurement and assessment methods, such as:

- contractual and actual liquidity gap method;
- deposit base stability and concentration check;
- surplus of liquid assets over unstable liabilities;
- stress analyses.

With a view to mitigating the liquidity risk, the Bank uses liquidity limits and thresholds for selected measures, including liquidity ratios or the mismatch between accumulated actual cash flows generated by assets and liabilities in individual time ranges.

Pursuant to Resolution No. 386/2008 of the Polish Financial Supervision Authority of 17 December 2008 on liquidity requirements for banks (as amended), the Bank monitors and complies with requirements concerning supervisory liquidity ratios. In 2014, the Bank fulfilled the requirements concerning the minimum supervisory liquidity ratios as specified in the aforesaid Resolution.

As at 31 December 2014, liquidity ratios remained within the applicable liquidity risk limits. The following table presents supervisory liquidity measures as at 31 December 2014 and 31 December 2013.

	Balance as at 31 December 2014	Balance as at 31 December 2013	Limit
M1 (PLN'000)	694 826	447 457	0
M2	1.49	1.31	1
M3	4.74	2.88	1
M4	1.19	1.13	1

The Bank prepares the following cyclical reports on its exposure to liquidity risk:

- daily report for the ALCO, Management Board and Treasury Department;
- monthly report for the ALCO and the Management Board;
- quarterly report for the Supervisory and Management Board.

The Bank has defined contingency plans to address sudden changes in the deposit base. An analysis of immediately available funding sources shows that in case of a sudden liquidity drop, the Bank is able to obtain sufficient funds without the need to implement its contingency plans. As at 31 December 2014, the Bank's portfolio of liquid assets was sufficient to deal with an actual crisis.

Realigned liquidity gaps

The following table presents realigned liquidity gaps for the Group as at 31 December 2014 and 31 December 2013.

Balance as at 31 December 2014	Up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Total on-balance sheet assets	2 032 264	225 522	366 798	597 000	2 544 562	3 177 303
Total on-balance sheet liabilities	1 108 379	342 328	347 236	503 134	3 984 141	1 517 897
Realigned balance sheet gap	**923 885**	**(116 806)**	**19 562**	**93 866**	**(1 439 579)**	**1 659 406**
Accumulated balance sheet gap	**923 885**	**807 079**	**826 641**	**920 507**	**(519 072)**	**1 140 334**
Off-balance sheet liabilities	17 889	8 386	3 648	14 174	356	0
Total realigned gap	**905 996**	**(125 192)**	**15 914**	**79 692**	**(1 439 935)**	**1 659 406**
Total accumulated gap	**905 996**	**780 804**	**796 718**	**876 410**	**(563 525)**	**1 095 881**

Balance as at 31 December 2013	Up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Total on-balance sheet assets	1 934 268	235 420	325 237	579 081	2 748 359	3 524 105
Total on-balance sheet liabilities	1 255 727	374 258	407 852	771 628	3 456 149	1 403 468
Realigned balance sheet gap	**678 541**	**(138 838)**	**(82 615)**	**(192 547)**	**(707 790)**	**2 120 637**
Accumulated balance sheet gap	**678 541**	**539 703**	**457 088**	**264 541**	**(443 249)**	**1 677 388**
Off-balance sheet liabilities	30 629	27 933	12 197	17 190	23 399	0
Total realigned gap	**647 912**	**(166 771)**	**(94 812)**	**(209 737)**	**(731 189)**	**2 120 637**
Total accumulated gap	**647 912**	**481 141**	**386 329**	**176 592**	**(554 597)**	**1 566 040**

Group's financial assets and liabilities by maturity based on contractual non-discounted payments

The Group's financial assets and liabilities by maturity based on contractual non-discounted payments, as at 31 December 2014 and 31 December 2013:

Balance as at 31 December 2014	Up to 1 month, inclusive	From 1 to 3 months	From 3 months to 1 year	Total up to 1 year	From 1 year to 5 years	Over 5 years	Total over 1 year	With unspecified	Total
Assets	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Cash in hand and deposits with the Central Bank	757 643	0	0	757 643	0	0	0	0	757 643
Receivables from other banks	6 451	0	10 004	16 455	64 639	77 175	141 814	0	158 269
Financial assets held for trading	1 336	0	0	1 336	0	0	0	0	1 336
Loans and advances granted to clients	88 663	91 010	377 408	557 081	1 354 549	3 122 273	4 476 822	117 874	5 151 777
Investment assets available for sale	479 947	0	91 491	571 438	520 235	8 866	529 101	8	1 100 547
Investment assets held to maturity	4 996	9 957	214 905	229 858	178 233	10 628	188 861	0	418 719
Other assets	26 329	180	2 695	29 204	4	0	4	66	29 274
Total assets	**1 365 365**	**101 147**	**696 503**	**2 163 015**	**2 117 660**	**3 218 942**	**5 336 602**	**117 948**	**7 617 565**
Received off-balance sheet liabilities	1 307	0	51 800	53 107	21 619	0	21 619	0	74 726

Balance as at 31 December 2014	Up to 1 month, inclusive	From 1 to 3 months	From 3 months to 1 year	Total up to 1 year	From 1 year to 5 years	Over 5 years	Total over 1 year	With unspecified	Total
Liabilities	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Liabilities to the Central Bank	11	0	0	11	0	0	0	0	11
Liabilities to other banks	4 020	0	0	4 020	0	0	0	0	4 020
Liabilities arising from securities sold (sell-buy-back and repo transactions)	173 381	4 320	0	177 701	0	0	0	0	177 701
Financial liabilities held for trading	94	0	0	94	0	0	0	0	94
Liabilities to clients	1 528 984	856 373	820 963	3 206 320	370 285	6 843	377 128	2 908 575	6 492 023
Liabilities arising from issue of debt securities	0	232	826	1 058	357 198	0	357 198	0	358 256
Subordinated liabilities	0	0	0	0	0	142 090	142 090	0	142 090
Other liabilities	86 902	10 364	648	97 914	86	201	287	1 165	99 366
Total liabilities	**1 793 392**	**871 289**	**822 437**	**3 487 118**	**727 569**	**149 134**	**876 703**	**2 909 740**	**7 273 561**
Originated off-balance sheet liabilities	151 911	8 475	71 930	232 316	22 033	0	22 033	0	254 349

Balance as at 31 December 2013	Up to 1 month, inclusive	From 1 to 3 months	From 3 months to 1 year	Total up to 1 year	From 1 year to 5 years	Over 5 years	Total over 1 year	With unspecified	Total
Assets	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Cash in hand and deposits with the Central Bank	327 242	0	0	327 242	0	0	0	0	327 242
Receivables from other banks	6 147	0	181	6 328	10 000	20 001	30 001	0	36 329
Financial assets held for trading	1 369	0	0	1 369	0	0	0	0	1 369
Loans and advances granted to clients	92 682	96 644	387 644	576 970	1 363 562	3 023 725	4 387 287	91 455	5 055 712
Investment assets available for sale	839 825	0	212 630	1 052 455	327 620	74 935	402 555	8	1 455 018
Investment assets held to maturity	4 996	9 942	54 153	69 091	317 927	0	317 927	0	387 018
Other assets	22 190	193	4 613	26 996	5	0	5	73	27 074
Total assets	**1 294 451**	**106 779**	**659 221**	**2 060 451**	**2 019 114**	**3 118 661**	**5 137 775**	**91 536**	**7 289 762**
Received off-balance sheet liabilities	1 653	0	53 600	55 253	51 265	0	51 265	0	106 518

Balance as at 31 December 2013	Up to 1 month, inclusive	From 1 to 3 months	From 3 months to 1 year	Total up to 1 year	From 1 year to 5 years	Over 5 years	Total over 1 year	With unspecified	Total
Liabilities	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Liabilities to the Central Bank	11	0	0	11	0	0	0	0	11
Liabilities to other banks	21 673	20 089	0	41 762	0	0	0	0	41 762
Liabilities arising from securities sold (sell-buy-back and repo transactions)	49 610	0	0	49 610	0	0	0	0	49 610
Financial liabilities held for trading	17	0	0	17	0	0	0	0	17
Liabilities to clients	1 662 387	650 141	726 704	3 039 232	313 948	437	314 385	2 876 961	6 230 578
Liabilities arising from issue of debt securities	34 204	0	249 543	283 747	147 850	0	147 850	0	431 597
Subordinated liabilities	0	0	0	0	43 036	98 991	142 027	0	142 027
Other liabilities	79 078	7 557	1 490	88 125	73	168	241	455	88 821
Total liabilities	**1 846 980**	**677 787**	**977 737**	**3 502 504**	**504 907**	**99 596**	**604 503**	**2 877 416**	**6 984 423**
Originated off-balance sheet liabilities	11 913	23 850	124 893	160 656	121 765	0	121 765	131 249	413 670

46.3. Market risk

Market risk arises from the current and future performance of the Bank and the Capital Group as well as their equity being exposed to unfavorable changes in on- and off-balance sheet items due to changes in interest rates and foreign exchange rates.

The primary objective of market risk management in the Bank and in the Group is to optimize the exposure management process and protect the financial performance at the same time.

The Group's market risk is managed at the level of the Bank as the market risk assumed by the subsidiaries is immaterial considering the nature of their business.

Market risk management in the Bank is based on written policies and procedures defining the objectives of market risk management as well as the methods of identification, measurement, monitoring, limiting and reporting of market risk. The regulations determine also the scope of competencies assigned to each unit of the Bank in the market risk management process.

In order to ensure high standards of market risk management, compliant with best banking practices, once a year the Bank reviews the applicable policies and procedures.

The Group has separate organizational units in charge of market risk control, monitoring and management.

Market risk reports present separately the interest rate risk related to the banking book, the trading book and the currency risk. Daily reports are used for operational market risk management purposes, while periodic reports are prepared for management purposes.

The Capital Group does not use hedge accounting for market risk management.

Interest rate risk

Interest rate risk results from the exposure of the Bank and the Group's financial performance and equity to adverse changes in interest rates.

The interest rate risk arises from:

- the risk of a mismatch of revaluation dates – a mismatch between the amount of assets, liabilities and off-balance sheet items revalued at a certain time; the risk represents a threat to the Bank's revenue, mostly interest income, in case of adverse changes in market interest rates or significant changes in the on-balance sheet items revaluation structure resulting in changes in the net interest income;
- basis risk arising from imperfect correlation between interest rates on products that generate interest income and expense and have the same revaluation dates;
- yield curve risk where the ratio between the interest rates concerning different periods but the same index or market changes;
- option risk arising when clients change the amount and time schedule of cash flows related to assets, liabilities and off-balance sheet items, to which they are entitled under the loan or deposit agreement at no additional cost, and various types of debt instruments with embedded *call* or *put* option, which enables them to redeem the instrument early.

The Bank adapts its interest rate risk management to the type and scale of its business. Interest rate risk in the Bank may be related to the banking book and to the trading book.

The objective of interest rate risk management is to build a structure of assets and liabilities ensuring protection of the present value and the net interest income of the Bank for the banking book and to obtain financial benefits through transactions on interest rate instruments concluded on own account in the trading book, with the accepted interest rate risk level.

Interest rate risk management in the Bank is based on written policies and procedures, which define the methods of:

- risk identification;
- risk measure calculation (risk measurement);
- risk exposure limiting – determining the acceptable risk level;
- monitoring items and changes in each book, portfolio and the limit use levels;
- risk exposure reporting;
- hedging exposures against interest rate risk.

Interest rate risk related to the banking book is measured and monitored with the use of such risk measures as:

- BPV, *Basis Point Value* denoting interest rate risk expressed as a cash value, related to maintaining of a given position when interest rates change by one basis point;

- NII (*net interest income*) – a change in the net interest income representing the difference between interest income and expense with an interest rate change at a specified level;
- BPV gap value in each revaluation range;
- *Duration - a* measure of interest rate risk interpreted as the average duration of an instrument or portfolio;
- early repayment of loans and withdrawal of deposits ratios for each type of products and entities.

Interest rate risk related to the trading book is measured and monitored with the use of such risk measures as:
- BPV and BPV gap value in each revaluation range;
- Value at Risk (VaR).

Additionally, the Bank performs stress tests involving sensitivity analysis and examining the effects of interest rate changes on the present value of risk-exposed items based on specified changes in the yield curve, and the effects of changes in interest rates on the net interest income of the Group.

The Bank prepares the following cyclical reports on interest rate risk exposure related to the banking and trading book:
- daily report for the ALCO, Management Board and Treasury Department;
- monthly report for the ALCO and the Management Board;
- quarterly report for the Supervisory and Management Board.

For the purpose of calculating the Banking Book risk measures, the current value of loans and deposits is determined based on reference rates arising from revaluation dates and liquidity adjustment excluding the commercial margin realized on each product. Additionally, stress tests for downward curve shift purposes are based on the assumption that interest on items sensitive to interest rate risk shall not drop below 0%.

The following tables present the interest rate risk level for the banking book (BPV and stress tests) as at 31 December 2014 and 31 December 2013.

BPV for the banking book

	BPV (1 b.p.)	
	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Banking book	17	40

Results of stress tests for +/- 200 b.p. for the banking book

	Change in the present value of the banking book	
	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
200 b.p. down	(1 034)	(7 837)
200 b.p. up	4 767	8 374

The following table presents a change in annual net interest income with the rate change by +/-100 b.p. and balance sheet assumed to be stable. The analysis is based on the following assumptions:

– for rate decrease: interest rates on loans shall not exceed four times the lombard rate and interest rates on deposits (both term and current accounts) shall not drop below 0%;
– for rate increase: interest on interest-free current accounts shall not increase.

Change in annual net interest income with the rate change by +/-100 b.p.

	Change in the annual net interest income	
	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
100 b.p. down	(51 777)	(18 053)
100 b.p. up	17 494	15 029

In 2014 and 2013, Bank's trading activities regarding interest rates were limited to transactions on Polish treasury securities denominated in PLN. The Bank did not conclude speculative derivative transactions on its own behalf or derivative transactions with its clients.

The following table presents the interest rate risk level for the trading book (BPV) as at 31 December 2014 and 31 December 2013.

BPV for the trading book

	BPV (1 b.p.)	
	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Trading book	0	0

Presented below are the Group's assets, liabilities and off-balance sheet items classified based on the interest rate risk criterion – revaluation date for floating rate items or maturity for fixed rate items – as at 31 December 2014 and 31 December 2013.

Balance as at 31 December 2014	Up to 1 month	From 1 month to 3 months	From 3 months up to 1 year	From 1 year to 5 years	Over 5 years	Assets/ liabilities (non-interest bearing)	Total
Assets	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Cash in hand and deposits with the Central Bank	751 268	0	0	0	0	6 375	**757 643**
Receivables from other banks	0	0	49 000	29 970	69 000	10 299	**158 269**
Financial assets held for trading	0	0	0	0	0	1 336	**1 336**
Loans and advances granted to clients	2 138 590	2 281 642	715 752	485	0	15 308	**5 151 777**
Investment assets available for sale	575 000	0	99 000	405 982	0	20 565	**1 100 547**
Investment assets held to maturity	5 000	10 000	207 271	175 000	10 000	11 448	**418 719**
Property, plant and equipment	0	0	0	0	0	47 921	**47 921**
Intangible assets	0	0	0	0	0	32 401	**32 401**
Current income tax receivables	0	0	0	0	0	120	**120**
Net deferred tax asset (asset items)	0	0	0	0	0	21 020	**21 020**
Other assets	0	0	0	0	0	29 274	**29 274**
Total assets	**3 469 858**	**2 291 642**	**1 071 023**	**611 437**	**79 000**	**196 067**	**7 719 027**

Balance as at 31 December 2014	Up to 1 month	From 1 month to 3 months	From 3 months up to 1 year	From 1 year to 5 years	Over 5 years	Assets/ liabilities (non-interest bearing)	Total
Liabilities	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Liabilities to the Central Bank	0	0	0	0	0	11	**11**
Liabilities to other banks	0	0	0	0	0	4 020	**4 020**
Liabilities arising from securities sold (ssell-buy-back and repo transactions)	173 360	4 314	0	0	0	27	**177 701**
Financial liabilities held for trading	0	0	0	0	0	94	**94**
Liabilities to clients	4 370 669	913 790	792 252	377 529	165	37 618	**6 492 023**
Liabilities arising from issue of debt securities	0	0	317 850	40 000	0	406	**358 256**
Subordinated liabilities	90 340	0	50 000			1 750	**142 090**
Current income tax liabilities	0	0	0	0	0	2 979	**2 979**
Provisions	0	0	0	0	0	2 855	**2 855**
Other liabilities	0	0	0	0	0	99 366	**99 366**
Equity	0	0	0	0	0	439 632	**439 632**
Total liabilities and equity	**4 634 369**	**918 104**	**1 160 102**	**417 529**	**165**	**588 758**	**7 719 027**
Gap	**(1 164 511)**	**1 373 538**	**(89 079)**	**193 908**	**78 835**	**(392 691)**	**0**

Off-balance sheet items							Total
Interest rate transactions:	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Assets	100 000	0	50 000	20 000	0	0	**170 000**
Liabilities	0	20 000	150 000	0	0	0	**170 000**
Gap	**100 000**	**(20 000)**	**(100 000)**	**20 000**	**0**	**0**	**0**
Total gap	**(1 064 511)**	**1 353 538**	**(189 079)**	**213 908**	**78 835**	**(392 691)**	**0**

Balance as at 31 December 2013	Up to 1 month	From 1 month to 3 months	From 3 months up to 1 year	From 1 year to 5 years	Over 5 years	Assets/ liabilities (non-interest bearing)	Total
Assets	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**
Cash in hand and deposits with the Central Bank	321 958	0	0	0	0	5 284	**327 242**
Receivables from other banks	0	0	30 000	0	0	6 329	**36 329**
Financial assets held for trading	0	0	0	0	0	1 369	**1 369**
Loans and advances granted to clients	2 614 914	1 826 064	611 496	3 229	9	0	**5 055 712**
Investment assets available for sale	895 000	0	219 000	318 364	10 000	12 654	**1 455 018**
Investment assets held to maturity	5 000	10 000	52 000	307 271	0	12 747	**387 018**
Property, plant and equipment	0	0	0	0	0	44 666	**44 666**
Intangible assets	0	0	0	0	0	30 215	**30 215**
Current income tax receivables	0	0	0	0	0	98	**98**
Net deferred tax asset (asset items)	0	0	0	0	0	18 004	**18 004**
Other assets	0	0	0	0	0	27 074	**27 074**
Total assets	**3 836 872**	**1 836 064**	**912 496**	**628 864**	**10 009**	**158 440**	**7 382 745**

Balance as at 31 December 2013	Up to 1 month	From 1 month to 3 months	From 3 months up to 1 year	From 1 year to 5 years	Over 5 years	Assets/ liabilities (non-interest bearing)	Total
Liabilities	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Liabilities to the Central Bank	0	0	0	0	0	11	**11**
Liabilities to other banks	18 000	20 000	0	0	0	3 762	**41 762**
Liabilities arising from securities sold (ssell-buy-back and repo transactions)	49 599	0	0	0	0	11	**49 610**
Financial liabilities held for trading	0	0	0	0	0	17	**17**
Liabilities to clients	4 573 462	625 067	688 607	324 451	237	18 754	**6 230 578**
Liabilities arising from issue of debt securities	230 000	0	197 850	0	0	3 747	**431 597**
Subordinated liabilities	90 340	0	50 000	0	0	1 687	**142 027**
Current income tax liabilities	0	0	0	0	0	3 138	**3 138**
Provisions	0	0	0	0	0	3 419	**3 419**
Other liabilities	0	0	0	0	0	88 821	**88 821**
Equity	0	0	0	0	0	391 765	**391 765**
Total liabilities and equity	**4 961 401**	**645 067**	**936 457**	**324 451**	**237**	**515 132**	**7 382 745**
Gap	**(1 124 529)**	**1 190 997**	**(23 961)**	**304 413**	**9 772**	**(356 692)**	**0**

Off-balance sheet items							Total
Interest rate transactions:	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Assets	0	0	50 000	50 000	0	0	**100 000**
Liabilities	50 000	0	50 000	0	0	0	**100 000**
Gap	**(50 000)**	**0**	**0**	**50 000**	**0**	**0**	**0**
Total gap	**(1 174 529)**	**1 190 997**	**(23 961)**	**354 413**	**9 772**	**(356 692)**	**0**

Currency risk

Currency risk arises from the current and future performance of the Bank and the Capital Group as well as their equity being exposed to adverse changes in foreign exchange rates.

The objective of currency risk management is to protect the exchange gain and obtain financial benefits through transactions concluded in FX instruments on own account with the accepted risk level.

In the process of currency risk management, the said risk in the Bank is measured through:

– calculation of the total position of the Bank;
– calculation of the position in each currency;
– calculation of Value at Risk (VaR);
– stress tests.

Value at Risk (VaR) is defined as the maximum loss which may be incurred by the Bank within a specified time horizon and with a specified probability. The Bank calculates VaR using the historical simulation method assuming a 99.2% confidentiality range and a 10-day position maintenance period.

Stress tests are complementary to VaR for the currency risk and they are performed to estimate the loss which may be incurred by the Bank in case of extremely adverse (stress) changes in foreign exchange rates.

The currency risk management process includes daily monitoring of:

– the value of positions in each currency;
– VaR and total currency position limits;
– daily, weekly and monthly stop-loss limits.

VaR statistics for currency risk in 2014 and as at 31 December 2014 and 31 December 2013

	Minimum value in 2014	Maximum value in 2014	Average value in 2014	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
VaR	10	210	49	10	28

The Bank prepares the following cyclical reports on its currency risk exposure:

– daily report for the ALCO, Management Board and Treasury Department;
– monthly report for the ALCO and the Management Board;
– quarterly report for the Supervisory and Management Board.

The table below presents the values of currency positions for USD, EUR, GBP and CHF in 2014 and as at 31 December 2014 and 31 December 2013. The maximum, minimum and average amounts have been presented for absolute position values (in thousands).

	Minimum value in 2014	Maximum value in 2014	Average value in 2014	Balance as at 31 December 2014	Balance as at 31 December 2013
	'000	'000	'000	PLN'000	PLN'000
USD	0	1 651	236	(9)	(12)
EUR	0	1 384	366	(135)	(445)
GBP	5	1 017	104	38	36
CHF	3	1 207	167	(3)	128

In 2014 and 2013, the Group's currency risk was very low due to an insignificant share of foreign currency assets and liabilities in the balance sheet total (below 2%). The value of the total currency position did not exceed 2% of equity, which did not generate a capital requirement with respect to this risk type.

The following table presents assets, liabilities and off-balance sheet items of the Group as at 31 December 2014 and 31 December 2013 by currency.

Balance as at 31 December 2014	Currency								Total
	PLN	EUR		USD		CHF		Other currencies	
		translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	
Assets	PLN'000	PLN'000	'000	PLN'000	'000	PLN'000	'000	PLN'000	**PLN'000**
Cash in hand and deposits with the Central Bank	754 467	2 805	658	361	103	0	0	10	**757 643**
Receivables from other banks	153 925	1 897	445	1 119	319	705	199	623	**158 269**
Financial assets held for trading	1 336	0	0	0	0	0	0	0	**1 336**
Loans and advances granted to clients	5 148 845	2 762	648	0	0	170	48	0	**5 151 777**
Investments in financial assets:	1 519 257	9	2	0	0	0	0	0	**1 519 266**
- available for sale	1 100 538	9	2	0	0	0	0	0	**1 100 547**
- held to maturity	418 719	0	0	0	0	0	0	0	**418 719**
Property, plant and equipment	47 921	0	0	0	0	0	0	0	**47 921**
Intangible assets	32 401	0	0	0	0	0	0	0	**32 401**
Current income tax receivables	120	0		0	0	0	0	0	**120**
Net deferred tax asset (asset items)	21 020	0	0	0	0	0	0	0	**21 020**
Other assets	29 077	111	26	0	0	0	0	86	**29 274**
Total assets	**7 708 369**	**7 584**	**1 779**	**1 480**	**422**	**875**	**247**	**719**	**7 719 027**

Balance as at 31 December 2014	Currency								
	PLN	EUR		USD		CHF		Other currencies	Total
		translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	
Liabilities	PLN'000	PLN'000	'000	PLN'000	'000	PLN'000	'000	PLN'000	PLN'000
Liabilities to the Central Bank	11	0	0	0	0	0	0	0	**11**
Liabilities to other banks	4 020	0	0	0	0	0	0	0	**4 020**
Liabilities arising from sell-buy-back securities sold	177 701	0	0	0	0	0	0	0	**177 701**
Financial liabilities held for trading	94	0	0	0	0	0	0	0	**94**
Liabilities to clients	6 482 940	7 544	1 770	1 505	429	0	0	34	**6 492 023**
Liabilities arising from issue of debt securities	358 256	0	0	0	0	0	0	0	**358 256**
Subordinated liabilities	142 090	0	0	0	0	0	0	0	**142 090**
Current income tax liabilities	2 979	0	0	0	0	0	0	0	**2 979**
Provisions	2 855	0	0	0	0	0	0	0	**2 855**
Other liabilities	99 129	230	54	7	2	0	0	0	**99 366**
Total liabilities	**7 270 075**	**7 774**	**1 824**	**1 512**	**431**	**0**	**0**	**34**	**7 279 395**
Equity	439 632	0		0		0			**439 632**
Total equity and liabilities	**7 709 707**	**7 774**	**1 824**	**1 512**	**431**	**0**	**0**	**34**	**7 719 027**
Net exposure	**(1 338)**	**(190)**	**(45)**	**(32)**	**(9)**	**875**	**247**	**685**	**0**
Off-balance sheet items	**176 074**	**305**	**71**	**0**	**0**	**(886)**	**(250)**	**0**	**175 493**
Assets	176 074	305	71	0	0	0	0	0	**176 379**
Equity and liabilities	0	0	0	0	0	886	250	0	**886**
Gap	**174 736**	**115**	**26**	**(32)**	**(9)**	**(11)**	**(3)**	**685**	**175 493**

Balance as at 31 December 2013	Currency								Total
	PLN	EUR		USD		CHF		Other currencies	
		translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	
Assets	PLN'000	PLN'000	'000	PLN'000	'000	PLN'000	'000	PLN'000	PLN'000
Cash in hand and deposits with the Central Bank	324 928	2 125	512	152	50	0	0	37	**327 242**
Receivables from other banks	32 270	762	184	1 858	617	264	78	1 175	**36 329**
Financial assets held for trading	1 369	0	0	0	0	0	0	0	**1 369**
Loans and advances granted to clients	5 049 486	6 058	1 461	0	0	168	50	0	**5 055 712**
Investments in financial assets:	1 842 028	8	2	0	0	0	0	0	**1 842 036**
- available for sale	1 455 010	8	2	0	0	0	0	0	**1 455 018**
- held to maturity	387 018	0	0	0	0	0	0	0	**387 018**
Property, plant and equipment	44 666	0	0	0	0	0	0	0	**44 666**
Intangible assets	30 215	0	0	0	0	0	0	0	**30 215**
Current income tax receivables	98	0	0	0	0	0	0	0	**98**
Net deferred tax asset (asset items)	18 004	0	0	0	0	0	0	0	**18 004**
Other assets	26 966	108	26	0	0	0	0	0	**27 074**
Total assets	**7 370 030**	**9 061**	**2 185**	**2 010**	**667**	**432**	**128**	**1 212**	**7 382 745**

Balance as at 31 December 2013	Currency								Total
	PLN	EUR		USD		CHF		Other currencies	
		translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	
Liabilities	**PLN'000**	**PLN'000**	**'000**	**PLN'000**	**'000**	**PLN'000**	**'000**	**PLN'000**	**PLN'000**
Liabilities to the Central Bank	11	0	0	0	0	0	0	0	**11**
Liabilities to other banks	41 762	0	0	0	0	0	0	0	**41 762**
Liabilities arising from sell-buy-back securities sold	49 610	0	0	0	0	0	0	0	**49 610**
Financial liabilities held for trading	17	0	0	0	0	0	0	0	**17**
Liabilities to clients	6 220 432	7 945	1 916	1 798	597	0	0	403	**6 230 578**
Liabilities arising from issue of debt securities	431 597	0	0	0	0	0	0	0	**431 597**
Subordinated liabilities	142 027	0	0	0	0	0	0	0	**142 027**
Current income tax liabilities	3 138	0	0	0	0	0	0	0	**3 138**
Provisions	3 419	0	0	0	0	0	0	0	**3 419**
Other liabilities	87 009	1 721	415	91	30	0	0	0	**88 821**
Total liabilities	**6 979 022**	**9 666**	**2 331**	**1 889**	**627**	**0**	**0**	**403**	**6 990 980**
Equity	391 765	0	0	0	0	0	0	0	**391 765**
Total equity and liabilities	**7 370 787**	**9 666**	**2 331**	**1 889**	**627**	**0**	**0**	**403**	**7 382 745**
Net exposure	**(757)**	**(605)**	**(146)**	**121**	**40**	**432**	**128**	**809**	**0**
Off-balance sheet items	**287 627**	**20 941**	**5 050**	**0**	**0**	**0**	**0**	**0**	**308 568**
Assets	287 627	20 941	5 050	0	0	0	0	0	**308 568**
Equity and liabilities	0	0	0	0	0	0	0	0	**0**
Gap	**286 870**	**20 336**	**4 904**	**121**	**40**	**432**	**128**	**809**	**308 568**

Financial derivatives

Although its offering includes derivatives, the Group has not actively participated in the market of derivative instruments. The Group's transactions include those on derivatives concluded for currency and interest rate risk management purposes.

Derivatives are measured on a daily basis using the discounted cash flow model. The measurement is based on commonly available rates and market quotations recorded in the Reuters system. As the scale of derivative transactions, which are entered into with banks included in investment ratings only, is inconsiderable, the Group's measurement of derivatives does not take into account the counterparty credit risk or own credit risk, which the Group believes exerts a marginal effect on measurement of its derivatives.

46.4. Operational risk

The Group defines operational risk as the risk of a loss arising from inadequacy or unreliability of internal processes, people and systems or from external events. The definition does not include strategic and reputational risks, which are managed separately, but it does include legal risk.

Based on assumptions adopted by the Bank and by the Group, the operational risk management structure includes all organizational units, branches, outlets, microbranches and subsidiaries. All directors manage operational risk in their reporting areas on an ongoing basis.

Ongoing management includes employment of measures aimed at evaluating the risk scale, mitigating the effects of risk events and reducing the probability that the risk will be assumed in the future. The Management Board of the Bank supervises the overall operational risk management process. The Operational Risk Committee is a body consulting the measures employed to change the operational risk level. Coordination of the operational risk management process is the responsibility of the Risk Function.

Each employee is to identify operational risk events pertaining to his/her position that are then collected in a dedicated database. The events are verified by operational risk coordinators on an ongoing basis and monitored by a coordinating unit for the number of events and loss value. Risk monitoring enables employment of measures that reduce the effects of events and implementation of instruments mitigating future risk.

Within the process of risk identification and assessment, the Group has monitored the use of operational risk appetite, key operational risk indicators and has regularly performed self-assessment of its operational risk. The self-assessment process includes all organizational units of the Bank and its subsidiaries.

The Bank prepares the following cyclical reports on its operational risk exposure:

– monthly report for the Management Board (information for the Management Board);
– quarterly report for the Operating Risk Management Committee and the Management Board;
– mid-year report for the Management and Supervisory Board.

With the view to limit operational risk, the Group has improved its processes in the Bank structures and in cooperation with other Group companies, including Poczta Polska, on an ongoing basis.

Additionally, operational risk in the Bank is mitigated based on procedures related to implementation of the "General Security Policy of Bank Pocztowy S.A." governing such issues as anti-money laundering, fraud prevention, protection of the Bank's resources, continuity of business, protection of personal data, confidential information and business secret as well as security of information in IT systems.

In order to ensure high standards of operational risk management, compliant with best banking practices, once a year the Group reviews the applicable policies and procedures.

46.5. Other risks

In addition to the above risks described in detail, the Group identifies and assesses the following risk types:

– compliance risk;
– strategic risk;
– business cycle risk;
– reputation risk;
– outsourcing risk.

Compliance risk

Compliance risk is the risk that the effects of the Group's non-compliance with the law, internal regulations and codes of conduct will occur. The Group also takes into account compliance risk generated both by the Bank and its subsidiaries, and manages the said risk arising from cooperation between the Bank and Poczta Polska S.A.

The compliance risk management process is based on written principles and procedures, which define the key principles to be followed by the Bank's employees and explain the key processes that identify the said risk, enabling its management at all organizational levels of the Group.

The scope of compliance risk management includes:

– the Group's compliance with the law and requirements imposed on banks;
– compliance with appropriate market standards, good practices and codes of conduct adopted by the banking sector;
– preventing money laundering and the funding of terrorism;
– preventing fraud detrimental to the Group.

The compliance risk management process includes risk identification, measurement, monitoring, mitigating and reporting.

Compliance risk identification is a continuous process which is carried out:

– when internal regulations are consulted by the compliance unit for their conformity with the law and requirements imposed on banks;
– based on the outcome of compliance tests and internal regulations compliance self-assessment;
– based on ongoing analyses, including operational risk events base, follow-up functional control and internal audit reports, record of court cases, information on customer complaints related to compliance risk, information from organizational unit heads regarding compliance risks, and fraud reports.

Identified compliance risk events are recorded by the compliance unit in the compliance risk events database.

Compliance risk measurement is performed on a quarterly basis by the compliance unit using a risk scoring model that takes into account the anticipated effects of compliance risk on the organization and its clients, including the probability of its occurrence, and other criteria, such as:

– the number of compliance risk events or actual losses arising from such risk;
– the number of negative press publications and accusations regarding compliance risk in the Bank.

As a result of measurement, risk is scored using a 3-level scale (low, medium or high).

As far as compliance risk arising from cooperation between the Bank and Poczta Polska S.A. is concerned, the compliance unit records compliance risk events and monitors measures aimed at explanation and mitigation of the said risk.

Strategic risk

Strategic risk is the risk to which the Group is directly, and its financial performance and equity indirectly, exposed due to unfavorable or incorrect strategic decisions, failure to implement or improper implementation of the strategy and developments in the business environment or incorrect response to changes in this environment.

In June 2014 the Supervisory Board of the Bank approved "Development Strategy of Bank Pocztowy S.A. for 2014-2017" whose assumptions have underlain the new direction and speed of Bank's development. The key strategic assumption of the Bank is to build a modern and simple offer with multi-channel access, addressed mostly to regional domestic clients, at the same time improving Bank's efficiency and profitability on a continuous basis.

Strategy implementation monitoring, taking into account the (direct or potential) effect of external factors, is aimed at examining the effectiveness of initiatives undertaken with a view to accomplishing the Bank's objectives defined in the Strategy.

Business cycle risk

The business cycle risk is the risk of long-term negative effects of an unfavorable stage of the business cycle (e.g. economic slowdown or recession) on the financial performance or equity of the Group.

As the economic situation affects the banking sector, an analysis of the macro-economic conditions should be part of the decision-making process at banks. The Bank monitors the macro-economic ratios presenting the situation of the Polish economy on a continuous basis and once a month, prepares detailed macro-economic reports that underlie the process of decision making by the Management Board.

The business cycle risk occurs when the overall economic situation deteriorates. In the case of growing unemployment, taxes, inflation, or interest rates or when significant changes in foreign exchange rates occur, the financial standing of customers may deteriorate (including that of the Seniors as target clients), which may translate into a limited capacity to pay their liabilities at their due dates and a reduced demand for the products offered by the Bank (loans, deposits). A slowdown may also result in increased impairment losses on loans and advances or a slower rise in the value of the Bank's credit portfolio due to a drop in demand for loans and in the number of clients that meet the loan granting criteria. Market volatility, economic slowdown and growing unemployment may also result in a significant decrease in the value of the clients' assets, such as real property securing payment of loans originated by the Bank.

In 2014, due to instability of business and political environment affecting countrywide business activity level, the assessment of economic risk in the Bank was maintained on the material level. Despite Polish economy having solid foundations, labor market seeing moderate improvement and the ongoing recovery of public finance, global events including Russian-Ukrainian conflict, a drop in crude oil prices or growing deflation may contribute to further easement of monetary policy that will adversely affect the banking sector.

Reputational risk

The reputational risk is related to damage to the Bank's reputation in the eyes of its existing and potential clients and stakeholders. This may result in unfavorable effects on the Bank's equity, i.e. the negative impact on its planned performance, among others through outflow of the existing clients or no inflow of new clients.

Reputation risk management is to protect the Bank's image and minimize the probability of damaging that would adversely affect the Bank's capital. Reputation risk management includes:

– ongoing monitoring and analysis of events and media communications that may affect the Bank's image and if necessary, implementation of preventive measures;
– regular reporting on the reputation risk level.

Outsourcing risk

Outsourcing risk is a risk third party's negative impact on the continuity, integrity or quality of the Bank's operations, its assets or employees.

Outsourcing banking activities and the related banking business processes to third parties necessitates the Bank's performance of numerous analyses, both before establishing a relationship and in the course of cooperation with the insourcer. Outsourcing risk materiality assessment depends on the scope of outsourced activities and the number of entities that perform them for and on behalf of the Bank. Outsourcing a broad range of activities to a small number of third parties creates concentration risk and potential problems with timely performance of the activities if the said entities discontinue their services. On the other hand, too large a number of insourcers gives rise to a risk that the Bank may lose control over the performance of the outsourced activities.

Outsourcing risk management in the Bank is based on written policies and procedures defining methods of identification, measurement and monitoring of outsourcing risk. The regulations determine also the scope of competencies assigned to each unit of the Bank in outsourcing banking and the related banking business processes.

Key information regarding outsourcing risk is regularly presented during Operational Risk Committee meetings.

46.6. Capital management

The Group's capital adequacy is managed on the Bank level. It is aimed to ensure that the Bank's equity level is not lower than the one required by internal and external regulations. The regulations link the required capital level with the scale of operations and risks assumed by the Bank.

Considering the above, the Group regularly:

- identifies risks material for its business;
- manages material risks;
- determines internal capital to be maintained should the risk materialize;
- calculates and reports capital adequacy measures;
- allocates internal capital to business areas;
- performs stress tests;
- compares its capital needs with the level of equity held;
- integrates the capital adequacy assessment with development of the Bank's Strategy, financial and sales plans.

The Group prepares the following cyclical reports to monitor its capital adequacy on an ongoing basis:

- monthly report for the ALCO and the Management Board;
- quarterly report for the ALCO, the Management and Supervisory Board.

In 2014 the solvency ratio, Tier 1 and internal solvency ratio of the Group was above the required regulatory minimum.

In order to ensure high standards of equity management, compliant with best banking practices, once a year the Group reviews the applicable policies and procedures.

Equity and solvency ratio

For the purpose of equity calculation, the Group applies methods arising from Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the Regulation (EU) no. 648/2012 (CRR). The Group's equity consists of Tier 1 (CET1) and Tier 2 funds recognized on a separate basis (based on CRR provisions, the Bank is exempted from the obligation to determine capital requirements on the consolidated level).

In 2014, Tier 1 capital included:

- equity instruments meeting the conditions addressed in CRR;
- agio related to the instruments referred to above;
- retained earnings, to include current period gains or annual profit before a formal decision confirming the final financial performance for a given year following an approval of a competent body;
- accumulated other comprehensive income;
- reserve capital;
- general risk reserve;
- unrealized gains and losses measured at fair value (in amounts including transitionary regulations referred to in Articles 467 and 468 of the CRR);
- other Tier 1 items as determined in CRR;

and was reduced by:

- carrying amount of intangible assets;
- loss on measurement of debt instruments classified as available for sale.

In 2014, Tier 2 funds in the Group included cash obtained from a subordinate loan received in 2014 from Poczta Polska and two issues of subordinate bonds (carried out in 2011 and 2012, respectively).

The following table presents the amounts of equity, solvency ratio and Tier 1 as at 31 December 2014 and 31 December 2013 (calculation of equity and the capital requirements as at 31 December 2013 pursuant to Resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the scope and detailed principles of determining capital requirements for each risk type).

Equity	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Tier 1 capital	**399 481**	**364 937**
Equity instruments paid for	94 378	97 290
Adjustments related to instruments in Tier 1 capital in the transition period	2 330	0
Agio	8 600	8 600
Retained profit attributable to parent's owners, including:	38 179	25 030
- profit	38 179	36 871
- loss	0	(11 841)
Accumulated other comprehensive income	3 571	(1 943)
Adjustments related to unrealized gains/losses on instruments in Tier 1 capital*	(5 532)	(167)
Reserve capital	183 019	159 989
Funds for general banking risk	108 345	106 345
Other intangible assets	(32 307)	(30 207)
Additional value adjustments arising from prudent measurement requirements	(1 102)	0
Tier 2 capital	**130 872**	**123 140**
Equity instruments and subordinated loans classified as Tier 2 capital	93 000	123 140
Adjustments related to instruments in Tier 2 capital in the transition period	37 872	0
Equity	**530 353**	**488 077**

* The adjustment for 2014 regards elimination of the entire amount of unrealized temporary gains; the adjustment for 2013 regards elimination of 20% of the unrealized gains.

Capital adequacy	Balance as at 31 December 2014	Balance as at 31 December 2013
	PLN'000	PLN'000
Capital requirements for credit, counterparty credit, dilution and settlement risk, including for exposures	278 431	267 750
with 0% risk weight	0	0
with 20% risk weight	4 955	5 884
with 35% risk weight	43 135	45 440
with 50% risk weight	1 154	1 091
with 75% risk weight	162 333	145 771
with 100% risk weight	59 528	69 164
with 150% risk weight	2 491	400
with 250% risk weight	4 835	0
other risk weights	0	0
Credit valuation adjustment (CVA)	39	0
Capital requirement for operational risk	37 495	33 981
Total capital requirement	**315 965**	**301 731**
Solvency ratio	**13.4%**	**12.9%**
Tier 1	**10.1%**	**9.7%**

(Figures in PLN'000)

Signatures of all Members of the Management Board

19 March 2015	Szymon Midera	Deputy Chairman of the Management Board Acting Chairman of the Board

……………………………………………………….

19 March 2015	Hubert Meronk	Member of the Management Board

……………………………………………………….

19 March 2015	Michał Sobiech	Member of the Management Board

……………………………………………………….

19 March 2015	Paweł Spławski	Member of the Management Board

……………………………………………………….

Signature of the person responsible for keeping the accounting records:

19 March 2015	Michał Sasim	Accounting Department Director

……………………………………………………….

Bank Pocztowy S.A. Capital Group

Management Board's report on the activities of
Bank Pocztowy S.A.
Capital Group
in 2014

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Letter from the Chairman of the Supervisory Board

Jerzy Jóźkowiak

Chairman of the Supervisory Board of Bank Pocztowy

Szanowni Państwo,

On behalf of Supervisory Board, I have the pleasure to summarize the performance of Bank Pocztowy in 2014.

It was obviously a very good year for the Bank, despite a number of challenges faced by the banking sector in Poland, which had to cope with low interest rates, reduced interchange income and new supervisory requirements. Slowdown in the Polish economy and uncertain standing of financial markets reflected by a drop in stock prices at Warsaw Stock Exchange did not support growth in the banking sector, either.

The Bank Pocztowy Capital Group closed the year 2014 with very good performance, generating a net profit of PLN 43.6 million, which was 21% higher than in the prior year. Efficiency of its operations improved, too. Return on Equity (ROE) amounted to 10.5%.

Supervisory Board was informed about business and financial performance, as well as on organizational and infrastructural changes introduced in the Bank on an ongoing basis. In mid-2014, the Board accepted a new development strategy of Bank Pocztowy. It marks a new strategic direction for the Bank acting as a **leader in retail banking in Poland on the regional level.**

Adjusting strategic objectives to changes in its business environment, the new strategy assumes further rapid development of the Bank and improvement in its efficiency. Adding the remote banking to Bank's mission shall contribute significantly to the execution of this strategy. The Bank is going to further teach clients finance and extend this education teaching them e-banking skills as well. It will also strengthen cooperation with its key shareholder. Using its experience and competencies in building and selling financial products, the Bank shall become a competency center for banking services and bancassurance in the Poczta Polska Capital Group.

Most importantly, the **increase in the Bank's Capital Group seen in 2014 resulted from its sustainable growth, i.e. an increase in the scale of its operations accompanied with efficient management of costs and credit risk.** During 2014, growing balances on retail client accounts translated into an increase in the Bank's deposit base. The cash lending campaign progressed rapidly. As a result, in December 2014, the Capital Group's balance sheet total amounted to PLN 7.7 billion and increased by 4.6% during the year. At the same time, the appropriate security level of operations was maintained. At the end of 2014, the Group's solvency ratio amounted to 13.4%, while loan/deposit ratio was 82.0%.

In recent years, very good cooperation of the Bank Pocztowy Capital Group with its strategic partner, i.e. Poczta Polska I am the chairman of, has significantly contributed to the success. The Bank has provided financial services among others through the network of over seven thousand post offices, some of which are located in small villages where no banks exist, thanks to which Bank Pocztowy has played a crucial role in educating their citizens about finance and access to modern financial services.

Following recent shareholders' decisions, all profits generated by the Bank have been invested in its further development. Additionally, the Bank has obtained PLN 650 million from issues of long-term bonds to fund its further growth. The success of these issues and attractive terms obtained clearly indicate that financial market players perceive Bank Pocztowy as a trustful and safe business.

As Supervisory Board Chairman, I am sure that Bank Pocztowy is well prepared to fulfil its mission and key strategic objectives in subsequent years.

Please be assured that Supervisory Board will provide its continuous support in achieving these stretch goals.

Z poważaniem,

Przewodniczący Rady Nadzorczej

Letter from the Chairman of the Management Board

Szymon Midera

**Deputy Chairman
of the Management Board
acting Chairman
of the Management Board**

The year 2014 was another important period for development and value increase of Bank Pocztowy. Most importantly, in 2014 the Bank Pocztowy Capital Group hit a record in terms of financial performance. The net profit amounted to PLN 43.6 million, being 21% higher than in the prior year.

This is the best performance in the 25-year history of Bank Pocztowy. Comprehensive income reached PLN 332 million, being 13% higher than in 2013, despite low interest rates that negatively affected Bank's key income source, i.e. net interest income.

On the other hand, cost management was efficient enough to reduce the cost/income ratio to 65.3%, i.e. to the level 6.6. p.p. lower than in the prior year.

An increase in the scale of Group's operations was among key factors contributing to the improved performance. Clients considered our credit offer attractive, and at the end of 2014, Bank's gross credit receivables increased to PLN 5.3 billion. At the end of December 2014, the value of clients' deposits in Bank Pocztowy reached PLN 6.5 billion, i.e. 4.2% more than in the prior year. Stable retail deposits accounted for a major portion of the balance. At the same time, Bank's clients opened 240,000 new current accounts.

Substantial changes have been introduced to our product offer and organizational structure. I would like to draw your attention to new products, to include a bank account with indefinite zero maintenance payment guarantee, the first one in Poland, loyalty programs for *Konto Nestor* or a new group of investment funds. The changes in our offer have been appreciated both by the market and clients, as proven by a number of awards granted to our products, in particular personal accounts and cash loans.

In 2014, we determined directions for the Bank Pocztowy Capital Group to be followed in the coming years, and adopted "Activation, profitability, education" strategy. For years, Bank Pocztowy has followed the mission described as simple and easily accessible banking, reflected in transparent communication and risky credit products denominated in foreign currencies being absent from its offer as a result of in-depth analysis of our clients' needs and profiles.

Having adopted the strategy, we have also decided to refresh the logo of Bank Pocztowy. Now it is consistent with the logo of Poczta Polska and indicates our membership in the Poczta Polska Capital Group.

Bank Pocztowy has followed fair and transparent information policy including capital market players. We want to provide our stakeholders with reliable information that explains our financial standing, resources and future plans in a comprehensive manner, as confirmed by the first award in *Best Annual Report* contest for 2013. This is the second consecutive year when our Management Board's Report on the Activities of the Bank was considered the best among Banks and Financial Institutions.

Our reliability and good reputation, appreciated also by investors and supported by promising growth perspectives, contributed to our successful issues of ordinary bonds of PLN 210 million and short-term bonds of PLN 120 million.

During the entire 2014, Management Board of the Bank was supported by the Supervisory Board, whose members were ready to cooperate and share their experience. I would like to express my gratitude to them. Further, I want to thank our Employees, whose professional approach and hard work have been reflected in our superb performance.

Now we are entering a new challenging year with stretch business goals determined. We plan to open 300,000 *Pocztowe Konto ZawszeDarmowe* and *Nestor* accounts. This will place us among top market players in terms of winning new clients. We plan rapid progress of cash lending campaign and conclusion of loan agreements for the total of PLN 1 billion. Further, we will introduce our own offer of investment funds, which will make our savings investment offer even more attractive for clients.

I strongly believe that we will succeed with implementation of these plans and in a year, I will be able to tell you that we have made another important step in implementing the long-term development strategy of Bank Pocztowy, bringing benefits to our stakeholders.

Yours faithfully,

Wiceprezes Zarządu
Pełniący obowiązki Prezesa Zarządu

Summary of the year

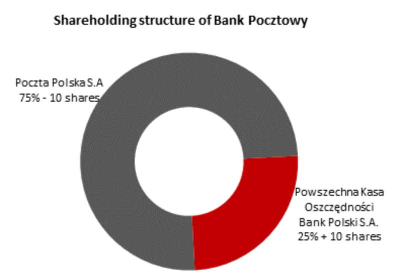
"In 2014 the Bank Pocztowy Capital Group hit a record in terms of financial performance. This is the best performance in the 25-year history of Bank Pocztowy.
- Szymon Midera
Deputy Chairman of the Management Board
acting Chairman of the Management Board of Bank Pocztowy

332.3 PLN million income +12.9% y/y	43.6 PLN million net profit +21.1% y/y	7.7 PLN billion balance sheet total +4.6% y/y
1.25 million consumers As at 31.12.2014	177.9 thousand microenterprises served As at 31.12.2014	218.7 thousand new consumers and microenterprises attracted In 2014
6.5 PLN billion deposits As at 31.12.2014	5.3 PLN billion gross loans As at 31.12.2014	1,633 FTEs As at 31.12.2014

General information about the Bank Pocztowy S.A. Capital Group

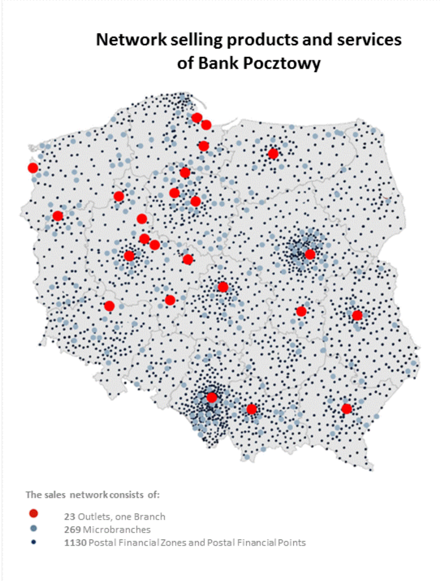
Bank Pocztowy (Bank) is a versatile entity providing safe and transparent financial services through the network of Poczta Polska, its own outlets countrywide and through remote contact channels.

The mission of the Bank, the parent of the Bank Pocztowy Capital Group (Bank Pocztowy Group, Group) is defined as "simple and @ccessible banking". For clients, this means easily understandable financial products and services adjusted to their needs, friendly environment, clear procedures and transparent communication. Bank Pocztowy focuses on consumer banking and provides a supplementary offer for microenterprises. At the same time, the Bank pays special attention to the educational aspect of its operations. We have carried out a broad campaign aimed at improving clients' understanding of finance and use of remote access channels to the Bank.

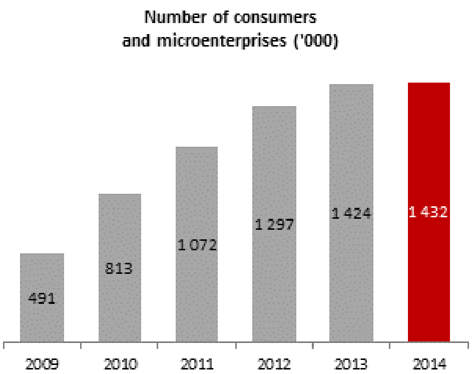


Poczta Polska S.A. is the key shareholder and business partner of Bank Pocztowy holding 75%, i.e. 10 shares in its share capital. Powszechna Kasa Oszczędności Bank Polski S.A. also holds shares in the bank (25% - +10 shares).

Thanks to the strategic alliance with Poczta Polska, the Bank's services and products are available in ca. 7.3 thousand sales points (post offices, branches and agencies) countrywide. Apart from Poczta Polska, Bank Pocztowy offers its services and products through 293 own outlets, electronic distribution channels (online and telephone banking) and a network of mobile agents of its subsidiary – Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. Additionally, the Bank's products are distributed by 23 thousand postmen and other agents. The wide distribution network constitutes a unique competitive advantage of the Bank.

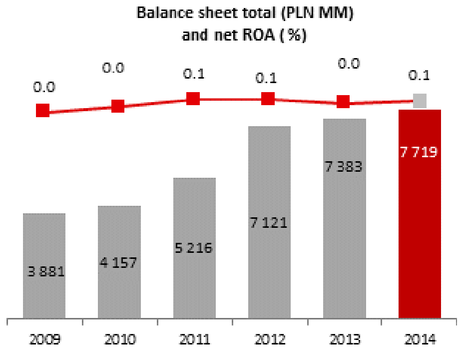


At the end of 2014 the Bank provided services to 1,432.3 thousand consumers including microenterprises. In 2014 it acquired 218.7 thousand new clients in this group, contributing to the process of preventing financial exclusion, which is a socially adverse phenomenon observed in Poland. Consumers with stable income and low insolvency risk constitute a substantial portion of Bank's clients. The client group includes elderly people, who accounted for 34.1% of all retail clients of the Bank at the end of 2014. We served over 15.4 thousand of entities in the institutional banking client group.



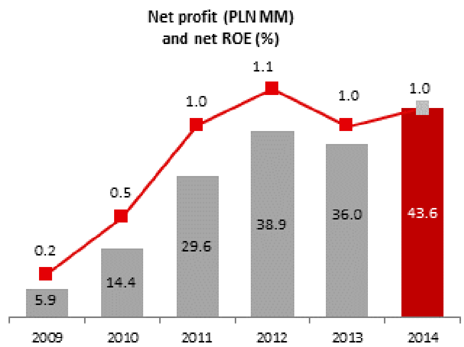
In 2014, the Group generated a net profit which was 21.1% higher than in the prior year, thus improving ROE by 0.9 p.p. to the level of 10.5%.

As at 31 December 2014, the balance sheet total of the Group amounted to PLN 7,719.0 million and represented 0.5% of the total assets of the Polish banking sector[1]. Gross loans and advances to customers reached PLN 5,325.7 million. Liabilities to Group's clients amounted to PLN 6,492.0 million, including over 71.6% of funds obtained from the consumer sector.



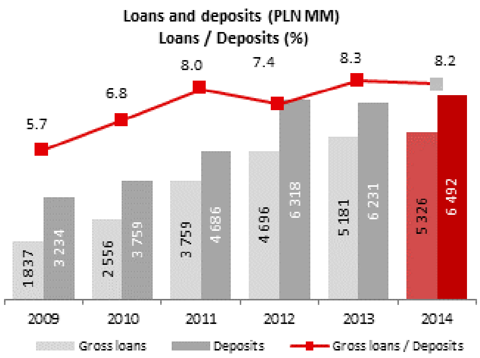
Following its dynamic growth reported in recent years, Bank Pocztowy, the parent in the Capital Group, managed to gain an important position in selected segments of the Polish banking sector. With the share of 2.8%, the Bank has gained an important position on the current account market[2]. In 2014, the Bank managed accounts for 6% of elderly Poles[3], considering a low demand for banking services in this customer group.

During 2014, the Group maintained its liquidity ratios on safe levels, and its capitals were adequate to the scale of operations. At the end of the year the relation of loans and advances to deposits stood at 82.0%. In December 2014 the solvency ratio for the Group amounted to 13.4%, and Tier 1 reached 10.1% (improvement by 0.4 p.p.).



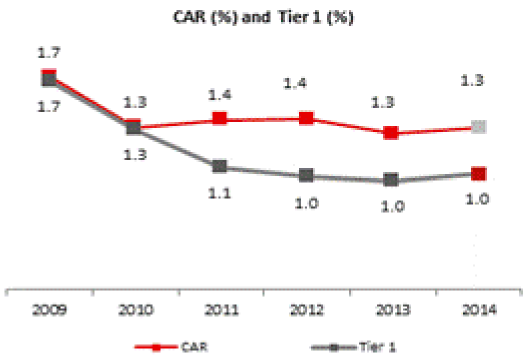
At the end of 2014 employment in the Group reached 1,633 FTEs.

Bank Pocztowy's bonds have been listed with *Catalyst*. Bank's position as a responsible issuer caring for high standards of communication with capital market has been proven with the first award in The *Best Annual Report* contest for 2013 in the category *Banks and Financial Institutions*.



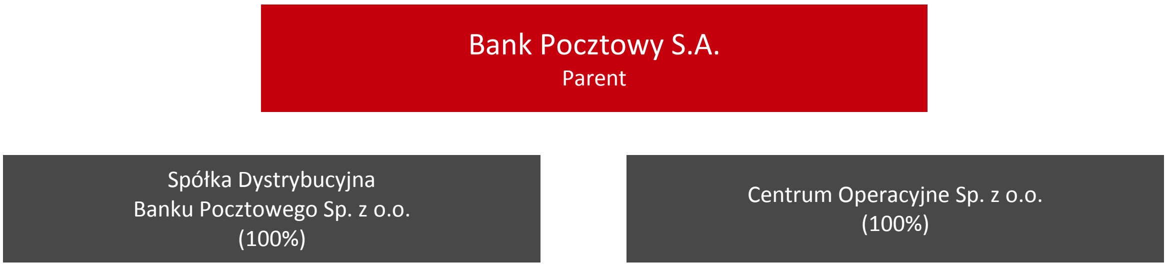
Subsidiaries of the Bank Pocztowy Group play an important role in implementing the strategy of the Capital Group. They include:

- Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o., whose key objective is to support distribution channels of Bank Pocztowy and access prospect clients from remote locations.
- Centrum Operacyjne Sp. z o.o. (Centrum Operacyjne), providing professional services in process administration for products and services for entities in the financial sector.



[1] Source: PFSA Monthly data for the banking sector – December 2014.
[2] Source: PRNews.pl Personal account market Q3 2014, 21 November 2014
[3] Source:Main Statistical Office: Number of pensioners at the end of 2014
[4] Source: For Bank Pocztowy WEBIS data, for the banking sector NBP data: Receivables and liabilities of monetary financial institutions, December 2014

Bank Pocztowy Capital Group



Historical background

Bank Pocztowy started operations in 1990. Reactivation of postal banking in Poland was the idea underlying its establishment. To this aim and in order to develop Bank Pocztowy S.A. the GIRO non-cash settlement system was launched to enable fast and easy processing of bulk payments, reduce costs of issuing and circulating cash in the economy and to provide bank services to clients, in particular consumers, through a wide distribution network of Poczta Polska. Therefore, initially the Bank was a typical settlement institution with performance highly related to the volume of settlements with Poczta Polska.

In 1998, transformation into a consumer bank was initiated. The Bank started to reach an increasingly large group of clients through a sales network of Poczta Polska and own branches and sales points. At the same time, it started to launch new products.

In 1999 all post offices provided comprehensive services related to GIRO personal accounts and, additionally, Visa Electron cards to the accounts were offered. In 2003, the Bank launched an online information system. Two years later, in 2005, *GIRO* personal accounts were renamed to *Pocztowe Konto Nestor* for elderly people and *Pocztowe Konto Standard*.

Agreement concluded by Bank Pocztowy and Poczta Polska in 2006 regulating the terms of cooperation between the institutions in consumer banking services was a breakthrough event for the Bank's consumer business. Under the agreement over 2 thousand Postal Financial Points were opened in post offices by the end of 2009 to streamline service provision to the Bank's customers by post office staff. Following the gradual changes and development of the sales network, in February 2010 the number of clients exceeded 500 thousand, in October 2011 it was 1 million, and now it its approaching 1.5 million. Along with the growth in the number of clients, the Bank has consistently improved its profitability, as indicated by a regular increase of its financial profit and ROE.

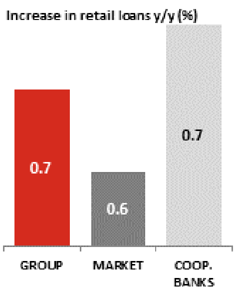
In 2010 the Bank's subsidiaries: Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. and Centrum Operacyjne Sp. z o.o. were established and commenced business activities. As a result ,the Bank Pocztowy Capital Group was set up.

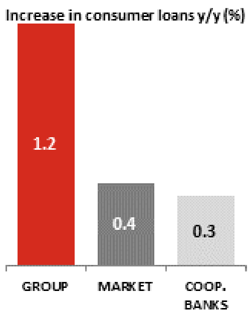
Key data of the Bank Pocztowy S.A. Capital Group for 2009-2014	2009	2010	2011	2012	2013	2014
Balance sheet total (PLN '000)	3 881 000	4 156 609	5 215 801	7 120 653	7 382 745	7 719 027
Loans and advances granted to clients 1/(PLN'000)	1 772 350	2 488 835	3 679 382	4 599 545	5 055 712	5 151 777
Liabilities to customers (PLN'000)	3 233 529	3 759 124	4 685 735	6 317 949	6 230 578	6 492 023
Equity (PLN '000)	281 812	294 968	321 395	361 470	391 765	439 632
Group's income 2/ (PLN'000)	221 495	221 165	258 473	290 255	294 320	332 340
Administrative expenses (PLN '000)	(178 352)	(195 204)	(209 837)	(218 356)	(212 738)	(218 622)
Net impairment losses and other allowances (PLN'000)	(33 804)	(9 673)	(12 877)	(25 099)	(42 398)	(61 013)
Gross profit (PLN '000)	8 096	17 529	37 531	48 665	43 260	55 145
Net profit (PLN '000)	5 907	14 412	29 555	38 949	36 027	43 639
Net ROA (%)	0.2	0.4	0.6	0.6	0.5	0.6
Net ROE (%)	2.1	5.0	9.6	11.4	9.6	10.5
Expenses with amortization (depreciation) / income (C/I)3 (%)	81.0	87.8	80.6	74.7	71.3	65.3
Solvency ratio 4 /(%)	16.9	13.4	13.9	14.0	12.9	13.4
Tier 1 4/ (%)	16.6	13.2	10.6	9.9	9.7	10.1
NPL 5/ (%)	7.2	7.2	5.0	4.7	5.4	6.1
Net interest margin to total assets 6 / (%)	4.2	3.6	4.1	3.8	3.6	3.8
Headcount (FTEs)	1 154	1 323	1 496	1 571	1 700	1 633
Number of outlets (items)	57	74	161	227	295	293
Number of customers and microenterprises ('000)	491	813	1 072	1 297	1 424	1 432

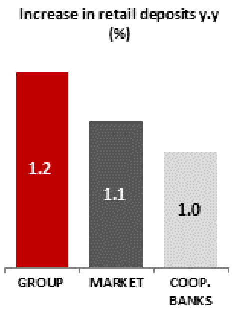
1. *Net loans and advances*
2. *Net interest income, net fee and commission income, gain/loss on financial instruments measured at fair value through profit or loss and realized gain/loss on other financial instruments.*
3. *Income increased by gain/loss on other revenue and operating expenses.*
4. *As at 31 December 2014, CAR and Tier 1 values were calculated in accordance to 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. Pursuant to the above regulations, the Bank has been released from the obligation to determine its consolidated capital requirements. Separate data. CAR and Tier 1 values as at 31 December 2013 were calculated In accordance with Resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 regarding the scope and detailed principles of determining capital requirements due to various risk types (with subsequent amendments). Separate data.*
5. *NPL – the share of impaired loans and advances in the gross credit portfolio.*
6. *Net interest margin calculated as a relation of net interest income for a given year to average assets (calculated as average daily balance of assets).*

The Group benchmarked to the banking sector and cooperative banks[4]

In 2014, operations of the Bank Pocztowy Group focused on development of the retail banking. The growth ratios in retail loans[5], consumer loans[6] and retail deposits[7] were higher than that of the entire banking sector, and amounted to 0.7 p.p., 7.8 p.p. and 1.3 p.p., respectively.



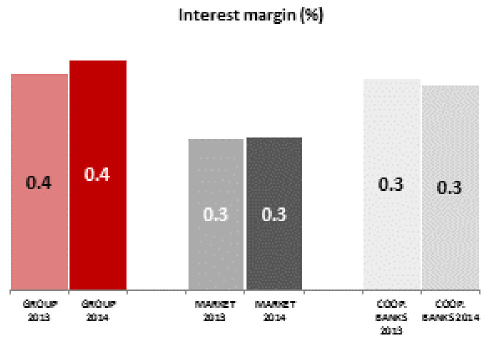


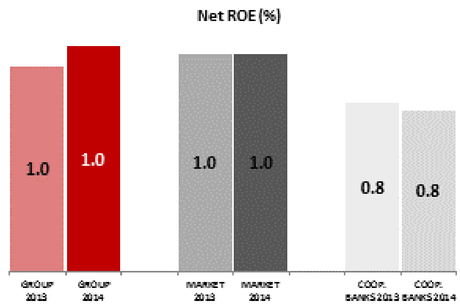


[4] *Source: PFSA, Monthly data for the banking sector, December 2014.*
[5] *Retail loans in the banking sector including foreign operations and cooperative banks – active – sheet Table 03, Gross receivables from non-financial sector, government agencies and self-government bodies. Receivables from households have been classified as retail loans in the banking and cooperative banking sector.*
[6] *Consumer loans in the banking sector including foreign operations and cooperative banks – active – sheet Table 03, Gross receivables from non-financial sector, government agencies and self-government bodies. Consumer loans (private individuals) have been classified as retail loans in the banking and cooperative banking sector.*
[7] *Retail deposits in the banking sector including foreign operations and cooperative banks – active – sheet Table 04, Deposits of non-financial sector, government agencies and self-government bodies. Household deposits have been classified as retail deposits in the banking and cooperative banking sector.*

In 2014, following a growth in the share of highest profitability loans (i.e. consumer loans) in the entire loan portfolio, the Bank saw an increase in the interest margin whose level was substantially higher than the banking sector average. The margin of the Bank Pocztowy Group increased from 3.6% in 2013 to 3.8% in 2014 while in the entire banking sector it remained flat, and in the cooperative banking sector it dropped from 3.5% in 2013 to 3.4% in 2014.

The substantial improvement in the Group's financial performance translated to an increase in net ROE. The banking sector saw a slight growth in ROE, while the cooperative banking sector saw it drop by 0.2 p.p.



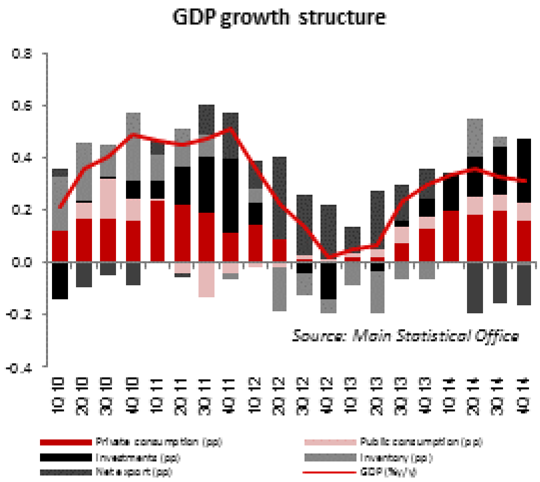


Interest margin, ROE for the banking and cooperative banking sector – the denominator includes the asset level with interest margin and capital level for ROE pertaining to two periods: at the end of the audited period and at the end of the prior year.

1. External factors

1.1 Key trends in the economy

Gross Domestic Product and its components



Despite tough external conditions, among others the Russian-Ukrainian conflict and the economic slowdown in the Eurozone, Gross Domestic Product (GDP) in Poland increased by 3.3% in 2014, i.e. much faster than in 2013 and 2012. The growing domestic demand including consumption and investment was the key factor contributing to the growth. A 9.4% increase in investments was a positive surprise. A consumption growth by 3.0% was supported by an improved standing of the labor market, dropping prices of goods and services, which translated into increased purchasing power of salaries and wages. A decrease in interest rates of the National Bank of Poland making consumer loans attractive also contributed to the positive trend. The year 2014 was the first period in four years with net exports adversely affecting the economic growth in Poland. On the one hand, this resulted from only slight speed up of exports growth compared to 2013 (among others arising from the embargo on Polish products imposed by Russia); on the other hand, it was caused by growing imports (triggered by increased consumption and investments in the economy).

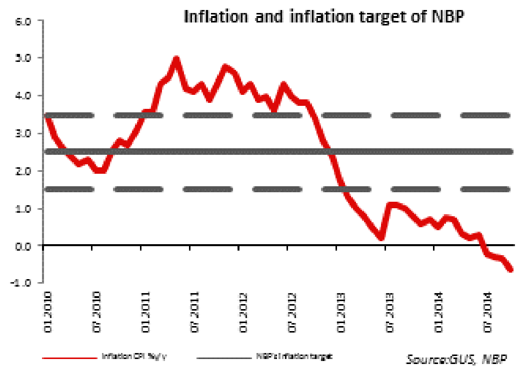
Labor market

In 2014 the condition of the labor market improved significantly. At year-end, the unemployment rate dropped to 11.5% from the level of 13.4% at the end of 2013 and was the lowest since December 2008. The decrease in the unemployment rate was unaffected by a slight economic slowdown in the second half of the year; also, weather (mild winter) in the last quarter of the year positively affected the unemployment statistics.

The employment figures reported by the business sector confirm the upturn in the labor market. In December 2014, 5,549 thousand people worked in the business sector, as compared to 5,491 thousand in December 2013. Employment in the business sector grew during the entire 2014 and in December reached the growth rate of 1.1%. The increase positively affected domestic demand. New jobs resulted among others from the investment activity increase in the sector.

In 2014, the growth in employment (unemployment reduction) was accompanied with an increase in salaries and wages in the business sector. While in 2013 average salary growth rate reached 2.9%, in 2014 it increased to 3.7%. Thanks to a zero inflation level, the actual salary increase in companies also reached 3.7% in 2014.

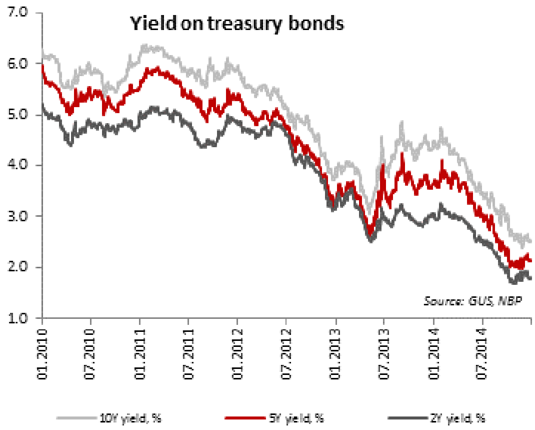
Inflation



In 2014 average annual inflation amounted to 0.0% versus 0.9% a year before. Following the Moscow – Kiev conflict and the Crimean crisis, EU member states and the U.S. imposed visa, financial and economic sanctions on Russia, to which it responded appropriately. Embargo imposed by Russia on foodstuffs has proven the most harmful, both for Poland and other EU member states. Accompanied with good yields, it has resulted in oversupply of foodstuffs and reduction in their prices. As a result, in July 2014, Polish economy saw the first ever case of annual deflation. No regulated price increases in the second half of 2014 and a rapid decrease in global crude oil prices resulting from its oversupply and no supply reduction by OPEC increased the deflationary processes and as a result, the annualized CPI ratio dropped to 1.0% in December 2014. Thus, it significantly differed from the bottom value of deviation from the inflation objective determined by the National Bank of Poland. In 2014 core inflation (excluding food and electricity prices) amounted to 0.6% versus 1.2% in 2013, while in December 2014 the ratio dropped to of 0.5% year-on-year.

Public finance and the treasury debt securities market

The year 2014 was a good time for Polish public finance. Despite an inflation drop in the first half of the year, followed by growing deflation in the second half of the year, the budgetary deficit amounted to PLN 29.5 billion according to draft calculation by the Ministry of Finance compared to PLN 47.5 billion projected in the Budget Act for 2014. The realized income amounted to 101.9%, while expenditure to 96.1% of the planned level.



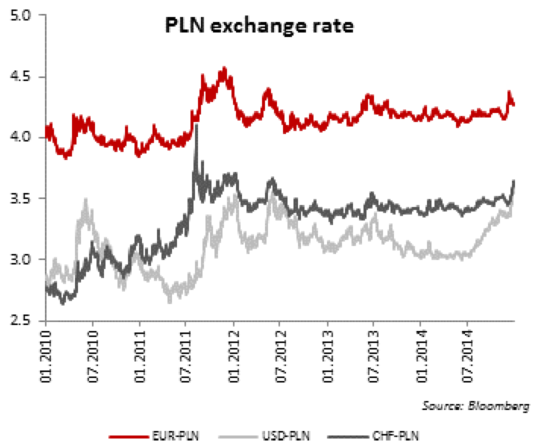
At the end of Q3 2014, public debt amounted to PLN 802.1 billion (46.8% of GDP) vs. PLN 882.3 billion (53.1% of GDP) at the end of 2013.

The improved standing of the public finance in 2014, advance funding of debt demand in 2013 (25% at the end of December) and a large scale of funding of annual debt early in 2014 (60% at the end of February) allowed the Ministry of Finance's flexible management of the treasury bonds supply in the subsequent months, adjusting its structure to market conditions. Limited supply of debt securities accompanied with an interest rate reduction formerly announced and implemented in October by Monetary Policy Council contributed to a growing demand for Polish Treasury securities. Finally, at year-end, yield on two-year bonds was 1.77% (vs. 3.03% at the end of 2013), yield on five-year bonds was 2.15% (vs. 3.65% at the end of 2013) and yield on ten-year bonds was 2.54% (vs. 4.35% a year before).

Exchange rates

In 2014, decisions and communications of European Central Bank (ECB) and American Federal Reserve (Fed) along with Russian-Ukrainian conflict and the related visa, financial and economic sanctions, Ebola epidemic, establishing of ISIS and a rapid decrease in global crude oil prices were the key factors affecting forex rates. Deterioration in relationships between the West and Russia caused by the Ukrainian crisis further slowed down economic growth in the Eurozone through a decrease in prices of goods and services.

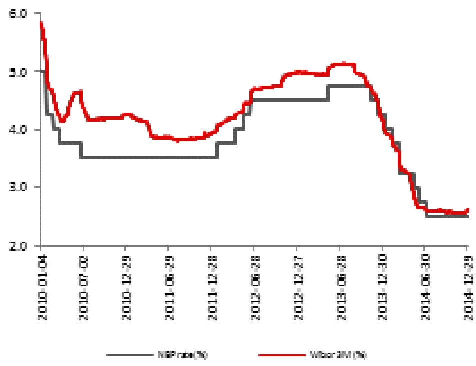
As a result, ECB reduced interest rates by the total of 20 basis points in June and September 2014 (the reference rate to 0.05% and deposit rate to -0.20%). Further, ECB announced non-standard measures aimed at the triggering of economic growth and inflation, among others in the form of long-term TLTRO for banks, buyback of asset-backed securities and asset-backed bonds. At the same time, Fed continued the quantitative easing policy commenced in 2013, gradually limiting the QE3 program, which was finally closed in October 2014. Following a visible improvement of the labor market and the economy as a whole, Fed signaled its readiness to increase interest rates in the U.S. in 2015. These measures resulted in an increase in the exchange rate of USD to EUR and other currencies, to include PLN. At the end of 2014, USD/PLN rate was 3.52. The PLN/EUR rate remained stable for most of the year. Only in December, following an increase in global risk aversion and a drop in the value of RUB, it decreased. At the end of 2014 the PLN/EUR exchange rate stood at 4.28.



Monetary policy

For most of 2014, Monetary Policy Council maintained interest rates flat, including the reference rate at 2.50%. Following the escalation of Russian-Ukrainian conflict and the risk of economic slowdown, in June 2014 Monetary Policy Council indicated the possibility of further interest rate reduction. Following the imposing of economic sanctions against Russia by the EU and U.S. and Russia's strong response in August, in October Monetary Policy Council decided to reduce the reference rate by 50 basis points (to 2.00%), bill of exchange rediscount rate by 50 b.p. (to 2.25%), lombard rate by 100 b.p. (to 3.00%), leaving the deposit rate unchanged (on the level of 1.00%). At the same time, Monetary Policy Council might further adjust the monetary policy to growing deflation processes should market standing deteriorate. Interest rate reduction by the National Bank of Poland translated into lower market rates in 2014. At the end of 2014, WIBOR 3M amounted to 2.06% versus 2.71% at the end of 2013.

WIBOR 3M and NBP rate

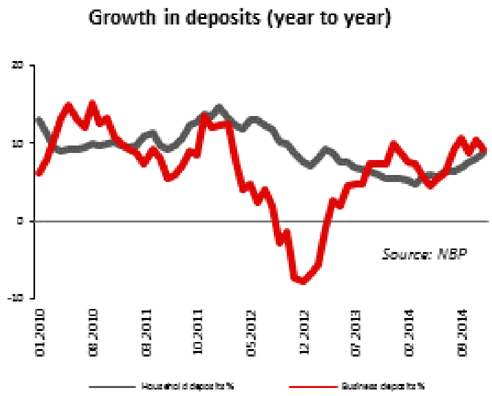


Source: NBP, Bloomberg

Economic ratios	2009	2010	2011	2012	2013	2014
GDP (y/y)	1.6%	3.9%	4.5%	1.9%	1.7%	3.3%
Inflation (period average)	3.5%	2.6%	4.3%	3.7%	0.9%	0.0%
Registered unemployment rate (period end)	12.1%	12.4%	12.5%	13.4%	13.4%	11.5%
Deposits and other liabilities (PLN bn, period end)	625.0	682.0	761.9	797.9	845.9	914.5
- Households (PLN bn, period end)	383.6	421.2	478.0	514.9	543.6	591.6
- Enterprises (PLN bn, period end)	164.9	181.3	203.3	187.8	206.5	225.9
Receivables (PLN bn, period end)	651.7	770.0	880.8	901.1	937.4	1 005.7
EUR/PLN (average exchange rate)	4.32	3.99	4.12	4.19	4.19	4.18
USD/PLN (average exchange rate)	3.11	3.01	2.96	3.26	3.16	3.15
CHF/PLN (average exchange rate)	2.86	2.89	3.35	3.47	3.41	3.44
Reference rate (period end)	3.50%	3.50%	4.50%	4.25%	2.50%	2.00%
WIBOR 3M (period end)	4.27%	3.95%	4.99%	4.11%	2.71%	2.06%

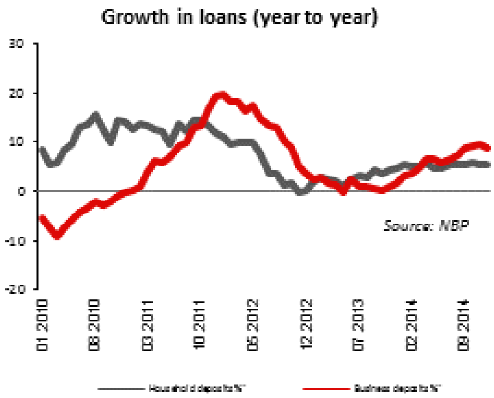
1.2 Situation in the banking sector

Deposits of households and enterprises



At the end of 2014 the total deposits in the banking system amounted to PLN 914.5 billion, i.e. by 8.1% more than at the end of 2013. Deposits held for households stood at PLN 591.6 billion. In 2014 deposits held of households regularly increased and in December reached 8.8% year-on-year (versus 5.6% in December 2013). The deposit growth being higher than in the prior year resulted mostly from an improvement on the labor market, while interest rate reductions by National Bank of Poland adversely affected the attractiveness of investments in the banking sector. In December 2014, deposits of enterprises amounted to PLN 225.9 billion, i.e. increased by 9.4% during the year vs. 10.0% increase in December 2013. A slight slowdown in the growth of corporate deposits resulted from a significant increase in their investment activities.

Loans and advances to households and enterprises



In December 2014, loan receivables in the banking sector totaled PLN 1,005.7 billion, being 7.3% higher than in December 2013. Loans and advanced to households went up by 5.5% up to PLN 593.2 billion. Housing loans in the local currency grew from PLN 170.3 billion in December 2013 to PLN 190.6 billion (i.e. by 11.9%) at the end of 2014. Record low interest rates and an improvement on the labor market positively affected the scale of the new lending campaign. Effective date of the more restrictive Recommendation S falling in 2014, disallowing among others loans funding 100% of real property value was an adverse factor. Mieszkanie dla Młodych (Apartment for Young) program commenced as of 1 January 2014 did not materially affect the lending campaign. The portfolio value of foreign currency loans dropped to PLN 162.2 billion, i.e. was by PLN 3.2 billion lower than at the end of 2013. The decrease in the portfolio value resulted on the one hand from changes in PLN exchange rate, and on the other hand, from the minimized availability of foreign currency loans pursuant to implementation of the more restrictive Recommendation S. Receivables of the banking sector due to consumer loans from individuals increased. In December 2014 they totaled PLN 144.1 billion (versus PLN 138.4 billion in December 2013). The consumer loan volume increase resulted from a reduction in interest rates and more lenient loan terms offered by banks, among others in relation to the observed labor market improvement. In December 2014 the value of loans granted to enterprises was PLN 298.5 billion versus PLN 274.6 in December 2013 (8.7% growth). The clear speed up of the lending campaign in the enterprise sector resulted from an increase in investments made by this sector. Attractive interest rates were among factors encouraging investment loans.

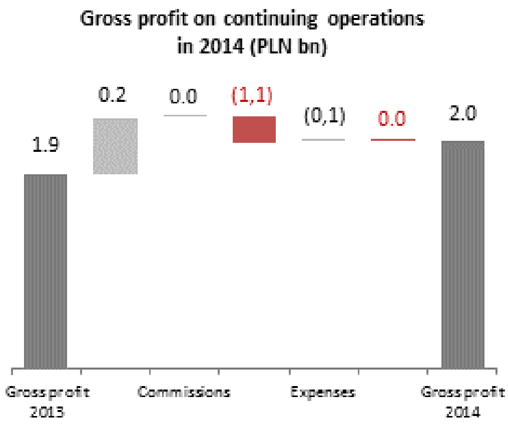
Interest rate on deposits and loans

In October 2014 Monetary Policy Council reduced interest rates. The reference rate was reduced to the lowest level in history (i.e. down to 2.00%), while the lombard rate to 3.00%, which materially affected the interest rates on loans and deposits, in particular in Q4 2014.

According to the data of the National Bank of Poland, in 2014 the average interest rate on new deposits of households in PLN amounted to 2.31% versus 2.59% in 2013. Average interest on new deposits of enterprises amounted to 1.92% as compared to 2.32% in the previous year. Average interest on new loans granted to households in the Polish zloty in 2014 stood at 7.36%, having dropped by 1.84 p.p. versus the end of 2013. As for loans for households, the interest on housing loans amounted to 4.70% (versus 5.16% at the end of 2013), and interest on consumer loans reached 9.45% (13.05% at the end of 2013). In the business sector, the interest on new loans in the local currency amounted to 3.54% at the end of 2014, while in 2013 it was 4.43%.

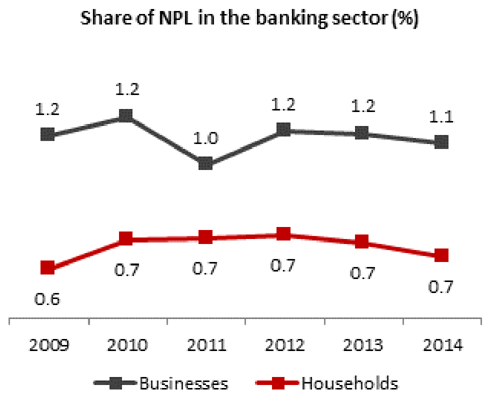
Financial performance of the banking sector

In 2014 the banking sector in Poland remained stable despite difficult external conditions. Banks generated net profit of PLN 16.4 billion, i.e. 7.0% higher than in 2013[8]. Banking sector performance was affected by:



- An increase in the banking profit accompanied with a drop in operating expenses. They decreased despite a growth in annual and prudence fees payable to the Banking Guarantee Fund, IT, payroll and marketing expenses. On the other hand, costs of external services and employee expenses related to pensions were reduced;
- An increase in interest income; following interest rate reduction by Monetary Policy Council in October, Q4 2014 was marked by re-adjustment of loan and deposit policies of banks to operating with record low interest rates. As a result, interest expenses were substantially reduced, which was accompanied by a much smaller reduction in interest income;
- An insignificant increase in profit on fees and commissions and a material decrease in profit on other banking operations. Poor performance on fees and commissions was related among others to changes in accounting policy involving recognition of bancassurance revenue, which resulted in its reduction. Banks counteracted the trend through increases in certain fees and commissions. A decrease in profit on other banking operations resulted from reduced gains on sales of debt instrument portfolios;
- An increase in the balance of allowances and provisions, resulting mostly from a growth in allowances for consumer loans, other household loans and an increase in allowances on non-financial assets and the scale of recognized provisions. On the other hand, allowances for receivables from the business sector accompanied with an IBNR (incurred but not reported) gain were observed.

The share of impaired receivables in the total receivables from the non-financial sector dropped from 8.5% in December 2013 to 8.1% at the end of 2014[9]. The year 2014 also saw an improvement in the quality of credit exposures of banks to enterprises and households.



Following allocation of a portion of profits for dividend payment and successful lending campaigns, the solvency ratio of the domestic banking sector dropped from 15.7% in December 2013 to 15.3% in December 2014. At the end of 2014, Tier 1 ratio was 13.8% (13.9% the year before).

Banks continued with measures aimed at efficiency improvement through optimization of headcount and sales networks. As a result, a medium headcount drop in the banking sector was observed (by 1.6 thousand people) and a reduction in the sales network (by 243 outlets).

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[8] *Source: PFSA, Monthly data for the banking sector, December 2014.*
[9] *Source: NBP, Section:Financial data for the banking sector, file Receivables.*

1.3 Capital market

Stock market (WSE main market and ASO New Connect market)
At Warsaw Stock Exchange (WSE) the year 2014 was pretty disappointing, since it was marked by a side trend. In 2014, WIG20 dropped by 3.5% and WIG increased by approx. 0.3%. A pension system reform and the related marginalization of Open-Ended Pension Funds, as well as the Ukrainian conflict and the following increase in geopolitical risk in Europe are the reasons. During the 12 months of 2014 four out of eleven stock exchange indexes increased. WIG-Energia saw the biggest growth (by 23.6%), while WIG-Spożywczy lost the most (-20.0%).

591.2
PLN billion value of domestic companies listed with WSE
- 0.4 % y/y

At the end of December 2014 the value of Polish firms listed at the Warsaw Stock Exchange reached PLN 591.2 billion and was by 0.4% lower than in December 2013. In 2014 companies chose the capital market as the source of financing growth more often than a year before. During 2014, 28 companies debuted with the Stock Exchange, as compared to 23 IPOs in 2013.

Investors were less active. Shares worth PLN 232.9 billion changed hands as result of session transactions, i.e. by 9.1% less than in the previous year.

In 2014 total capitalization of companies decreased (17.3% y-o-y), as did the value of offers (32.3% y-o-y) on the over-the-counter market. In 2014, NewConnect saw 22 IPOs, and ten companies (the biggest number in the history of this market) moved to the WSE Main Market. This affected among others the number of companies on the over-the-counter market: at the end of 2014, 431 companies were listed compared to 445 at the end of 2013.

On 2 January 2014, WSE commenced publishing of new derivative indexes to WIG30 introduced in September 2013: WIG30short and WIG30lev. Since 24 March 2014, WIG50 and WIG250 have been published. The implementation of UTP was continued to include UTP-Derivatives. The year 2014 brought new draft WSE projects, including stock options, binary and monthly options, electricity futures settled on cash basis and diversification of commodity exchange transactions to go beyond electricity and property titles trading. 20 June 2014 was the last day of quoting WIG20 futures with PLN 10 multiplier. Since 23 June 2014 WIG20 futures traded have been limited to those with PLN 20 multiplier.

Bonds market (Catalyst)
The Catalyst market also saw a reduction in the quoted stock issues. At the end of December 2014, the value of debt securities of 193 issuers traded on the Catalyst market reached PLN 544.6 billion, while at the end of December 2013, debt securities of 176 issuers reached PLN 619.1 billion. In 2014, the value of corporate bonds issued with Catalyst reached PLN 60.9 billion, while the value of municipality bonds reached PLN 3.2 billion, and of the State Treasury Bonds PLN 480.5 billion. In 2013, the value of each instrument type issue reached PLN 55.8 billion, PLN 3.1 billion and PLN 560.2 billion, respectively.

In 2014, 191 entities debuted on Catalyst market compared to 196 entities in 2013, with the highest IPO value (expressed as the total value of bonds included in the motion) reached EUR 500 billion vs. PLN 1.0 billion in 2013.

During 12 months of 2014, TBSP Index (Treasury BondSpot Poland) increased by 9.45% vs. 1.98% in 2013. The scenario resulted mostly from the Ukrainian conflict, which first deteriorated the assessment of the Polish and European economy, thus turning investors' attention to bonds as safe securities, and then progressed to mutual sanctions imposed by Russia and Europe, which further deteriorated inflation and GDP ratios. Additionally, interest rate reduction by Monetary Policy Council in October 2014 contributed to further growth in valuation of treasury bonds.

Investment funds' net assets

After the successful 2013, where assets managed by domestic investment funds increased by 29.6%, in 2014 the growth in assets was nearly three times lower and reached 10.4% with the final assets value of PLN 208.9 billion. The slowdown resulted mostly from reduced interest in funds on the clients' side. Securitization funds saw the biggest growth (on non-public market) generating profit on the receivables market. Their asset value increased by nearly PLN 1 billion (60%) during the year. In 2014, the average return rate of national investment funds was 1.82%.

1.4 Macroeconomic factors potentially affecting the Group's performance

Domestic demand will be the key driver of the economic growth in Poland in 2015

GDP growth by approx.3.6%

According to the Bank, the macroeconomic situation shall slowly but steadily improve in 2015. The economic growth rate should increase to 3.5-3.6% of GDP. Domestic demand shall continue to grow, while the Russian-Ukrainian conflict and poor economic growth in the Eurozone shall further hamper export of goods and services. An increase in internal demand shall result from a growth in both consumption and investments. Consumption should be supported by further improvement of the labor market standing (payroll and employment growth) and with deflation, which will maintain at least through the first half of the year and increase the purchasing power of salaries. The increasing interest in household consumer loans due to attractive interest offered should also improve consumption. The lenient monetary policy to be continued by the Monetary Policy Council and disbursement of EU funds for 2014-2020 Perspective should positively affect the investment level. The Bank expects that at the end of 2015 the reference rate will remain at 1.50%.

New regulations will also apply and they will affect financial performance of the banking sector in Poland and the Group, in particular:

Regulation	Change description	Effect on the Group
Act of 28 November 2014 amending the act on payment services (Journal of Laws of 2014 item 1916).	The Act provides for a reduction in the maximum statutory interchange rate to 0.2% for debit cards and to 0.3% for credit cards.	Fee and commission income
Resolution No. 28/2014 of the Banking Guarantee Fund Council of 19 November 2014 determining the rate of the 2015 annual fee payable to the Banking Guarantee Fund through entities subject to the obligatory guarantee system.	The Banking Guarantee Fund Council determined the annual fee for 2015 as 0.189% of the product of the total of capital requirements pertaining to each risk type and to the exceeding of limits and other standards determined in the Banking Law and 12.5.	Administrative costs
Resolution No. 29/2014 of the Banking Guarantee Fund Council of 19 November 2014 determining the rate of the 2015 annual fee payable to the Banking Guarantee Fund through entities subject to the obligatory guarantee system.	The Banking Guarantee Fund Council determined the prudence fee for 2015 as 0.05% of the product of the total of capital requirements pertaining to each risk type and to the exceeding of limits and other standards determined in the Banking Law and 12.5.	Administrative costs
Resolution No. 148/2013 of the Polish Financial Supervision Authority dated 18 June 2013 on issuing Recommendation S on	According to PFSA guidance, since January 2015 own contribution required for real property purchases credited by banks has been increased from 5% to 10% of	Impairment losses

good practices in managing mortgaged credit exposures (Official Journal of the Polish Financial Supervision Authority of 2013, item 23).	the property value.	
Resolution No. 183/2014 of the Polish Financial Supervision Authority dated 24 June 2014 on issuing Recommendation U concerning good practices in bancassurance (Official Journal of the Polish Financial Supervision Authority of 2014, item 12).	In particular, banks shall be obliged to ensure client's freedom of choice regarding the insurer. Banks cannot act as insurers and insurance agents at the same time, while their fee for the insurance products offered shall be determined proportionally to the costs incurred by them. Recommendation U was issued to improve the standards of cooperation between banks and insurance companies with regard to offering clients insurance products through banks and determining conditions for stable long-term bancassurance market development. Banks shall be obliged to implement Recommendation U by 31 March 2015.	Fee and commission income, fee and commission costs, Bank's offer
Resolution No. 218/2014 of the Polish Financial Supervision Authority dated 22 July 2014 on issuing "Corporate governance principles for supervised institutions" (Official Journal of the Polish Financial Supervision Authority of 2014, item 17).	The purpose of the principles is to improve corporate governance standards in financial institutions and transparency of their operation. The document determines shared principles for entities from all financial market sectors supervised by PFSA, ensuring their proportional application due to the scale, nature of each entity and business specifics. PFSA expects the principles to be introduced as of 1 January 2015.	Changes in corporate governance principles applied

Moreover, works and negotiations have been carried out on the following issues:

Project name	Projected changes	Projected effect on the Group
Act amending the Banking Law and certain other acts	The projected act is to transpose 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 (CRD IV) to the Polish law.	Corporate governance, remuneration policy, capital adequacy
Act on the Banking Guarantee Fund, resolution of banks and amendment of certain other acts	The project includes a new fee for so-called fund for resolution of banks.	Administrative costs
Act on insurance and reinsurance activities	The new regulation shall enable PFSA to ban or limit distribution of certain insurance investment products, certain financial activities, insurer or reinsurer practices.	Fee and commission income and expenses
Act amending the Tax Ordinance and certain other acts	The Ministry of Finance commenced the legislation procedure aimed at implementing of requirements arising from Agreement between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA. FATCA is a set of regulations combatting tax evasion by American taxpayers using foreign bank accounts. FATCA is to prevent using foreign financial institutions to conceal income and build aggressive tax planning structures by American taxpayers.	Ministry of Finance is obliged to transfer to the U.S. data regarding bank accounts held by American taxpayers (i.e. in particular individuals holding American citizenship, born in the U.S.,

	For countries not joining FATCA, all financial transfers from the U.S. to foreign financial institutions are charged with 30% withholding tax.	having the status of U.S. residents, residence or correspondence address in the U.S.)
Recommendation P regarding the system of monitoring financial liquidity of banks	The projected Recommendation P includes international guidelines and implementation of recommendations regarding in particular: determining the tolerance of bank's liquidity risk, recognizing the full scope of all liquidity risk types, to include the risk of unexpected need for liquidity, stress-tests and their functional relation to liquidity emergency plans, security management, maintaining an encumbrance-free buffer, high quality liquid assets, using the mechanism of allocating costs, revenue and liquidity risk under the internal transfer pricing system, mid-day liquidity management, disclosing of information regarding bank's liquidity.	Bank's liquidity, stress-tests, liquidity emergency plan

Other challenges for the Polish banking sector in 2015 may include:

- Risk of deflation in Poland lasting longer than Q3 2014 and increasing due to a drop in global prices of supplies (including crude oil) and agricultural products. In such a case, Monetary Policy Council may further reduce interest rates, including the lombard rate. Reducing interest rate to another record level would strongly affect banks' revenues.

- Fed discontinuing its easement policy faster than expected. This would have an adverse effect on the exchange rate of PLN and value of domestic treasury securities. It would also lead to higher costs of servicing public debt and limited possibility to finance business investments.

- Translation of mortgage loans granted in CHF in recent years. Possible mass translation of loans granted in CHF would force banks to purchase large amounts of the Swiss currency, thus resulting in devaluation of PLN. Rapid devaluation of PLN vs. CHF and other currencies would result in imbalance on financial markets, threaten the stability of the financial system and the economy.

- Further reduction of interest rates by Swiss Central Bank (SNB). Although this would reduce the value of CHF vs. other currencies, to include PLN, and improve lenders' ability to pay their liabilities to banks, LIBOR CHF rates getting more and more negative would affect banks holding large portfolios of CHF-denominated loans.

1.5 Regulatory environment

In 2014, the financial and organizational condition of the Group was affected by the following amendments of law:

Regulation	Change description	Effect on the Group
1. 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 (CRD IV) 2. Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 29 June 2013 on	CRD IV regulates issues regarding among others incorporation of banks, capital buffers, supervision, corporate management and corporate governance in banks and investment firms. CRR Regulation includes provisions regarding among others own funds, capital requirements, liquidity and leveraging. CRD IV as a Directive is transposed to domestic regulations by member states, while CRR as an EC Regulation has been directly effective as of 1 January 2014 including transition periods, which reach as far as to 2021 and monitoring periods for selected areas. Further, CRD IV and CRR obligate European Banking Authority (EBA) to prepare a number of technical	Capital adequacy, liquidity of the Bank, corporate governance, remuneration policy Transaction settlement,

prudential requirements for credit institutions and investment firms and amending the Regulation (EU) no. 648/2012 (CRR Regulation).	standards to be an integral part of the regulation and be published in EU Official Journal.	capital adequacy
Regulation of the European Parliament and of the Council (EU) no. 648/2012 of 2 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR)	The Regulation determines requirements regarding settlement services and mutual risk management for OTC derivatives, requirements regarding notification of derivative contracts and unified requirements regarding operations of central counterparties and transaction repositories.	Additional obligatory reporting regarding operations of central counterparties. Reporting on transaction repositories shall come into force as of 1 July 2015.
Resolution No. 41/2013 of the Banking Guarantee Fund Council of 22 November 2013 determining the rate of the 2014 annual fee payable to the Banking Guarantee Fund through entities subject to the obligatory guarantee system.	The Resolution has determined the annual fee for 2014 as 0.1% of the total of capital requirements pertaining to each risk type and to the exceeding of limits and other standards determined in the Banking Law multiplied by 12.5.	Administrative costs
Resolution No. 42/2013 of the Banking Guarantee Fund Council of 22 November 2013 determining the rate of the 2014 annual fee payable to the Banking Guarantee Fund through entities subject to the obligatory guarantee system.	The Resolution has determined the annual fee for 2014 as 0.037% of the total of capital requirements pertaining to each risk type and to the exceeding of limits and other standards determined in the Banking Law multiplied by 12.5.	Administrative costs
Act of 30 August 2013 amending the act on payment services (Journal of Laws of 2013 item 1271).	The Act determines the maximum interchange rate for payment transactions using payment cards at 0.5% of the value of an individual payment transaction and eliminates mechanisms that restrict competition on the market of payment card services. The Act entered into force as of 1 January 2014.	Fee and commission income
Resolution No. 7/2013 of the Polish Financial Supervision Authority dated 8 January 2013 on issuing Recommendation D concerning management of IT technology and information technology environment security in banks (Official Journal of the Polish Financial Supervision Authority of 2013, item 5).	The Recommendation contributed to improved quality of management and IT security level in banks, and improved supervision of these areas. Provisions have been introduced regarding among others principles of cooperation between business and technical support areas, data management (including quality assurance), management information system in IT and security and cloud computing, strategic planning regarding IT and security, implementation and modification of existing IT solutions, cooperation with external service suppliers. The Polish Financial Supervision Authority expected that the recommendation would have been implemented by 31 December 2014.	Legislation and organizational work regarding IT and business areas
Resolution No. 148/2013 of the Polish Financial Supervision Authority dated 18 June 2013 on issuing Recommendation S on good	The Recommendation has introduced changes regarding in particular currency loans, maximum loan period, maximum period included in the calculation of creditworthiness, limits imposed in Dtl and LtV,	Interest income Net impairment losses

practices in managing mortgaged credit exposures (Official Journal of the Polish Financial Supervision Authority of 2013, item 23).	the minimum own contribution and clients with irregular or unstable income. According to PFSA guidance, since January 2014 the minimum own contribution required for real property purchases credited by banks was 5% of the property value. The Polish Financial Supervision Authority expected that the recommendation would be implemented by 1 January 2014 at the latest, except for recommendations 6, 9.1, 12, 14.10, 15.8 and 20, which should enter into force by 1 July 2014.

2. Significant events in the Capital Group in 2014

2.1 Growing client base

At the end of 2014 Bank Pocztowy had the total of 1,447.7 thousand clients, including:

- 1,254.4 thousand of individuals vs. 1,246.5 thousand at the end of 2013;
- 177.9 thousand microenterprises, which is comparable to the prior year;
- 15.4 thousand other institutional clients (small and medium enterprises, public sector entities, public benefit institutions). The number of the Bank's clients in the segment slightly decreased.

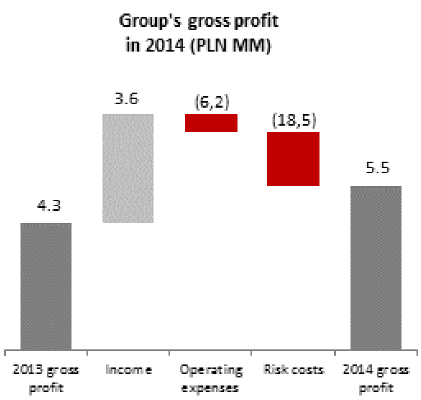
1.45
million
clients of Bank Pocztow

As at 31.12.2014

Following the Bank's actions aimed at stimulating customers to use banking services, such as an introduction of fees for clients who do not use their accounts, an insignificant number or current account holders who did not use their accounts left the Bank. The continuing growth in the number of clients accompanied with closures of inactive accounts has confirmed the efficiency of the Bank's policy regarding its product offer. The policy is based on offering simple, user-friendly products and avoiding complicated procedures and incomprehensible communication.

2.2 Record net profit in Group's history

In 2014 the Bank Pocztowy Capital Group generated a net profit of PLN 43.6 million, i.e. 21.1% higher than the profit generated in 2013. The significant profit growth resulted from a very good performance of the parent entity. In 2014, net profit of Bank Pocztowy reached PLN 48.6 million and was the highest in 25 years of its business operation.



Key factors determining the financial profit or loss of the Group in 2014:

- Rapid income growth (to include revenue and expenses related to other operations). They reached PLN 334.8 million and increased by 12.2% year to year. In the environment with record low interest rates, net interest income increased by 10.0% thanks to a significant growth in new loans extended to consumers. As a result of amending the "Fee and Commission

Scheme" in September 2013, introducing fees for current accounts for inactive clients, the profit on fees and commissions reached PLN 59.7 million, being 43.3% higher than in the prior year.

- Maintaining the cost discipline accompanying further growth of the sales network. In 2014 operating expenses reached PLN 218.6 million and were 2.8% higher than in 2013.
- An increase in impairment loss from PLN 42.2 million in 2013 to PLN 61.0 million (by 43.9%) resulting from recognizing impairment losses on loan receivables. The losses were recognized mostly for consumer loans with relatively high risk cost. Focusing sales on the consumer loan market has resulted from assumptions adopted in the new strategy of the Bank.

As a result of an income growth and cost discipline the cost/income ratio improved and amounted to 65.3% in 2014, i.e. was by 6.0 p.p. lower than in 2013.

In 2014 ROE at year-end was 10.5% and was 0.9 p.p. higher than in the prior year. Net ROA in 2014 reached 0.6% vs. 0.5% in the prior year.

The good financial performance allowed the Group's improving its capital adequacy ratio. As at 31 December 2014 the solvency ratio amounted to 13.4% compared to 12.9% in December 2013. Tier 1 capital ratio of the Group was also good and amounted to 10.1% at the end of 2014. Capital adequacy ratios remained high and exceeded the minimum level recommended by the supervising authority.

Financial performance of the Bank Pocztowy S.A. Capital Group

	2014	2013	Change 2014/2013
Operating income[1] (PLN'000)	334 780	298 396	12.2 %
Operating expenses (PLN '000)	(218 622)	(212 738)	2.8 %
Profit/loss before risk costs (PLN'000)	(216 608)	(210 725)	2.8 %
Net impairment losses (PLN'000)	(61 013)	(42 398)	43.9 %
Gross profit (PLN '000)	55 145	43 260	27.5 %
Net ROA (%)	0.6	0.5	0.1 p.p.
Net ROE (%)	10.5	9.6	0.9 p.p.
Cost/Income ratio (%)	65.3	71.3	(6.0) p.p.
CAR (%)	13.4	12.9	0.5 p.p.
Tier 1 (%)	10.1	9.7	0.4 p.p.

1/ Income including profit on other operating activities.

2.3 Increase in loans granted to individuals

At the end of December 2013 the total gross loans and advances to customers granted by the Bank Pocztowy Group amounted to PLN 5,325.7 million and increased by PLN 145.2 million (2.8%). The Group had a 0.5%[10] share

Loans and advances granted to clients of the Bank Pocztowy S.A. Capital Group (PLN'000)

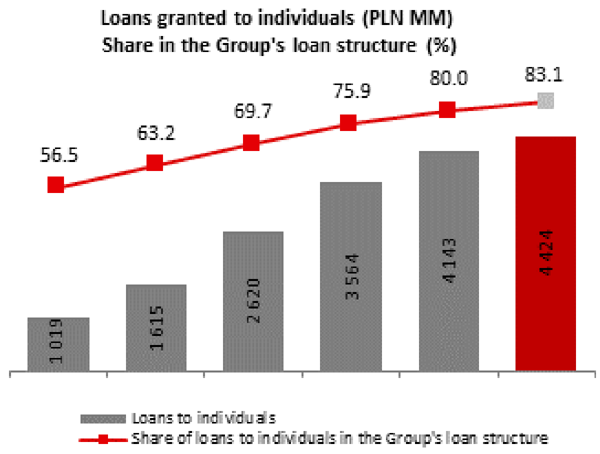
	31.12.2014	Structure (31.12.2014)	31.12.2013	Structure (31.12.2013)	Change 2014/2013 in PLN'000	%
Loans and advances granted to customers (gross)	5 325 685	100.0%	5 180 504	100.0%	145 181	2.8 %
Individuals	4 423 563	83.1%	4 143 207	80.0%	280 356	6.8 %
Institutional clients	598 760	11.2%	680 683	13.1%	(81 923)	(12.0)%
Self-government bodies	303 362	5.7%	356 614	6.9%	(53 252)	(14.9)%
Impairment losses on receivables	173 908	-	124 792	-	49 116	39.4 %
Net loans and advances	5 151 777	-	5 055 712	-	96 065	1.9 %

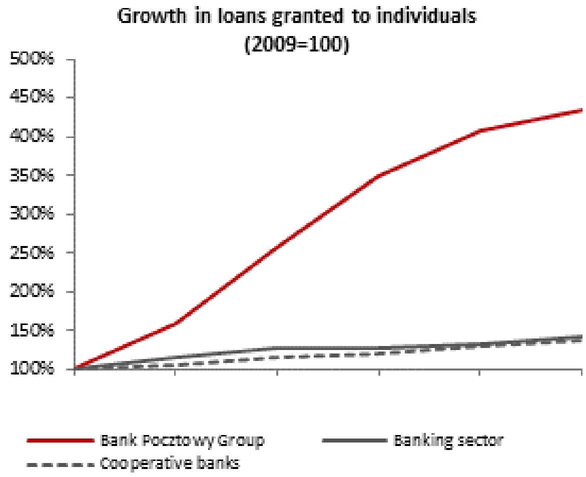
in credit receivables from the banking sector clients.

[10] *Source: PFSA, Monthly data for the banking sector, December 2014.*

In 2014 the Group took steps to optimize its balance sheet structure and increase the share of highly profitable assets. At the end of December 2014 receivables arising from loans and advances granted to individuals amounted to PLN 4,423.6 million and grew by 280.4 million (i.e. by 6.8%) versus the end of 2013. The growth resulted from a growth in the number of new consumer loans, which amounted to PLN 1,925.8 million and grew by 11.8% in 2014.

Following the loan policy adopted, the change in the Group's credit exposure structure followed the changes observed in recent years. First of all, the share of loans and advanced to consumers, i.e. of the largest group in the structure, increased. At the end of 2014 such exposures accounted for 83.1%, i.e. were by 3.1 p.p. higher than the previous year.





The growth in loans and advances to consumers in the years 2009-2014 was much higher than in the entire banking sector and in the group of cooperative banks. The average annual growth rate of the discussed loans in the analyzed period amounted to 34.1% vs. 7.2[11]% growth in the banking sector and 6.7[12]% growth in the group of cooperative banks.

2.4 Increase in consumer deposits

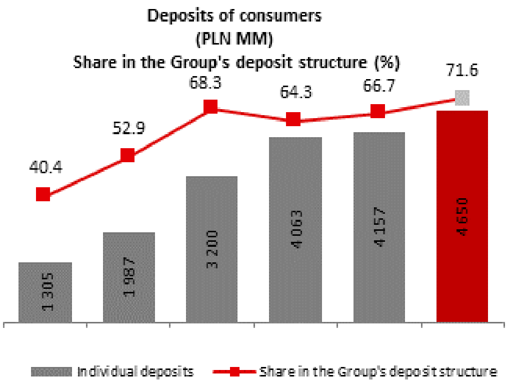
At the end of December 2014 liabilities of the Bank Pocztowy Capital Group to clients totaled PLN 6,492.0 million versus PLN 6,230.6 million at the end of 2013 (a 4.2% increase). The Group had a 0.7%[13] share in credit liabilities to the clients.

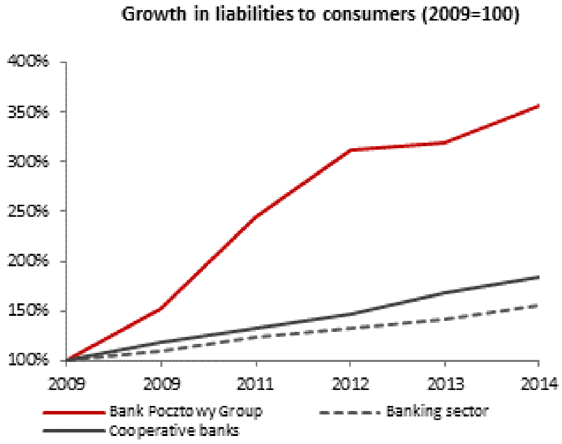
Liabilities to clients of the Bank Pocztowy S.A. Capital Group (PLN '000)

	31.12.2014	Structure (31.12.2014)	31.12.2013	Structure (31.12.2013)	Change 2014/2013 in PLN'000	%
Liabilities to clients	6 492 023	28.4%	6 230 578	33.3%	261 445	4.2 %
Consumers	4 650 326	71.6%	4 157 171	66.7%	493 155	11.9 %
Institutional clients	1 783 872	27.5%	1 974 662	31.7%	(190 790)	(9.7)%
Government agencies and self-government bodies	57 825	0.9%	98 745	1.6%	(40 920)	(41.4)%

[11] *Source: PFSA, Monthly data for the banking sector, December 2014.*
[12] *Source: PFSA, Monthly data for the banking sector, December 2014.*
[13] *Source: PFSA, Monthly data for the banking sector, December 2014.*

In 2014 deposits of consumers grew in the Group up to PLN 4,650.3 million versus PLN 4,157.2 million at the end of 2013 (a 11.9% growth).





The average annual growth in consumer deposits compared to those obtained by the Bank Pocztowy Group in the years 2009-2014 amounted to 28.9%. The average annual growth in liabilities to consumers in the entire banking sector in the same period was 9.4[14]% and 13.1[15]% in the group of cooperative banks.

In the recent years, stable deposits of consumers accounted for two thirds of the total value of deposits.

2.5 Bank Pocztowy Development Strategy 2014-2017

1.5 MM current accounts	60% C/I	15% consolidated net ROE
2017	2017	2017

On 9 June 2014, the Supervisory Board of the Bank approved the "Strategy of Bank Pocztowy S.A. for 2014-2017" which adjusted the direction and pace of Bank's development to current conditions, allowing its further rapid growth and consistent profitability improvement. According to this strategy, the Bank has focused its operations on development of retail banking, i.e. acquisition of consumers and microenterprises. The strategic governing objective is to be the banking leader on the regional level, a multi-channel bank that educates its clients not only about finance, but also about the use of remote banking.

The Bank's mission includes simple and accessible banking. The Bank shall continue:

- Providing comprehensible financial services and products adjusted to clients' needs, friendly environment, clear procedures and understandable communications;
- Offering financial services at affordable prices in the largest access network, through Poczta Polska outlets, Bank's outlets and remote channels.

[14] *Source: PFSA, Monthly data for the banking sector, December 2014.*
[15] *Source: PFSA, Monthly data for the banking sector, December 2014.*

The Bank's vision includes three key areas:

- Being the retail banking leader on the regional level. The Bank is the leading supplier of services in Polish regions, providing full access to financial services countrywide, regardless of the size of human settlements.
- Being a multi-channel bank educating its clients about finance and the use of remote banking. The Bank offers its clients support in all finance-related issues in a manner adequate to their needs and knowledge. It teaches them benefits resulting from Internet and phone contacts with banks.
- Being a competency center of the Poczta Polska Capital Group with regard to banking services and bancassurance. With substantial banking experience, the Bank can efficiently win clients and its offer has been appreciated by opinion-makers.

According to the new strategy, key strategic objectives for 2014-2017 include:

KEY FINANCIAL OBJECIVES 2017	Increase efficiency	15% ROE
	Improve productivity	60% C/I
BUSINESS OBJECTIVES 2017	Increase the number of accounts	1.5 MM current accounts
	Bank Pocztowy to become a leader on the domestic regional level	

These strategic objectives are to be achieved among others through:

- Developing remote access channels (a new www platform, mobile banking, Contact Center as the key channel allowing clients reaching the Bank);
- Changing the Bank's visual identity and brand repositioning;
- Further development of IT: implementing and developing tools that support sales and client service in Poczta Polska;
- Completing the extension of Microbranches;
- Gradual improvement of sales and client service processes.

Further, the Bank shall extend its offer with investment products adjusted to the needs of its key client segments.

Strategic partnership with Poczta Polska shall remain crucial for its strategy, as cooperation between the Bank and Poczta Polska is its key pillar. The Bank shall continue offering its comprehensive services to the Poczta Polska Capital Group. At the same time, the Bank wants to be the competency center and supplier of financial services including banking services, bancassurance and investment products in the Poczta Polska Capital Group. Projects involving development and improved efficiency of IT tools supporting sales in Poczta Polska outlets will be continued.

In order to improve its competitive position, the Bank is going to focus on further growth of e-distribution and e-service channels and IT in the nearest three years. The purpose is to make most clients use remote communication channels within the strategic horizon. Therefore, financial education of clients, now including also benefits of remote banking, has remained a crucial element of the Bank's mission.

Along with the adoption of the new strategy, the Bank has decided to renew its visual identity and adopt the logotype consistent with that of Poczta Polska. The key purpose of the change was to develop an image that would be consistent with Poczta Polska and stress the orientation on shared goals and development within the Poczta Polska Capital Group. Key assumptions regarding the image change were implemented in 2014.

1990	1990 - 2002	2003 - 2005	2006 - 2008	2009- 2014	2014 - ...

The strategy assumes maintaining safe levels of capital ratios. In the years 2014-1017, accumulation of generated net profit in order to maintain CAR above 12% and Tier 1 above 9% will be the key source of capital enhancement. The Bank still aims at increasing its share capitals in the form of capital injection, but this depends on favorable market standing and a positive decision of its shareholders.

Following a decision to focus its operations on retail banking, the structure of loans in the balance sheet shall change. The share of consumer loans and loans to microenterprises will grow. The Bank is going to enhance its lending campaign with appropriate risk management. The assumed share of loans with recognized impairment losses in the credit portfolio (NPL) shall not exceed 11%.

Employees, their involvement, attitudes, behavior and knowledge-sharing motivation are of key importance in successful implementation of the strategy. In 2014 Bank Pocztowy commenced a series of Strategic Tour meetings, during which Management Board members and key managers discussed strategy-related issues. The meetings were held in all regions of Bank's operation: Gdynia, Wrocław, Chorzów, Poznań, Bydgoszcz, Olsztyn and Warsaw. Employees of Poczta Polska participated in these meetings.

2.6 Bond issue

In order to diversify funds for financing new lending, in 2014 Bank Pocztowy issued short-term and long-term treasury bonds:

- Issue of short-term bonds, based on a resolution of the Extraordinary Shareholders Meeting of 26 April 2013 on the issue of short-term, ordinary non-interest bearing bonds. Under the Program the Bank will issue bearer shares with the face value of PLN 300 million with the maturity date from 14 days to 1 year. The issues will not be traded in the over-the-counter Catalyst market of Warsaw Stock Exchange. In 2014, Bank Pocztowy organized 4 issues of short-term bonds:
  - on 2 June 2014 the Bank issued D4 series bonds with the face value of PLN 50 million. The issue covered 500 bonds with the face value of PLN 100,000 each. The issue price was PLN 98,353.00. Bond redemption at face value was carried out on 2 December 2014,
  - on 2 June 2014 the Bank issued D5 series bonds with the face value of PLN 10 million. The series comprised 100 bonds with the face value of PLN 100,000 with the issue price of PLN 98,353.00 each. The Bank redeemed the bonds at face value on 2 January 2014,
  - on 26 June 2014 the Bank issued D6 series bonds with the face value of PLN 30 million. The series comprised 300 bonds with the face value of PLN 100,000 with the issue price of PLN 98,888.60 each. Bond redemption at face value was carried out on 31 October 2014,
  - on 1 July 2014 the Bank issued D7 series bonds with the face value of PLN 30 million. The series comprised 300 bonds with the face value of PLN 100,000 with the issue price of PLN 98,146.10 each. Bond redemption at face value was carried out on 2 October 2014.
- Issue of ordinary B3 series bonds. On 19 August 2014 the Bank issued 4,000 ordinary bearer bonds with the face value of PLN 10,000 each. They are fixed interest bonds determined as 4%. Bond redemption date was set at 20 August 2018. The issue has not been traded in the over-the-counter *Catalyst* market maintained by Warsaw Stock Exchange.
- Issue of ordinary B4 series bonds. On 17 December 2014 the Bank issued 17,000 ordinary bearer bonds with the face value of PLN 10,000 each. They are floating interest bonds determined as WIBOR6M+margin of 145 b.p., equal to 3.50% in the first interest period. Bond redemption date was set at 17 December 2018. It is the Bank's intention to trade its B4 series bonds on the Over-The-Counter market of

the Warsaw Stock Exchange (*Catalyst*).

At the end of December 2014 the total amount of bonds issued by the Bank was PLN 455,190 thousand, including PLN 245,190 thousand of bonds quoted on the *Catalyst* market of Warsaw Stock Exchange.

Bank Pocztowy S.A. provided detailed information on the issue of bonds in its current reports, which are available at the website of the *Catalyst* market and the Bank.

2.7 Awards and distinctions

The year 2014 brought a number of awards and distinctions to the Bank, granted in many categories in industrial rankings and countrywide contests, in appreciation of its product offer, management and communication with stakeholders. Individual awards were also won by the Bank's managers and experts.

Bank Pocztowy was ranked third in a satisfaction survey for Internet users in January 2014. This means one position up compared to the prior year and proves appreciation of service quality and the growing role of Bank Pocztowy on the Polish banking market. The ranking included over 180,000 comments of Internauts, grouped in categories (positive, adverse and neutral) as well as assigned overtones. 92% of all comments about Bank Pocztowy were either positive or neutral. The ranking showed that Internet users particularly appreciated the Bank's credit offer.

Pocztowe Konto Firmowe (PKF) was ranked second in the expert ranking by money.pl. The ranking analyzed 87 corporate accounts offered by Polish banks. This was the third distinction won by PKF. The ranking evaluated 31 parameters of the offer, including price, availability and quality of services offered by the bank.

Consumer and corporate accounts maintained by Bank Pocztowy were considered the best for the selected client groups in rankings prepared among others by bankier.pl portal four times in 2014.

The cash lending offer was also recognized. It won in three listings prepared by bankier.pl. The Bank was in the top four in terms of the best consolidation loan in the rankings prepared by Gazeta Prawna.

Pocztowe Konto Standard won a high position in the ranking prepared by Bankier.pl portal. Its authors compared 51 accounts offered by 27 banks operating on the Polish market. Four types of clients were assumed: Internet client, multi-channel client, traditionalist and VIP. *Pocztowe Konto Standard* was considered the best offer for traditionalists. It was also one of the best accounts for active (multi-channel) clients and was ranked second best.

The Bank was also recognized for the level of its market communications the second consecutive year. It was ranked first in the prestigious The *Best Annual Report* contest 2013 organized by Instytut Rachunkowości i Podatków in the category "Banks and Financial Institutions" and recognized for the best Management Board's report on the activities for the same period. Thus, the fact that Bank Pocztowy, as an issuer of bonds quoted with Catalyst market of Warsaw Stock Exchange, cares for top quality market communication,
among others adopting reporting standards close to those applied by banks quoted with WSE, was recognized.

Bank's managers won individual awards, to include Tomasz Bogus, Chairman of the Management Board, who was granted Crystal Dragon of Success as one of the best managers on the market, in the first edition of the contest. Its winners were selected by a jury composed of representatives of public administration, business and media.

Monika Kurtek, Bank's Chief Economist, was recognized the second consecutive year. In 2014 she won a ranking by Puls Biznesu regarding projected foreign exchange rates. The ranking was based on projections made by analysts in the period of latest 12 months.

3. Activities in the consumer market

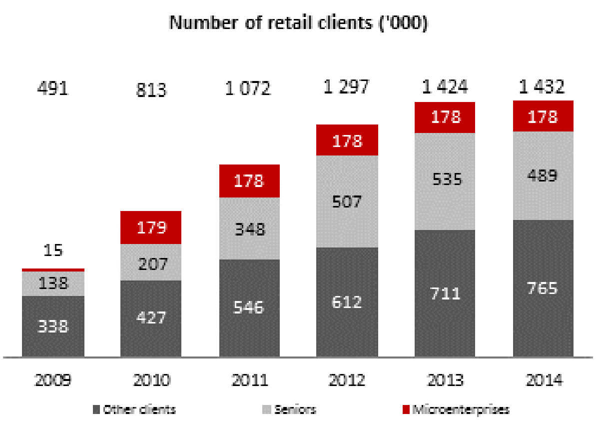
3.1 Consumers[16]

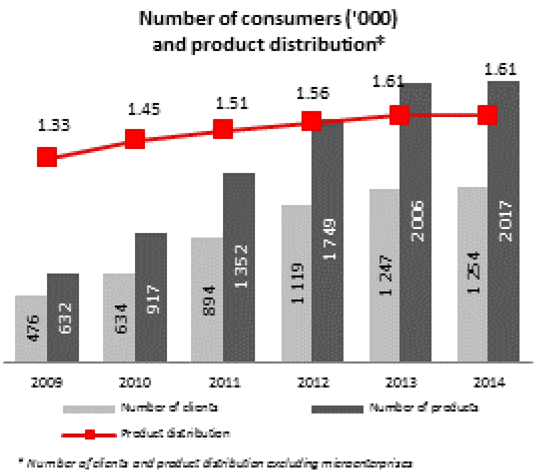
218.7
thousand new clients in retail banking
During 2014

At the end of 2014, services offered by Bank Pocztowy were used by 1,432.3 thousand consumers, i.e. 8.2 thousand more than a year before. A small growth in their number has resulted from the introduction of an account maintenance fee for inactive holders of current accounts, which made them leave the Bank. Over 34% of consumers are elderly people.

In 2014 Bank Pocztowy S.A. acquired over 218.7 thousand new consumers. A group of these individuals was acquired under a wider project of Poczta Polska, Bank Pocztowy and Zakład Ubezpieczeń Społecznych (Social Insurance Institution) encouraging elderly people to accept payments of social security benefits to a bank account.

According to estimates, at the end of September 2014, Bank Pocztowy, with the share of 4.4%[17], was seventh best on the market in terms of the number of consumers.





The largest group of consumers (1,167 thousand) were current account holders.

3.2 Development of the product offer for consumers

Bank Pocztowy S.A. prepared a simple and comprehensible offer for consumers including a wide range of credit and deposit products. The Bank also offers insurance and investment products through its distribution channels. The offer covers the following product groups:

- current accounts (*Pocztowe Konto Darmowe* and *Pocztowe Konto Nestor*);
- saving accounts (*Nowe Konto Oszczędnościowe, Pocztowe Konto Oszczędnościowe*);
- term deposits;

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[16] In 2014 the microenterprise segment was moved from institutional banking to retail banking. At present, retail banking has included consumers and microenterprises. All financial data for previous years have been brought to comparability in accordance with the current segmentation.

[17] Source: PRNews.pl Number of clients in banks, Q3 2014, 9 December 2014.

- consumer credit (including cash loans for staff of Reduced Credit Risk Employers[18], cash loans for elderly people and cash loans for other consumers, including revolving overdrafts);
- mortgage loans (including housing loans, mortgage loans and debt consolidation loans);
- insurance and investment products.

A current account is the key product used for acquiring consumers and the focal point in customer relationships. In order to win new clients, since September 2014, the Bank has introduced a new product, *Konto ZawszeDarmowe,* with free-of-charge maintenance guaranteed for an unlimited period of time. *Konto ZawszeDarmowe* has enjoyed significant popularity among clients: in the period from 15 September to 31 December 2014, the Bank opened 72,000 of such accounts.

At the same time, *Pocztowe Konto Standard* was withdrawn from the Bank's offer, but the account for pensioners called *Pocztowe Konto Nestor* has been offered on a continuous basis.

Further, the Bank offers two types of current accounts for microenterprises: *Pocztowe Konto Firmowe* and *Firmowe Konto Oszczędnościowe*.

In 2014, the Bank presented the following deposit offer:

- Different interest on *Coraz Więcej* term deposits opened with and without current accounts, with higher interest on deposits accompanied with an account;
- Promotional interest on newly obtained funds for *Pocztowe Konto Oszczędnościowe*;
- Product offer extended by Rynek + (18 M and 30m) with interest depending on market rates (WIBID 3M) increased by client's margin.

In order to use the synergy potential of the Poczta Polska Capital Group entities, the Bank has offered current account holders programs providing benefits from active use of products and services offered by these entities.

- Pakiet Pocztowy (Postal Package) program under which clients are refunded 10% of costs incurred for selected postal services offered by Poczta Polska (mainly packages and letters);
- Pocztowy Program Ubezpieczeniowy (Postal Insurance Program) under which clients are refunded 10% of the insurance premium amount paid from their current accounts held with Bank Pocztowy in relation to insurance policies concluded with Pocztowe Towarzystwo Ubezpieczeń Wzajemnych and co-insured by Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.;
- *Pay by link Envelo* program for remote clients, under which they are refunded 10% of costs incurred to buy Envelo products through pay by link functionality from their accounts held with Bank Pocztowy.

Further, the Bank implemented a new edition of *Aktywny Nestor* program promoting active use of debit cards by elderly people. *Aktywny Nestor* offers refund up to 5% of expenses incurred in pharmacies. The program is dedicated for holders of *Pocztowe Konto Nestor*.

[18] *Reduced Credit Risk Employers include: the Police, city authorities, fire stations, public healthcare units, companies listed at the WSE and companies from the Poczta Polska Capital Group.*

Responding to clients' needs, the Bank has extended its lending offer with:

- PIT-based cash loans addressed to clients with employment contracts as an income source. The offer involved temporary acceptance of PIT issued by an employer as a document confirming the amount of generated income.
- An attractive loan consolidation offer aimed at winning clients indebted with other banks. Additionally, in order to improve the processing of consolidation loans, the Bank has revised and simplified its documentation requirements introducing an option to use a consolidation statement instead of the previously required agreements and repayment schedules regarding the consolidated loans.

With regard to microenterprises, the Bank has implemented a new process of selling lending products offered both through Poczta Polska and its own network. Further, Bank Pocztowy has implemented a loan and deposit offer addressed to *e-commerce* segment clients along with a dedicated sales scenario.

It offers its clients with bancassurance products in cooperation with insurance companies, to include: Pocztowe Towarzystwo Ubezpieczeń Wzajemnych, Aviva Towarzystwo Ubezpieczeń na Życie S.A., Grupa Ergo Hestia, Towarzystwo Ubezpieczeń Europa S.A. and Amplico Life S.A.

Changes in the insurance offer involved:

- Introducing a personal assistance program in the form of *Bezpieczny na Bank* package ensuring protection of electronic money, personal documents and mobile communication tools should they be lost, stolen or used by unauthorized individuals;
- Modification of the accidental insurance product involving an increase in the sum insured for each risk type and a growth in the base amount.
- Offering legal insurance products in the insurance outlet (the Bank's website enabling the Bank's clients to compare products and make a purchase).
- Extending the life insurance offer with *Wsparcie dla Bliskich,* offered to clients aged up to 85 with a different sum insured and premium amount.
- Introducing life insurance for mortgaged loan holders.
- Extending the offer with a package property insurance product protecting against a variety of risks depending on the selected option: option I is dedicated to elderly people who have retired, while option II is dedicated to people who are still working.

The Bank has continued works to introduce the following products to the *bancassurance* offer: insurance package to the Standard and Nestor current accounts and assistance services.

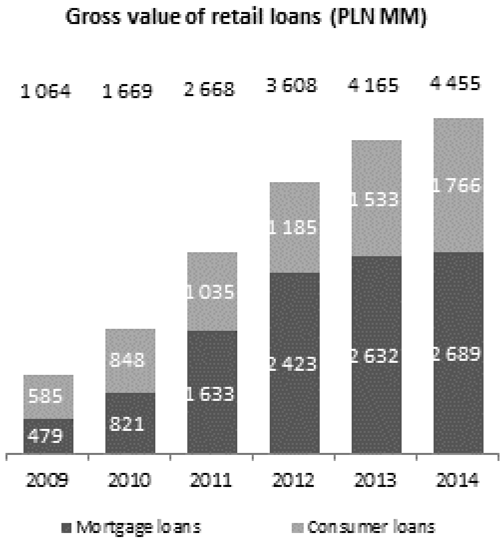
3.3 Credit operations

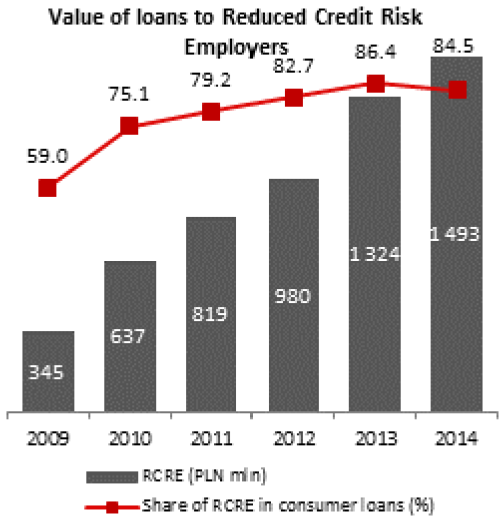
At the end of 2014 gross credit receivables of Bank Pocztowy from consumers totaled PLN 4,454.7 million versus PLN 4,165.2 million in December 2013 (a 7.0% increase). The Bank's share in credit receivables from consumers of the banking sector amounted to 0.9%[19].

Gross loans of Bank Pocztowy S.A. - retail segment (PLN'000)						
	31.12.2014	Structure (31.12.2014)	31.12.2013	Structure (31.12.2013)	Change 2014/2013 PLN'000	%
Gross loans, including:	**4 454 674**	**100.0%**	**4 165 192**	**100.0%**	**289 482**	**7.0 %**
Mortgage loans	2 689 295	60.4%	2 632 211	63.2%	57 083	2.2 %
Consumer loans	1 765 379	39.6%	1 532 981	36.8%	232 398	15.2 %

Source: management information of the Bank. The data present the principal amount only. Default interest, due and undue interest, commissions, other prepaid expenses and revenue, other restricted revenue and interest and other receivables were not included.

In 2014 the Bank dynamically acquired new consumer loans. At the end of December 2014 receivables due to such products reached PLN 1,765.4 million, i.e. by 15.2% more than a year before. In 2013 the Bank sold consumer loans with the value of PLN 869.0 million. In the consumer loan portfolio the Bank focuses on low-risk facilities for Reduced Credit Risk Employers (RCRE), which constituted 84.5% of the entire portfolio in December 2014.



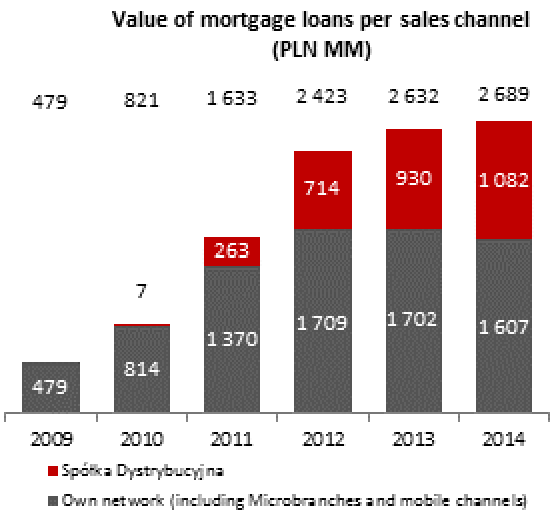


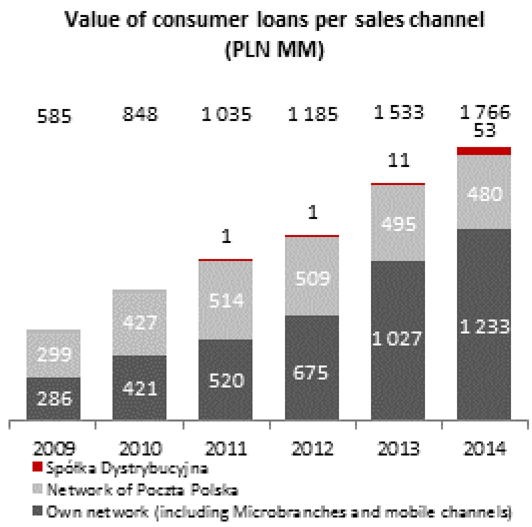
Mortgage loans remain a large portion of the portfolio. As at 31 December 2014, the Bank's receivables due to mortgage loans reached PLN 2,689.3 million and were by 2.2% higher than in December 2013.

In 2014 the Bank, offering local currency loans only, extended PLN 204.6 million of mortgage loans, i.e. by 37.1% less than in 2013, when the sales reached PLN 325.4 million. The decrease resulted from the strategy followed. Due to limited capital, the Bank focuses on the sale of products with the highest profitability considering their effect on the capital, which implies promoting the sale of cash loans and stable sales of mortgage loans.

Spółka Dystrybucyjna is at present the only distribution channel for mortgage loans. The key distribution channels are own sales network and the offices of Poczta Polska.

[19] *Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for Monetary receivables and liabilities of financial institutions, December 2014 for the banking sector.*



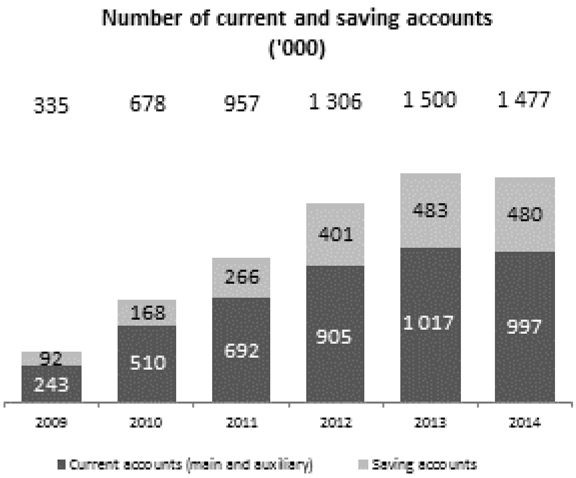


3.4 Deposits

In 2014 the Bank adjusted the speed of developing its deposit base to credit needs, including optimization of the funding costs. In December 2014 consumers deposited in the Bank the total of PLN 4,656.2 million versus PLN 4,168.2 million at the end of December 2013 (a 11.7% growth). Consequently, the Bank's share in consumer's deposits market reached 0.8%[20].

Deposits of Bank Pocztowy S.A. - retail segment (PLN'000)						
	31.12.2014	Structure (31.12.2014)	31.12.2013	Structure (31.12.2013)	Change 2014/2013 PLN'000	%
Client deposits including:	4 656 169	100.0%	4 168 158	100.0%	488 011	11.7 %
Current accounts	1 036 810	22.3%	802 423	19.2%	234 388	29.2%
Saving accounts	1 332 618	28.6%	1 494 557	35.9%	(161 939)	(10.8)%
Term deposits	2 286 741	49.1%	1 871 178	44.9%	415 564	22.2 %

Source: management information of the Bank. The data include only the principal balance, without accrued interest.

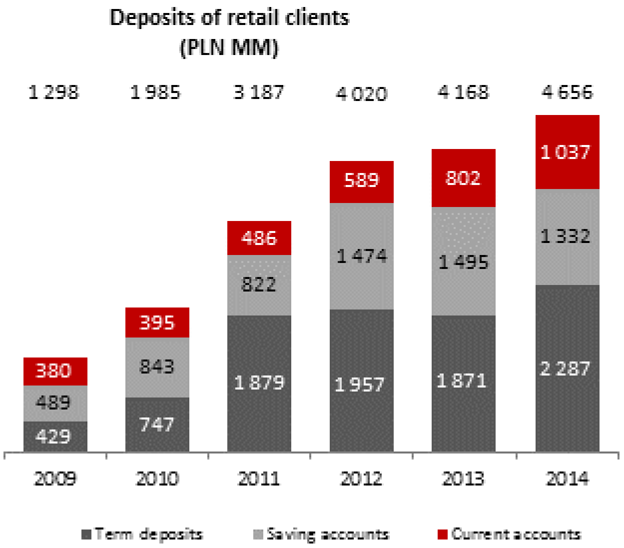


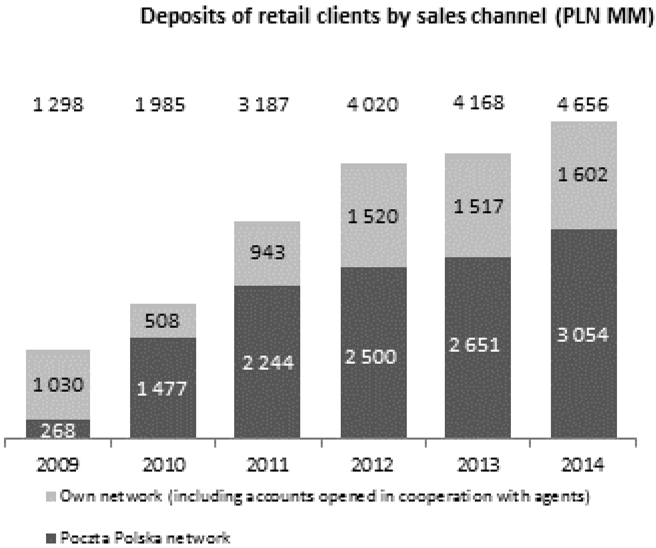
In 2014, the Bank focused on enhancing of a stable deposit base. At the end of December, term deposits of consumers reached PLN 2,286.7 million and were PLN 415.6 million higher than in December 2013.

Thanks to an offer including attractive products, in December 2014 the Bank collected PLN 628.6 million in the form of long-term deposits compared to PLN 616.0 million in December 2013.

In 2014, the balance of cash on consumer current accounts increased as well, to reach PLN 1,036.8 million at the end of December 2014 (29.2% more than in December 2013). At the end of December 2014 Bank Pocztowy managed 997.4 thousand current accounts of consumers and microenterprises.

[20] *Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for Monetary receivables and liabilities of financial institutions, December 2014 for the banking sector.*



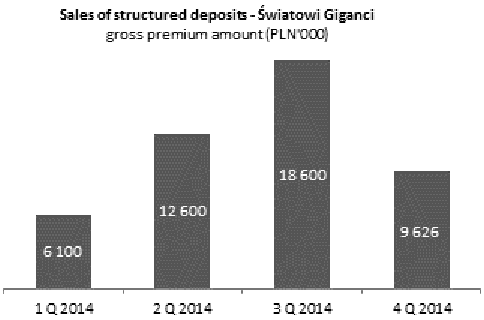


Following a decrease in interest rates, clients were less interested in saving accounts, whose interest dropped from 2.2% at the end of 2013 to 1.7% in December 2014. Funds collected on saving accounts at the end of December 2014 amounted to PLN 1,332.6 million and were PLN 161.9 million lower than at the end of 2013.

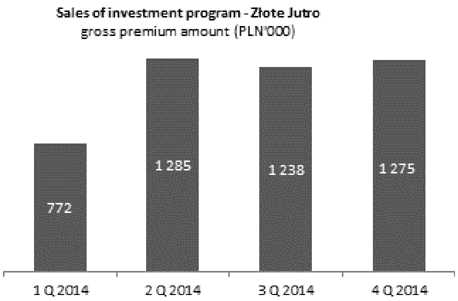
In December 2014, 65.6% of funds deposited with Bank Pocztowy came from consumers and were collected through Poczta Polska network, exceeding the closing balance of 2013 by 2.0 p.p.

3.5 Investment products

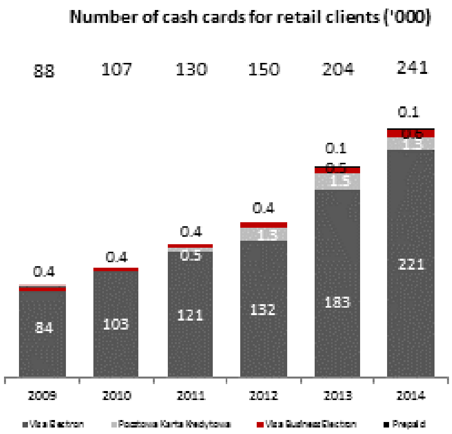
Aiming at extension of offer for consumers, in 2014 the Bank focused on investment product strategy. In March 2014 the Bank decided to get involved in sales of investment fund participation units. As a result of a procedure performed, the Bank selected Ipopema Towarzystwo Funduszy Inwestycyjnych as its strategic partner to supply the Bank and Poczta Polska network with an investment fund offer and then to build white label funds under the Bank's brand.



At the same time, the Bank developed its selling and processing competencies regarding sales of structured products (*Światowi Giganci* structure) and unit-linked insurance (*Złote Jutro*) preparing the sales network and clients for the next step in development of its investment product offer to include commencing sales of investment fund participation units early in 2015.



3.6 Bank cards



Bank Pocztowy offers the following types of bank cards to consumers:

- Visa Electron debit cards issued to personal accounts and saving accounts,
- Postal Visa Credit Cards,
- MasterCard debit and credit cards (introduced in December 2014);
- *Zasilacz* pre-paid cards.

Major changes in the payment card offer of the Bank:

- Debit cards. In 2014 the Bank continued with the key components of the offer, i.e. eliminating the fee for the card upon conclusion of card transaction for PLN 200 for *Nestor* account and PLN 300 for *ZawszeDarmowe* and *Standard* accounts. As a result, in 2014 the value of non-cash debit card transactions concluded by the Bank's clients doubled. Also, the value of cash transactions on debit cards grew nearly twice. The number of actively used debit cards also increased by 44,000 year to year. Aiming at further increase in the use of cards, the Bank introduced an option to buy a monthly prescription allowing charge-free cash payment from all ATMs around the world. MasterCard debit cards introduced in December 2014 allow clients concluding transactions through Internet and on the phone.
- Postal Credit Cards. In September 2014 the Bank introduced two new credit card images dedicated to all new clients: a white card and a black card.

By the end of December 2014 Bank Pocztowy S.A. issued 241.2 thousand payment cards for consumers (i.e. by 18.3% more than at the end of 2013), including 221.2 thousand debit cards (i.e. by 21% more than a year before) and 12.7 thousand credit cards.

4. Activities in the institutional market

4.1 Institutional banking clients

Applying general, financial and business relations criteria, the Bank has divided its institutional clients into the following categories:

- Small and medium enterprises (SME),
- Housing institutions such as condominiums, housing associations, property managers and social housing associations,
- Public Finance and Public Benefit Organizations to include associations, labor unions, election committees;
- Poczta Polska and companies from its Capital Group.

15.4
thousand clients in institutional banking
As at 31.12.2014

The housing segment is the largest group of institutional clients. In December 2014 the Bank served 11.5 thousand clients in this group.

4.2 Development of the product offer for institutional clients

The key product in packages tailored to individual needs of institutional client segments is the current account. The Bank offers the following types of current accounts to institutional clients:

- *Postal Business Package* – for SMEs and property managers,
- *Pocztowy pakiet DOM (HOUSE Postal Package)* and *Pocztowy Pakiet Mini Dom (Mini House Postal Package)* – for condominiums, housing associations and social housing associations,
- *Pocztowy Pakiet Organizacja (Organization Postal Package) and Pocztowy Pakiet Mała Organizacja (Small Organization Postal Package) - for public benefit organizations and other non-profit organizations.*

As for deposits, the Bank offers among others standard and individually negotiated deposits (with fixed and floating interest) with a wide range of agreement periods, *Konto Oszczędnościowe Biznes* (for SMEs, Housing institutions and Public Benefit Organizations) and bank accounts in foreign currencies (USD, EUR, GBP).

The Bank's credit offer for institutional clients includes in particular:

- overdraft facilities (in the current and credit accounts),
- investment loans with a thermomodernization and renovation premium offered to Housing segment institutions.

The Bank's settlement offer includes:

- *Giro Płatność (Giro Payment)* (cash payments to third parties available at the offices Poczta Polska and the Bank's own network),
- *Over-the-counter deposits* (cash payments to the client's account at the offices Poczta Polska and the Bank's own network based on standard or individual terms),
- *Pocztowy Collect* (identifying bulk payments using virtual accounts generated to a client's bank account),
- *Pocztowy Przelew Zbiorczy* (Postal Collective Transfer) (managing bulk domestic non-cash payment orders in the Polish zloty),
- *sealed cash deposits* (accepting sealed cash deposits from clients).

Further, in 2014 the Bank continued relationships with companies offering international cash transfers. The Bank's key competitive advantage is the widest distribution network in Poland, composed of ca. 5,000 post offices and bank's sales points where customers can collect cash transfers. Since 2008 the Bank has cooperated with Money Gram Payment Systems Inc., providing agency services in cash transfers to Poland.

The treasury offer for institutional clients includes:

- currency forward contracts,
- purchase and sale of debt securities (treasury and non-treasury securities, certificates of deposit),
- possibility to conclude currency forward transactions under a treasury limit.

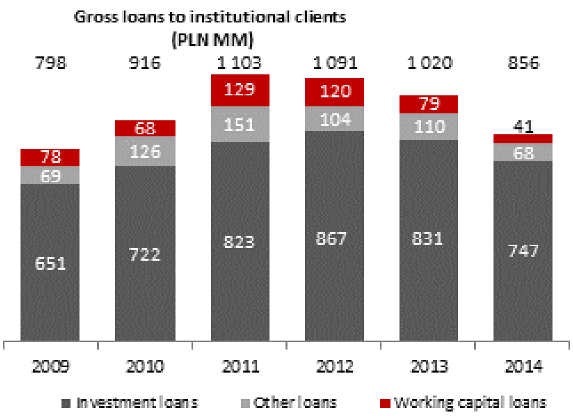
In 2014 the Bank continued the works related to implementation and extension of *Pocztowy24* Internet banking system with new functionalities.

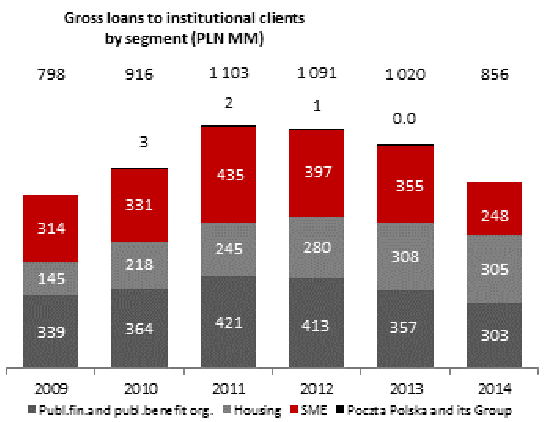
4.3 Credit operations

According to the strategy regarding institutional clients, the Bank has verified its credit policy and limited the funding of local self-government entities, Housing segment clients and SME. In 2014 the Bank limited the scope of its lending campaign addressing it only to the existing key clients holding significant deposits and using settlement services. The change in the credit policy for institutional clients will allow improving profitability of concluded credit transactions and has already translated into a reduction in credit receivables from institutional clients in 2014.

Loans of Bank Pocztowy S.A. - institutional segment (PLN'000)						
	31.12.2014	Structure (31.12.2014)	31.12.2013	Structure (31.12.2013)	Change 2014/2013 PLN'000	%
Institutional loans	856 097	100.0%	1 019 840	100.0%	(163 743)	(16.1)%
Investment loans	746 959	87.2%	830 600	81.5%	(83 641)	(10.1)%
Working capital loans	40 956	4.8%	78 727	7.7%	(37 771)	(48.0)%
Other loans	68 182	8.0%	110 513	10.8%	(42 331)	(38.3)%

Investment loans had the highest share in the institutional clients portfolio, and they accounted for 87.2% of the total credit exposure of the Bank from this group of clients at the end of 2014.





Source: management information of the Bank. The data present the principal amount only. Default interest, due and undue interest, EIR fees, other prepaid expenses and revenue, other restricted revenue and interest and other receivables were not included.

4.4 Deposits

As at 31 December 2014 deposits of institutional clients amounted to PLN 1,160.7 million, i.e. by 1.1% more than at the end of 2013. In December 2014 Bank Pocztowy held a 0.7% share in the market of deposits of institutional clients and controlled 2.6% of the market of deposits made by non-profit organizations operating for the benefit of households[21] (vs. 2.4% in 2013).

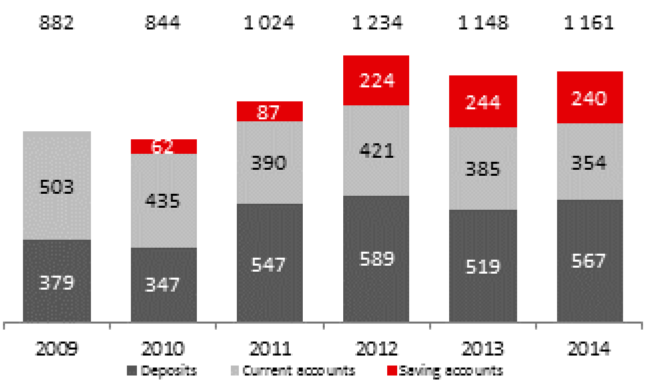
Most institutional clients invest free cash in term deposits. At the end of December 2014 they amounted to PLN 566.9 million and increased by 9.2% compared to 2013. At the same time, their share in the structure of deposits of institutional clients increased from 45.2% at the end of 2013 to 48.9% in December 2014.

The amount of funds deposited in savings accounts of institutional clients and the balance of their current accounts slightly decreased.

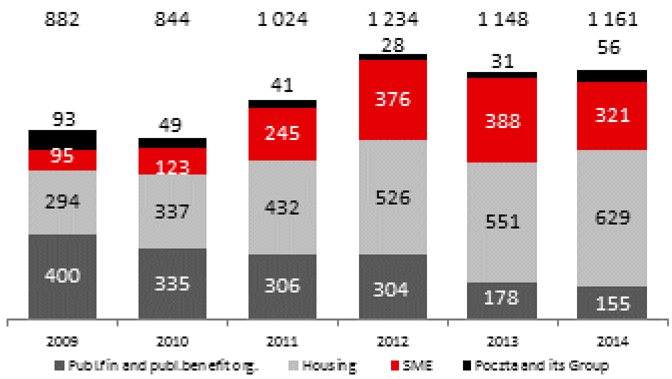
Deposits of Bank Pocztowy S.A. - institutional segment (PLN'000)

	31.12.2014	Structure (31.12.2014)	31.12.2013	Structure (31.12.2013)	Change 2014/2013 PLN'000	%
Total institutional deposits	1 160 706	100.0%	1 147 821	100.0%	12 885	1.1 %
Current accounts	354 339	30.5%	384 434	33.5%	(30 095)	(7.8)%
Saving accounts	239 472	20.6%	244 378	21.3%	(4 906)	(2.0)%
Deposits	566 895	48.9%	519 009	45.2%	47 886	9.2 %

Deposits of institutional clients (PLN MM)



Deposits of institutional clients by segment (PLN MM)



Source: management information of the Bank. Deposits excluding those with terms negotiated individually.

Housing institutions were those to deposit the highest amount at the Bank. In December 2014 they increased in PLN 692.0 million (a 14.2% growth during the year) and constituted 54.2% of total institutional clients' deposits. Deposits of SMEs were also considerable and amounted to PLN 320.8 million, i.e. accounted for 27.6% of the total deposits of institutional clients.

In December 2014 Bank Pocztowy managed the total of 20.6 thousand of current accounts of institutional clients as compared to 20.9 thousand at the end of 2013.

[21] *Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for Monetary receivables and liabilities of financial institutions, December 2014 for the banking sector.*

5. Treasury operations

Treasury operations of Bank Pocztowy focus on:

- Managing interest rate risk and current liquidity risk under the Banking Book, as well as currency risk, transactions and customer service under the Trading Book;
- Managing long-term liquidity risk and debt securities issuing policy.

5.1 Banking Book

1,519
PLN million financial assets
As at 31.12.2014

In 2014 the Bank concluded mainly sale and purchase transactions in securities, *sell-buy-back* and *buy-sell-back* transactions and deposited or borrowed funds in the interbank market as a part of managing short- and long-term liquidity and interest rate risk. Moreover, it entered into derivative transactions such as FRA, IRS or OIS to hedge against interest rate risk.

At the end of 2014 the total investment financial assets of the Bank reached PLN 1,519.3 million, i.e. by PLN 322.8 million (17.5%) less than at the end of 2013, mainly as a result of a decrease in the balance of debt instruments issued by the National Bank of Poland by PLN 359.9 million, to PLN 479.9 million in the Bank's portfolio. Despite the drop, their share remained high and amounted to 31.6% of total investment financial assets of the Bank. Government bonds accounted for 66.2% of the Bank's financial assets and constituted their key element. In December 2014 the face value of Government Bonds was PLN 1,005.4 million and was by PLN 47.9 million (i.e. by 5.0%) higher than at the end of 2013.

Investment financial assets (PLN'000)

	31.12.2014	31.12.2013	Change 2014/2013 PLN'000	%
Investment financial assets	**1 519 266**	**1 842 036**	**(322 770)**	**(17.5)%**
available for sale, including:	**1 100 547**	**1 455 018**	**(354 471)**	**(24.4)%**
State Treasury Bonds	611 726	585 445	26 281	4.5 %
Bonds and deposit certificates of banks	8 866	29 740	(20 874)	(70.2)%
Stock	8	8	-	-
Debt instruments issued by the National Bank of Poland	479 947	839 825	(359 878)	(42.9)%
held to maturity, including:	**418 719**	**387 018**	**31 701**	**8.2 %**
State Treasury Bonds	393 688	372 080	21 608	5.8 %
Bonds and deposit certificates of banks	25 031	14 938	10 093	67.6 %

Investment financial assets available for sale with the total nominal value of PLN 1,100.5 million constituted 72.4% of the debt instrument portfolio and the remaining 27.6% were bonds held to maturity with the total face value of PLN 418.7 million.

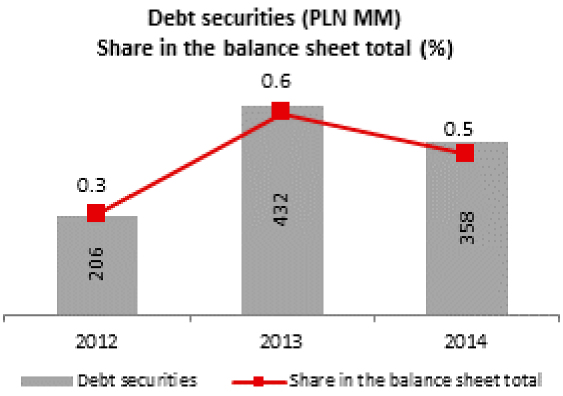
In its securities portfolio the Bank also holds debt securities issued by other banks, classified to receivables from other banks. In 2014 the value of these securities reached PLN 158.3 million, i.e. by PLN 121.9 million more than in December 2013.

In 2014 interest income on investment financial assets and receivables from other banks amounted to PLN 54.8 million and was by 19.7% lower than in 2013. The decrease resulted from a drop in the balance of investment assets and a reduction in the market interest rates.

A the end of December 2014 the gain/loss on financial instruments measured through profit or loss and gain/loss on foreign exchange transactions amounted to PLN 1.2 million versus PLN 1.7 million reported in 2013, mainly as a result of a drop in the gain/loss on foreign exchange transactions by clients by PLN 0.9 million.

In 2014 gain/loss on other financial instruments amounted to PLN 1.8 million, as compared to PLN 6.0 million in 2013. The performance deterioration resulted from material unpredictable fluctuations in the market environment and significant changes in the structure of securities portfolio aimed at maintaining of the interest rate risk exposure within the accepted limits.

Since 2012 the Bank has consistently built the portfolio of long-term equity and liabilities through issues of own debt securities. At the end of December 2014 they amounted to PLN 358.3 million and had a 4.6% interest in the balance sheet total.



5.2 Trading Book

In 2014 the gain/loss on financial instruments held for trading and gain/loss on foreign exchange transactions amounted to PLN 1.5 million versus PLN 1.2 million reported in 2013. The Bank generated a higher gain on trade transactions, debt instruments mainly. In 2014, on the currency market, the Bank generated the total gain on own and client transactions under individually negotiated currency transactions of PLN 0.7 million versus PLN 1.8 million in 2013.

At the end of 2014, the Bank concluded transactions denominated in 10 foreign currencies, i.e. the euro, American dollar, fund sterling, Swiss franc, Japanese yen, Canadian dollar, Czech koruna, Swedish krone, Danish krone and Norwegian krone.

The Bank also traded in interest rate financial instruments, mainly in treasury debt securities.

In 2014 the Bank's trade transactions in the currency and interest rate market (trading in treasury bonds) remained insignificant.

6. Activities of companies from the Bank's Capital Group

6.1 Bank Pocztowy Capital Group

No changes in the structure of the Bank Pocztowy Capital Group took place in 2014.
Holding 100% of shares in each subsidiary, the Bank carries out its supervisory function through its representatives working and exerting control in supervisory boards of the companies. Operations of the subsidiaries considerably support business operations of the parent.

Companies from the Capital Group hold current accounts and deposit free cash using term deposits in Bank Pocztowy. Related-party transactions are carried out at arm's length.

6.2 Centrum Operacyjne Sp. z o.o.

Centrum Operacyjne was established by the Bank on 20 May 2013 with the share capital of PLN 2,500 thousand. All shares were assumed by Bank Pocztowy. On 1 July 2010 the Shareholders' Meeting increased the share capital by PLN 783.8 thousand up to PLN 3,283.8.

The core business of Centrum Operacyjne includes supporting settlement processes of Bank Pocztowy, clients of the Bank Pocztowy Capital Group and Poczta Polska. It carries out its tasks using competencies and experience gained at the Bank. The company manages business processes using specialized tools, which enables it to tailor its approach to support and manage operating processes. For process optimization, Centrum Operacyjne uses modern lean management tools. The processes managed are constantly improved through elimination of bottlenecks. Additionally, the company has implemented the "paperless office" initiative.

As at 31 December 2014, the balance sheet total of Centrum Operacyjne amounted to PLN 6,578.8 thousand. In 2014 the company reported a net profit of PLN 434.0 thousand, as compared to PLN 1,256.0 thousand reported in 2013.

6.3 Spółka Dystrybucyjna Sp. z o.o.

Spółka Dystrybucyjna was established by the Bank on 20 May 2010 with the share capital of PLN 2,000 thousand. All shares were assumed by Bank Pocztowy. On 30 September 2011, the Extraordinary Shareholders' Meeting increased the share capital of the company by PLN 679.8 thousand up to PLN 2,679.8 thousand.

The core business of the company includes the sale of financial products and services, aimed, in particular, at diversifying product and service distribution channels of the Bank and supporting its sales channels. The company's objective is also to attract new clients not using the Bank's services, e.g. due to a considerable distance from the nearest sales office.

At the end of 2014 Spółka Dystrybucyjna cooperated with 94 Mobile Agents, while a year before Bank's products had been distributed by 161 Agents.

As at 31 December 2014, the balance sheet total of Spółka Dystrybucyjna amounted to PLN 3,688.0 thousand. In 2014 Spółka Dystrybucyjna generated a net profit of PLN 96.5 thousand vs. PLN 621.0 thousand in 2013.

7. Consolidated financial performance

7.1 Key factors determining the Group's financial profit or loss

PLN 43.6 MM
record net profit in the Group's history

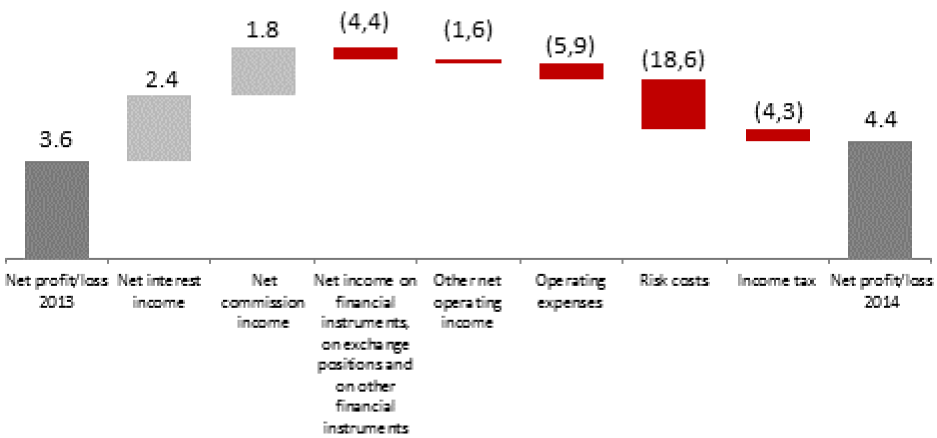
+ 21.1% y/y

In 2014 the Group generated gross profit of PLN 55.1 million vs. PLN 43.3 million in the prior year. Net profit amounted to PLN 43.6 million and was 21.1% higher than in the prior year thus hitting the record level in the Group's history.

The financial profit of the Group in 2014 was determined by the following factors:

- An increase in the net interest income generated despite disadvantageous market trends, i.e. decreasing market interest rates. The net interest income amounted to PLN 268.2 million, i.e. increased by 10.0% vs. 2013 mainly due to a decrease in financing expenses and an increase in the share of high-margin consumer loans in the structure of Group's loan portfolio.
- An increase in the net fee and commission income. The Group generated PLN 59.7 million of net fee and commission income, i.e. 43.3% more than in the prior year, mainly due to implementation of the new Fee and Commission Tariff in September 2013.
- Lower gain/loss on transactions in securities available for sale, gain/loss on foreign exchange transactions and gain/loss on financial instruments. The Group generated the total income from such transactions of PLN 4.5 million, i.e. by 49.0 less than in 2013, mainly due to significant unpredictable fluctuations in its market environment.
- Maintaining the cost discipline. In 2014 the Group saw a clear slowdown in the growth of operating expenses as a percentage of income (the expenses increased by 2.8% and operating income by 12.9%).
- Higher impairment losses on assets. In 2014 the cost of risk reached PLN 61.0 million and grew by 43.9% comparing to 2013. The Group recognized additional impairment losses for consumer loan portfolio and credit receivables from institutional clients.

Net profit of the Group in 2014 (PLN MM)



Key income statement items of the Bank Pocztowy S.A. Capital Group (in PLN'000)				
	2014	2013	Change 2014/2013 PLN'000	%
Operating income	332 340	294 320	38 020	12.9 %
Net interest income	268 150	243 807	24 343	10.0 %
Net fee and commission income	59 657	41 628	18 029	43.3 %
Net income on financial instruments measured at fair value through profit or loss and on exchange position	2 763	2 905	(142)	(100.0)%
Gain/loss on other financial instruments	1 770	5 980	(4 210)	(70.4)%
Other net operating income	2 440	4 076	(1 636)	(40.1)%
General and administrative expenses	(218 622)	(212 738)	(5 884)	2.8 %
Net impairment loss	(61 013)	(42 398)	(18 615)	43.9 %
Gross profit	55 145	43 260	11 885	27.5 %
Income tax	(11 506)	(7 233)	(4 273)	59.1 %
Net financial income for the current period	43 639	36 027	7 612	21.1 %

The key income statement items:

Net interest income

In 2014, like in the previous year, the net interest income constituted the key source of income for the Group. It amounted to PLN 268.2 million and was by PLN 24.3 million, i.e. by 10.0% higher year to year.

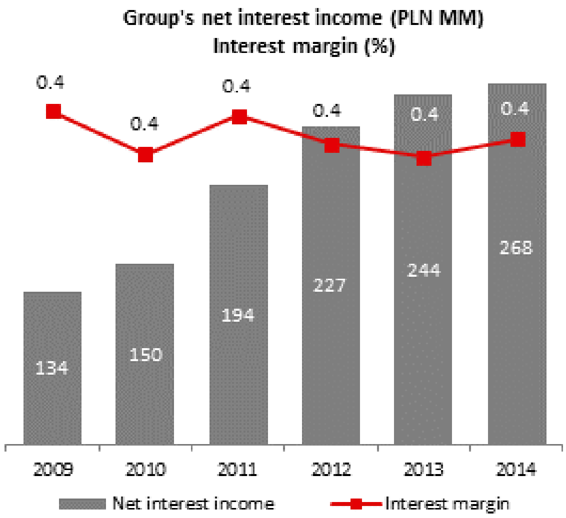
Interest income and interest expense of the Bank Pocztowy S.A. Capital Group (PLN'000)				
	2014	2013	Change 2014/2013 in PLN '000	%
Interest income	416 278	423 400	(7 122)	(1.7)%
Income on receivables from other banks	9 064	9 607	(543)	(5.7)%
Income on receivables from clients arising from loans and advances, including:	361 466	355 103	6 363	1.8 %
Overdraft facilities	7 125	7 480	(355)	(4.7)%
Credit facilities and term loans	354 341	347 623	6 718	1.9 %
Individuals	309 011	294 269	14 742	5.0 %
Institutional clients	34 300	37 980	(3 680)	(9.7)%
Self-government bodies	11 030	15 374	(4 344)	(28.3)%
Income on investment financial assets classified as:	45 447	58 541	(13 094)	(22.4)%
Available for sale	25 361	37 891	(12 530)	(33.1)%
Held to maturity	20 086	20 650	(564)	(2.7)%
Income on financial assets held for trading	301	149	152	102.0 %
Interest expense	(148 128)	(179 593)	31 465	(17.5)%
Expense due to liabilities to other banks	(419)	(450)	31	(6.9)%
Expense due to liabilities to customers, including:	(121 894)	(156 552)	34 658	(22.1)%
Current accounts	(31 603)	(43 503)	11 900	(27.4)%
Term deposits	(90 291)	(113 049)	22 758	(20.1)%
Individuals	(71 031)	(82 795)	11 764	(14.2)%
Institutional clients	(18 157)	(28 780)	10 623	(36.9)%
Self-government bodies	(1 103)	(1 474)	371	(25.2)%
Costs arising from issue of debt securities and subordinated loan	(23 199)	(21 312)	(1 887)	8.9 %
Costs arising from sold securities (repo)	(2 616)	(1 279)	(1 337)	104.5 %

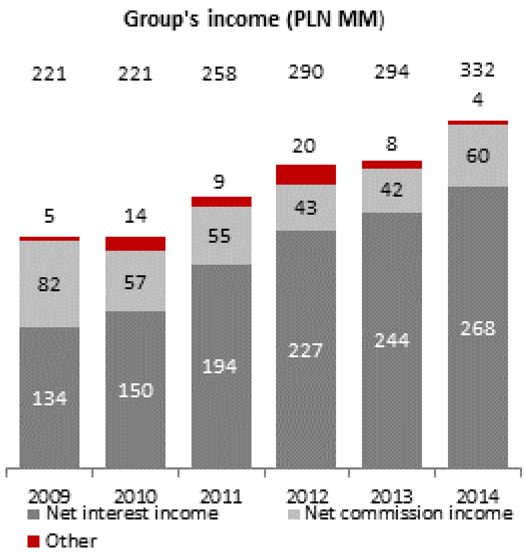
Apart from lower market interest rates, the net interest income of the Group in 2014 was determined by the following internal factors:

- Lower interest income. In 2013 it amounted to PLN 416.3 million and was by 1.7% lower than in the previous year. The decrease resulted mostly from reduced volume of institutional clients and self-government institutions in the credit portfolio. As a result, interest income from this client group dropped by 9.7% and 28.3%, respectively, as did income on investment assets, which amounted to PLN 45.4 million and was by 22.4% lower than in the previous year.
  The key item in the interest income category, interest income from term loans granted to individuals

amounted to PLN 390.0 million, i.e. grew by 5.0% at the end of 2014. The result was possible due to a significant increase in the lending to this customer group.

- Lower interest expense. In 2014 interest expense reached PLN 148.1 million and was by 17.5% lower than in 2013. The Group incurred much lower interest expense due to term deposits to all groups of clients, which resulted primarily from lower funds deposited on bank accounts. Interest expense on own treasury bonds grew, however (due to other bond issues in 2014), as well as on a subordinated loan and on securities sold under repo and sell-buy-back transactions.





Effective optimization of Group's financing costs and changes in the structure of assets aimed at profitability improvement translated into an increase in the Group's interest margin. In 2014 the Capital Group generated an interest margin of 3.8% versus 3.6% in the prior year.

Net fee and commission income

Net fee and commission income was the key element of non-interest income of the Group. It amounted to PLN 59.7 million and was by 43.3% higher than in the previous year.

Interest income and expense of the Bank Pocztowy S.A. Capital Group (PLN'000)

	2014	2013	Change 2014/2013 in PLN '000	%
Fee and commission income	**102 304**	**73 006**	**29 298**	**40.1 %**
Settlement and cash transactions	42 783	36 742	6 041	16.4 %
Keeping bank accounts	27 589	10 568	17 021	161.1 %
Payment and credit cards	21 028	17 126	3 902	22.8 %
Sale of insurance products	4 717	3 589	1 128	31.4 %
Originated loans and advances	855	747	108	14.5 %
Other	5 332	4 234	1 098	25.9 %
Fee and commission expense	**(42 647)**	**(31 378)**	**(11 269)**	**35.9 %**
Keeping current accounts and term deposits	(18 108)	(14 788)	(3 320)	22.5 %
Managing payment cards, ATM and POS cash withdrawals	(10 746)	(8 012)	(2 734)	34.1 %
Cash management services for the Group	(8 513)	(5 901)	(2 612)	44.3 %
Other services	(5 280)	(2 677)	(2 603)	97.2 %

Commission income amounted to PLN 102.3 million and was by 40.1% higher than in 2013. The Capital Group reported in particular an increase in:

- Income from bank account maintenance (by 161.1%). This was related to changes in the Fee and Commission Scheme introduced in the fourth quarter of 2013, involving introduction of charges from clients not using their current accounts and to the growing number of accounts held;
- Commissions on sales of insurance products (by 31.4%) including mainly insurance offered along with

cash loans;

- Commissions on payment cards and credit cards (by 22.8%) mainly due to an increase in the number of transactions performed by clients and the number of cards issued;
- Income from settlement and cash transactions (by 16.4%) as a result of a growth in commissions on cash transactions, payments and withdrawals of cash by individuals.

In 2014 fee and commission expense increased as well, up to PLN 42.6 million, being 35.9% higher than in 2013. The Group saw an increase in the fee and commission expenses regarding:

- Maintaining of current accounts and term deposits by PLN 3.3. million, i.e. by 22.5%, mainly due to activation of payments from current accounts performed by postmen (commission costs paid by the Bank to Poczta Polska);
- Maintenance of cash cards by PLN 2.7 million, i.e. by 34.1% as a result of a growth in the number of transactions performed by clients and in the number of cards issued in relation to growing popularity of proximity card transactions and development of the acceptance network. Further, fees charged by VISA increased and the Bank incurred the costs of fees to MasterCard (related to the inclusion of their cards into Bank's offer);
- Cash and settlement services provided to the Group by PLN 2.6 million, i.e. by 44.3%, which was related to a change in settlements between Poczta Polska and the Bank with regard to Giro Premium, as a result of amendments to the agency agreement concluded with Poczta Polska.

Other income

In 2014 the gain/loss on financial instruments measured at fair value through profit or loss, gain/loss on foreign exchange transactions and gain/loss on other financial instruments amounted to PLN 4.5 million versus PLN 8.9 million reported in 2013. The category is discussed in detail in Section 5 dedicated to treasury operations.

In 2014 other operating income (other revenue/operating expenses) amounted to PLN 2.4 million and was by PLN 1.6 million, i.e. by 40.1%% lower than in the prior year. Other operating income amounted to PLN 8.7 million and was close to the previous year's performance. Key items of other operating income included income from refund of costs of collection of receivables, court and bailiff enforcement (30.9% share) and other income (21.7% share). Other operating income included income from sales of balance sheet receivables, which amounted to PLN 1.9 million in 2014. During the year, they increased by PLN 1.2 million following the sales of Bank's receivables including the principal with the face value of PLN 13.6 million, interest and other expenses of PLN 8.1 million.

In 2014 other operating expense amounted to PLN 6.3 million and was PLN 1.6 million (35.0%) higher than in 2013. The increase resulted mostly from a growth in impairment losses on receivables (PLN 0.9 million) and costs of writing off receivables related to operating activities of the Bank (PLN 0.5 million).

General and administrative expenses

Administrative expenses and amortization/depreciation of the Bank Pocztowy S.A. Capital Group (PLN '000)

	2014	Structure (2014)	2013	Structure (2013)	Change 2014/2013 in PLN '000	%
Administrative expenses including amortization/depreciation(PLN '000)	**(218 622)**	**100.0%**	**(212 738)**	**100.0%**	**(5 884)**	**2.8 %**
Employee benefits	(99 398)	45.5%	(92 372)	43.4%	(7 026)	7.6 %
Administrative costs	(98 420)	45.0%	(98 427)	46.3%	7	(0.0)%
Amortization/ depreciation	(20 804)	9.5%	(21 939)	10.3%	1 135	(5.2)%

In 2014, the Group focused on further cost optimization. In 2014 operating expenses of the Group reached PLN 218.6 million compared to 212.7 million in 2013 (an increase by 2.8%).

Employee benefits constituted the key cost item. In 2014 they stood at PLN 99.4 million and grew by 7.6% comparing to 2013. The increase in personnel costs in 2014 despite employment reduction resulted mostly from the fact that no bonus had been paid in 2013.

In 2014 the Group incurred non-personnel costs of PLN 98.4 million, i.e. the same as in previous year. The item included increased costs incurred for Banking Guarantee Fund, IT software service, IT services, advisory, audit and legal services. Expenses related to insurance, rent and lease (due to the change of the head office location in Warsaw) as well as promotion and advertisement costs were lower than in the prior year.

In 2014 the Group implemented measures aimed at tight cost control, which will allow permanent cost reduction in future, accompanied with improved efficiency of the Group and support for its further development. In the first half of 2014, the Group launched a cost and process optimizing project, whose implementation and outcome monitoring is planned for two years. Key initiatives include:

- Remodeling of the Bank's organizational structure, change of its business model and determining FTE number of employees in each organizational unit in compliance with the new strategy assumptions (mainly reorganizing of the institutional service line);
- Optimizing of processes, procedures and internal Operating Rules;
- Optimizing of the scope of purchases and adjusting costs of support functions to sales objectives.

Net impairment losses

In 2014 the amount of PLN 61.0 million was recognized in the income statement due to impairment losses (vs. PLN 42.4 million in the comparable period).

Net impairment losses (PLN'000)				
	2014	2013	Change 2014/2013 in PLN '000	%
Loans and advances granted to clients, including:	**(61 013)**	**(42 398)**	**(18 615)**	**43.9 %**
Individuals	**(48 739)**	**(32 122)**	**(16 617)**	**51.7 %**
Overdraft facilities	(565)	(1 292)	727	(56.3)%
Consumer loans	(43 298)	(19 576)	(23 722)	121.2 %
Real estate loans	(3 943)	(10 230)	6 287	(61.5)%
Credit card debt	(933)	(1 024)	91	(8.9)%
institutional clients	**(12 233)**	**(10 667)**	**(1 566)**	**14.7 %**
Self-government bodies	**(41)**	**391**	**(432)**	**(110.5)%**

The increase in the impairment losses recognized in the income statement was related mostly to the change in the Bank's strategy involving focus on the consumer finance segment with higher average risk costs.

The total growth in impairment losses includes:

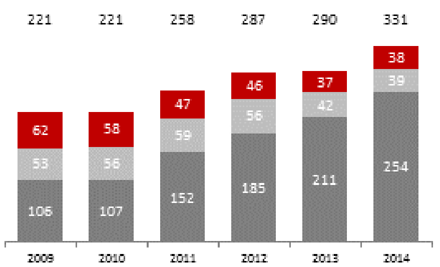
- Growth in impairment losses on consumer loans (by PLN 23.7 million vs. the comparable period);
- Drop in impairment losses on real property consumer loans (by PLN 6.3 million vs. the comparable period);
- Growth in impairment losses on institutional loans (by PLN 1.6 million vs. the comparable period).

7.2 Business segment performance

Information regarding operating segments is reported on the same basis as is used internally in reports presented to the Management Board of the Bank for the purpose to allocate resources to segments and evaluate their performance. The segments are identified based on the method of carrying out activities and the type and scope of information used by management. This classification is consistent with the sales management and construction of the full offer for Bank's clients.

The Bank's operations have been divided into segments in accordance with products sold, services provided and types of clients, for management purposes. The following operating segments have been identified: consumer, institution, settlement and treasury.

Income per operating segment (PLN MM)

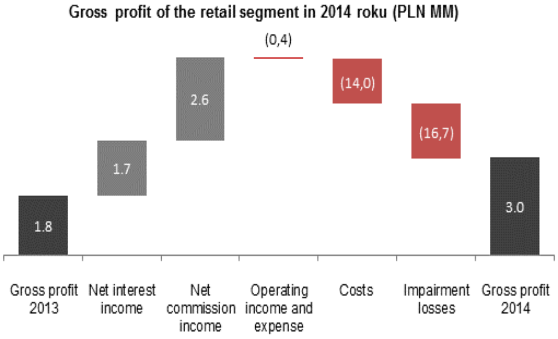


Bringing data to comparability in accordance with the current operational segmentation of the Bank. Figures not allocated to segments on the income level: PLN 0.9 mln in 2014 and PLN 4.0 mln in 2013.

Consumer segment

From management accounting perspective the consumer segment offers products targeted at individuals and microenterprises (individuals carrying out business activities). It is sold through traditional distribution channels in a countrywide network of branches and sales points (including the sales network of Poczta Polska and financial agents), *Pocztowy24* Internet banking, *PocztowySMS* mobile banking and a Contact Center.

In 2014 the consumer segment generated a gross profit of PLN 30.1 million, which was by PLN 11.6 million, i.e. by 63.0% higher than in 2013.



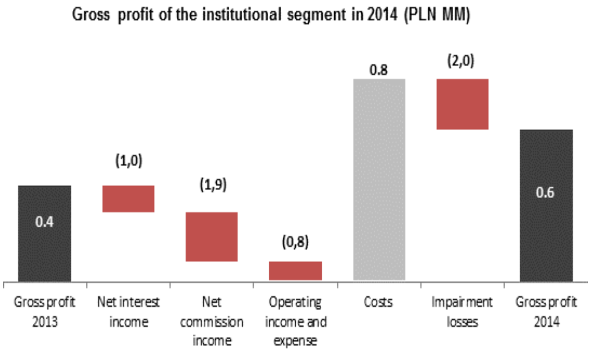
Key gross profit growth drivers in the consumer segment:

- A considerable improvement in the net interest and commission income. Net interest income constituted the key source of segment income. It amounted to PLN 222.1 million and grew by PLN 17.0 million. A considerable improvement of the net interest income resulted from a dynamic growth of new lending to consumers. At the end of 2014 the credit portfolio for this segment amounted to PLN 4,454.7 million, i.e. grew by 7.0% during the year. The consumer segment generated a net fee and commission income of PLN 32.0 million, i.e. by PLN 25.7 million more than in the prior year. The increase was related to a growth in revenue from current account maintenance;
- Higher administrative expenses. In 2014 the consumer segment costs reached PLN 178.7 million, i.e. by PLN 14.0 million more than in 2013. The key driver of growth was higher back-office expense related to focusing on the retail segment arising from the Bank's organizational structure being adjusted to the current strategy, as well as an increase in front-office expenses related to newly opened outlets;
- Higher net impairment losses. In 2014 they amounted to PLN 49.1 million comparing to PLN 32.5 million in 2013, due to focusing on sales of consumer loans charged with higher average risk costs.

Institutional segment

Institutional segment in management accounting includes operating profit/loss from services provided to business entities with legal personality, individuals and entities with no legal personality carrying out business activities under applicable regulations and central and local administration entities. The Bank's offer for these clients includes credit and deposit products and settlement services with products aimed at improving cash management efficiency. Products are offered through the Bank's own network, the network of Poczta Polska and financial agents.

In 2014 the institutional segment generated a gross profit of PLN 6.0 million versus PLN 3.8 million in 2013 (an increase of PLN 2.2 million).



The institutional segment profit was driven by the following items:

- A reduction in net interest income. It amounted to PLN 28.6 million, i.e. decreased by 3.5%, mainly due to a lower margin on deposit products, which amounted to 1.09% in December 2014, as compared to 1.32% in December 2013.
- A decrease in net commission income. The segment generated a net commission income of PLN 10.6 million, i.e. by 15.5% less than in the prior year. A decrease in net commission income was related also to reduction in the institutional segment. The most significant income drop occurred in commissions for opening and maintenance of bank accounts for self-government institutions and on overdraft limits for enterprises and cooperatives;
- Improved level of administrative expenses. They amounted to PLN 21.0 million, i.e. decreased by PLN 7.9

million, mainly due to the change resulting from the reduction in the institutional segment;

- An increase in net impairment losses, which amounted to PLN -11.9 million in 2014, as compared to -9,9 million in 2013.

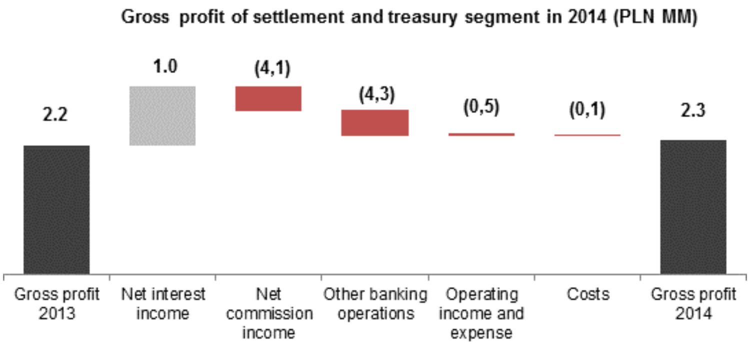
Settlement and treasury segment

Settlement and treasury segment in management accounting includes:

- gain/loss on operating activities covering settlement services. Key settlement services include: managing documents for payments to the Social Insurance Institution and Tax Offices, non-cash transfer of Social Insurance benefits to beneficiaries and cash payments in inter-bank settlements;
- Gain/loss on financial instruments measured at fair value through profit or loss, gain/loss on foreign exchange transactions and gain/loss on other financial instruments;
- Net interest income including sales and purchases of securities, depositing and borrowing funds on the interbank market. The segment repurchases client funds obtained by operating segments at a transfer rate and sells the funds to finance their credit operations.

In 2014 the settlement and treasury segment generated a gross profit of PLN 22.7 million versus PLN 21.9 million in 2013 (an increase of PLN 3.4%).

The key gross profit drivers in the settlement and treasury segment in 2014:



- Increase in net interest income by PLN 9.8 million to PLN 18.1 million in 2014, mainly due to reduced transfer costs resulting from a drop in transfer prices;
- Decrease in the net commission income. It amounted to PLN 15.5 million and was by PLN 4.1 million (20.9%) lower than in the previous year. The drop resulted from a change in commissions per unit for ZUS III transfers and a reduced number of communications;
- Lower gain/loss on treasury operations comprising a gain/loss on other financial instruments, gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions. It amounted to PLN 4.5 million and vs. PLN 8,9 million in 2013;
- Administrative expenses remaining stable, on the previous year level. In 2014 the segment generated expenses of PLN 15.5 million.

7.3 Key effectiveness ratios

A growth in profit of the Bank Pocztowy Capital Group reported in 2014 resulted in ROE and ROA improvement. In 2014 return on equity stood at 10.5% and was by 0.9 p.p. higher than in the previous year.

A significant increase in the Group's income along with slowing growth in expenses improved the Cost/Income relation. In 2014 the Cost/Income ratio amounted to 65.3%, i.e. was by 6.0 p.p. lower than in 2013.

At the end of 2014 the share of impaired loans (NPL) in the credit portfolio was 6.1% vs. 5.3% a year before. Significantly, the ratio was considerably better than that of the entire Polish banking sector (8.1%)[22].

Key effectiveness ratios of the Bank Pocztowy S.A. Capital Group

	31.12.2014	31.12.2013	Change 2014/2013
Net ROE (%)	10.5	9.6	0.9 p.p.
Net ROA (%)	0.6	0.5	0.1 p.p.
Costs including amortization / income (C/I) (%)	65.3	71.3	(6.0) p.p.
Net interest margin (%)	3.8	3.6	0.2 p.p.
CAR (%)	13.4	12.9	0.5 p.p.
NPL – the share of impaired loans and advances in the credit portfolio (%)	6.1	5.4	0.7 p.p.

***Net ROE** calculated as a net profit for a given year to average equity (calculated as the average of equity at the end of a given year and at the end of the previous year) taking into account the net profit for a given year.*
***Net ROA** calculated as a net profit for a given year to average assets (calculated as the average of assets at the end of a given year and at the end of the previous year).*
***Costs including amortization and depreciation/Income (C/I)** calculated as the general and administrative expenses including amortization and depreciation to total income (net interest income, net fee and commission income, gain/loss on financial instruments measured at fair value through profit or loss, gain/loss on foreign exchange transactions, gain/loss on other financial instruments, other operating revenue and expenses).*
***Net interest margin** calculated a relation of net interest income for a given year to average assets (calculated as average daily balance of assets).*
***NPL (Non Preforming Loans)** calculated as a relation of impaired loans to the gross loans and advances to clients.*

[22] *Source: NBP, Section: Banking sector financial data, file Receivables.*

7.4 Changes in the statement of financial position in 2014 – key items

As at 31 December 2014 the balance sheet total of the Group amounted to PLN 7,719.0 million and was by PLN 336.3 million, i.e. by 4.6% higher than at the end of 2013.

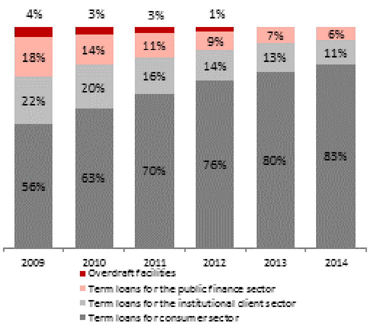
Key balance sheet items of the Bank Pocztowy S.A. Capital Group (PLN '000)	31.12.2014	Share (31.12.2014)	31.12.2013	Share (31.12.2013)	Change 2014/2013 PLN '000	Change 2014/2013 %
Cash in hand and deposits with the Central Bank	757 643	9.8%	327 242	4.4%	430 401	131.5 %
Receivables from other banks	158 269	2.1%	36 329	0.5%	121 940	335.7 %
Loans and advances granted to clients	5 151 777	66.7%	5 055 712	68.5%	96 065	1.9 %
Investments in financial assets	1 519 266	19.7%	1 842 036	25.0%	(322 770)	(17.5)%
Net non-current assets	80 322	1.0%	74 881	1.0%	5 441	7.3 %
Other assets	51 750	0.7%	46 545	0.7%	5 205	11.2 %
Total assets	**7 719 027**	**100.0%**	**7 382 745**	**100.0%**	**336 282**	**4.6 %**
Liabilities to the Central Bank	11	0.0%	11	0.0%	-	-
Liabilities to other banks	4 020	0.1%	41 762	0.6%	(37 742)	(90.4)%
Liabilities arising from sold securities (repo)	177 701	2.3%	49 610	0.7%	128 091	258.2 %
Liabilities to clients	6 492 023	84.1%	6 230 578	84.4%	261 445	4.2 %
Liabilities arising from issue of debt securities	358 256	4.6%	431 597	5.8%	(73 341)	(17.0)%
Subordinated liabilities	142 090	1.8%	142 027	1.9%	63	0.0 %
Other liabilities	105 294	1.4%	95 395	1.3%	9 899	10.4 %
Total liabilities	**7 279 395**	**94.3%**	**6 990 980**	**94.7%**	**288 415**	**4.1 %**
Total equity	439 632	5.7%	391 765	5.3%	47 867	12.2 %
Total liabilities and equity	**7 719 027**	**100.0%**	**7 382 745**	**100.0%**	**336 282**	**4.6 %**

Other assets include: financial assets held for trading, current income tax receivables, net deferred income tax assets, other assets.
Other liabilities include: financial liabilities held for trading, provisions, current income tax liabilities, other liabilities.

Assets

Net amount of loans and advances originated to clients constituted the key asset of the Group. At the end of 2014 they amounted to PLN 5,151.8 million and grew by PLN 96.1 million during the year. The item accounted for 66.7% of the total assets of the Group (versus 68.5% a year before). The value of cash in hand and at bank (National Bank of Poland) increased. In December 2014 it amounted to PLN 757.6 million and increased by 430.4 million comparing to the end of 2013. Consequently, its share in assets increased from 4.4% at the end of 2013 to 9.8% in December 2014.

Structure of credit receivables* from Group's clients (%)



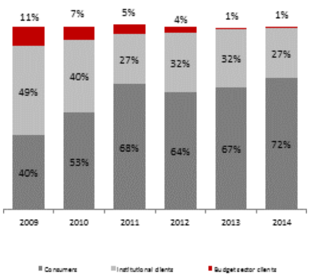
** Since 2014 overdraft facilities have been assigned to individual client groups.*

Investment assets decreased compared to the previous year and amounted to PLN 1,519.3 million, i.e. PLN 322.8 million less than in December 2013. Consequently, their share in assets decreased from 25.0% at the end of 2013 to 19.7% in December 2014.

Equity and liabilities

The following changes occurred in the structure of Group's equity and liabilities in 2014:

Structure of liabilities to Group's clients (%)



- The amount of liabilities towards customers increased. At the end of 2014 they amounted to PLN 6,492.0 million, i.e. grew by PLN 261.4 million during the year. They accounted for 84.1% of the balance sheet total versus 84.4% in December 2013;
- The value of liabilities arising from securities sold under sell-and-buy-back arrangements increased. In December 2014 they amounted to PLN 177.7 million vs. PLN 49.6 million a year before;
- The value of liabilities due to issue of debt securities decreased to reach PLN 358.3 million in December 2014, i.e. by PLN 73.3 million less than a year before. They accounted for 4.6% of the equity and liabilities of the Group versus 5.8% in December 2013;
- Equity amounted to PLN 439.6 million and accounted for 5.7% of total equity and liabilities compared to

PLN 391.8 million in December 2013 with 5.3% in total equity and liabilities (an increase in net financial profit/loss for the current year contributed to the performance).

8. Managing key risk types

8.1 Risk management objectives and principles

The key objective of risk management in the Group is to ensure security of funds entrusted by its clients and effectiveness of decisions made in order to maximize income generated over a longer perspective, with an acceptable level of accompanying risks.

Risk management in the Group is an integrated process based on supervisory requirements and internal regulations approved by the Supervisory and Management Board of the Bank. Internal regulations in force are reviewed on a periodic basis, taking into account the developments in the Group's external and internal environment. The Bank is the entity that integrates the risk management approach within the Group.

The Group has adopted a three-level system of organizing internal risk management regulations.

The general risk management framework has been determined in the following documents adopted by the Supervisory Board:

- General Risk Management Policy of Bank Pocztowy S.A.;
- General Capital Management Policy of Bank Pocztowy S.A.;
- Growth Strategy of Bank Pocztowy S.A. for 2014-2017;
- Financial Plan of Bank Pocztowy S.A. for 2014;
- Risk Management Strategy of Bank Pocztowy S.A. for 2014.

Principles of managing each risk type, approved by the Management Board and delegating duties to individual Departments, Offices and Subsidiaries, provide necessary details to the above documents. Based thereon, detailed operating procedures with descriptions of individual activities (including controls) to be performed by the Departments, Teams and Positions, have been developed.

The risk management system includes:

- the Supervisory Board;
- the Management Board;
- Risk management committees established by the Management Board of the Bank pursuant to internal regulations in force;
- organizational units managing individual risk types;
- control units (including the internal audit and compliance unit);
- other organizational units.

The target risk structure at the level of the Bank and the Capital Group depends on the defined risk appetite. The risk appetite determines the readiness of the Bank and the Group to assume a specific risk within a determined time horizon and it is subject to acceptance by the Management Board. The risk appetite is a substantial element of the Bank's Strategy and Financial Plan approved by the Supervisory Board.

Identification and measurement of each risk type result in determining those which are material for the Group, classifying them from the permanent materiality assessment perspective (permanently and temporarily material risks) and for the purpose of capital coverage.

The following risk types are classified as permanently material for the Bank:

- Credit risk;
- Liquidity risk;

- Interest rate risk related to the Banking Book;
- Operational risk.

Additionally, the Bank identifies the following material risk types:

- Compliance risk;
- Strategic risk;
- Business cycle risk;
- Reputation risk;
- Outsourcing risk;
- Pillar 2 credit risk;
- Residual risk;
- Concentration risk;
- Price risk related to debt instruments in the Trading Book.

8.2 Credit risk

NPL 6.1%

NPL significantly lower than the banking sector average

+0.7 p.p. y/y

Credit risk is the risk assumed by the Group under credit transactions and resulting in its inability to recover the amounts disbursed, loss of income or a financial loss. It is the outcome of credit product development and launch as well as the lending process on the one hand and measures employed with a view to reducing the probability of losses, on the other. The Group's credit risk includes both counterparty and settlement risk.

While developing its current credit risk management policy, the Group aims to maintain the risk appetite defined in its strategy and measured with the NPL ratio and the specified cost of risk as well as an appropriate level of equity, comply with the credit limits adopted by the Bank, analyze both strengths and weaknesses of the Group's lending process and anticipate the opportunities and threats for its further growth. The Group's acceptable credit risk policy also takes into account cyclicality of economic processes and changes in the credit portfolio itself.

The Group has reviewed methodologies and all parameters in order to adapt them to changing market conditions.

The following principles have been adopted for the credit risk management process:

- Analyzing credit risk of individual exposures, the credit portfolio and the capital requirement related to credit risk;
- Using internal and external limits determined by the risk appetite in various areas of the credit portfolio, the Banking Law and recommendations of the Polish Financial Supervision Authority, respectively. The types and levels of the limits used by the Group with regard to lending are determined by internal regulations on credit limits related, among other things, to large exposure concentration, industry concentration, exposure concentration based on type of collateral and product;
- Functions related to direct analysis of applications, risk assessment and credit related decision making are separated from those focused on client attraction (sales of banking products);
- Credit capacity and creditworthiness are the main criteria underlying all credit transactions with clients;
- Credit decisions are made in the Group in accordance with procedures and competencies determined in internal regulations on credit risk assessment and credit decision making;
- Each credit transaction is monitored from its conclusion to full settlement in terms of utilization, timely repayment, legal security, equity and organizational relationships of the obligor and, in the case of institutional clients, also in terms of their current economic and financial position;
- The financial and economic standing of each insurance company supplying credit collateral, as well as delivery of insurance policies and assignment of rights related thereto by clients are monitored on a regular basis;

- Developments in the real estate market as well as the legal and economic assumptions and framework for valuation of property provided as collateral for credit exposures are monitored on a periodic basis.

Credit risk management in the Group is based on written policies and procedures defining methods of identification, measurement, monitoring, limiting and reporting of credit risk. At least once a year, the Bank reviews and verifies these instructions, procedures and credit risk limits. The regulations determine the scope of competencies assigned to each unit of the Bank in the credit risk management process.

In order to determine the credit risk level, the Bank uses the following measures:

- Probability of default (PD);
- Recovery rate (RR);
- Share and structure of impaired loans (NPL);
- Coverage of impaired loans with impairment losses (NPL coverage);
- Scoring model efficiency measures (among others GINI, PSI Ratio);
- Cost of risk.

The Bank prepares the following cyclical reports on its exposure to liquidity risk:

- Monthly report for the Management Board and Credit Committee of the Bank;
- Quarterly report for the Supervisory and Management Board.

Portfolio quality

At the end of December 2014 the share of impaired exposures in the credit portfolio was 6.1% and was 0.7 p.p. higher than a year before.

Portfolio quality – the share of impaired loans and advances in the gross credit portfolio (%)

	31.12.2014	31.12.2013	Change 2014/2013
Capital Group total	**6.1%**	**5.4%**	**0.7 p.p.**
For individuals	5.6%	4.7%	0.9 p.p.
For institutional clients	13.0%	12.3%	0.7 p.p.
For self-government bodies	0.0%	0.0%	0.0 p.p.

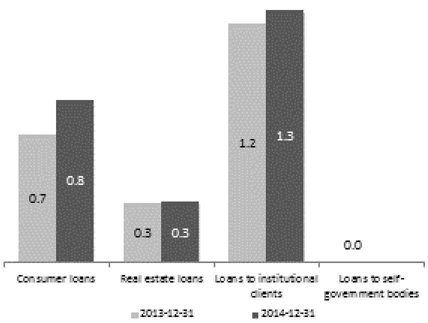
Portfolio quality – gross impaired loans (PLN'000)

	31.12.2014	31.12.2013	Change 2014/2013
Capital Group total	**325 391**	**277 241**	**48 150**
For individuals	247 265	193 465	53 800
For institutional clients	78 026	83 776	(5 750)
For self-government bodies	100	0	100

The NPL growth resulted from the consumer loan loss ratio being higher than in the prior year. Please note that the NPL level recorded at the end of 2014 is lower than the risk appetite level accepted by the Group. Further, quality of the Group's loan portfolio was considerably higher than the banking sector average, which at the end of 2014 demonstrated NPL of 8.1%[23].

Loans and advances to institutional clients demonstrated the highest NPL both at the end of 2014 and 2013. The increase in the loss ratio in 2014 for these receivables resulted mostly from the portfolio gradually reaching its maturity accompanied with phasing out of new lending. In December 2014, NPL for real property consumer loans and for loans for self-government institutions remained on the level recorded in 2013.

NPL value for loans and advances (%)

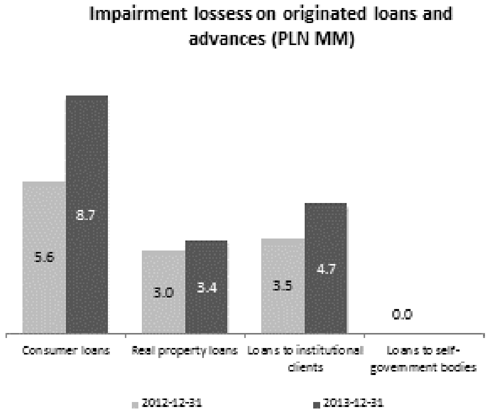


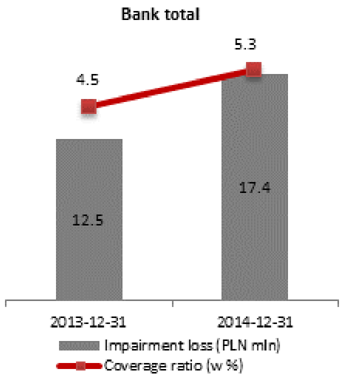
[23] *Source: NBP, Section: Banking sector financial data, file Receivables.*

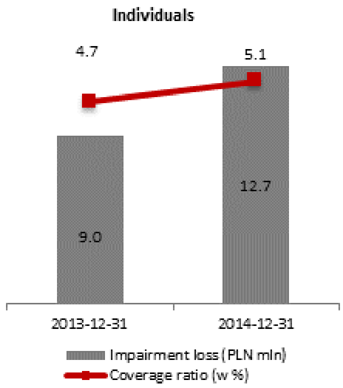
Impairment loss

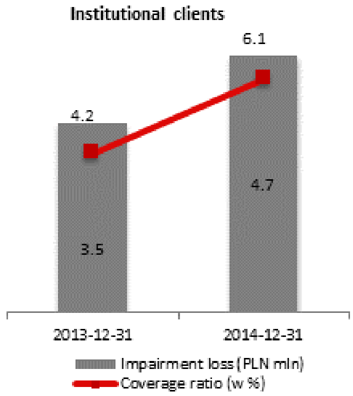
At the end of 2014 impairment losses for the Group's credit portfolio amounted to PLN 173.9 million and were 39.4% higher than at the end of 2013.

The total impairment loss included the loss on impaired exposures of PLN 150.2 million and incurred but unreported losses (IBNR) of PLN 23.7 million. The highest increase in impairment losses was seen in the consumer loan segment (PLN 31.1 million) and in the institutional client segment (PLN 12.5 million).









During 2014, the coverage ratio of impaired loans increased in the Group. In December 2014, it amounted to 53.4% and was 8.4 p.p. higher compared to the end of 2013. The ratio amounted to 51.2% for consumer loans and to 60.5% for institutional loans.

8.3 Credit policy

The Group updated its credit policy as a result of periodic review of credit process, including for compliance with external regulations and the necessity to update credit risk parameters. Following introduction of Recommendation U regarding good bancassurance practices, additional review of credit policy and internal documentation in relation to credit risk, for their compliance with the Recommendation was performed.

Retail clients

Key changes regarding retail client portfolio:

- Verification of the method to determine minimum household maintenance costs assumed when calculating creditworthiness;
- Verification of the policy of legal security of loans dedicated to retail clients, to include a more rigorous requirement to establish collateral for a selected high risk profile client group;
- Change of the value of risk parameter for quality assessment included when determining creditworthiness of retail clients applying for non-mortgaged credit exposure.

A periodic update of other risk parameters as well as financial and legal documents required to calculate creditworthiness was carried out on a regular basis.

Institutional clients

With regard to the institutional loan portfolio, the Group commenced a series of initiatives aimed at improvement of the loan granting process efficiency and methods of credit risk management in the Microenterprise segment and of selected SME clients. Following a review of the loan granting process and portfolio analysis, the Group changed the credit risk evaluation methodology for clients with simplified accounting systems. The measures were to unify credit risk evaluation principles and optimize loan granting process.

Debt collection

With regard to debt collection, in 2014 the Group implemented applications supporting the process of recovering receivables. Further, with regard to pre-collection, agreements were concluded with collecting agencies on collection of overdue receivables. Commencement of cooperation with the external firms is aimed at optimizing of the pre-collection process and reduction of outstanding receivables.

The Group sold two packages of credit receivables. They were purchased mostly by securitization funds that offered the best prices during tender proceedings. As a result of these transactions, the Bank sold credit receivables with the nominal principal value of PLN 13.6 million and PLN 8.1 million of interest and other expenses. Following two sales transactions, the Bank reduced the impairment loss (on-balance sheet) on these assets by PLN 12.4 million and arrived at the total of PLN 1.9 million.

8.4 Liquidity risk

Liquidity risk is the risk of the Bank's losing the capacity to pay its liabilities on a timely basis due to an unfavorable structure of its assets and liabilities and cash flow mismatch. Liquidity risk may arise from a cash flow mismatch, sudden withdrawal of deposits, concentration of funding sources and the credit portfolio, inadequate level of liquid assets, limited liquidity of assets, the Group's clients' default on their obligations or other unexpected developments in the financial market.

The Group's liquidity risk is managed at the level of the Bank as the liquidity risk assumed by the subsidiaries is immaterial considering the nature of their business.

The objective of liquidity risk management is to balance proceeds and payments of funds under on- and off-balance sheet transactions in order to ensure cost-effective funding sources, generating of cash surpluses and their appropriate use. The Bank builds the structure of its assets and liabilities so as to ensure the achievement of assumed financial ratios with the liquidity risk level accepted by the Bank.

The following principles have been adopted for the liquidity risk management process:

- Maintaining an acceptable liquidity level based on an appropriate portfolio of liquid assets;
- Stable funds being the key source of funding for the Bank's assets;
- Undertaking initiatives aimed at maintaining the liquidity risk level within the accepted risk profile;
- Supervisory liquidity measures are maintained above the defined limits.

Liquidity risk management in the Bank is based on written policies and procedures defining the methods of identification, measurement, monitoring, limiting and reporting of liquidity risk. The regulations determine also the scope of competencies assigned to each unit of the Bank in the liquidity risk management process. In order to ensure high standards of liquidity risk management, compliant with best banking practices, at least once a year the Bank reviews and verifies the policies and procedures, including internal liquidity limits.

In order to determine the liquidity risk level, the Bank uses a number of measurement and assessment methods, such as:

- Contractual and actual liquidity gap method;
- Deposit base stability and concentration check;
- Surplus of liquid assets over unstable liabilities;
- Stress analyses.

With a view to mitigating the liquidity risk, the Bank uses liquidity limits and thresholds for selected measures, including liquidity ratios or the mismatch between accumulated actual cash flows generated by assets and liabilities in individual time ranges.

Pursuant to Resolution No. 386/2008 of the Polish Financial Supervision Authority of 17 December 2008 on liquidity requirements for banks (as amended), the Bank monitors and maintains the liquidity measures above the statutory minimum. In 2014, the Bank fulfilled the requirements concerning the minimum supervisory liquidity ratios as specified in the aforesaid Resolution.

As at 31 December 2014, liquidity ratios remained within the applicable liquidity risk limits.

The following table presents supervisory liquidity measures as at 31 December 2014 and 31 December 2013.

Liquidity measures

	31.12.2014	31.12.2013	Limit
M1 (PLN'000)	694 826	447 457	0
M2	1.49	1.31	1
M3	4.74	2.88	1
M4	1.19	1.13	1

The Bank has defined contingency plans to address sudden changes in the deposit base. An analysis of immediately available funding sources shows that in case of a sudden liquidity drop, the Bank is able to obtain sufficient funds without the need to implement its contingency plans. As at 31 December 2014, the Bank's portfolio of liquid assets was sufficient to deal with an actual crisis.

The following tables present realigned liquidity gap for the Bank as at 31 December 2014 and 31 December 2013.

Realigned liquidity gap in 2014 (PLN'000)

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years
Realigned gap	905 996	(125 192)	15 914	79 692	(1 439 935)	1 659 406
Accumulated gap	905 996	780 804	796 718	876 410	(563 525)	1 095 881

Realigned liquidity gap in 2013 (PLN'000)

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years
Realigned gap	647 912	(166 771)	(94 812)	(209 737)	(731 189)	2 120 637
Accumulated gap	647 912	481 141	386 329	176 592	(554 597)	1 566 040

8.5 Interest rate risk

Interest rate risk results from the exposure of the Group's financial performance and equity to adverse changes in interest rates.

The interest rate risk arises from:

- Mismatch of revaluation dates: the risk is expressed as a threat to the Group's revenue, mostly interest income, in case of unfavorable changes of market interest rates or significant changes of the balance sheet revaluation structure resulting in changes in the interest gain/loss;
- Basis risk arising from imperfect correlation between interest rates on products that generate interest income and expense and have the same revaluation dates;
- Yield curve risk where the ratio between the interest rates concerning different periods but the same index or market changes;
- Client option risk arising when clients change the amount and timeline of cash flows on assets, liabilities and off-balance sheet items according to their rights arising from loan or deposit agreements, without incurring any additional costs.

The Group's interest rate risk is managed at the level of the Bank as the liquidity risk assumed by the subsidiaries is immaterial considering the nature of their business.

The Bank adapts its interest rate risk management to the type and scale of its business. Interest rate risk in the Bank may be related to the banking book and to the trading book.

The objective of interest rate risk management is to build a structure of assets and liabilities ensuring protection of the present value and the net interest income of the Bank for the Banking Book and to obtain financial benefits through transactions on interest rate instruments concluded on own account in the Trading Book, with the accepted interest rate risk level.

Interest rate risk management in the Bank is based on written policies and procedures, which define the methods of:

- Risk identification;
- Risk measure calculation (risk measurement);
- Risk exposure limiting – determining the acceptable risk level;
- Monitoring items and changes in each book, portfolio and the limit use levels;
- Risk exposure reporting;
- Hedging exposures against interest rate risk.

In order to ensure high standards of interest rate risk management, compliant with best banking practices, in 2014 the Bank reviewed the applicable policies and procedures.

The Bank measures and monitors the interest rate risk related to the Banking Book with the use of the following risk measures:

- BPV, *Basis Point Value* denotes interest rate risk expressed as a cash value, related to maintaining of a given position when interest rates change by one basis point;
- NII *(net interest income)* – a change in the net interest income representing the difference between interest income and expense with an interest rate change at a specified level;
- BPV gap value in each revaluation range;
- *Duration: a* measure of interest rate risk interpreted as the average duration of an instrument or portfolio;
- early repayment of loans and withdrawal of deposits ratios for each type of products and entities.

Interest rate risk related to the Trading Book is measured and monitored with the use of such risk measures as:

- BPV and BPV gap value in each revaluation range;
- Value at Risk (VaR).

Additionally, the Bank performs stress tests involving sensitivity analysis and examining the effects of interest rate changes on the present value of risk-exposed items based on specified changes in the yield curve, and the effects of changes in interest rates on the net interest income of the Bank.

For the purpose of calculating the Banking Book risk measures, the current value of loans and deposits is determined based on reference rates arising from revaluation dates and liquidity adjustment excluding the commercial margin realized on each product. Additionally, stress tests for downward curve shift purposes are based on the assumption that interest on items sensitive to interest rate risk shall not drop below 0%.

The following tables present the interest rate risk level for the banking book (BPV and stress tests) as at 31 December 2014 and 31 December 2013.

Stress test results at +/- 200 p.b. (PLN'000)		
Change in the current value of Banking Book	31.12.2014	31.12.2013
200 b.p. down	(1 034)	(7 837)
200 b.p. up	4 767	8 374

BPV in Banking Book (PLN'000)		
	31.12.2014	31.12.2013
BPV	17	40

The following table presents a change in annual net interest income with the rate change by +/-100 b.p. and balance sheet assumed to be stable. The analysis is based on the following assumptions:

- For rate decrease: interest rates on loans shall not exceed four times the lombard rate and interest rates on deposits (both term and current accounts) shall not drop below 0%;
- For rate increase: interest on interest-free current accounts shall not increase.

Change in the net interest income per annum (PLN'000)		
	31.12.2014	31.12.2013
100b.p. down	(51 777)	(18 053)
100 b.p. up	17 494	15 029

In 2013 and 2014, Bank's trading activities regarding interest rates were limited to transactions on Polish treasury securities denominated in PLN. The Bank did not conclude speculative derivative transactions on its own behalf or derivative transactions with its clients.

The following table presents the BPV level for the Trading Book as at 31 December 2014 and 31 December 2013.

BPV in the Trading Book (PLN'000)		
	31.12.2014	31.12.2013
BPV	0	0

8.6 Currency risk

Currency risk arises from the current and future performance of the Group as well as its equity being exposed to adverse changes in foreign exchange rates.

The Group's currency risk is managed at the level of the Bank as the currency risk assumed by the subsidiaries is immaterial considering the nature of their business.

The objective of currency risk management is to protect the exchange gain and obtain financial benefits through transactions concluded in FX instruments on own account with the risk level accepted by the Bank.

Currency risk management process involves its measurement through:

- Calculation of the total position of the Bank;
- Calculation of the position in each currency;
- Calculation of Value at Risk (VaR);
- Stress tests.

The following table presented VaR level for currency risk in 2014 and as at 31 December 2014 and 31 December 2013.

VaR measure for currency risk (PLN'000)	Minimum value in 2014	Maximum value in 2014	Average in 2014	31.12.2014	31.12.2013
VAR	10	210	49	10	28

In 2014, the Bank's currency risk was very low due to an insignificant share of foreign currency assets and liabilities in the balance sheet total (below 2%). The value of the total currency position did not exceed 2% of equity, which did not generate a capital requirement with respect to this risk type.

8.7 Operational risk

The Group defines operational risk as the risk of a loss arising from inadequacy or unreliability of internal processes, people and systems or from external events. The definition does not include strategic and reputational risks, which are managed separately, but it does include legal risk.

Based on assumptions adopted by the Bank and by the Group, the operational risk management structure includes all organizational units, branches, outlets, microbranches and subsidiaries. All directors manage operational risk in organizational units and locations reporting to them on an ongoing basis.

Ongoing management includes employment of measures aimed at evaluating the risk scale, mitigating the effects of risk events and reducing the probability that the risk will be assumed in the future. The Management Board of the Bank supervises the overall operational risk management process. The Operational Risk Committee is a body consulting the measures employed to change the operational risk level. Coordination of the operational risk management process is the responsibility of the Risk Function.
Each employee is to identify operating risk events pertaining to his/her position that are then collected in a dedicated database. The events are verified by operational risk coordinators on an ongoing basis and monitored by a coordinating unit for the number of events and loss value. Risk monitoring enables employment of measures that reduce the effects of events and implementation of instruments mitigating future risk. The Group improves its operational risk management processes in the Bank structures and in cooperation with other Group companies, including Poczta Polska, on an ongoing basis.

The Supervisory Board, Management Board and Operational Risk Committee receive cyclical reports on operational risk.

Additionally, operational risk in the Bank is mitigated based on procedures related to implementation of the "General Security Policy of Bank Pocztowy S.A." governing such issues as anti-money laundering, fraud prevention, protection of the Bank's resources, continuity of business, protection of personal data, confidential information and business secret as well as security of information in IT systems.

8.8 Other risks

In addition to the above risks described in detail, the Group identifies and assesses the following risk types:

- Compliance risk;
- Strategic risk;
- Business cycle risk;
- Reputation risk;
- Outsourcing risk.

Compliance risk

Compliance risk is the risk that the effects of the Group's non-compliance with the law, internal regulations and codes of conduct will occur. The Group also takes into account compliance risk generated both by the Bank and its subsidiaries, and manages the said risk arising from cooperation with Poczta Polska S.A.

The compliance risk management process is based on written policies and procedures that define the key principles to be followed by the Bank's employees and explain the key processes that identify the said risk, enabling its management at all organizational levels of the Group.

The scope of compliance risk management includes:

- The Group's compliance with the law and requirements imposed on banks;
- Compliance with appropriate market standards, good practices and codes of conduct adopted by the banking sector;
- Preventing money laundering and the funding of terrorism;
- Preventing fraud detrimental to the Group.

The compliance risk management process includes risk identification, measurement, monitoring, mitigating and reporting.

Compliance risk identification is a continuous process which is carried out:

- When internal regulations are consulted by the compliance unit for their conformity with the law and requirements imposed on banks;
- Based on the outcome of compliance tests and internal regulations compliance self-assessment;
- Based on ongoing analyses, including operational risk events base, follow-up functional control and internal audit reports, record of court cases, information on customer complaints related to compliance risk, information from organizational unit heads regarding compliance risks, and fraud reports.

Identified compliance risk events are recorded by the compliance unit in the compliance risk events database.

Compliance risk measurement is performed on a quarterly basis by the compliance unit using a risk scoring model that takes into account the anticipated effects of compliance risk on the organization and its clients, including the probability of its occurrence, and other criteria, such as:

- The number of compliance risk events or actual losses arising from such risk;
- The number of negative press publications and accusations regarding compliance risk in the Bank.

As a result of measurement, risk is scored using a 3-level scale (low, medium or high).
As far as compliance risk arising from cooperation between the Bank and Poczta Polska S.A. is concerned, the compliance unit records compliance risk events and monitors measures aimed at explanation and mitigation of the said risk.

Strategic risk

Strategic risk is the risk to which the Group is directly, and its financial performance and equity indirectly, exposed due to unfavorable or incorrect strategic decisions, failure to implement or improper implementation of the strategy and developments in the business environment or incorrect response to such changes.

In June 2014 the Supervisory Board of the Bank approved "*Development Strategy of Bank Pocztowy S.A. for 2014-2017*" whose assumptions have underlain the new direction and speed of Bank's development. The key strategic assumption of the Bank is to build a modern and simple offer with multi-channel access, addressed mostly to regional domestic clients, at the same time improving Bank's efficiency and profitability on a continuous basis.

Strategy implementation monitoring, taking into account the (direct or potential) effect of external factors, is aimed at examining the effectiveness of initiatives undertaken with a view to accomplishing the Bank's objectives defined in the Strategy.

Business cycle risk

The business cycle risk is the risk of long-term negative effects of an unfavorable stage of the business cycle (e.g. economic slowdown or recession) on the financial performance or equity of the Group.

As the economic standing affects the condition of the banking sector, the Group monitors the macro-economic ratios presenting the situation of the Polish economy on a continuous basis and once a month, prepares detailed macro-economic reports that underlie the decision-making processes in the Group.

The business cycle risk occurs when the overall economic situation deteriorates. In the case of growing unemployment, taxes, inflation, or interest rates or when significant changes in foreign exchange rates occur, the financial standing of customers may deteriorate (including that of the elderly people as target clients), which may translate into a limited capacity to pay their liabilities at their due dates and a reduced demand for the products offered by the Bank (loans, deposits). A slowdown may also result in increased impairment losses on loans and advances or a slower rise in the value of the Group's credit portfolio due to a drop in demand for loans and in the number of clients that meet the loan granting criteria. Unstable market conditions, economic slowdown and growing unemployment may also result in a material decrease in the value of the clients' assets, among others real property on which loans are collateralized.

In 2014, due to instability of business and political environment affecting countrywide business activity level, the assessment of economic risk in the Group was maintained on the material level. Despite Polish economy having solid foundations, labor market seeing moderate improvement and the ongoing recovery of public finance, global events including Russian-Ukrainian conflict, a drop in crude oil prices or growing deflation may contribute to further easement of monetary policy that will adversely affect the banking sector.

Reputational risk

The reputational risk is related to damage to the Group's reputation in the eyes of its existing and potential clients and stakeholders. This may result in unfavorable effects on the Group's equity, i.e. the negative impact on its planned performance, among others through outflow of the existing clients or no inflow of new clients.

Reputational risk management is to protect the Group's image and minimize the probability of damaging that would adversely affect the Group's capital.

Reputational risk management includes:

- Ongoing monitoring and analysis of events and media communications that may affect the Group's image and if necessary, implementation of preventive measures;
- Regular reporting on the reputation risk level.

Outsourcing risk

Outsourcing risk is a risk third party's negative impact on the continuity, integrity or quality of the Bank's operations, its assets or employees.

Outsourcing banking activities and the related banking business processes to third parties necessitates the Bank's performance of numerous analyses, both before establishing a relationship and in the course of cooperation with the insourcer. Outsourcing risk materiality assessment depends on the scope of outsourced activities and the number of entities that perform them for and on behalf of the Bank. Outsourcing a broad range of activities to a small number of third parties creates concentration risk and potential problems with timely performance of the activities if the said entities discontinue their services. On the other hand, too large a number of insourcers gives rise to a risk that the Bank may lose control over the performance of the outsourced activities.

Outsourcing risk management in the Bank is based on written policies and procedures defining methods of identification, measurement and monitoring of outsourcing risk. The regulations determine also the scope of competencies assigned to each unit of the Bank in outsourcing banking activities and the related banking business processes.

8.9 Capital adequacy

The Group's capital adequacy is managed on the Bank level. It is aimed to ensure that the Bank's equity level is not lower than the one required by internal and external regulations. The regulations link the required capital level with the scale of operations and risks assumed by the Bank.

Considering the above, the Bank regularly:

- Identifies risks material for its business;
- Manages material risks;
- Determines internal capital to be maintained should the risk materialize;
- Calculates and reports capital adequacy measures;
- Allocates internal capital to business areas;
- Performs stress tests;
- Compares its capital needs with the level of equity held;
- Integrates the capital adequacy assessment with development of the Bank's Strategy, financial and sales plans.

Equity

For the purpose of equity calculation, the Bank applies methods arising from Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the Regulation (EU) no. 648/2012. The equity of the Bank consists of Tier 1 (CET1) and Tier 2 funds.

In 2014, Tier 1 funds in the Bank included:

- Equity instruments meeting the conditions addressed in CRR;
- Agio related to the instruments referred to above;
- Retained earnings, to include current period gains or annual profit before a formal decision confirming the final financial performance for a given year following an approval of a competent body;
- Accumulated other comprehensive income;
- Reserve capital;
- General risk reserve;
- Unrealized gains and losses measured at fair value (in amounts including transition regulations referred to in Articles 467 and 468 of the CRR);
- Other Tier 1 items as determined in CRR;

and were reduced by:

- Carrying amount of intangible assets.

In 2014, Tier 2 funds in the Bank included cash obtained from a subordinate loan received in 2014 from Poczta Polska and two issues of subordinate bonds (carried out in 2011 and 2012, respectively).

Capital requirements (Pillar 1)

For the purpose of total capital requirement calculation, the Bank applies methods arising from Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the Regulation (EU) no. 648/2012, including in particular:

- The standard method of calculating the capital requirement due to credit risk;
- A simplified collateral recognition method where the counterparty's risk weight is replaced with the collateral (its issuer's) risk weight;
- The standard method of calculating the capital requirement due to operational risk;

- The standard method for the risk of credit valuation adjustment;
- The standard method of calculating the capital requirement due to currency risk;
- The maturity method of calculating the capital requirement due to general interest rate risk;
- The standard method of calculating the capital requirement due to special debt instrument price risk;
- The method of calculating the capital requirement due to large exposures.

Since the trading scale was immaterial and the level of currency transactions performed was low, the capital requirement regarding market risks and currency risk for the Bank was PLN 0.00. This meant that at the end of 2014 the Bank's capital requirement was limited to credit risk, operational risk and risk of credit valuation adjustment.

In 2014 the supervisory solvency ratio was above the required regulatory minimum.

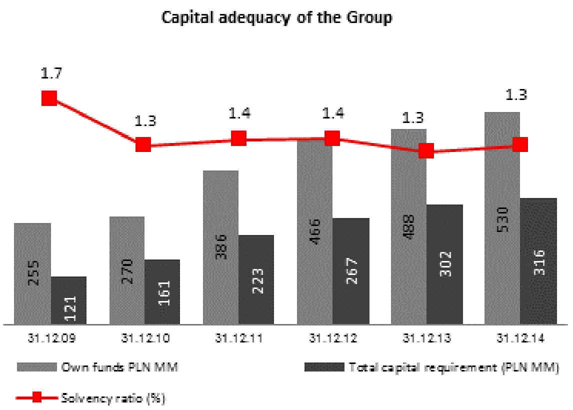
In 2014 the Bank worked on achieving compliance both on the Bank and the Group level with Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the Regulation (EU) no. 648/2012. The introduced changes resulted in modification of two reports: COREP (capital requirements) and Large Exposures. Additionally, the following new reports were introduced:

- Liquidity;
- NSFR (stable funding);
- Leverage Ratio;
- Losses (on mortgage loans);
- Encumbrance (quality of assets).

Internal capital (Pillar 2)

When identifying key risks that occur in the Bank's operations, having included the scale and complexity of a given operation, additional risks are considered which, according to the management, are not fully covered by Pillar 1 risks. The identification is to optimally adjust the structure of internal capital to the actual capital needs that reflect the true risk exposure level.

For the additional risk purpose, the internal capital is calculated based on internal methods accepted by the Management Board, which include the scale and specifics of the Bank's operations in a given risk context.



Additionally, when determining the internal capital, the Bank applies a conservative approach with regard to risk diversification among each risk type.

Please note that due to the specifics of liquidity risk and in light of market standards and practices, the Bank does not determine an additional internal capital for this risk type. For this reason, special focus is placed on the process evaluation and management.

In 2014 the internal solvency ratio was above the required regulatory minimum.

Disclosures (Pillar 3)

Pursuant to Resolution no.385/2008 of Polish Financial Supervision Authority of 17 December 2008, regarding detailed principles and a manner of publishing quality and quantity data regarding capital adequacy of banks and the scope of information subject to publication (with subsequent amendments) and to General Principles of Disclosing Information on Capital Adequacy in Bank Pocztowy S.A. accepted by the Supervisory Board of the Bank, in 2014 the Bank published information on its capital adequacy in a separate document issued within 30 days of the date of approving the annual financial statements by its General Shareholders' Meeting.

The following tables present detailed calculation of base figures regarding regulatory capital and the solvency ratio as at 31 December 2014 and 31 December 2013.

Equity (PLN'000)	31.12.2014	31.12.2013
I. Tier 1 capital	**399 481**	**364 937**
Equity instruments paid for	94 378	97 290
Adjustments related to instruments in Tier 1 capital in the transition period	2 330	0
Agio	8 600	8 600
Retained profit attributable to parent's owners, including:	38 179	25 030
- Profit	38 179	36 871
- Loss	0	(11 841)
Accumulated other comprehensive income	3 571	(1 943)
Adjustments related unrealized gains/losses on instruments in Tier 1 capital	(5 532)	(167)
Reserve capital	183 019	159 989
Funds for general banking risk	108 345	106 345
Other intangible assets	(32 307)	(30 207)
Tier 2 capital	**130 872**	**123 140**
Equity instruments and subordinated loans classified as Tier 2 capital	93 000	123 140
Adjustments related to instruments in Tier 2 capital in the transition period	37 872	0
Equity	**530 353**	**488 077**

Capital requirements (PLN '000)	31.12.2014	31.12.2013
Capital requirements for credit, counterparty credit, dilution and settlement risk, including for exposures	278 470	267 750
With 0% risk weight	4 955	5 884
With 20% risk weight	43 135	45 440
With 35% risk weight	1 154	1 091
With 50% risk weight	162 333	145 771
With 75% risk weight	59 528	69 164
With 100% risk weight	2 491	400
With 150% risk weight	4 835	0
With 250% risk weight	0	0
Other risk weights	39	0
Capital requirement for operational risk	37 495	33 981
Capital requirement for credit valuation adjustment (CVA)	315 965	301 731
Total capital requirement	**315 965**	**301 731**
Solvency ratio	**13.4%**	**12.9%**
Tier 1	**10.1%**	**9.7%**

In 2014 the Bank's activities ensured the maintaining of capital ratios on a save level, above the regulatory minimum.

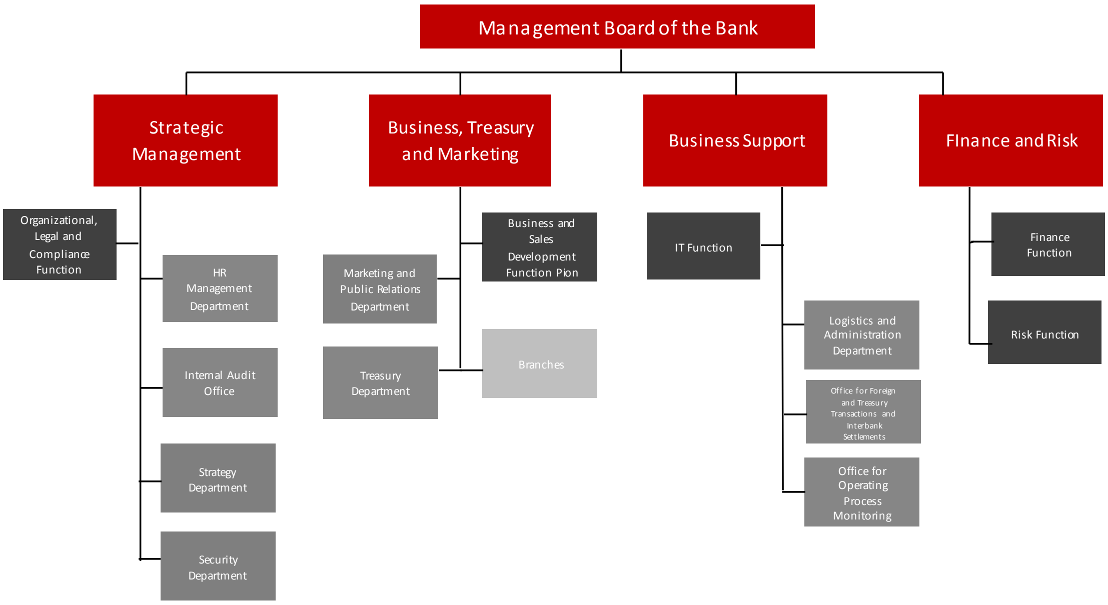
9. Organizational and infrastructural development

9.1 Organizational structure of the Bank

During 2014 the organizational structure of Bank Pocztowy was adjusted to new tasks imposed by its development strategy up to 2017, including the requirement to separate supervisory and control capacities from business operations.

In December 2014 Bank Pocztowy was divided into four functional areas managed by individual Management Board members:

- Strategic Management;
- Business, Treasury and Marketing;
- Business Support;
- Finance and Risk.



Organizational structure of Bank Pocztowy as at 31 December 2014

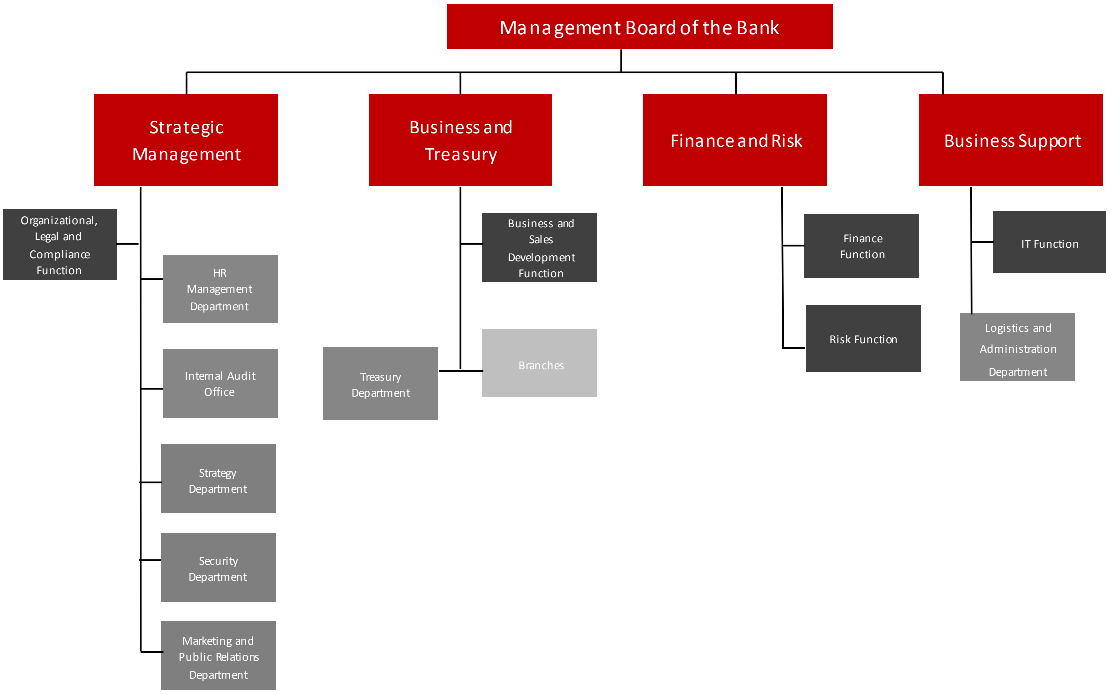
Following changes in composition of the Bank's Management Board referred to in section 13.9 *Activities of Bank's corporate bodies – composition of the Management Board*, since 12 February 2015 the organizational structure of the Bank has been modified.

Key changes in the organizational structure of the Bank:

- Deputy Chairman of the Management Board acting the Chairman has supervised the Strategic Management plus Marketing and Public Relations Department, transferred from Business, Treasury and Marketing;
- Management Board Member previously in charge of Business Support supervises only Business and Treasury (previously Business, Treasury and Marketing, now supervised by the Chairman of the Management Board);
- Business Support has been entrusted with a Management Board member appointed on 12 February 2015;
- Finance and Risk has been added a task previously assigned to Business Support and involving support of currency trade transactions and settlements, as well as settlement of transactions concluded by the Treasury Department that have been moved to the Finance Function;

- Providing of management information through Data Warehouse previously entrusted with IT Function in Business Support has been moved to Business and Sales Development Function in Business and Treasury;
- Efficient supervision of agreements concluded between the Bank and insourcers with regard to operational measures, development, implementation and reporting of operational ratios for the Bank's purposes, as well as coordination of capital expenditure procedures have been moved to Business and Sales Development Function in Business and Treasury.

Organizational structure of the Bank as at the date of the report:



Key objectives and tasks assigned to each area:

Strategic Management:

- Organizational, Legal and Compliance Function: ensuring efficient operation of Bank's bodies, efficient management of compliance risk, efficient legal support to protect interests of the Bank;
- Developing employment, training and social policy, ensuring appropriate staff quality and qualifications;
- Ensuring tight and effective internal control;
- Developing and verifying Bank's strategy;
- Ensuring security of IT systems and Bank's resources, to include business continuity solutions and safety of Bank's operations and clients' funds through preventing fraud, money laundering and terrorism funding;
- Marketing activities, internal and external communication.

Business and Treasury:

- Business and Sales Development Function: Development and implementation of retail and institutional sales of Bank's and third party products, development of retail and institutional business, organization of an efficient network to sell retail and institutional banking and third-party products, ensuring efficient supervision of agreements concluded between the Bank and insourcers with regard to operational measures; development, implementation and reporting on operational ratios for Bank's purposes.
- Treasury Department: current liquidity management.

Finance and Risk:

- Risk Function: developing a system for integrated risk and capital management to support strategy implementation and maintenance of the assumed risk appetite level; developing risk management strategy aligned to the Bank's strategy; in particular, developing Bank's policy concerning credit risk, developing an effective risk monitoring, restructuring and debt collection system.
- Finance Function: performing the financial planning process, monitoring implementation of financial plans, keeping accounting records, managing internal resources, strategic management the structure of assets and liabilities and structural liquidity in the Bank, ensuring performance of currency trading transactions and settlements, as well as settlement of transactions performed by the Treasury Department.

Business Support:

- IT Function: maintaining infrastructure and IT systems on an appropriate level and developing IT systems in accordance with internal client expectations; providing management information through Data Warehouse.
- Logistics and Administration Department: providing administrative and logistic services to the Bank.

9.2 Banking product distribution channels

Bank Pocztowy has a well-developed sales network consisting of:

- Main channels, to include the Bank's own network, Poczta Polska's sales network and the distribution network of Spółka Dystrybucyjna;
- Support channels: Internet banking, Contact Center, agents.

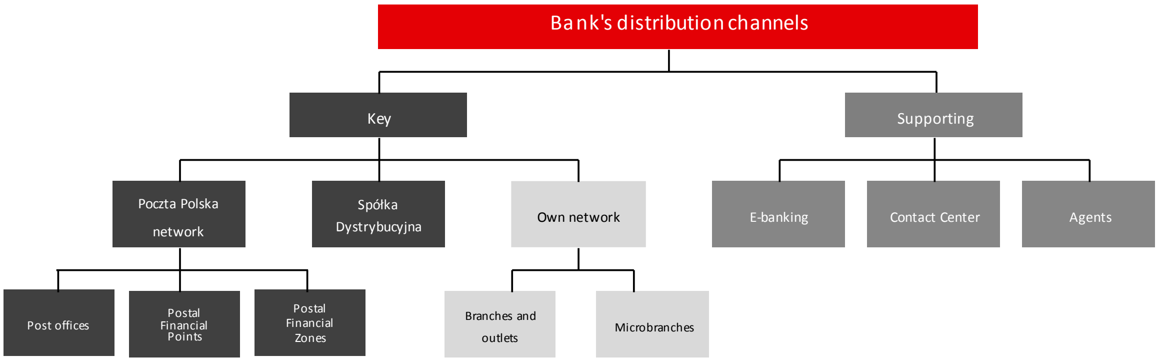
At the end of 2014, Bank's own distribution network included 293 units: one Branch, 23 Outlets (including one agency) and 269 Microbranches. During 2014 the network was extended with 13 Microbranches.

In 2014 the Bank commenced the process of revamping its network to reflect the newly adopted strategy.
The refreshed and improved image of Bank Pocztowy outlets is presented below.

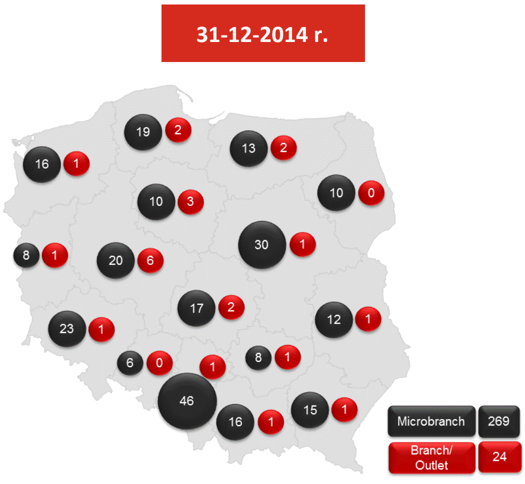
The first outlet equipped with the new logotype similar to that of Poczta Polska is the office located in Kalisz at Zamkowa 18/20. The preparatory works were completed on 1 August 2014.

In 2014, the Bank opened the first pilot agency in Bełchatów. The outlet is located at a trade mall and has full access to databases (Ferryt, Front – end and applications accessed through Internet). The agency works ten to twelve hours seven days a week.

Internet distribution channels are being developed as well. Consumers may use *Pocztowy24* e-banking system, while institutional clients have access to *Pocztowy24 Biznes.* Contact Center is a phone banking system allowing clients access to their accounts and other banking services via phone or web communicators.



The network of traditional distribution channels in Bank Pocztowy by province:



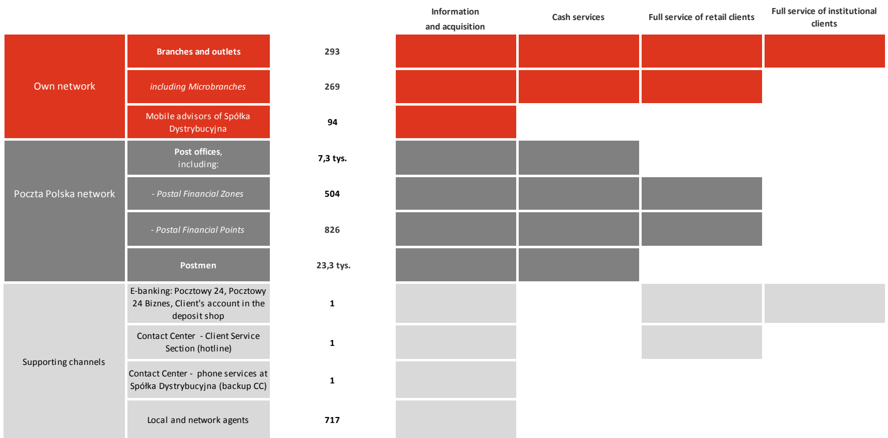
Own network of Bank Pocztowy as at 31.12.2014

Own network of Bank Pocztowy as at 31.12.2013

Further, Bank's products are distributed via network of mobile advisors of Spółka Dystrybucyjna, selling loan products among clients with limited access to the Bank's sales network. At the end of 2014, Spółka Dystrybucyjna cooperated with 94 advisors.

The Bank provides financial services using the sales network of Poczta Polska (approx. 7.3 thousand offices including 826 Postal Financial Points and 504 Postal Financial Zones). Further, its products are distributed by 23.3 thousand postmen. The extensive network provides easy access to banking products and services countrywide.

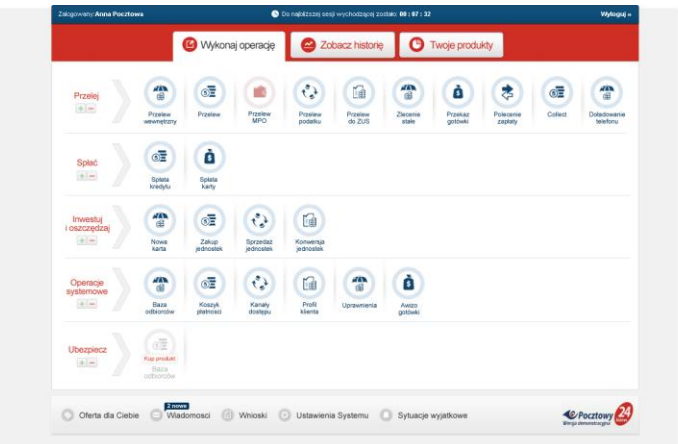
The scope of services provided by each channel distributing products and services of Bank Pocztowy

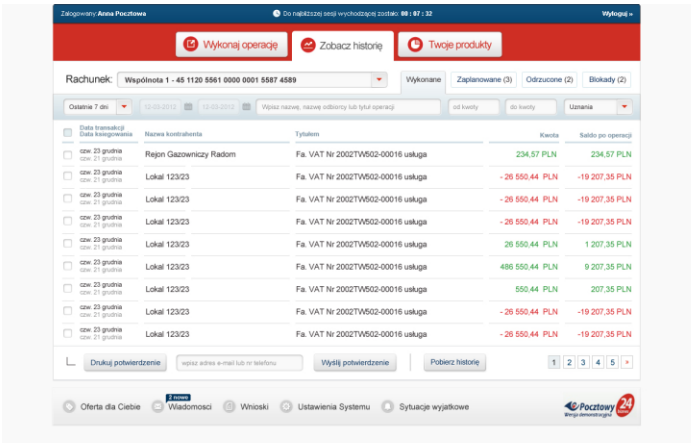


9.3 Development projects

In 2014 the Bank Pocztowy Group incurred capital expenditures on development projects amounting to PLN 11.3 million, which was an increase compared to PLN 9.3 million in 2013. Most investments pertained to IT (improvement and development of key IT components). Outlays for development of e-distribution channels and modernization of own network of outlets constituted another material cost item.

- **Development of e-distribution channels**
  In April 2014, the Bank implemented a new Internet platform for retail clients called *Pocztowy24*, which replaced the older solution.





The new e-banking system allows remote access to products and services of Bank Pocztowy through one user-friendly integrated system. Strengths of the new application include simplicity, transparent look and easy to use icons allowing intuitive use of banking products. Clients can personalize the homepage to allow more efficient use of their favorite functionalities.

The demo version of the new system where users can learn to operate the system is available at www.nowy.pocztowy24.pl/demo/. Users who do not have Internet accounts can learn how to make money transfers, pay bills, repay loan installments and credit cards, top up mobile phones and even make a deposit. All transactions involve zero risk and use virtual money.
From May 2014 to December 2014, 808 logins were recorded at *Pocztowy24*.

- **IT and Transactions**
  In 2014 the Bank completed implementation of Front-End application in all outlets. The key objective of the project was to develop a new technology solution to allow extending the scope of products and services offered to clients, improving and accelerating the process of selling products and services in all outlets. Implementation of a new technology solution in Poczta Polska outlets is a follow-up of the Front-End implementation in the Bank's outlets.

- **Network of Bank's outlets**
  Under the adopted strategy, the Bank continued the project of improving sales efficiency in Poczta Polska outlets through development of a network of Microbranches. In 2014, thirteen Microbranches were opened.

  In close cooperation with Poczta Polska, the Bank commenced the process of network revamping accompanied with introduction of a new book of standards aimed at adjusting the Bank's outlets to the standards of Poczta Polska.

  In 2014 the process of opening agencies in new locations, i.e. in trade malls, has been commenced, and one of the two agencies has been opened. The opening of the other agency is planned for the beginning of 2015.

- **Projects related to the Bank's operations**
  The key project involved the building of a Customer Relationship Management system, i.e. a tool that would allow strengthening relations with Bank's clients. The project is aimed at provision of comprehensive CRM solutions to integrate all communication channels and sales supporting systems. This will allow developing mechanisms to collect client data and prepare special customized offer available in their preferred distribution channels. The offer shall be available through advisors via CRM tool, in remote channels as IVR and on the website through systems integration under the project.

10. HR Management

10.1 Headcount and employment structure

As at 31 December 2014, the Group had 1,633 FTEs vs. 1,700 FTEs at the end of 2013 (a decrease by 67 FTEs).

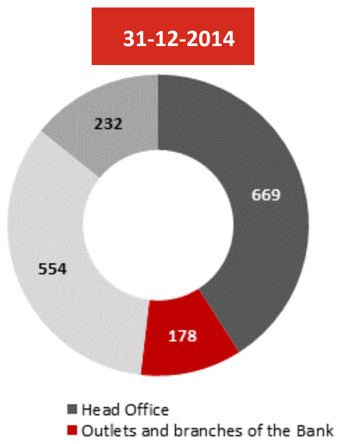
As at 31 December 2014, the Bank had 1,401 FTEs vs. 1,561 FTEs at the end of 2013 (a decrease by 60 FTEs). The headcount reduction resulted mostly from the optimization processes implemented in the Head Office of the Bank, aimed at adjusting the employment and organizational structure of the Bank to the current strategy.

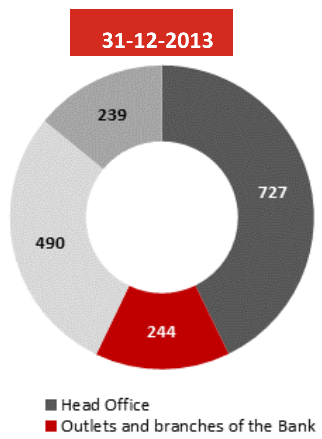
36
Average age of Bank Pocztowy's employees
As at 31.12.2014

Headcount in Bank's subsidiaries was 232 FTEs including 10 FTEs in Spółka Dystrybucyjna and 22 FTEs in Centrum Operacyjne. During the year, the employment was reduced by 7 FTEs.

At the end of 2014, the Bank employed 1,417 people:

- Most of the employees (1,011) were female;
- The average age of an employee was 36;
- The average length of service with the Bank was four years;
- All employees were university or college graduates: 67% held university diplomas including 8% that completed post-graduate studies.





10.2 Training and development

Training and development policy in 2014 reflected the business strategy adopted by Bank Pocztowy and included requirements of supervisory institutions. Training and development focused on extending and developing managerial competencies, key business development skills and specialist competencies supporting business efficiency improvement.

In 2014 the Bank commenced a series of efficiency improving measures:

- Building new corporate culture: workshops and consultations aimed at modification of the Bank Pocztowy Group's corporate culture. In 2014, two workshops were carried out for the Management Board and one for high level managerial staff (37 participants). The meetings were supported by an external training and consulting company.
- Employee Survey: progressing preparation for the first employee involvement survey in Bank Pocztowy and Centrum Operacyjne was a response to the new business strategy adopted by the Group. The survey was held from 12 to 23 January 2015. Its purpose was to develop organization by providing work conditions that support employee involvement. A research and consulting firm cooperated on preparation and carrying out of the survey.

Development programs and training for managerial staff:

- Development program for key managerial staff, dedicated to the professional team of key managers built in 2012 with the purpose to improve the strategic competency level. Development initiatives carried out in 2014 included workshops aimed at preparing of business strategy for 2014-2017. The program gave its participants opportunities to develop top level competencies. The program included 35 high level managers.
- ”EkstraKLASA Menedżerów” comprehensive development program for managerial staff in the Bank's sales network. Its key purpose is to improve business efficiency of participants through:
  - Standardization of managerial competencies in the retail network;
  - Identification of individual leadership styles and methods to improve personal efficiency;
  - Providing practical tools and solutions to allow effective leading of teams and people in continuous change environment.

  The program was commenced in 2013 with an in-depth diagnosis of training needs. In 2014 four modules consisting of two-day training each were performed to improve key managerial skills. The program includes evaluation to be carried out in 2015 with regard to competencies and business indicators. It covers approx. 60 managers.

- "Mentoring and Succession in Bank Pocztowy" development program for successors, replacements and key individuals (mentors) in the Head Office (continuation). The project purpose was to ensure replacement of most crucial employees with unique competencies and gradual preparation of their successors to take over key positions. Further, the program provided tools to enhance managerial competencies through managerial mentoring, during which key talents appointed their successors or replacements and acted as their mentors, sharing professional knowledge, experience and good practices, as well as providing expert mentoring, whereby directors appoint key talents mentors in order for them to share their knowledge with employees designated as their trainees. The mentoring process has a cyclical, annual nature. In 2014 it was continued by 115 individuals. Human Resources Management Department prepared three soft skills training modules for the group: *"How to be an efficient team member", "How to teach efficiency and self-management in a team",* and "*Assertive communication"*. The training included the total of 105 participants.

- Managerial workshops dedicated to the entire managerial staff of Bank Pocztowy, carried out in June 2014. Their purpose was to present the new business strategy and work together on its efficient implementation. They gathered approx. 140 participants.

- "Cascading objectives in the *MbO system*" workshop dedicated to all managers in Bank Pocztowy working based on the MbO (Management by Objectives) system. The purpose was to support managers in defining goals and tasks providing an efficient response to initiatives included in the new business strategy and its key implementation factors developed in the course of managerial workshops. The workshop was delivered by employees of HR Management Department in Bank Pocztowy in July 2014. It included approx. 70 trainees.

- Labor law workshop carried out in 2014 under the training and development policy, mainly for retail sales network managers. The purpose of the training was to improve knowledge regarding practical application of labor law, also with regard to the personnel policy adopted by Bank Pocztowy. It included approx. 60 managers. The workshop was delivered by a labor law expert of HR Management Department in Bank Pocztowy.

Additionally, under the managerial competencies improvement projects, training was continued with regard to employee evaluation based on CREDO[24] value code for all new managers in Bank Pocztowy and to efficient recruitment, dedicated mainly to retail sales network managers.

Training improving business efficiency:

- Inception training dedicated to 494 new hires, including the Bank's product offer, IT systems and professional sales techniques on the basic and advanced level.
- Additional training regarding new products offered by the Bank and authorizing to perform specific banking transactions.
- Business workshops: *"Gala Filmowa Banku Pocztowego".* These are annual meetings of retail banking employees. In 2014, they were participated also by representatives of institutional banking, treasury and business support. Their purpose was to enhance business cooperation and present key business initiatives for 2015. Their participants could demonstrate their skills, among others creativity, teamwork and courage in taking new art challenges. During the event, business performance in 2014 was summarized.
- Individual training extending the professional knowledge regarding Treasury and enhancing analytical skills.
- A group training program dedicated to employees of pre-collection, call center and risk management units. The purpose of the group training was to enhance the skills of pre-collection client service. In 2014, six training sessions were delivered for approx. 100 participants.

Training improving IT efficiency:

- Individual and group training supporting IT security skills, which gathered approx. 30 participants.
- Project management training dedicated mostly to IT, business and business support employees, which included three groups of trainees in 2014, in total approx. 51 participants.
- Training enhancing the understanding of Recommendation D and supporting IT team efficiency, performed for all IT Function staff and their key clients, i.e. business representatives. It gathered approx. 95 participants.

Training improving finance efficiency:

- Training enhancing specialist skills regarding MS Excel and VBA;
- Training extending knowledge of IAS;
- Training extending knowledge of tax related issues.

[24] *CREDO value code includes the value system of Bank Pocztowy as determined in its strategy, indicating desirable attitudes and behavior presented by employees in process of achieving professional objectives that allow the expected performance level.*

Other training initiatives:

- Individual development: employees who won the highest scores during CREDO-based individual performance assessment have been included in the training and development program. They were awarded with packages of individual development measures. Additionally, individual support in the form of training, conferences, seminars and post-graduate studies included new retail banking trend, marketing, risk, internal audit, HR Management Department, foreign languages and good practices in implementation of external regulations.
- Individual coaching: the purpose of the project was to enhance individual professional development of participants of "Mentoring and Succession" program. The project was performed in Q2 2014 and included 65 participants, each of which could take four sessions.
- E-learning courses for 3,229 people (employees of Bank Pocztowy) including security, banking secret, AML, personal data protection, ethics, quality standards, MiFID, CRM, audit and internal control, as well as Bank's product offer. The year 2014 was the first to include Poczta Polska employees in e-learning sessions (they were attended by 6,003 employees of Poczta Polska).
- Obligatory training imposed by the law, e.g. by Labor Law, Banking Law, OHS, personal data protection.
- Training for the Poczta Polska Capital Group: in 2014, in cooperation with Poczta Polska's internal trainers, product and sales training was carried out for Poczta Polska employees. In 2014, 221 Poczta Polska employees were trained on Front-End pilot implementation in Poczta Polska.
- "*Witamy w Pocztowym*" training program dedicated to new hires, introducing the mission, vision, processes and principles adopted by the Bank. The training includes also introduction to IT systems and practical information useful in the first weeks of working at the Bank.

In 2014, Centrum Operacyjne employees participated in a number of training sessions and seminars, the most important of which were:

- Akademia Strategicznego Przywództwa (Strategic Leadership Academy);
- Polskie Forum Outsourcingu (Polish Outsourcing Forum);
- Time management;
- Internal Audit Methodology and Internal Control;
- Discipline and cooperation in employee teams;
- Back Office Operations Forum;
- CSR including assistance to kids from children's homes and foundations.

Since November 2014, a project co-funded by County Labor Office (National Training Fund) was commenced for employees aged 45+, aimed at improvement of their productivity and efficiency and including banking, IT and process knowledge.

Training on cash loans for microenterprises was carried out for employees of Spółka Dystrybucyjna.

10.3 Incentive system

In order to ensure smooth achievement of business objectives and improve organizational potential to achieve them in future, in 2014 the Bank used the Management by Objectives system introduced in 2011. Along with cascading and participational determining of objectives, it has been used to determine individual objectives of the managerial staff. Additionally, focusing on key objectives allows mobilization and preparing the Bank for achieving of stretch goals (including finance) in rapidly changing business environment. Implementing of MbO assumptions contributes also to improving of productivity and competencies of employees, providing incentives and involvement in the performance of tasks aimed at strategic objectives.

Objectives for 2014 were determined based on:

- Bank Strategy 2014-2017;
- Initiatives of Bank's business lines developed during managerial workshops;

- Pending business initiatives.

The objective defining process was participated by managers and appointed employees of the Bank, except of the sales network included in a commission-based remuneration system. Individual goals were determined during workshops delivered by HR Management Department and Managing Directors.

The process of determining and cascading objectives followed the existing MbO methodology. According to this methodology, the objectives had to bring actual valuable change to the organization and to be measurable with business, quality and executive ratios with clearly defined algorithmic accountability.

This year, during MbO process, special focus was placed on aligning the planned objectives with the expected Bank's performance. The adopted assumptions were reflected in Individual Objective Lists.

The business aspect was stressed also for other initiatives expressed in the form of objectives, and reflected in business ratios determining the legitimacy of each objective from the economic viewpoint.

Due to material changes in macroeconomic environment and rapid changes in the organization, a review of objectives was held in November 2014 in order to verify the contracted objectives and motivate employees to improve productivity during the last weeks of the year. The review took the form of individual consultations carried out by HR Management Department with Managing Directors.

As a result, determined objectives were as much as possible focused on improved work efficiency and Bank's performance with special attention to changes in the macroeconomic environment and the current standing of the Bank.

"*Principles of granting bonuses to field employees and selected members of managerial staff in Sales Network Management Department, Business and Sales Development Function in Bank Pocztowy S.A.*" were introduced in 2012 to better motivate sales network employees.

In 2014, under the continuous incentive program for sales network employees, consistently encouraged to improve sales performance, the commission system was modified month to month to trigger sales in specific product groups. Each product included in the sales plan of the network employees has been assigned specific weight. Depending on the performance vs. plan, individual product weights are translated into the monthly commission amount.

In July 2014, a professional development path dedicated to the sales network employees was introduced. It allows continuous professional development beginning from Junior Advisor/ Account Manager all the way through Advisor/ Account Manager and Senior Advisor/ Account Manager. Employees can be promoted every six months if specific criteria are met. Additionally, in each stage of the development path, they can improve their sales and product related qualifications through dedicated training.

10.4 Management remuneration policy

In 2014 Bank Pocztowy maintained the previous management remuneration policy based on the existing internal regulations, i.e. "Principles of Remunerating Employees of Bank Pocztowy S.A." and for the variable portion of compensation, "Principles of Granting Bonuses to Management of Bank Pocztowy S.A." according to MbO methodology and CREDO evaluation system.

Adjusting its policy to the requirements of PFSA Resolution no. 258/2011, the Bank applies the principles of determining variable compensation components of individuals holding managerial positions in the Bank (the Policy).

The basis to grant an individual a variable compensation, including the deferred portion of such compensation, and to determine the total amount of the variable compensation applicable to qualifying individuals includes:

- Assessing an individual's performance vs. individual goals planned for the year subject to evaluation;
- Financial performance of the Bank for the last financial year;

- Performance of the cost budget;
- Financial profit/sales plan performance.

Determination of the variable compensation portion includes also a non-financial criterion, i.e. assessment of compliance of attitudes and behavior of an employee with the CREDO value system adopted by the Bank. The performance assessment underlying the entitlement to the variable compensation covers three years, to include the Bank's business cycle and risk related to its business operations.

In 2013 the Policy of granting and deferring the variable compensation for 2012 for management staff was introduced in 2013. According to the Policy, the variable compensation is deferred and at least 50% of its amount is paid in phantom stock entitling to cash receipt. 40% of the variable pay (annual bonus) was deferred. In 2014, upon a decision of the Supervisory Board, the first portion of the deferred variable compensation was paid out.

10.5 Additional benefit packages

For years, Bank Pocztowy has provided its employees with a large package of additional benefits, to include:

- Comprehensive health care: a broad range of private health care services for all employees with an option to extend it to their family members on preferential terms;
- Sports and entertainment: employees can use a program supplied by Benefit Systems Sp. z o.o. MultiSport cards allow access to sports facilities around the country. Further, each employee can buy additional cards for children and a partner on preferential terms, under an agreement concluded between the Bank and Benefit Systems Sp. z o.o.;
- MultiBenefit rebate program performed in cooperation with Benefit Systems Sp. z o.o.: Employees may do shopping with a preferential rebate and use different forms of entertainment, such as movies, theater and weekend outings, booking through an Internet platform;
- Employee Pension Plan (EPP) significantly contributing to safe financial future of employees due to the growing need to accumulate capital for future pension benefits.

10.6 IT in HR processes

In 2014 the work under the project "IT tool supporting HR management processes" was continued. *The* tool, known in the Bank as KARO HR, is to sort out and simplify staff and training management processes and streamline personnel evaluation and goal settlement with MbO. Further, a recruitment automation module has been implemented.

Easier access and data flow among employees, managers and HR Management Department with regard to personnel data management allowed replacing paper versions of certain documents (e.g. annual leave application, personnel evaluation forms or training applications) with computer files. In 2014, KARO HR was extended with new functionalities. A module allowing employees access to their payroll data was implemented, and the pay slip was replaced with a computer file (which allows an employee downloading the file on the day following the payment date). Also, the 360 Assessment process has been given an electronic form[25].

[25] *360^o assessment: a multi-dimensional evaluation allowing comparison of employee's self-assessment with those made by colleagues (supervisors and subordinates).*

11. Development strategy

11.1 Development strategy of the Bank Pocztowy Group and its implementation

1.5 MM current accounts in 2017	60% C/I	15% ROE in 2017
31.12.2014: 997,000 .	2014: 65.3%	2014: 10.5% ROE

Key strategic assumptions determine stretch goals for the Bank, to include building a large client base through active acquisition of current account holders in the extensive network of Poczta Polska offices and in the growing network of Microbranches.

In 2014, under the efficiency improvement initiative, the Group modified its product offer regarding current accounts in order to activate the existing clients. On the one hand, this slowed down the client number growth, also in the beginning of 2014, but on the other hand, significantly contributed to improvement of the Group's financial performance. At the same time, introducing of a new offer arising from the new strategy employed by the Group in June 2014 increased the speed of acquiring new current account holders in Q2 2014 and the share of active and more profitable accounts in the client base.

This, along with cost optimization measures, significantly improved the Group's efficiency and performance.

At the end of 2014 the number of consumers and microenterprises served amounted to 1.43 million, which meant a slight growth (by 0.5%) compared to December 2013. The number of current accounts served dropped by 20 thousand to 997 thousand.

Measures aimed at improving the Group's efficiency, mainly cost optimization and process improvement, produced the assumed outcome and resulted in the historical best net profit of PLN 43.6 million, i.e. by PLN 7.6 million (21.1%) higher than in 2013.

This translated into net ROE improvement (from 9.6% in 2013 to 10.5% in 2014).

Revenue increase and the effective cost optimization policy allowed further improvement of Group's cost/income ration from 71.3% in 2013 to 65.3% in 2014.

At the end of December 2014, the Group had 269 Microbranches, i.e. 13 more than a year before. During 2014, the target number and location of these outlets was verified in order to optimize their efficiency.

11.2 Development directions for 2015

In 2015 the Group will focus on further acquisition of clients and strategic management of client relations, increasing the scale of operations and efficiency of the sales network and improve the organization's efficiency and agility.

Client number increase targets (approx. 160 thousand in 2015) and those regarding achieving and maintaining high speed of acquiring current account holders (300 thousand accounts) shall be supported by a series of development initiatives. They will be implemented in areas of crucial importance for the achievement of determined strategic objectives, including products and sales, development of the sales network, service quality and client relation management, implementation of e-commerce offer integrated with Poczta Polska, further efficiency improvement in Poczta Polska sales network.

One of the key initiatives of the Group with regard to sales and sales support is to implement Front-End tool in Poczta Polska network to allow real-time sales and performance of clients' orders.

The Group will further enhance its relations with clients. To this end, it will implement a CRM strategy including processes of activating and increasing transaction number, cross-selling and client retention.

As regards development of the sales and service network, at the end of 2015, the Group is going to have 304 own outlets including 285 Microbranches. Along with this process, Contact Center shall be developed, the hours of its operation extended so that it will work seven days a week. Further, the pilot program regarding a network of partner outlets, located mainly in trade malls, will be continued. This will be accompanied with further growth of Postal Financial Zones to reach the target number of 640. Further, strategic partnership of the Group and Poczta Polska shall be demonstrated in activities including synergic sales management and improvement of sales processes in the Group and in Poczta Polska, as well as integrated development and optimization of information technologies.

Business development will take the form of further growth of profit on banking operations, to be achieved through an increase in sales of consumer loans and product profitability, at the same time maintaining safe levels of capital and liquidity ratios.

Improved efficiency of operations is among the key initiatives of the Group for 2015. To this end, the Group will commence measures aimed at revenue increase, at the same time maintaining tight cost control through triggering sales of the most profitable products and focusing on most efficient business lines. At the same time, the Group shall aim at regular improvement of its operational efficiency, in particular through process optimization and simplification of organizational procedures.

The Group still aims at increasing its share capitals in the form of raising additional capital, but this depends on favorable market standing and a positive decision of its shareholders.

The Group's ability to achieve the objectives determined for 2015 shall depend mostly on external conditions, in particular the economic growth seen in Poland.

12. Bank Pocztowy in the society

Corporate social responsibility of Bank Pocztowy towards its clients, employees, bondholders and the society is an integral part of its operations. The principle has been confirmed in the new development strategy for the years 2014-2017 entitled "Activation, profitability, education" adopted in June 2014.

The mission of Bank Pocztowy is to be a leading supplier of financial services in all regions of Poland, offering "simple and @ccessible banking". What does it mean?

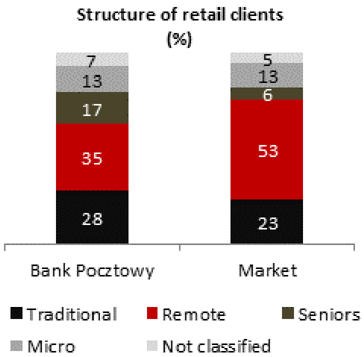
- **Simple:** providing comprehensible financial services and products adjusted to clients' needs, friendly environment, clear procedures and understandable communications;
- **@ccesible:** offering financial services at affordable prices in the largest access network, through Poczta Polska outlets, Bank's outlets and remote channels.

12.1 Relations with clients

Clients have always been the focus of our attention. The Bank wants to know its clients, understand their needs and respond to them through innovative solutions.

In 2014, based on analysis of needs, behavior and value systems, client segmentation was introduced in Bank Pocztowy. The following consumer segments have been determined:

- Remote;
- Traditional;
- Seniors;
- Microenterprises.



Clients from the Traditional and Senior segments most often use the services offered by Bank Pocztowy compared to the entire market.

Knowing its clients, the Bank prepares an offer tailored to their needs, with special focus placed on its transparency and simplicity. In 2014, it offered its clients with *Konto ZawszeDarmowe*, the first account in Poland with indefinite zero charge for maintenance guaranteed. Along with this product, loyalty programs have been introduced, to include *Pocztowy Pakiet Ubezpieczeniowy* (Postal Insurance Package). Holders of Pocztowe Konto Nestor were included in the loyalty programs in 2014: when paying card in pharmacies, they will be refunded 5% of the purchase value.

We respect our clients' habits. Therefore, our services are available to clients countrywide, regardless of the size of their town or village. At the same time, we educate our clients and encourage them to use handy e-distribution channels.

In order to ensure high service quality, we have adopted client service standards depicting desirable behavior to be adopted by advisors when discussing with clients. The description includes discussing with clients coming to the outlets, telephone calls and e-mail correspondence. The aspects described in the book of standards are monitored in the form of Mystery Shopping and Mystery Calling.

Further, the Bank has carried out Net Promotore Score (NPS) survey assessing whether consumers are likely to recommend services of a given company. The survey has been carried out on a quarterly basis.

Also, a blog has been maintained on the Bank's website as an element of dialog with clients. A number of messages published in the blog, such as introducing Pocztowy24, the new Internet banking system, have met a strong response on the clients' side.

Bank Pocztowy has used its Facebook profile and YouTube to reach its clients, too.

12.2 Relations with employees

Implementation of the Bank's strategy would not be possible without mature managers and devoted employees. Social responsibility regarding relations with Bank's employees involves:

- Providing employees with promotion and development opportunities;
- Succession plan implementation;
- Providing friendly and safe job positions;
- Integrating and enhancing bonds with the employer;
- Improving internal communication;
- Ensuring ethical management;
- Ensuring work-life balance, among others through supporting employees' passions and hobbies.

Various aspects of remuneration policy, competency building, developing growth and promotion paths are presented in Section 10 "Human resources management".

Bank Pocztowy supports non-professional interests of its employees, to include sports. Most sports events are organized in cooperation with Poczta Polska based on an arrangement on cooperation on sports and tourist activities of September 2013.

In 2014, the calendar of events included 26 initiatives, out of which four were sponsored by the Bank and two organized directly by it. Employees of Bank Pocztowy participated in the following sports events:

- International Sailing Contest of Poczta Polska in Giżycko;
- Olympic Games of Poczta Polska Employees in Skaryszew;
- Shooting contest in Ustka, during which a beach multithlon was held (organized by the Bank);
- InO contest in Szymbark (organized by the Bank);
- Warsaw 10 km Race.

The total of 140 employees of Bank Pocztowy participated in these events.

The employee relationship policy is supported by activities initiated under Social Benefit Fund. In 2014, the Fund:

- Provided non-refundable support to individuals affected by accidents or facing material, family or other serious life problems;
- Co-funded organized domestic and foreign vacation for children and youth aged up to 18 and purchase of school books;
- Co-funded group benefits, so-called open cultural, educational, entertainment and sports events;
- Co-funded MultiSport initiative;
- Purchased shared sports equipment;
- Provided seasonal benefits for employees' children (Christmas, Easter) and cash benefits for all employees of the Bank. The gift giving event organized on 6th of December enjoyed popularity among employees. It gathered 250 participants, including 89 children, attracted by Family Bowling Tournament for elder kids with parents;
- Providing employees assistance in the form of reimbursable housing loans.

12.3 Social initiatives

Bank Pocztowy assists its clients in financial transactions and participates in initiatives preventing social exclusion.

As in previous years, in 2014 we supported the research of banking and financial exclusion in Poland faced by demographical structure changes. The Bank was a Professional Partner in the First Silver Economy Conference. It gathered nearly 200 participants countrywide, to include representatives of government agencies and NGO and people related to Third Age Universities.

Financial education was discussed also at University of Saving. As in previous years, the Bank supported the series of radio programs.

Articles on financial education were published in "*Wprost*" and "*Do Rzeczy*" weeklies with regard to the elderly clients:

- „Bank dla seniora",
- „Roztropni zdobywcy wiedzy",
- „Nestor w świecie banków",
- „Nestorzy będą coraz aktywniejsi".

These four large publications provided readers with useful information about practices favored by elderly clients: their likes and dislikes and expectations regarding the use of financial services. Apart from informing, they were to eliminate stereotypes and show that informed use of banking services can soon substantially simplify daily routines. Results of surveys commissioned by the Bank were used when preparing these publications.

12.4 Supporting children and youth

Initiatives addressed to children and youth were an important element of the social activity of Bank Pocztowy. In 2014, the Bank supported the following initiatives:

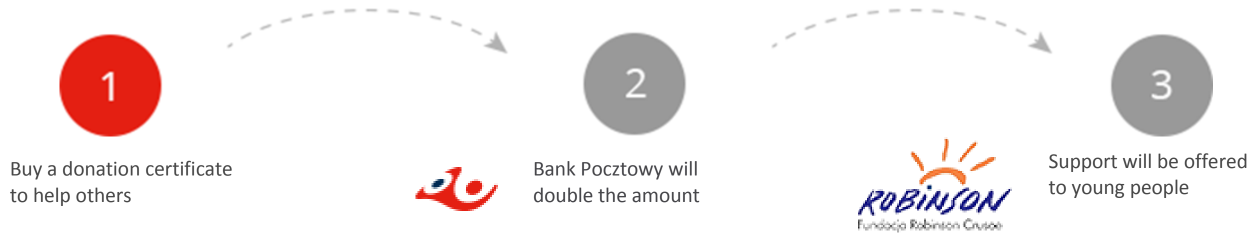
- "*Przekaz ku przyszłości"*, an educational scholarship program by Pocztowy Dar Foundation intended to support talented and ambitious students of all types of schools who want to develop their interests and talents. It is to cover costs of additional courses (including language courses) and purchase of items necessary to support educational goals (e.g. software, instrumentation, sports accessories etc.). It is addressed to students who obtain very good marks and have additional credits in science, culture, sports or social initiatives. In 2014 it included 81 students of primary schools, gymnasiums and lyceums.

- Scholarship program for Poles studying in Poland and abroad by IVY Poland Foundation, aimed at supporting the most talented Poles who want to study at the best Polish and foreign universities, which should enhance the international image of Poland and integrate universities.

- Initiatives of Robinson Crusoe Foundation, to include the following projects: *Kontrakt Robinsona*, *Zimowe Warsztaty usamodzielnienia Robinsona* included in *Wehikuł usamodzielnienia* program aimed at supporting people in charge of the Foundation in achieving independence.

- In December 2014, the Bank became a partner in *Zostań Aniołem* (Become an Angel) initiative, when funds were collected to support educational and development programs for young people included in various forms of foster care to help them become independent.

How to become an angel?



Bank Pocztowy sponsored an international conference Advanced Analytics & Data Science organized by Warsaw School of Economics.

12.5 Supporting business

Bank Pocztowy supported business development initiatives, among others a business debate entitled "Strategy change: is it always feasible? Objectives, costs and benefits in short- and long-term perspective" organized by ICAN, the published of Harvard Business Review Poland. *The* Bank was a partner in the debate.

Aware of the growing importance of e-commerce in Poland, appreciating the popularity of this sales channel, Bank Pocztowy has decided to become a Partner of the 4th European Finance Congress, organized by Gdańsk Banking University. The Bank initiated a discussion panel called *E-commerce: a new business model.*

At the same time, in cooperation with Bonnier Business Polska, the published of Puls Biznesu daily, in 2014 it implemented a pioneer initiative called Business e-Gazelles, i.e. the Business Gazelles for e-business. As a result, a ranking of the fastest-growing small and medium e-commerce firms in Poland was prepared. It included firms that saw rapid growth over last three years, i.e. generated profit in 2013 and the largest y-o-y revenue increase in the period 2012-2013 expressed in percent.

Almost 300 firms from around the country were granted the e-Gazelle title. Additionally, 16 top e-Gazelles (one best from each province) were awarded. During the five final galas organized in Poznań, Sopot, Katowice, Kraków and Warsaw, the winners were granted statuettes and could share their experience in this type of business activity. Each gala was accompanied with a panel discussion attended among others by representatives of the Bank's Management Board and selected ranking winners. The discussion was to see the e-commerce related issues both from the viewpoint of market players and suppliers of financial and logistic services that significantly impact the form and quality of e-commerce in Poland. Puls Biznesu published reports from all galas and presented the most interesting e-businesses. Information regarding the ranking and later reports are available at a dedicated website egazele.pb.pl.

12.6 Promoting sports

In 2014 the Bank continued promoting of active lifestyle and sports, both for amateurs and professionals. As in previous years, it provided financial support to Unibax Toruń and Stal Gorzów Wielkopolski, speedway motorcycle racing clubs. It was a sponsor of World Speedway Motorcycle Racing Cup held in Bydgoszcz in August.

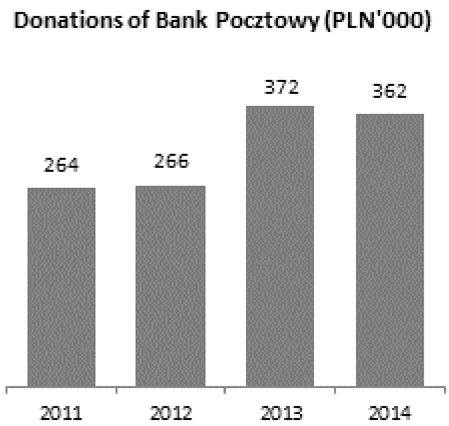
At the same time, it supported Polish Horseback Riding Association. As an official partner of Horseback Riding Celebration of the Independence Day 2014 it promoted initiatives memorizing the 4th of June as the Independence Day and 25th anniversary of the first free elections. The campaign included lectures for children and youth on interesting fragments of Polish history, also related to horseback riding and learn the benefits of this hobby in their future life, including training of useful treats, such as responsibility, reliability and diligence.

12.7 Donation policy

Since Bank Pocztowy has addressed its offer to citizens of small towns and villages, it focuses on local initiatives supporting financial education, education of children and youth and business development. Further, it provides financial support to those in need.

Bank Pocztowy has a Donation Committee, which, according to the By-laws, may distribute up to 1.5% of gross profit generated in the previous financial year.

In 2014 Bank Pocztowy S.A. granted support in excess of PLN 362 thousand.



13. Corporate governance and management

13.1 Corporate governance principles and application scope

5 GSM	5 Supervisory Board meetings	50 Management Board meetings
In 2014	In 2014	In 2014

Corporate governance principles for institutions supervised by Polish Financial Supervision Authority
Following a meeting of 22 July 2014, Polish Financial Supervisory Authority (PFSA) published *Corporate governance principles for supervised institutions* expecting their implementation as of 1 January 2015. Beginning from 2015, application of the principles will be included in supervisory review and assessment (BION) and regularly reviewed. The purpose of the principles is to improve corporate governance standards and transparency of operation of institutions supervised by PFSA.

Corporate governance principles issued by PFSA defined internal and external relationships of the supervised institutions, to include relations with shareholders and clients, organization, internal supervision and key internal systems and functions, as well as statutory bodies and their cooperation.

PFSA decided that the corporate governance principles should be adopted by the supervised institutions (banks), become a crucial program paper underlying their strategic corporate policy and form appropriate procedures and proceedings in these institutions.

Therefore, on 22 December 2014, Extraordinary Shareholders' Meeting of Bank Pocztowy passed "Corporate governance principles for Bank Pocztowy S.A." (the "Principles") determining internal and external relationships of the Bank, including those with shareholders and clients. Further, the Principles regulate the operation of internal supervision, key internal systems and functions, as well as statutory bodies and their cooperation.

The *Corporate governance principles* issued by PFSA state that the supervised institution should apply the principles determined therein to the widest extent possible, including the principle of proportionality arising from the scale of operations, business specifics and nature of each institution. Refraining from the full application of specific principles is allowed only if their comprehensive implementation would be impractical for the supervised institution.

"Corporate governance principles for Bank Pocztowy S.A." introduce the following principles to the extent adjusted to the specifics of Bank Pocztowy:

- Article 8.4 "If justified with the number of shareholders, the Bank shall attempt to help them participate in General Shareholders' Meetings, among others allowing active participation through Internet."
- Article 21.2: "Supervisory Board includes the position of Chairman, who manages its work. The Chairman is appointed based on experience and team leadership skills".
- Article 29.1: "Subject to relevant legal regulations, remuneration of Supervisory Board members is calculated adequately to their roles and to the scale of Bank's operations. Members appointed to work in committees, including the Audit Committee, should be paid adequately to the additional tasks they perform in these committees."

The Bank does not apply principles referred to in section 9 "Exercise of titles arising from assets purchased at client's risk" since principles determined in Articles 53-57 do not apply to the Bank, since it does not perform services involving asset management at client's risk.

As expected by PFSA, the Principles have been adopted as of 1 January 2015.

Pursuant to Article 27 thereof, the Supervisory Board shall evaluate implementation of the principles introduced thereby on a periodic basis, and the results of the evaluation shall be published on Bank's website and communicated to the other bodies of the Bank.

The Bank's By-laws assume annual evaluation of the Principles.

For alignment purposes, other corporate documents have been adjusted: the By-laws, *Operating Rules of the Supervisory Board,* and *Operating Rules of the Management Board*; besides, *Operating Rules of the General Shareholders' Meeting of Bank Pocztowy S.A.* were adopted.

Banking Code of Ethics

On 11 June 2014, Bank Pocztowy implemented the *Banking Code of Ethics* adopted by Polish Bank Association. The document, accepted by the General Shareholders' Meeting of Polish Bank Association on 18 April 2013 is a set of good banking practices regarding banks themselves, their employees and agents.

According to the Code, banks, as public trust institutions, shall respect legal regulations regarding their operations, recommendations of PFSA, resolutions of the banking self-government, standards included in the Code and good commercial practices. Banks, their employees and agents follow the principles of professionalism, reliability, objectivism, due diligence and best knowledge. Carrying their business operations, banks should contribute to social and economic domestic growth and increase in social wellbeing through respecting CRS principles, innovative solutions and support of educational initiatives. Social responsibility is the fundamental principle underlying relations of banks and their employees with environment. When following their business strategy, banks should consider both economic conditions and legitimate interests of their clients, employees, shareholders, business partners and local communities. The Code includes principles of the *Financial Market's Code of Best Practices.*

Code of Best Practice for WSE Listed Companies

Since Bank Pocztowy's securities are not traded on the regulated market (its bonds are listed with Catalyst, the over-the-counter trading system), it is not bound to follow the *Code of Best Practice for WSE Listed Companies*.

In 2014 Bank Pocztowy followed principles include in the *Code of Best Practice for WSE Listed Companies* to the extent applicable to non-public companies. When preparing for IPO, on 24 April 2012 the Management Board passed a resolution to apply the *Code of Best Practice for WSE Listed Companies*. In the resolution, it declared the will to follow the principles and recommendation of the Code as of the date of approving the prospectus, except for principle IV.10 and recommendation I.5, I.9, I.11 and I.12. In the justification of the resolution, the Management Board provided a detailed explanation (technical reasons regarding principle IV.10 and formal reasons regarding the other) why the above principles and recommendations should not be followed.

13.2 Control system in process of preparing financial statements

Internal control in the Bank

The Bank has an internal control system adjusted to the risk nature and profile, as well as to the Bank's operation scale. The Supervisory Board supervises implementation of the internal control system, while the Management Board designs it, implements and ensures its efficient operation.

The internal control system is embedded in the management system. The purpose of the internal control system is to support decision making processes that contribute to efficiency and effectiveness of the Bank's operations, reliability of financial reporting and compliance with external and internal regulations.

The internal control system includes risk controls, compliance check and internal audit. Along from the institutional control performed by internal audit, functional control performed on all organizational levels by each employee with regard to quality and correctness of performed activities and by managers as an element of their supervisory duties constitutes the other element of the control system.

Detailed principles of operating the internal control system are determined by internal regulations of the Bank. The internal control system includes all processes performed in the Bank, including the preparation of financial statements.

The internal control of financial statements takes place:

- At the stage of developing internal regulations that depict processes performed in the course of Bank's operations – their compliance with accounting regulations – in particular with International Financial Reporting Standards and the Accounting Act. Internal regulations on accounting are verified on a regular basis for compliance;
- At the stage of routine operations, where postings in the Bank's books are verified in accordance with functional control principles;
- In organizational units independent from those carrying out operations, where postings in the books are checked for compliance with internal procedures regarding management of the general ledger;
- At the data generation stage through algorithms validating data in IT systems that support the preparation of financial statements;
- In organizational units preparing financial statements through verification of consistency and integrity of the presented data.

13.3 Entity authorized to audit financial statements

The entity authorized to audit or review financial statements is appointed by the Supervisory Board upon recommendation of the Audit Committee.

On 21 May 2012, Supervisory Board, acting pursuant to Article 12.28 of the By-laws and Article 3.1.25 of the Operating Rules of the Supervisory Board appointed Deloitte Polska Sp. z o.o. Sp. k. (formerly: Deloitte Audyt Sp. zo.o.) a certified auditor to audit the financial statements for the years 2012-2014.

Gross fee of the entity authorized to audit financial statements (PLN'000)	2014	2013
Statutory audit of the annual financial statements	280	357
Review of mid-year financial statements	96	96
Other services	185	188
Total	**561**	**641**

Data brought to comparability. In the Management Board's Report for 2013, other services included other payments, not related directly to the audit of financial statements.

13.4 Shareholding structure and share capital

At the end of 2014, the share capital of Bank Pocztowy amounted to PLN 97,290,400 and was divided into 9,729,040 shares with the face value of PLN 10 each. It consisted of:

- 291,300 registered A series shares carrying no voting preference, but carrying preferential rights to asset distribution in case of liquidation of the Bank in proportion of 5 to 1 versus ordinary shares;
- 9,437,740 (nine million four hundred thirty seven thousand seven hundred and forty) registered ordinary B series shares.

Shareholding structure	Number of shares	Interest in the share capital
Poczta Polska S.A.	7 296 770	74.9999%
Powszechna Kasa Oszczędności Bank Polski S.A.	2 432 270	25.0001%

Poczta Polska S.A. is the majority shareholder of Bank Pocztowy holding 75% minus 10 shares in its share capital. Powszechna Kasa Oszczędności Bank Polski S.A. is the minority shareholder of the bank (25% plus 10 shares).

All A series shares are held by Poczta Polska. In case of voting regarding distribution of assets of Bank Pocztowy, the share of votes held by Poczta Polska shall amount to 77.67%, and by PKO Bank Polski 22.33%.

In 2014, the share capital of the Bank and its shareholding structure did not change.

According to the adopted strategy, a future IPO and debut with Warsaw Stock Exchange may be a form of raising additional capital available for Bank Pocztowy. Therefore, B series shares shall become bearer shares after their dematerialization as referred to in the Act on financial instruments trading of 29 July 2005.

13.5 Key information regarding Poczta Polska S.A., the majority stakeholder of the Bank Pocztowy Capital Group

Poczta Polska is a firm with 455 years of tradition including approx. 7,300 outlets that provide services to consumers and businesses. Poczta Polska provides postal services (letters, packages), banking and insurance services (through Capital Group companies) and logistic services. Further, it develops digital services (neo-stamp, neo-letter, neo-postcard) performed through an Internet platform.

The Poczta Polska Capital Group includes Poczta Polska, Bank Pocztowy, Poczta Polska Usługi Cyfrowe Sp. z o.o., Pocztowa Agencja Usług Finansowych S.A., Pocztowe Towarzystwo Ubezpieczeń Wzajemnych, Pocztylion – Arka PTE S.A., POST-TEL Sp. z o.o. and POSTDATA S.A., Pocztowe Towarzystwo Ubezpieczeń na Życie S.A., Pocztowe Likwidacja Szkód Sp. z o.o.

More information regarding Poczta Polska and its financial performance is provided on its website http://www.poczta-polska.pl/o-firmie/.

Poczta Polska is owned by State Treasury and supervised by the Minister of Administration and Digitalization.

13.6 Cooperation with Poczta Polska

Bank Pocztowy carries out strategic partnership with Poczta Polska based on a plan determining its key objectives and how to achieve them.

The strategic partnership assumes that the Bank plays a crucial role in implementing the strategy of developing financial services in the Poczta Polska Group and of the network of own outlets based on the infrastructure of Poczta Polska na dedicated to distribution of products and services. According to the adopted plan, a new model of managing financial services has been introduced with a new and efficient model of selling them, based on the network of outlets and employees of Poczta Polska.

Bank Pocztowy has a unique opportunity to use the network of Poczta Polska including approx. 7.3 thousand outlets (post offices, agencies and branches) countrywide. Since the Bank's own network is mostly located within the infrastructure of Poczta Polska, its extension does not require high capital expenditure. Capital expenditure for greenfield outlets (without access to Poczta Polska infrastructure and network) would be much higher than when developing a network based on existing post offices.

Thanks to access to Poczta Polska outlets countrywide, also in small towns and villages, where no competition of other banks exists, the Bank has successfully acquired clients from its target segments. With regard to development of financial services, strategic plans assume further improvement of sales efficiency of Postal Financial Zones with business ratios close to the levels achieved in Microbranches.

The sales of Bank's products and services are based on an agency agreement. According to the agreement, Poczta Polska outlets sell current accounts, corporate and saving accounts, term deposits, cash loans for consumers, credit facilities for microenterprises, credit cards and the related services. Access to the network of sales outlets and postal infrastructure allows the Bank providing institutional clients with the following services: ordering payments to counterparties (among others, through Money Gram), over-the-counter and sealed cash deposits and cash processing services.

Further, Poczta Polska is the Bank's client provided with comprehensive financial services. Including cash payments accepted in Poczta Polska network addressed to a variety of counterparties, to include Social Insurance Institution and tax offices (transfer funds) and cash receipts from Poczta Polska network to third parties indicated by Bank's clients into interbank settlements is a significant source of commission income generated by the Bank.

Cooperation of the Bank and Poczta Polska is regulated by a series of arrangement addressing its key aspects. They have been concluded on arm's length terms and concluded for an indefinite period.

13.7 Investor relations

Since December 2011, Bank's bonds are traded on the Over-The-Counter market of the Warsaw Stock Exchange (*Catalyst*).

The key purpose of investor relations is to provide the stakeholders with up-to-date and reliable information regarding the Bank in a simple and clear manner, in compliance with the law.

Since Bank's shares are not traded on a regulated market, in 2014 its activities regarding investor relations focused on:

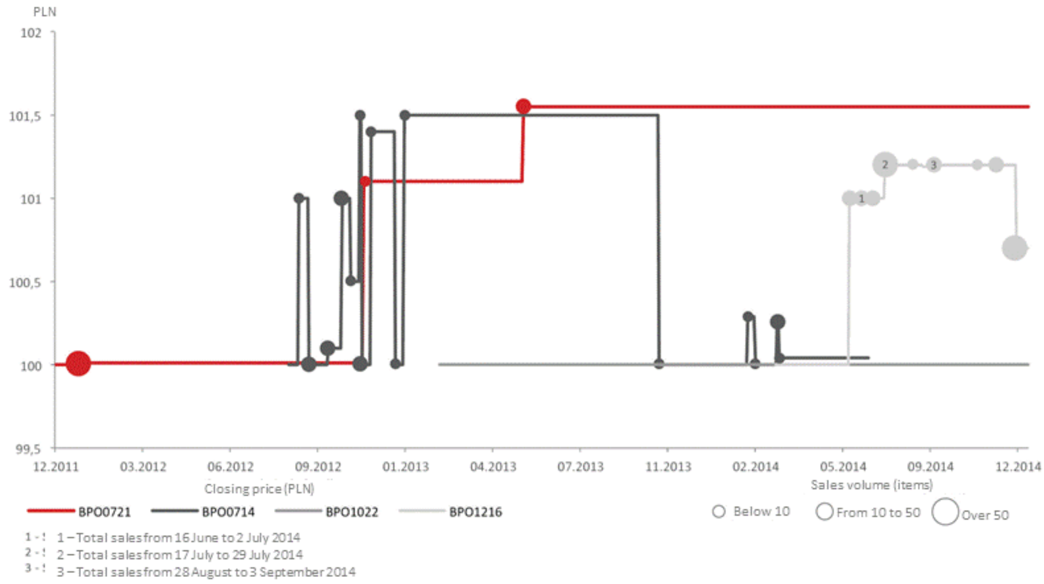
- Developing contacts with investors holding Bank's bonds or interested in purchasing them;
- Fulfilling of information obligations related to the bonds being listed with Over-The-Counter market of the Warsaw Stock Exchange (Catalyst).

At the end of 2014, the following bonds of Bank Pocztowy S.A. were quoted with Over-The-Counter market of the Warsaw Stock Exchange (Catalyst):

Series	Type	Number as per WSE OTC system	Number as per NDS	Issue date	IPO date	Rede-mption date	Nominal price (PLN)	Number of bonds	Issue value (PLN)	Interest
A	subordinated	BPO0721	PLBPCZT00015	08.07.11	02.12.11	08.07.21	10 000	4 734	47 340 000	WIBOR6M+375 pb*
B2	ordinary	BPO1216	PLBPCZT00049	13.12.13	13.03.14	13.12.16	10 000	14 785	147 850 000	WIBOR6M+140 pb
C	subordinated	BPO1022	PLBPCZT00031	05.10.12	20.02.13	05.10.22	10 000	5 000	50 000 000	WIBOR6M+350 pb

**/ Until 8.07.16; from 9.07.16 to 8.07.21 WIBOR6M+3.75+1.5 p.p.*

Quoting and trading bonds of Bank Pocztowy



In order to fulfil the information obligations imposed by Catalyst and to ensure full transparency of operations, the Bank and the Group publish annual and mid-year reports.

Further, both the Bank and the Group, despite not being obliged to do so, publish selected quarterly financial data. The publication is accompanied with press conferences during which Management Board representatives discuss performance for a given period.

In 2014 the Bank successfully performer six bond issues:

- two issues of ordinary bonds: four-year B3 series for the total of PLN 40 million and B4 series for the total of PLN 170 million;
- four series of short-term bonds (D4, D5, D6 and D7) for PLN 50 million, 10 million, 30 million and 30 million, respectively.

Following the issue of B4 series bonds, representatives of the Bank participated in a series of meetings with institutional investors organized under the roadshow.

The following person is responsible for ongoing investor relations in the Bank:

Magdalena Ossowska-Krasoń
Deputy Director, Public Relations and Marketing Department
e-mail: M.Ossowska-Krason@pocztowy.pl
tel. (22)328 76 06
mobile 601 057 496

On the website of Bank Pocztowy S.A. (www.pocztowy.pl), in Obligacje Banku Pocztowego section, all current and periodic reports published by Catalyst through EBI are disclosed along with other information regarding bonds issued by the Bank.

13.8 Amendments to By-laws

Amendments to Bank Pocztowy's By-laws require a resolution of its General Shareholders' Meeting and recording of the agreed amendments with the National Court Register. Prior to presenting the General Meeting with a draft resolution on By-laws amendment, the Management Board passes a resolution regarding the proposed changes, adopting the draft resolution of the General Meeting. The draft is then presented to the Supervisory Board for approval. Pursuant to the Code of Commercial Companies, the resolution to amend By-laws is passed with the majority of three-fourths of votes. Pursuant to Article 34.2 of the Banking Law of 29 August 1997, amendments to bank's By-laws require a permission of the Polish Financial Supervision Authority if they regard:

- The business name;
- Registered office, core business and scope of operations of the Bank;
- Bodies and their competencies, with special attention to competencies of Management Board members appointed with the approval of PFSA and decision-making principles, the basic organizational structure of the Bank, principles of making statements regarding property titles and liabilities, issuing of internal regulations and making decisions to contract liabilities or use assets whose total value exceeds 5% of own funds of an entity;
- Operation of the internal control system;
- Own funds and financial management principles;
- Preference or restriction placed on shares with regard to the voting rights.

On 18 June 2014, amendments to the Bank's By-laws accepted by the General Shareholders' Meeting on 23 May 2014 were recorded with the National Court Register. During the General Meeting, the Bank's shareholders decided to amend the By-laws with regard to the scope of Bank's operations – entering the electronic money market.

On 15 January 2015, amendments to the Bank's By-laws accepted by the General Shareholders' Meeting on 22 December 2014 regarding implementation of *Corporate governance principles in Bank Pocztowy S.A.* were recorded with the National Court Register.

The By-laws are available on the Bank Pocztowy's website www.pocztowy.pl.

13.9 Activities of Bank's corporate bodies

General Shareholders Meeting

Operation of the General Meeting
General Meetings are held in the registered office of the Bank in Bydgoszcz or in Warsaw. Ordinary General Meetings are convened by the Management Board of the Bank.

Extraordinary Shareholders' Meetings may be convened if necessary by the Management Board following its own decision or as requested by shareholders representing at least 1/20 of the share capital. The General Meeting is convened and prepared in accordance with the provisions of the Code of Commercial Companies and the Bank's By-laws.

Ordinary General Meetings are called by the Management Board of the Bank. The Ordinary Shareholders' Meeting convened by the Management Board in line with the routine procedure is held once a year, within six months of the end of each financial year.

The Supervisory Board may convene an Ordinary Shareholders' Meeting if the Management Board fails to do so within the statutory deadline, or an Extraordinary Shareholders' Meeting if it deems it necessary.

Further, in specified cases, shareholders are entitled to call or request the calling of the General Meeting. The shareholders may participate in the General Meeting and vote in person or through a plenipotentiary.

The General Meeting decides on its own internal rules. On 22 December 2014, Extraordinary Shareholders' Meeting passed the "Internal Rules of General Shareholders' Meeting of Bank Pocztowy S.A." which came into force on 1 January 2015.

Issues to be raised at the General Meeting are presented to the Supervisory Board for consideration and approval.

Resolutions of the General Meeting, except for specific cases, are passed in open voting by an absolute majority of votes, unless the Code of Commercial Companies or the By-laws require other, more restrictive manner of voting. Secret voting takes place when appointing and dismissing members of Bank's bodies or liquidators, deciding on their prosecution and in personnel related matters. Further, secret voting may take place if at least one shareholder present or represented at the General Meeting requests so.

The By-laws do not allow voting by correspondence or using electronic means of communication.

The Supervisory Board of the Bank is appointed and dismissed by the General Shareholders' Meeting in secret voting.

The manner of resolving when appointing members of the Supervisory Board is determined by the common law, including Code of Commercial Companies and the By-laws.

The provisions describe the manner of appointing Supervisory Board members from among shareholders, including representation of individual shareholders in the body and principles of appointing independent members, their number and conditions they should fulfil.

Key powers of the General Meeting
General Shareholders' Meeting should in particular:

- Analyze and approve Management Board's report on the activities of the Bank and financial statements for the previous financial year;
- Decide on profit distribution / loss absorption;
- Grant a vote of acceptance to members of the Bank's bodies.

Further, the powers of the General Meeting include resolving on:

- Appointment and dismissal of Supervisory Board members;
- Amending the By-laws;
- Increasing or decreasing the share capital;
- Approving the Operating Rules of Supervisory Board;
- Redemption of shares and conditions thereof;

- Recognition and derecognition of special funds;
- Issues of bonds;
- Appointing of liquidators;
- Other matters raised by the shareholders and Supervisory Board;
- Determining principles of remuneration and employment conditions for the Management Board Chairman;
- Approving the policy of selecting and evaluating Supervisory Board members.

In 2014, the Ordinary Shareholders' Meeting was held on 14 April. During the Meeting, 100% of the share capital was represented; During the meeting, the following resolutions were adopted:

- Approving the Management Board's report on the activities of Bank Pocztowy S.A. in 2013;
- Approving the financial statements of Bank Pocztowy S.A. for 2013;
- Approving the Management Board's report on the activities of the Bank Pocztowy Capital Group in 2013;
- Approving the consolidated financial statements of the Bank Pocztowy Capital Group for 2013;
- Distribution of the profit of Bank Pocztowy S.A. for 2013;
- Granting a vote of acceptance to members of the Management Board for 2013;
- Granting a vote of acceptance to members of the Supervisory Board for 2013;
- Amending Resolution No. 3 of the Extraordinary Shareholders' Meeting of 9 December 2013 regarding the approval of "Policy of selecting and evaluating Supervisory Board members";
- Appointing Members of the Supervisory Board of Bank Pocztowy S.A. for the tenth office term.

Further, the General Shareholders' Meeting appointed the Chairman and Deputy Chairman of the Supervisory Board for the tenth office term.

Additionally, during 2014, four extraordinary shareholders' meetings were held. They adopted among others the following resolutions:

- Amending the By-laws;
- Amending the Operating Rules of the Supervisory Board;
- Adopting *Corporate governance principles for Bank Pocztowy S.A.*;
- Adopting "*Operating Rules of the General Meeting"*;
- Amending terms of ordinary bond issues as accepted in Resolution No. 1 of ESM of 12 April 2011.

Supervisory Board
In accordance to the Code of Commercial Companies, the Management Board and Supervisory Board manage and supervise the Bank, respectively.

The Supervisory Board exercises general supervision of the Bank's operations.

Composition
The Supervisory Board consists of seven members appointed and dismissed by the General Meeting. The members are appointed for a joint office term of three years. The By-laws provide a detailed description of cases when the number of Supervisory Board Members drops below seven.

In each case it happens the Management Board is obliged to promptly, within 14 days at the latest, convene the General Meeting in order to organize a by-election.
The mandates of members of the Supervisory Board expire as of the date of the General Meeting approving the financial statements for the last full financial year during which the members has held their positions. If a new

member is elected during the office term, his/her mandate expires along with the mandate of the other members. Further, the mandate expires in the case of death, resignation or dismissal.

The ninth office term of the Supervisory Board commenced in June 2011 and ended on 14 April 2014 at the moment of approving the financial statements of the Bank for 2013. The tenth office term of the Supervisory Board commenced on 14 April 2014.

On 14 April 2014, GSM evaluated qualifications of Supervisory Board Member candidates for the tenth office term in accordance to the *Policy of selecting and evaluating Supervisory Board Members* and appointed the Supervisory Board Members of Bank Pocztowy S.A. for the tenth office term. The General Shareholders' Meeting appointed the Chairman and Deputy Chairman of the Supervisory Board for the tenth office term.

The Chairman of the Supervisory Board is appointed by Poczta Polska S.A., a shareholder, while the Deputy Chairman by PKO Bank Polski S.A., another shareholder, from among appointed members (also if the Supervisory Board is elected in separate groups). The Supervisory Board members may elect a Secretary among themselves.

The By-laws provisions describe the manner of appointing Supervisory Board members from among shareholders, including representation of individual shareholders in the body and principles of appointing independent members, their number and conditions they should fulfil.

As at 31 December 2013 the composition of the ninth-office term Supervisory Board was the following:

- Jerzy Jóźkowiak – Chairman of the Supervisory Board;
- Jakub Papierski – Deputy Chairman of the Supervisory Board;
- Piotr Michalski – Secretary of the Supervisory Board;
- Paweł Borys –Member of the Supervisory Board;
- Mariusz Czyżak – Member of the Supervisory Board;
- Bogusław Grabowski – Member of the Supervisory Board;
- Janusz Wojtas –Member of the Supervisory Board.

On 14 April 2014 General Shareholders' Meeting appointed Supervisory Board Members for the tenth office term. On 12 May 2014, the Supervisory Board appointed Piotr Michalski its secretary. Therefore, as at 31 December 2014 the composition of the tenth-office term Supervisory Board was the following:

- Jerzy Jóźkowiak – Chairman of the Supervisory Board;
- Jakub Papierski – Deputy Chairman of the Supervisory Board;
- Piotr Michalski – Secretary of the Supervisory Board;
- Paweł Borys –Member of the Supervisory Board;
- Mariusz Czyżak – Member of the Supervisory Board;
- Bogusław Grabowski – Member of the Supervisory Board;
- Janusz Wojtas –Member of the Supervisory Board.

Competencies of the Supervisory Board members of Bank Pocztowy are presented on the Bank's website at http://www.pocztowy.pl/pdf/o_banku/Statut_Banku_Pocztowego.pdf.

Operation

The Supervisory Board operates in accordance with the Rules developed by it and approved by the General Meeting. Its meetings are called in the manner determined in the Rules, at least four times in each financial year.
The Supervisory Board may pass resolutions provided that at least half of its members are present at a meeting, including the Chairman or Deputy Chairman, if all its members have been invited to the meeting. The members may participate in the passing of resolutions giving their votes in writing through other members of the Supervisory Board.

The Supervisory Board may pass resolutions among its meetings, in writing or using remote communication media (e-mail, fax etc.).

The passing of resolutions pursuant to the above procedures does not include election of the Secretary, appointing, suspending and dismissing of Management Board members.
Resolutions of the Supervisory Board are adopted with an absolute majority of votes cast. In case of a tie, the Chairman has the deciding vote if present at the meeting.

Supervisory Board's Meetings
The agenda and issues to be discussed during the Supervisory Board's meetings held in 2014 were determined by the Chairman of the Supervisory Board resulted from the ongoing operations of the Bank, and included issues raised by the Management Board and Supervisory Board Members.

Supervisory Board's decisions had the form of resolutions, decisions, approvals regarding Management Board's motions and information materials presented by the Bank.

In 2014, the Supervisory Board held five meetings supervising the ongoing operations of the Bank.

Audit Committee
The Audit Committee is a body within the Supervisory Board.

Its members are appointed by the Supervisory Board from among its members. Its operational rules are approved by the Supervisory Board.

The Audit Committee is in particular responsible for:

- Monitoring of the financial reporting process;
- monitoring of effectiveness of the internal control systems, internal audit and risk management;
- Monitoring of financial audit;
- Monitoring of independence and unbiased approach of the certified auditor and the entity authorized to audit financial statements;
- Recommending an entity authorized to audit financial statements to the Supervisory Board for the purpose of auditing or reviewing financial statements of the Bank.

According to the Audit Committee Operating Rules approved by the Supervisory Board on 19 May 2011, amended by the Resolution of the Supervisory Board of 9 June 2014, the Audit Committee consists of at least three people, including the Chairman, appointed by the Supervisory Board from among its members. At least one Committee member should be independent and have accounting/auditing qualifications. At present, Bogusław Grabowski, the Audit Committee Chairman, meets these requirements.

The Audit Committee meets at least once a quarter. Its meetings are called by the Chairman upon his own decision or following a motion of its member. Had the Chairman been unable to call a meeting for any reason, it may be called by another Committee member appointed by the Chairman. The Committee meetings may be called following a motion of another Supervisory Board Member, the Management Board, an internal or external auditor of the Bank, in particular if the Internal Audit Head escalates material disputable issues with the Management Board. The Committee may operate if at least half of its members are present. Its resolutions are adopted with an absolute majority of votes cast by the members present at the meeting. In the case of a tie, the person chairing the meeting holds the deciding vote.

If necessary, the Audit Committee, following an initiative of its Chairman or another member appointed by the Chairman, may pass resolutions among the meetings in writing or using remote communication media.

On 12 May 2014, the tenth-office term Supervisory Board appointed from among its members Bogusław Grabowski, Paweł Borys and Piotr Michalski members of the Audit Committee and appointed Bogusław Grabowski its Chairman.

As at 31 December 2014 the composition of the Audit Committee was the following:

- Bogusław Grabowski – Chairman;
- Piotr Michalski – Member;
- Paweł Borys –Member.

The Audit Committee provides the shareholders with reports of its activities for the previous reporting year. The reports are attached to the set of documents prepared for the General Meeting for information purposes.

Appointment Committee

The Appointment Committee is a permanent committee of the Supervisory Board, supporting its activities.

It is appointed for the office term of the Supervisory Board and consists of at least three people appointed by a Supervisory Board resolution, to include its Chairman appointed by the Supervisory Board from among Committee's members.

The operating rules of the Committee are approved by the Supervisory Board.

The Appointment Committee is in particular responsible for:

- Evaluating of candidates for the position of Management Board Chairman and Members;
- Evaluating of holders of the positions of Management Board Chairman and Members.

The Appointment Committee evaluates qualifications of candidates for the positions of the Management Board Chairman or Members and the current holders of these positions upon:

- Selecting the new Management Boards (for candidates);
- Motioning to PFSA for a permit for the Bank to carry out extended operations (for current position holders);
- Occurrence of new circumstances described in the "*Policy of selecting and evaluating Management Board members*" (for current position holders).

The Appointment Committee holds meetings if required due to planned changes in the composition of the Management Board, if its office term expires, or in other cases determined in the *Policy of selecting and evaluating Management Board members*". The meetings are convened by the Chairman upon his own decision or following a motion of its member or of the Management Board of the Bank. If the Chairman cannot convene a meeting for any reason, it may be convened by another Committee member appointed by the Chairman. The Committee meetings are chaired by its Chairman, and in his absence, by a member appointed by the Chairman.

The Appointment Committee meetings can be held if at least two members are present. Evaluation decisions are made with an absolute majority of votes cast by its members present at the meeting. In the event of a tied vote, the Chairman will have the deciding vote.
On 12 May 2014, the tenth-office term Supervisory Board appointed from among its members Jerzy Jóźkowiak, Jakub Papierski and Janusz Wojtas members of the Appointment Committee and appointed Jerzy Jóźkowiak its Chairman.

On 12 May 2014, the Supervisory Board approved Operating Rules of the Appointment Committee.

As at 31 December 2014 the composition of the Appointment Committee was the following:

- Jerzy Jóźkowiak – Chairman;
- Jakub Papierski – Member;
- Janusz Wojtas – Member.

In 2014 and by the date hereof, the Appointment Committee held three meetings.

No other Supervisory Board committees were established.

Management Board

Appointing and dismissing Management Board Members
According to the Bank's By-laws, the Management Board consists of 3 to 5 members appointed by the Supervisory Board. Composition of the Management Board: Chairman, Deputy Chairmen, including First Deputy Chairman, Members. The members are appointed for a joint three-year office term.

The mandates of members of the Management Board expire as of the date of the General Meeting approving the financial statements for the last full financial year during which the members have held their positions. Further, the mandate expires in the case of death, resignation or dismissal.

The mandate of a Management Board Member appointed during the term of office expires at the same time as the mandate of the remaining members.

According to the Code of Commercial Companies, the General Meeting can dismiss or suspend a Management Board member.

The Management Board Chairman, Deputy Chairmen and other Members are appointed and dismissed by the Supervisory Board, which considers their qualification to hold these positions and acts in accordance with the Banking Law and "*Policy of selecting and evaluating Management Board Members of Bank Pocztowy S.A."*

Two Management Board Members: the Chairman and Member in charge for risk management are appointed upon an approval of the Polish Financial Supervision Authority.

Composition
Composition of the ninth-office term Management Board of Bank Pocztowy as at 31 December 2013:

- Tomasz Bogus – Chairman of the Management Board,
- Szymon Midera – Deputy Chairman of the Management Board,
- Radosław Sałata – Member of the Management Board,
- Michał Sobiech – Member of the Management Board.

On 12 May 2014 the Supervisory Board dismissed Radosław Sałata from the Management Board effective as of 12 May 2014. At the same time, the Supervisory Board appointed Paweł Spławski a member of the Management Board of Bank Pocztowy for the ninth office term as of 19 May 2014.

Composition of the ninth-office term Management Board of Bank Pocztowy as at 31 December 2014:

- Tomasz Bogus – Chairman of the Management Board,
- Szymon Midera – Deputy Chairman of the Management Board,
- Paweł Spławski – Member of the Management Board.
- Michał Sobiech – Member of the Management Board.

On 16 January 2015, Tomasz Bogus resigned from the position of the Chairman of the Management Board of the Bank and from membership in the Management Board of the Bank as of 19 January 2015. On 16 January 2015, the Supervisory Board decided that Szymon Midera, Deputy Chairman of the Management Board of the Bank, would act as the Chairman of the Management Board of the Bank as of 20 January 2015. Moreover, the Supervisory Board of the Bank adopted a resolution to appoint Szymon Midera to the position of the Chairman of the Management Board of the Bank. The resolution will come into force on the day following the day when the Polish Financial Supervision Authority approves appointing Szymon Midera to this position.

On 12 February 2015, the Supervisory Board appointed Hubert Meronk a member of the Management Board for the ninth office term effective from 12 January 2015.

Therefore, as at the date of this Report, the composition of the ninth-office term Supervisory Board was the following:

- Szymon Midera – Deputy Chairman of the Management Board, Acting Chairman of the Board;
- Hubert Meronk – Member of the Management Board;
- Michał Sobiech – Member of the Management Board;
- Paweł Spławski – Member of the Management Board.

Qualifications and professional experience of Management Board Members

Szymon Midera – Deputy Chairman of the Management Board, Acting Chairman of the Board

In charge of strategic management, appointed to act as the Chairman of the Management Board in January 2015. Before, since July 2008, Deputy Chairman of the Board in charge of business and sales, marketing and treasury. For seven years with BRE Bank, among others as Director of Marketing and Business Development Office in mBank (2007-2008), and Deputy Director of Marketing and Investor Relations Department in BRE Bank (2005-2007).

Expert on retail banking with over ten years of professional experience. Among others, he was responsible for:

- Transforming Bank Pocztowy from a settlement bank into a versatile bank;
- Acquiring over one million clients for Bank Pocztowy in 2009-2014;
- Achieving four-times growth in the number of current accounts held in Bank Pocztowy (in excess of 800 thousand);
- Building the network of Microbranches of Bank Pocztowy (over 250 outlets);
- Developing the concept of selling mortgage loans in Bank Pocztowy through mobile advisors;
- Preparing and implementing marketing strategy of mBank and supervising its implementation in Poland, Czech Republic and Slovakia;
- Contributing to the development of mBank network; mKiosks and Financial Centers;
- Supervising the Internet sales in mBank and CRM strategy;
- Preparing a rebranding project for BRE Bank, designing and implementing a new corporate outlet.

Graduated from Economics and Sociology Faculty of the University of Łódź. Completed Executive MBA in PAM Center delivered by Towson University and Robert H. Smith School Business with an MBA certificate of Towson University. In November 2013, the completed Advanced Management Programme at INSEAD (Fontainebleau, France).

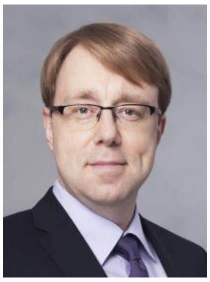
Hubert Meronk – Member of the Management Board

In charge of business support, i.e. IT, administration and logistics. Appointed the Management Board Member on 12 February 2015.

He has over 15 years of international experience in advisory services, planning and management of IT services and in IT development.

He graduated from Norwegian and North American universities and holds the grade of Master of Computer Science. For over 20 years he lived and worked in Norway and the U.S., implementing projects for companies in the U.S., Iceland, Norway and Sweden. In 1997-2000 with Cap Gemini Norway as Branch Director in Oslo, in charge of business and technology advisory management. In 2000- 2003 operated own advisory firm in Norway.

Since 2003 in Poland, where he has dealt with implementation of strategic IT projects, large scale IT centralization and implementation of corporate architecture in the financial sector. As a Managing Director was in charge of IT and IT strategy in PKO BP, BOŚ Bank, LOT, T-Systems Polska. Since 2011 had its own advisory business providing services to CGI Polska, ABC Data, BPS TFI, PGE Dom Maklerski and PwC Polska.



Michał Sobiech – Member of the Management Board

In charge of Finance and Risk. Working for the Bank since June 2009, initially as Managing Director of the Finance Function. In October 2009 appointed Management Board member. Before, for five years (2004-2009) had worked for Kredyt Bank, among others as Director of Financial Reporting Department, Director of Risk Management Department, and in 2008-2009 as an advisor to the Bank's CEO supervising strategic projects implemented for the Bank and the KBC Group in Poland. He commenced his professional career in 1998 with KPMG. Expert on financial risk management with several years of professional experience.
Among others, he was in charge of:

- Implementing processes and tools allowing compliance with Basel 2 (including ICAAP);
- Implementing solutions allowing efficient credit risk, liquidity risk, market and operational risk in banks;
- Implementing solutions that improve controlling and preparing management information regarding risk and finance;
- Implementing IFRS in banks and process solutions necessary to prepare financial statements in accordance with IFRS.

Substantial experience gained both with an international bank and with consulting companies allow his efficient management of finance and risk during projects carried out by the Bank, evaluation of their potential to build the Bank's value and minimizing risk areas in the product offer addressed to a specific market segment represented by Bank Pocztowy's client base. Graduate of Warsaw School of Economics, Finance and Banking Faculty. A holder of ACCA certificate.

Paweł Spławski – Member of the Management Board

In charge of Business and Treasury. Appointed the Management Board Member in May 2014. Working for the Bank since September 2011, as Finance Function Managing Director. In the position, he was in charge of accounting, controlling and data warehouse, management of assets and liabilities, and for certain operations.

Before, for four years (2007-2011) had worked for GetBank S.A., among others as Director of Controlling Department (2008-2011) and Director of Financial Risk Department. He commenced his professional career with PwC, with which he stayed for seven years, dealing with advisory services for the financial sector. He has over 14 years of experience in banking, demonstrating high skills in:

- Finance;
- Operational optimization;
- Selection and implementation of IT systems, in particular data warehouses.

He graduated from Warsaw School of Economics, Finance and Banking Faculty; completed Post-graduate Studies on Bank Controlling by Warsaw Banking Institute. He holds a certificate of Financial Risk Manager granted by Global Association of Risk Professionals and ACCA certificate.

Competencies

The Management Board manages the Bank and represents it before third parties in the scope determined by the Code of Commercial Companies, the Bank's By-laws and Operating Rules of the Management Board.

When performing its tasks, the Board makes decisions in the form of resolutions; in particular, the Board:

- Determines the Bank's strategy;
- Determines the pricing policy;
- Determines the annual financial plan;
- Determines the employment and remuneration policy;
- Approves the Management Board's Operating Rules;
- Approves the Organizational Rules of the Bank;
- Appoints proxies;
- Designs and ensures efficient operation of the management system;
- Makes decisions regarding liabilities or assets whose total value related to a single entity exceeds 5 percent of equity or grants the related general or specific authorization regarding cash investments in domestic and foreign securities;
- Determines the principles of prudent and stable management of the Bank to include:
  - Risk management policy;
  - Internal control principles;
  - Capital management principles, including internal capital estimation;
  - Variable compensation component policy;
- Determines the general level of the risk incurred by the Bank and appropriately adjusted internal limits that reduce the risk specific to individual operation areas;
- Determines the Bank's compliance risk policy;

- Approves internal procedures of the Bank regarding estimation of internal capital, capital management and planning;
- Approves the Bank's information policy.

Operation

The Management Board operates pursuant to the Management Board Operating Rules developed by it and approved by the Supervisory Board. Chairman of the Board manages its operation. Its meeting are convened and chaired by the Chairman, and in his absence, the First Deputy Chairman. In the absence of the latter, a Board Member appointed pursuant to the order determined in a resolution of the Management Board.

Resolutions of the Management Board are passed with an absolute majority of votes. In case of a tie, the Chairman has the deciding vote if present at the meeting. A resolution may be passed provided all the members of the Management Board have been properly informed about the planned meeting.

Voting is open, and a secret voting may be applied with regard to personal issues of Management Board members. Meetings are held and minutes taken in Polish. If non-Polish speaking members participate in a meeting, a translator is provided. Minutes are signed by Management Board members present at a given meeting. Minutes are signed by Management Board members present at a given meeting.

In 2014, 50 Management Board meetings were held devoted to implementation of strategy, focused on consumer banking and microenterprises, to include planned directions of development of the retail offer adjusted to the needs of the existing target group and to identified needs of new client segments, as well as to further development of product lines intended for microenterprises.

The Management Board developed a new strategy of development for Bank Pocztowy S.A. for 2014-2017, updated the Financial Plan of the Bank for 2014 and approved the Financial Plan for 2015. Further, the Management Board undertook measures aimed at changing the operational structure of the Bank, optimization, process alignment and cost control.

Following current changes in the Bank's development directions, the Management Board, fulfilling its prudent and stable management obligations, participated in risk management in each operational area of the Bank.

With regard to current banking issues, the Management Board monitored implementation of strategic projects and completion status of works adjusting the Bank to regulatory requirements related to IT management and banking security.
Other issues analyzed by the Management Board included topics raised at Supervisory Board meetings and at General Shareholders' Meetings, such as approval of the Management Board's report on the activities of the Bank, Management Board's report on the activities of the Capital Group, separate and consolidated financial statements for the prior financial year.

Periodic reports regarding areas supervised by individual Management Board members as well as internal regulations whose implementation or amendment was necessitated by adjusting to internal regulations arising from management decisions regarding current operations of the Bank and competency changes in business areas related to organizational changes implemented in the Bank constituted another list of issues discussed by the Management Board at its meetings.

The Bank has the following committees:

- Assets and Liabilities Committee (ALCO);
- Loan Committee (LC);
- Operational Risk Committee (ORC);
- IT Initiatives Prioritization Committee (ITIPC);
- Loan Appellation Committee (LAP);
- Strategic Prioritization Committee (SPC) – since 1 January 2015 operating under the name of Project Portfolio Management Committee (PPMC);

- IT Architecture Committee – since 12 May 2014.

The committees operate based on internal regulations approved by the Management Board of the Bank. In principle, these regulations described tasks and competencies of a given committee.

The Management Board Members are included in the following committees: Loan Committee, Assets and Liabilities Committee, Operational Risk Committee and IT Architecture Committee.

Remuneration paid or due to the Management and Supervisory Boards of the Bank and its subsidiaries

In 2014, the total amount of the remuneration (calculated as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form) paid to the members of Management Boar and Supervisory Board of the Bank and its subsidiaries amounted to PLN 5,258 thousand vs. PLN 4,788 in the prior year.

Remuneration paid to members of the Management and Supervisory Board (PLN'000)	2014	2013
Management Board	3 065	2 650
Short-term employee benefits (payroll, bonuses and payroll charges)	2 818	2 556
Termination benefits	247	94
Supervisory Board	2 193	2 138
Short-term employee benefits (payroll, bonuses and payroll charges)	2 193	2 138

Principles of granting the annual bonus to the Management Board Members

The Management Board Members of Bank Pocztowy S.A. may receive annual bonuses pursuant to the Act on remunerating managers of certain entities of 3 March 2000 and Ordinance of the Minister of Administration and Digitalization of 15 October 2013 regarding annual bonuses for managers of certain entities.

The above Ordinance determines detailed principles of granting the annual bonus to the individuals referred to in Article 2.1 to 2.4 of the Act on remunerating of managers of certain entities of 3 March 2000.

According to the executory regulations, in the case of Bank Pocztowy:

- The Supervisory Board applies for the bonus for the Chairman of the Management Board to the General Meeting;
- The annual bonus for the Deputy Chairman and Members of the Management Board is granted by the competent body as determined in labor law regulations, i.e. by the Supervisory Board.

The executive regulations determine general principles of granting bonuses. The annual bonus may be granted to an entitled individual if the entity:

- Has generated a financial profit or significantly reduced a net loss;
- Has efficiently implemented its tasks and statutory objectives;
- Has timely settled its liabilities under public law;
- Has obtained approval of its financial statements for the financial year if these financial statements are subject to such approval, or has submitted correctly prepared financial statements for the financial year.

The annual bonus is payable to the entitled individuals only if they held the managerial position for the entire financial year and did not breach their obligations as employees during the period, whose employment or management contracts have not been terminated through their fault, who have not been dismissed from their positions for reasons justifying a contract termination without a notice through an employee's fault.

Securities issued by the Bank and held by Management Board Members

As at the date hereof, Management Board Members held no securities issued by the Bank.

14. Management Board's representation

14.1 True and fair nature of the presented reports

The Management Board of Bank Pocztowy S.A. represents that according to its best knowledge:

- The annual consolidated financial statements and the comparative data have been prepared in line with binding accounting principles and provide a true, fair and clear view of the economic and financial position as well as the financial performance of the Bank Pocztowy Capital Group;
- Management Board's report on the activities of the Bank Pocztowy Capital Group provides a true view of the current standing and achievements of the Group, including description of key risks and threats.

14.2 Appointing entity authorized to audit financial statements

The Management Board of Bank Pocztowy S.A. represents that the entity authorized to audit financial statements, Deloitte Polska Sp. z o.o. Sp. k. (formerly: Deloitte Audyt Sp. zo.o.) auditing the annual consolidated financial statements of the Bank Pocztowy Capital Group for 2014, has been appointed in accordance with the law. The entity and certified auditors have fulfilled conditions necessary to issue an unbiased and independent audit opinion in accordance with the valid regulations and professional standards.

The Management Board's report on the activities of the Bank Pocztowy S.A. Capital Group for 2014 includes 111 pages bearing sequential numbers.

Signatures of Management Board Members of Bank Pocztowy S.A.

19 March 2015 Szymon Midera Deputy Chairman of the Management Board, Acting Chairman of the Board ....

19 March 2015 Hubert Meronk Member of the Management Board ....

19 March 2015 Michał Sobiech Member of the Management Board ....

19 March 2015 Paweł Spławski Member of the Management Board ....

BANK POCZTOWY S.A. CAPITAL GROUP
BYDGOSZCZ, JAGIELLOŃSKA 17

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE 2014 FINANCIAL YEAR

WITH
AUDITOR'S OPINION
AND
AUDIT REPORT

TABLE OF CONTENTS

Deloitte Polska
Spółka z ograniczoną odpowiedzialnością Sp. k.
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AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Bank Pocztowy S.A.

We have audited the attached financial statements of the Bank Pocztowy S.A. Capital Group (hereinafter: the "Capital Group"), for which Bank Pocztowy S.A. (hereinafter: the "Parent Company") with its registered office in Bydgoszcz, at Jagiellońska 17 is the Parent Company, Those consolidated financial statements include: consolidated statement of financial position prepared as of 31 December 2014, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2014 to 31 December 2014 and notes comprising a summary of significant accounting policies and other explanatory information.

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 Parent Company.

The Management Board of the Parent Company and members of its Supervisory Board 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 Parent Company and the subsidiaries, 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.

Deloitte.

In our opinion the audited consolidated financial statements of the Bank Pocztowy S.A. Capital Group 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 2014 as well as its financial performance in the financial year from 1 January 2014 to 31 December 2014,
- 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 Parent Company and Capital Group entities which affect the contents of the consolidated financial statements.

The Report on the activities of the Capital Group for the 2014 financial year is complete within the meaning of Article 49.2 of the Accounting Act and consistent with underlying information disclosed in the audited consolidated financial statements.

Paweł Nowosadko
Key certified auditor
conducting the audit
No. 90119

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 –Vice-President 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, 19 March 2015

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.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK POCZTOWY S.A. CAPITAL GROUP FOR THE 2014 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited Parent Company

The Parent Company of the Capital Group operates under the business name Bank Pocztowy S.A. (hereinafter: the "Parent Company"). The Company's registered office is located in Bydgoszcz, at Jagiellońska 17.

The Parent Company operates as a joint stock company. The Parent Company is recorded in the Register of Entrepreneurs kept by the District Court, XIII Business-Registry Division in Bydgoszcz, under KRS number 0000010821.

The Parent Company operates based on the provisions of the Code of Commercial Companies and of the Banking Law.

As of 31 December 2014, the Parent Company's share capital equaled PLN 97,290,400 and was divided into 9,729,040 ordinary shares with a face value of PLN 10 each.

In the audited period the Parent Company conducted activities mainly in the area of granting loans and accepting deposits as well as maintaining bank accounts and other financial settlements.

Composition of the Management Board of the Parent Company as at the date of the opinion:

- Szymon Midera – Vice-Chairman of the Management Board, Acting Chairman of the Management Board,
- Hubert Meronk – Member of the Management Board,
- Michał Sobiech – Member of the Management Board,
- Paweł Spławski – Member of the Management Board.

Changes in the composition of the Management Board of the Parent Company during the audited period and until the date of the opinion:

- On 12 May 2014 the Supervisory Board adopted a resolution on dismissal of Radosław Sałata from the position of Member of the Management Board on 12 May 2014. Moreover, the Supervisory Board adopted a resolution on appointment of Paweł Spławski to the Management Board as the Member of the Management Board on 19 May 2014,
- On 16 January 2015 Tomasz Bogus resigned the office of Chairman of the Management Board effective from 19 January 2015,
- On 16 January 2015 the Supervisory Board appointed Szymon Midera to act as the Chairman of the Management Board effective from 20 January 2015. Moreover, the Supervisory Board of the Bank adopted a resolution on appointment of Szymon Midera to the position of Chairman of the Management Board. The resolution will enter into force from the day following the date of the approval by the Polish Financial Supervision Authority of the appointment of Szymon Midera to the position.
- On 12 February 2015 the Supervisory Board of the Bank adopted a resolution on appointment on 12 February 2015 of Hubert Meronk to the Management Board as the Member of the Management Board.

2. Structure of the Capital Group

The consolidated financial statements as of 31 December 2014 included the following entities:

a) Parent Company – Bank Pocztowy S.A.

We have audited the financial statements of the Parent Company for the period from 1 January to 31 December 2014. As a result of our audit, on 19 March 2015 we issued an unqualified.

b) Companies subject to full consolidation:

Name and address of the Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
Centrum Operacyjne Sp. z o.o.	100%	Not audited	31 December 2014
Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	100%	Not audited	31 December 2014

During the financial year the composition of the audited Capital Group and the consolidated entities, for which the Parent Company prepared the audited consolidated financial statements, did not change.

3. Information about the consolidated financial statements for the prior financial year

The activities of the Capital Group in 2013 resulted in a net profit of PLN 36,027. The consolidated financial statements of the Capital Group for 2013 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2013 financial year was held on 14 April 2014.

In accordance with applicable laws, the consolidated financial statements for the 2013 financial year were submitted to the National Court Register (KRS) on 28 April 2014.

4. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the Supervisory Board. The audit of the consolidated financial statements was performed based on the agreement of 28 May 2012 concluded between the Parent Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statements was conducted under the supervision of Paweł Nowosadko, key certified auditor (No. 90119) in the registered office of the Parent Company from 20 October to 7 November 2014, from 2 to 20 February 2015 as well as outside the Company's premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009 No. 77, item 649, as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Capital Group.

5. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent Company of 19 March 2015.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated income statement, consolidated statement of financial position as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

Main financial data from consolidated income statement (PLN '000)	2014	2013
Interest income	416,278	423,400
Interest expense	(148,128)	(179,593)
Net commission and fee income	59,657	41,628
Bank's operating expenses	(218,622)	(212,738)
Impairment losses on financial assets	(61,013)	(42,398)
Net profit	43,639	36,027
Total comprehensive income	47,867	30,295

Main financial data from consolidated statement of financial position (PLN '000)	2014	2013
Total assets	7,719,027	7,382,745
Cash and balances with central banks	757,643	327,242
Receivables from other banks	158,269	36,329
Loans and advances to customers	5,151,777	5,055,712
Investment securities	1,519,266	1,842,036
Deposits from customers	6,492,023	6,230,578
Liabilities under issue of debt securities	358,256	431,597
Subordinated liabilities	142,090	142,027
Equity, including:	439,632	391,765
Share capital	97,290	97,290

Financial ratios analysis	2014	2013
– Total profitability ratio	8.3%	7.1%
– Capital adequacy ratio	13.4%	12.9%
– Lending ratio	66.7%	68.5%
– Non-performing loans ratio	6.1%	5.4%
– Deposit ratio	84.1%	84.4%

An analysis of the above figures and ratios indicated the following trends in 2014:

- total profitability ratio, calculated as the ratio of net income to interest income, fee and commission income, result on financial instruments measured at fair value through profit or loss and net foreign exchange gains as well as result on other financial instruments, rose at the end of 2014, reaching a value 8.3% compared to 7.1% at the end of 2013;
- lending ratio, calculated as the ratio of loans and advances to customers to total assets fell at the end of 2014, reaching a value of 66.7% compared to 68.5% at the end of 2013;
- non-performing loans ratio, calculated as the ratio of gross loans and advances classified as impaired to sum of gross loans and advances to customers increased from 5.4% at the end of 2013 to 6.1% at the end of 2014;
- deposit ratio, calculated as the ratio of liabilities to customers to total liabilities decreased from 84.4% at the end of 2013 to 84.1% at the end of 2014.

Application of prudence principles

During our audit we have not identified significant discrepancies indicating lack of application of prudence principles determined by Polish Law, resolutions of Management of National Bank of Poland and resolutions of Polish Financial Supervision Authority by the Bank in 2014 financial year.

Capital adequacy ratio

During our audit we have not identified significant discrepancies in the area of calculation of capital adequacy ratio as at 31 December 2014 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.

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2014 and include:

– consolidated statement of financial position prepared as of 31 December 2014, with total assets and liabilities plus equity of PLN 7,719,027 thousand,
– consolidated income statement for the period from 1 January 2014 to 31 December 2014, with a net profit of PLN 43,639 thousand,
– consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014, with a total comprehensive income of PLN 47,867 thousand,
– consolidated statement of changes in equity for the period from 1 January 2014 to 31 December 2014, disclosing an increase in equity of PLN 47,867 thousand,
– consolidated statement of cash flows for the period from 1 January 2014 to 31 December 2014, showing a cash inflow of PLN 430,784 thousand,
– notes, comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2014 to 31 December 2014 and focused mainly on:

– verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent Company;
– verification of the consolidation documentation;
– evaluation of the correctness of the consolidation methods and procedures applied during consolidation.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

– financial statements of entities included in the consolidated financial statements;
– financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation;
– consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements.

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent Company and the subsidiaries included in consolidation were summed up.

The Parent Company preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities.

3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Capital Group

The Parent Company confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes and explanations to the consolidated financial statements gives a description of measurement principles regarding assets, liabilities, financial performance and principles of preparation of the consolidated financial statements.

The Parent Company prepared notes in the form of tables to individual items of the consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income as well as narrative descriptions in line with the requirement of IFRS.

The Management Board of Parent Company prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2014 financial year. The report contains information determined by Article 49.2 of the Accounting Act. We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. FINAL NOTES

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent Company's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

Paweł Nowosadko
Key certified auditor
conducting the audit
No. 90119

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 – Vice-President 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, 19 March 2015