

Report of Bank Pekao S.A. Group for the three quarters of 2017



Warsaw, November 2017

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017



Warsaw, November 2017

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1 Highlights of Bank Pekao S.A. Group

	3 QUARTERS OF 2017	3 QUARTERS OF 2016	2016	2015
INCOME STATEMENT – SELECTED ITEMS <i>(in PLN million)</i>				
Operating income	5,328.0	5,585.7	7,347.2	7,058.6
Operating costs	(2,408.8)	(2,418.1)	(3,211.9)	(3,219.7)
Operating profit	2,919.2	3,167.6	4,135.3	3,838.9
Profit before income tax	1,899.2	2,250.5	2,896.5	2,831.1
Net profit for the period attributable to equity holders of the Bank	1,421.0	1,784.6	2,279.3	2,292.5
PROFITABILITY RATIOS				
Return on average equity (ROE)	8.5%	10.2%	9.8%	9.7%
Return on assets (ROA)	1.1%	1.5%	1.4%	1.4%
Net interest margin	2.8%	2.8%	2.8%	2.8%
Non-interest income / operating income	35.2%	40.6%	39.6%	40.0%
Cost / income	45.2%	43.3%	43.7%	45.6%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS <i>(in PLN million)</i>				
Total assets	171,462.9	163,252.7	174,214.9	168,785.6
Net loans and advances to customers ^(*)	129,429.4	121,306.8	122,663.2	117,299.4
Amounts due to customers ^(**)	135,222.6	126,546.2	136,379.7	124,398.9
Debt securities issued	2,435.9	1,626.1	1,523.0	2,903.2
Equity	22,268.4	22,739.2	22,911.9	23,424.2
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Net loans ^(*) / total assets	75.5%	74.3%	70.4%	69.5%
Securities / total assets	15.8%	17.3%	20.6%	13.2%
Deposits ^(***) / total assets	80.3%	78.5%	79.2%	75.4%
Net loans ^(*) / deposits ^(***)	94.0%	94.6%	88.9%	92.1%
Equity / total assets	13.0%	13.9%	13.2%	13.9%
Total capital ratio (Basel III) ^(****)	16.5%	18.1%	17.6%	17.7%
EMPLOYEES AND NETWORK				
Total number of employees	17,381	17,994	17,757	18,327
Number of outlets	917	942	928	975
Number of ATMs	1,761	1,754	1,761	1,759

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

^(**) Excluding repo transactions.

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

^(****) Total capital ratio (TCR) amounted to 16.5% as at the end of September 2017 and has decreased due to discontinuation of application of credit conversion factor 0% for off – balance items in accordance with Financial Supervision Authority (KNF) recommendations. On October 30, 2017, the Bank issued subordinated bonds in the amount of PLN 1,250.0 million, which after KNF approval will increase the level of TCR by approximately 1 p.p.

Note: Income statement data included in the table above and other notes to the Report on activities were presented according to income statement in a presentation form, which differs from the long form of the income statement presented in the Financial statements of the Group. Reconciliation of income statement in the presentation form and the long form is in the point 6.8 of the Report on activities of the Group.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

2 Highlights of Bank Pekao S.A.

	3 QUARTERS OF 2017	3 QUARTERS OF 2016	2016	2015
INCOME STATEMENT – SELECTED ITEMS				
	<i>(in PLN million)</i>			
Operating income	5,175.9	5,382.0	7,036.0	6,792.0
Operating costs	(2,237.1)	(2,253.6)	(2,991.4)	(2,992.6)
Operating profit	2,938.8	3,128.4	4,044.6	3,799.4
Profit before income tax	1,928.2	2,268.2	2,863.2	2,791.6
Net profit	1,472.5	1,825.1	2,278.4	2,290.4
PROFITABILITY RATIOS				
Return on average equity (ROE)	9.0%	10.7%	10.1%	10.1%
Return on assets (ROA)	1.2%	1.5%	1.4%	1.4%
Net interest margin	2.8%	2.8%	2.8%	2.7%
Non-interest income / operating income	32.1%	38.4%	37.5%	37.4%
Cost / income	43.2%	41.9%	42.5%	44.1%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS				
	<i>(in PLN million)</i>			
Total assets	168,364.1	160,095.5	170,988.9	165,760.7
Net loans and advances to customers ^(*)	126,120.7	117,714.0	119,033.6	113,753.2
Amounts due to customers ^(**)	135,474.7	126,814.2	136,629.9	124,788.1
Debt securities issued	1,114.1	338.1	300.9	1,668.7
Equity	21,689.5	22,151.3	22,282.6	22,794.4
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Net loans ^(*) / total assets	74.9%	73.5%	69.6%	68.6%
Securities / total assets	15.9%	17.5%	20.8%	13.3%
Deposits ^(***) / total assets	81.1%	79.4%	80.1%	76.3%
Net loans ^(*) / deposits ^(***)	92.3%	92.6%	86.9%	90.0%
Equity / total assets	12.9%	13.8%	13.0%	13.8%
Total capital ratio (Basel III) ^(****)	17.0%	18.6%	18.2%	18.2%
EMPLOYEES AND NETWORK				
Total number of employees	15,551	16,100	15,882	16,387
Number of outlets	917	942	928	975
Number of ATMs	1,761	1,754	1,761	1,759

(*) Including debt securities eligible for rediscounting at Central Bank and excluding reverse repo transactions.

(**) Excluding repo transactions.

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

(****) Total capital ratio (TCR) amounted to 17.0% as at the end of September 2017 and has decreased due to discontinuation of application of credit conversion factor 0% for off – balance items in accordance with Financial Supervision Authority (KNF) recommendations. On October 30, 2017, the Bank issued subordinated bonds in the amount of PLN 1,250.0 million, which after KNF approval will increase the level of TCR by approximately 1 p.p.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

3 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for the three quarters of 2017 amounted to PLN 1,421.0 million. The net profit was higher by 6.2% year on year in comparable terms^(*), nominally was lower by PLN 363.6 million, i.e. 20.4% than net profit achieved in the three quarters of 2016.

Thanks to the effective commercial activity of the Group in the three quarters of 2017, a significant growth in loan volumes in the area of retail loans (an increase of 10.5% year on year) and growth in corporate loans by 4.3% year on year was reported. Such increase in lending was financed almost fully by higher volumes of retail deposits growing by 10.2% year on year.

Total capital ratio (TCR) amounted to 16.5% as at the end of September 2017 and has decreased due to discontinuation of application of credit conversion factor 0% for off-balance sheet items in accordance with Financial Supervision Authority (KNF) recommendations. On October 30, 2017, the Bank issued subordinated bonds in the amount of PLN 1,250.0 million, which after KNF approval will increase the level of TCR by approximately 1 p.p.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 94.0% as at the end of September 2017. This, together with high level of capital, enables for further sound and stable development of the Group's activities.

Main P&L items

In the three quarters of 2017, the Group's operating income amounted to PLN 5,328.0 million, nominally lower by PLN 257.7 million, i.e. 4.6% in comparison with the three quarters of 2016, mainly due to one-off non-recurring items in the amount of PLN 412.8 million in 2016, with the following trends:

- Total net interest income, dividend income and income from equity investments in the three quarters of 2017, amounted to PLN 3,454.6 million and was higher by PLN 139.2 million, i.e. 4.2% compared to the three quarters of 2016, driven by higher volumes,
- Net non-interest income in the three quarters of 2017, amounted to PLN 1,873.4 million and was higher by PLN 15.9 million in comparison with the three quarters of 2016 (excluding one-off non-recurring items recognized in the previous year), with net fee and commission income (including fees on margins on foreign exchange transactions with clients) lower by 2.3% compared to the three quarters of 2016 mainly due to lower net fee and commission income on loans and other net fee and commission.

The operating costs amounted to PLN 2,408.8 million in the three quarters of 2017. They were lower by PLN 9.3 million, i.e. 0.4% as compared with the three quarters of 2016.

Guarantee funds charges in the three quarters of 2017, amounted to PLN 246.4 million, an increase of PLN 49.6 million, i.e. 25.2% in comparison with the three quarters of 2016, mainly due to one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 178.4 million in the three quarters of 2017.

On February 1, 2016, tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In the three quarters of 2017, it amounted to PLN 383.4 million and was higher by PLN 61.8 million, mainly due to the shorter term of the tax regulations in the three quarters of 2016.

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 368.5 million in the three quarters of 2017, a decrease of PLN 26.0 million, i.e. 6.6% as compared with the three quarters of 2016.

^(*) In comparable terms: excluding one-off non-recurring items recognized in the previous year (i.e. net result on disposal of loans and settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc), and including costs of contribution to the Bank Guarantee Fund attributable only to the three quarters of 2017 and tax on certain financial institutions for the full nine months period of 2016.

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Volumes

As at the end of September 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 134,880.7 million, an increase of PLN 7,646.4 million, i.e. 6.0% in comparison to the end of September 2016 with significant growth in key strategic areas.

As of September 30, 2017, the ratio of impaired receivables to total receivables excluding reverse repo transactions amounted to 6.0% as compared to 6.4% as at the end of September 2016.

As at the end of September 2017, the total amounts due to the Group's customers and debt securities issued amounted to PLN 137,658.5 million, an increase of PLN 9,486.2 million, i.e. 7.4% in comparison to the end of September 2016 with retail deposits growing by 10.2% and corporate deposits growing by 3.2% year on year.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,895.3 million as at the end of September 2017, an increase of PLN 1,144.4 million, i.e. 6.8% in comparison to the end of September 2016.

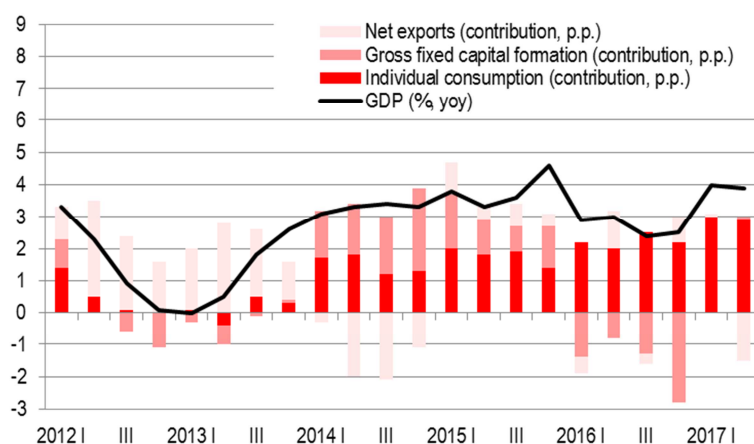
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4 External Activity Conditions

Economic growth

In the second quarter of 2017 economic growth amounted to 3.9% year on year as compared with the GDP growth of 4.0% year on year in the first quarter of the year. Seasonally adjusted data indicate that in the second quarter of 2017, the GDP expanded by 1.1% quarter on quarter (at the same quarterly rate as in the previous quarter). Domestic demand remained the main engine of economic growth (up by 5.4% year on year), while foreign trade had a negative impact on the annual GDP growth in the second quarter of 2017 (-1.5 p.p.). Households consumption increased by 4.9% year on year (the highest annual growth in 8 years) mainly thanks to positive labour market developments and higher social transfers (Family 500 plus Government Program) which supported household income. Fixed investments increased for the first time in 1.5 years, but given low base from a reference period and the pace of expansion (up by 0.8% year on year) the rebound was disappointing. Change in inventories remained an important growth factor as it contributed as much as 1.9 p.p. to the annual GDP growth in the second quarter of 2017.

The positive impact of Family 500 plus Government Program on annual growth of households consumption will be broadly neutral in the second half of 2017, however private consumption growth momentum is expected to remain solid on the back of improving labour income of households (rising wages and employment). In the coming quarters it is expected increase in fixed investments, mainly due to improvement in the EU funds absorption. High-frequency data suggest that in the third quarter of 2017, the GDP growth significantly exceeded 4% year on year. In 2017, economic growth should exceed 4% vs. 2.9% in 2016.

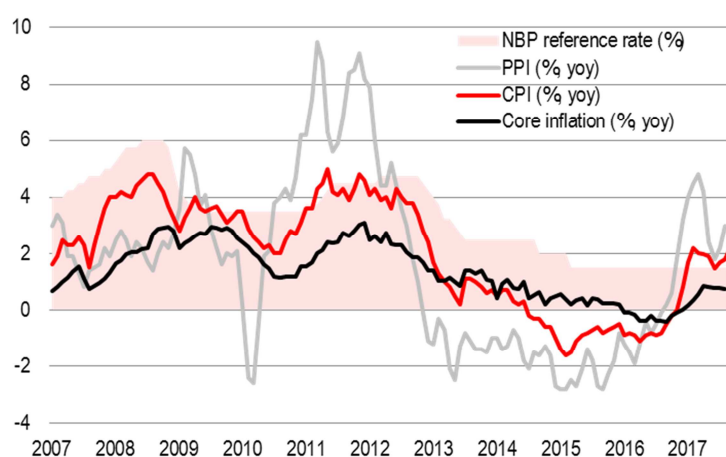


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Inflation and monetary policy

In September 2017, CPI inflation amounted to 2.2% year on year and from the beginning of the year inflation remains within the range of acceptable deviations of the National Bank of Poland (NBP) target (2.5%, +/-1.0 p.p.). In the third quarter of 2017, average consumer prices increased by 1.9% year on year vs. 1.8% year on year increase posted in the second quarter of the year.

In the third quarter of 2017, the Monetary Policy Council (MPC) kept the main policy rates unchanged and at the end of September 2017 the NBP reference rate stood at 1.50%, while the Lombard rate was at 2.50%. The MPC assessed that in the coming quarters inflation will remain moderate amid moderate price growth in the external environment of the Polish economy, alongside a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions. As a result policymakers perceive the risk of inflation running persistently above the target in the medium term as limited. According the MPC, given the available data and forecasts, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance.

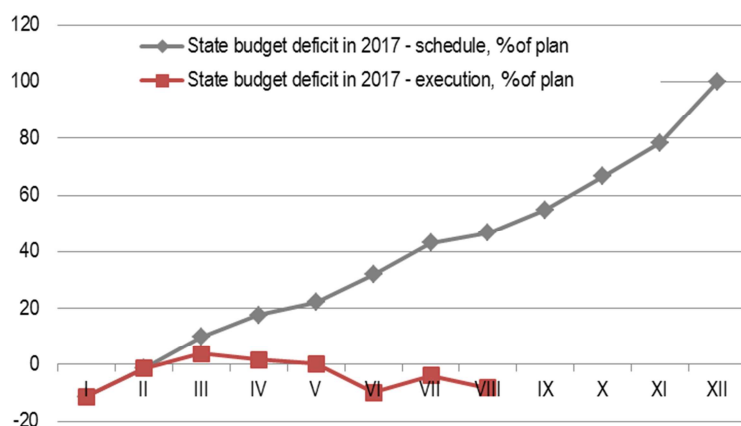


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Fiscal policy

After the first eight months of 2017, the state budget surplus (cash basis) amounted to PLN 4.9 billion. The annual deficit limit in the 2017 budget act is set at PLN 59.3 billion. Budget revenues amounted to PLN 235.0 billion and were higher by PLN 21.6 billion than assumed in the budget execution schedule, while expenditures totaled PLN 230.1 billion and were PLN 11.0 billion lower than planned. In June, the budget received PLN 8.7 billion from the NBP 2016 profit, while the budget act assumed PLN 0.6 billion from this source. Substantial improvement was also visible in VAT collections as in the first eight months of this year receipts were 23.5% higher than in the corresponding period of 2016. It should be noted that apart from improving economic conditions improved collections were also stemming from regulatory changes, of which some may turn out to have only temporary impact on VAT collections (shifts in the timing of tax returns at the turn of the year, higher frequency of tax declarations, reversed VAT in construction sector). In the 2018 budget draft bill, the Ministry of Finance estimated the 2017 state budget deficit at PLN 32.9 billion i.e. PLN 26.4 billion lower than the limit envisaged in the 2017 budget act. In 2018, the deficit target was set at PLN 41.5 billion.

At the end of the second quarter of 2017, the general government debt amounted to PLN 1,016.0 billion and was PLN 2.9 billion higher than at the end of the first quarter of 2017. As a result, the debt to the GDP ratio moderated to 53.4% at the end of the second quarter of this year from 54.0% as at the end of the previous quarter. In the second quarter of 2017, the general government deficit amounted to PLN 6.1 billion. In 12-month cumulative basis the general government deficit moderated to 1.8% of the GDP from 2.5% of the GDP as at the end of 2016.

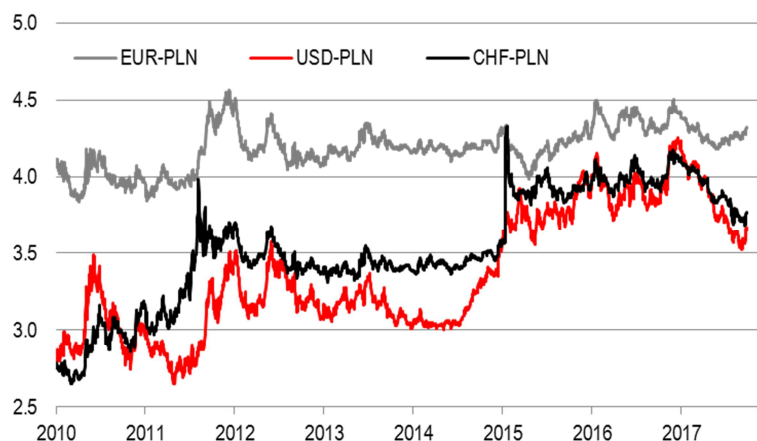


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Currency market

An upward tendency of the EUR-USD since early 2017, stopped at the beginning of September close to the highest levels since early 2015 (1.21). This was due to low market confidence regarding implementation of American administration's reforms and still "dovish" Federal Reserve's stance in its monetary policy. The Fed's policy sitting in September, with unexpected signals of another interest rate increase this year, was a key market driver changing the prospects for the greenback. Higher risk of monetary tightening in December 2017 boosted demand for the USD and consequently shifted the exchange rate towards 1.17. The dollar was not able, however, to trim losses recorded in July and August, and fell ca. -3.5% against the EUR in the whole third quarter of 2017. It is expected a gradual, but more modest, appreciation of the USD against the basket of currencies in the coming months. The EUR-USD should be close to 1.15 as at the end of 2017 due to rising risk of higher Fed's rate path in 2018.

The zloty outperformed the USD and the CHF in the third quarter of 2017, as these currencies weakened in the global FX markets. At the beginning of September 2017, the exchange rate reached 3.51/USD (the strongest level since January 2015) and gained 1.5% finally in third quarter of 2017 after a correction towards 3.70/USD as at the end of the quarter. The EUR rally on broad market shifted the zloty towards 4.33/EUR (the worst level since March 2017) and the exchange rate fell by -2.0% in the third quarter of 2017. The PLN weakened in September due to more "hawkish" Fed's rhetoric, higher global risk aversion and dispute of the Polish authorities with the European Commission on changes in the domestic judicial system. The zloty will continue to depend on developments in the global markets. Although the prospects of solid economic growth in Poland, with still low inflation and favorable budgetary position should support demand for the PLN in longer horizon, it cannot be ruled out weakening pressure for the zloty due to possible negative signals from the global markets in the short term.



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Banking sector

According to KNF data, in the period of January-August 2017, net profit of the banking sector amounted to PLN 9.35 billion and was lower by -9.7% compared to the corresponding period of 2016. Negative rate of sector's profits was mainly due to the high reference base – in June 2016, sector profits were elevated by the one-off gain from the sale of shares in Visa Europe (ca. PLN 2.5 billion).

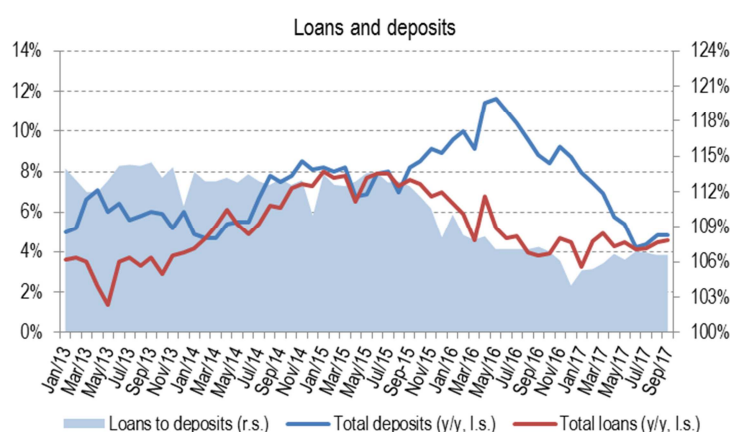
In the first eight months of 2017, result on banking activity declined by -0.2% year on year. There was a positive contribution of the net interest income (+11.1% year on year) as well as fees and commissions (+9.5% year on year). Other income declined by -50.7% year on year due to high base resulting from the Visa transaction.

In January-August period bank operating cost increased by +3.7% year on year (partially due to changes in the schedule of the contribution payments to the Bank Guarantee Fund). Costs of risk - impairments on assets and other reserves - which declined by -1.3% year on year contributed positively to banking sector results.

According to KNF data, as at the end of August 2017, banking sector assets amounted to PLN 1,748 billion, and were higher by +5.4% year on year. Loans to non-financial sector increased by +4.2% year on year, while deposits of that sector increased by +5.2% year on year.

According to the NBP data, as at the end of September 2017, the nominal volume of loans to households was higher by +3.3% compared to the end of September 2016. Loans to enterprises grew in the same period by +5.0%. Taking into consideration favorable macro environment (the GDP and salaries increase and lower unemployment rate) as well as low interest rates, current growth pace in loans should be regarded as relatively weak. In case of corporate loans the situation is due to the early stage of the investment cycle as well as increasing popularity of alternative forms of financing (leasing, factoring). In case of retail loans growth is held back by the favorable liquidity situation of households (result of salaries' growth and inflow of funds from Family 500 plus Government Program).

As at the end of September 2017, the volume of household deposits increased by +5.0% year on year. Corporate deposits grew in the same period by +2.6%.



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5 Internal Factors

5.1 Description of the Group

The Group's structure is presented in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the three quarters of 2017.

5.2 Changes in the Group' structure

On June 1, 2017, the Bank as a Buyer has entered into a preliminary sales agreement with Pioneer Global Asset Management S.p.A. with its registered office in Milan (PGAM) concerning 14,746 stocks of Pioneer Pekao Investment Management S.A. with its registered office in Warsaw (PPIM), constituting 51% of PPIM's stocks and 51% of its share capital and in the total number of votes at the General Meeting of PPIM. PPIM owns a 100% stake in Pioneer Pekao Investment Funds S.A. with registered office in Warsaw.

The total amount to be paid to PGAM is EUR 140 million and includes the price of 35% of Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. (PTE).

On that day, the Bank as the Buyer also concluded a preliminary purchase agreement of 50% shares in Dom Inwestycyjny Xelion Spółka z o.o. (Xelion) from UniCredit S.p.A.

On October 17, 2017, after receiving regulatory consent, the Bank acquired 7,266 ordinary stocks of PTE with the nominal value PLN 1,000 per stock representing 35% of voting rights at the General Stockholder Meeting of PTE and 35% share in equity. Following the transaction, the Bank is the only stockholder of PTE with 100% in equity and voting rights at the General Stockholders Meeting of PTE.

The Bank is currently seeking regulatory consent for the transaction of PPIM and Xelion, which allow to conclude the final sales agreements. As a result of the acquisition of the aforementioned stocks of PPIM and shares of Xelion, the Bank will hold 100% in the share capital and in the total number of votes at the General Meetings of PPIM and the Shareholder Meeting of Xelion.

5.3 Changes in the Statutory Bodies of the Bank

Supervisory Board

On December 12, 2016, the Management Board of Bank Pekao S.A. informed in the current report no. 33/2016 about resignation from the position of Member of the Supervisory Board of the Bank as of December 31, 2016 by Mrs. Wioletta Rosołowska.

On January 13, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 2/2017, on resignations of Mr. Gianni Papa, Mr. Massimiliano Fossati, Ms. Laura Stefania Penna and Ms. Doris Tomanek from the positions of Members of the Supervisory Board of the Bank subject to the condition and with effect as of the date of: (i) the indirect sale by UniCredit S.p.A. of 52,494,007 shares in the Bank to Powszechny Zakład Ubezpieczeń SA and (ii) the direct sale by UniCredit S.p.A. of 26,247,003 shares in the Bank to Polski Fundusz Rozwoju S.A.

On April 25, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 16/2017 that on April 24, 2017, received from Mr. Gianni Papa, Mr. Massimiliano Fossati, Mrs. Laura Stefania Penna and Mrs. Doris Tomanek the statements, that resignations performed by these persons from the positions of the Bank's Supervisory Board Members, what had been reported by the Bank in the current report no. 2/2017 from January 13, 2017, will come into effect subject to the condition that and on the day of direct disposal of, in total, 86,090,172 shares in the Bank by UniCredit S.p.A. to Powszechny Zakład Ubezpieczeń SA and Polski Fundusz Rozwoju S.A. (Transaction). According to the statements, it is a consequence of a change in the structure of the Transaction.

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On June 7, 2017, in the current report no. 32/2017, in connection with the current report no. 2/2017 on conditional resignations of Mr. Gianni Papa, Mr. Massimiliano Fossati, Ms. Laura Stefania Penna and Ms. Doris Tomanek from the positions of members of the Supervisory Board and current report no. 16/2017 on changing the conditions of resignations, the Management Board of Bank Pekao S.A informed that on June 7, 2017, UniCredit S.p.A. sold in total 86,090,172 shares of the Bank to Powszechny Zakład Ubezpieczeń SA and Polski Fundusz Rozwoju S.A., as a result of these resignations of Mr. Gianni Papa, Mr. Massimiliano Fossati, Ms. Laura Stefania Penna and Ms. Doris Tomanek from the positions of Members of the Bank's Supervisory Board, became effective on June 7, 2017.

On June 9, 2017, in the current report no. 35/2017, the Management Board of Bank Pekao S.A. informed that on June 8, 2017, the Extraordinary General Meeting of the Bank dismissed the following members of the Supervisory Board: Mr. Jerzy Woźnicki, Mr. Leszek Pawłowicz, Mr. Dariusz Filar, Ms. Katarzyna Majchrzak.

On June 9, 2017, in the current report no. 36/2017, the Management Board of Bank Pekao S.A. informed that the Extraordinary General Meeting of the Bank on June 8, 2017, taking into account the fulfillment of suitability assessment, appointed members of the Supervisory Board for the new three-year joint term of office, starting on June 8, 2017. The following persons were appointed to the composition of the Supervisory Board of the Bank: Mr. Paweł Surówka, Mr. Paweł Stopczyński, Mr. Grzegorz Janas, Mr. Michał Kaszyński, Ms. Justyna Głębiowska-Michalak, Ms. Joanna Błaszczuk, Mr. Stanisław Ryszard Kaczoruk, Ms. Sabina Bigos-Jaworowska, Mr. Marian Majcher as Member.

Information on fulfillment of individual suitability assessment includes information referred to in § 28 p. 4-6 of the Decree of the Ministry of Finance dated February 19, 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State.

Composition of the Supervisory Board:

SEPTEMBER 30, 2017	DECEMBER 31, 2016
Paweł Surówka Chairman of the Supervisory Board (*)	Jerzy Woźnicki Chairman of the Supervisory Board
Joanna Błaszczuk Deputy Chairman of the Supervisory Board (*)	Gianni Papa Deputy Chairman of the Supervisory Board
Stanisław Ryszard Kaczoruk Deputy Chairman of the Supervisory Board (*)	Leszek Pawłowicz Deputy Chairman of the Supervisory Board
Paweł Stopczyński Secretary of the Supervisory Board (*)	Massimiliano Fossati Secretary of the Supervisory Board
Sabina Bigos-Jaworowska Member of the Supervisory Board	Dariusz Filar Member of the Supervisory Board
Justyna Głębiowska-Michalak Member of the Supervisory Board	Katarzyna Majchrzak Member of the Supervisory Board
Grzegorz Janas Member of the Supervisory Board	Laura Penna Member of the Supervisory Board
Michał Kaszyński Member of the Supervisory Board	Wioletta Rosołowska Member of the Supervisory Board
Marian Majcher Member of the Supervisory Board	Doris Tomanek Member of the Supervisory Board

(*) The Supervisory Board of the Bank elected at the meeting held on June 8, 2017, Mr. Paweł Surówka as Chairman of the Supervisory Board, Ms. Joanna Błaszczuk as Deputy Chairman of the Supervisory Board, Mr. Stanisław Ryszard Kaczoruk as Deputy Chairman of the Supervisory Board and Mr. Paweł Stopczyński as Secretary of the Supervisory Board.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Management Board of the Bank

On June 14, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 39/2017 that the Supervisory Board dismissed Mr. Luigi Lovaglio from the position of the President of the Management Board and from the Management Board, effective as of June 14, 2017. Resolution does not provide information on the reasons for dismissal.

On June 14, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 40/2017 that Mr. Diego Biondo resigned from the position of Vice President of the Management Board, effective as of June 14, 2017. The resignation results from the sale by UniCredit S.p.A. on June 7, 2017 of 32,8% stake in Bank Pekao S.A. to Powszechny Zakład Ubezpieczeń SA and Polski Fundusz Rozwoju S.A.

On June 14, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 41/2017 that Mr. Stefano Santini resigned from the position of Vice President of the Management Board, effective as of June 14, 2017. The resignation results from the sale by UniCredit S.p.A. on June 7, 2017 of 32,8% stake in Bank Pekao S.A. to Powszechny Zakład Ubezpieczeń SA and Polski Fundusz Rozwoju S.A.

On June 14, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 42/2017 that on June 14, 2017, the Supervisory Board appointed Mr. Michał Krupiński to the Management Board of the Bank on the position of the Vice President of the Management Board, effective as of June 15, 2017. The Supervisory Board decides, that until receiving the approval from the Polish Financial Supervision Authority, Mr. Michał Krupiński will perform the function of the Vice President of the Management Board managing the work of the Management Board, and after receiving the approval of the Polish Financial Supervision Authority he will perform the function of the President of the Management Board. Mr. Michał Krupiński has been appointed after assessment of fulfillment of the suitability requirements.

On July 7, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 46/2017 that on July 6, 2017, Mr. Marian Ważyński and Mr. Grzegorz Paweł Piwowar resigned from the positions of the Vice-Presidents of the Management Board and from the Management Board, effective as of July 6, 2017.

On July 7, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 47/2017 that on July 6, 2017, the Bank's Supervisory Board, taking into consideration suitability assessment, appointed Mr. Tomasz Kubiak, Mr. Michał Piotr Lehmann, Mr. Marek Lusztyń since July 7, 2017 to the Banks' Management Board and entrusted them with the function of Vice-Presidents of the Bank's Management Board.

On July 7, 2017, the Bank's Supervisory Board, taking into consideration suitability assessment, appointed Mr. Tomasz Styczyński since July 7, 2017 and Mr. Marek Tomczuk since September 1, 2017 to the Banks' Management Board and entrusted them with the function of Vice-Presidents of the Bank's Management Board.

The Banks' Supervisory Board has decided to entrust, following the date of obtaining the approval of the Polish Financial Supervision Authority, Mr. Marek Lusztyń as the Vice President of the Banks' Management Board, supervising the management of significant risk in the Bank's activity.

According to the submitted statements, Vice-Presidents of Banks' Management Board: Mr. Tomasz Kubiak, Mr. Michał Piotr Lehmann, Mr. Marek Lusztyń Mr. Tomasz Styczyński do not conduct any business competitive to that of the Bank and nor are they involved in a competitive business as a shareholder or partner in a civil law company or partnership or a member of a corporate body of a competitive corporation or legal person. According to the submitted statements the above mentioned persons are not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

On August 1, 2017, in the current report no. 48/2017, in reference to the current report no. 47/2017, the Management Board of Bank Pekao S.A. informed that on August 1, 2017, the Supervisory Board of the Bank, in connection with appointment of Mr. Marek Tomczuk as Vice President of the Management Board of the Bank in accordance with the Resolution no. 67/17 of the Supervisory Board of the Bank dated July 7, 2017, decided that appointment of Mr. Marek Tomczuk as Vice President of the Management Board of the Bank will be effective on August 21, 2017. According to the submitted statement Vice President of the Management Board of the Bank, Mr. Marek Tomczuk starting from August 21, 2017, will not conduct any activity competitive to the Bank.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

On September 21, 2017, in the current report no. 49/2017, the Management Board of Bank Pekao S.A. informed that on September 21, 2017 Mr. Adam Niewiński resigned from the position of the Vice-President of the Management Board and from the Management Board, effective as of September 21, 2017. The resignation of Mr. Adam Niewiński was connected with the possibility of realizing new professional challenges.

On September 21, 2017, in the current report no. 50/2017, the Management Board of Bank Pekao S.A. informed that on September 21, 2017, the Bank's Supervisory Board, taking into consideration suitability assessment, since January 1, 2018, appointed Mrs. Roksana Ciurysek-Gedir to the position of the Vice President of the Management Board of Bank Pekao S.A. According to the submitted statement Vice-President of Banks' Management Board Mrs. Roksana Ciurysek-Gedir will not conduct any business competitive to that of the Bank since January 1, 2018 and is not involved in a competitive business as a shareholder or partner in a civil law company or partnership or a member of a corporate body of a competitive corporation or legal person. According to the submitted statement the above mentioned Mrs. Roksana Ciurysek-Gedir is not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

On October 17, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 53/2017 that at the meeting held on October 17, 2017, the Polish Financial Supervision Authority unanimously gave its consent to entrust Mr. Marek Lusztyn function of member of the Management Board of Bank Pekao S.A. supervising the management of significant risk in the Bank's activity.

On November 7, 2017, the Management Board of Bank Pekao S.A. in the current report no. 58/2017 in fulfilment of provisions of § 5 section 1 point 22 of the Regulation of the Minister of Finance of February 19, 2009 on current and interim reports published by issuers of securities and on the conditions under which such information is recognized as equivalent to information required under regulations of a non-member state, and in reference to the current report no. 42/2017 of June 14, 2017 informed that on November 7, 2017 the Polish Financial Supervision Authority unanimously expressed consent to the appointment of Mr. Michał Krupiński as the President of the Management Board of Bank Pekao S.A.

Composition of the Management Board:

SEPTEMBER 30, 2017	DECEMBER 31, 2016
Michał Krupiński Vice President of the Management Board of the Bank managing the work of the Management Board	Luigi Lovaglio President of the Management Board, CEO
Andrzej Kopyński Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Tomasz Kubiak Vice President of the Management Board	Andrzej Kopyński Vice President of the Management Board
Michał Lehmann Vice President of the Management Board	Adam Niewiński Vice President of the Management Board
Marek Lusztyn Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Tomasz Styczyński Vice President of the Management Board	Stefano Santini Vice President of the Management Board
Marek Tomczuk Vice President of the Management Board	Marian Ważyński Vice President of the Management Board

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

5.4 The Bank's shareholding structure

As at September 30, 2017, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034, it was divided into 262,470,034 shares and remained unchanged until the date of submitting the report.

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

Shareholders of Bank Pekao S.A., holding directly or indirectly, through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Bank, are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE THIRD QUARTER OF 2017		AS OF SEPTEMBER 30, 2017		AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2017		AS OF JUNE 30, 2017	
Powszechny Zakład Ubezpieczeń SA	52,494,007	20.00%	52,494,007	20.00%	52,494,007	20.00%	52,494,007	20.00%
Polski Fundusz Rozwoju S.A.	33,596,166	12.80%	33,596,166	12.80%	33,596,166	12.80%	33,596,166	12.80%
UniCredit S.p.A.	16,430,000	6.26%	16,430,000	6.26%	16,430,000	6.26%	16,430,000	6.26%
Other shareholders (below 5%)	159,949,861	60.94%	159,949,861	60.94%	159,949,861	60.94%	159,949,861	60.94%
Total	262,470,034	100.00%	262,470,034	100.00%	262,470,034	100.00%	262,470,034	100.00%

In the current report no. 33/2017, the Management Board of Bank Pekao S.A. informed that on June 7, 2017 the Bank has received notice from Powszechny Zakład Ubezpieczeń SA (PZU SA) and the Polski Fundusz Rozwoju S.A. (PFR S.A.), pursuant to which as a result of settlement on June 7, 2017 of the purchase transaction from UniCredit S.p.A. by PZU SA and PFR S.A. of 86,090,172 shares of the Bank, constituting approximately 32.8% of the Bank's share capital and carrying 86,090,172 votes accounting for approximately 32.8% of the total number of votes, PZU SA and PFR S.A. jointly exceeded the threshold of 25% of the total number of votes at the Bank.

Joint exceeding the threshold of 25% of the total number of votes in the Bank by PZU SA and PFR S.A. resulted from a direct purchase from UniCredit S.p.A. by, respectively:

- PZU SA 52,494,007 shares of the Bank, constituting approximately 20% of the Bank's share capital and entitling to exercise 52,494,007 votes accounting for approximately 20% of the total number of votes and
- PFR 33,596,165 of the Bank's shares, representing approximately 12.8% of the Bank's share capital and entitling to 33,596,165 votes, constituting approximately 12.8% of the total number of votes.

Before the acquisition, PZU SA and PFR S.A. hold together a total 1 (one) share of the Bank, representing approximately 0.00000038% of the Bank's share capital and entitling to 1 (one) vote, representing approximately 0.00000038% of total votes, where:

- PZU SA did not directly or indirectly own any of the Bank's shares
- PFR S.A. held directly only 1 (one) share of the Bank, representing approximately 0.00000038% of the Bank's share capital and entitling to 1 (one) vote, representing approximately 0.00000038% of the total number of votes.

Since the acquisition of the Bank's shares, PZU SA and PFR S.A. hold together 86,090,173 shares of the Bank, accounting for approximately 32.8% of the Bank's share capital and entitling them to 86,090,173 votes representing approximately 32.8% of the total number of votes, with the following votes as at June 7, 2017:

- PZU SA holds only directly 52,494,007 shares of the Bank, representing approximately 20% of the Bank's share capital and entitling her to 52,494,007 votes representing approximately 20% of total votes, while
- PFR S.A. holds only directly 33,596,166 shares of the Bank, constituting approximately 12.8% of the Bank's share capital and entitling to 33,596,166 votes representing approximately 12.8% of the total number of votes.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

5.5 Financial credibility ratings

5.5.1 Bank Pekao S.A. financial credibility ratings

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

As of September 30, 2017, Bank Pekao S.A. had assigned following financial credibility ratings:

FITCH RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating (IDR)	A-	A-
Short-term rating	F2	F2
Viability rating	a-	-
Support rating	2; credit watch negative ⁽¹⁾	-
Outlook	Stable ⁽¹⁾	Stable
S&P GLOBAL RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating in foreign currencies	BBB+	BBB+
Long-term rating in domestic currency	-	A-
Short-term rating in foreign currencies	A-2	A-2
Short-term rating in domestic currency	-	A-2
Stand-alone credit profile	bbb+	-
Outlook	Stable	Stable
MOODY'S INVESTORS SERVICE (UNSOLICITED RATING)	BANK PEKAO S.A.	POLAND
Long-term foreign-currency deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa1	-
Long-term counterparty risk assessment	A1(cr)	-
Short-term counterparty risk assessment	Prime-1(cr)	-
Outlook	Stable	Stable

⁽¹⁾ On October 20, 2017, Fitch Ratings published a statement on maintaining a Long-term, Short-term, and Viability rating of Bank Pekao S.A. unchanged. At the same time, the following changes were made to the ratings as of September 30, 2017 listed in the table above: Support Rating at "5", while withdrawing this rating category from the credit watch negative, Outlook Negative. The Outlook Revision for Bank Pekao S.A. reflects Fitch's expectation that the bank's capital ratios are likely to gradually moderate. Capitalization is, in Fitch's view, Bank Pekao S.A. a key rating strength relative to some of its direct peers. The change of Support rating reflects the change in ownership of the Bank.

Among banks rated in Poland, Bank Pekao S.A. has the highest viability rating assigned by Fitch Ratings, the highest Stand-Alone Credit Profile rating assigned by S&P Global Ratings, the highest Baseline Credit Assessment as well as Long- and Short-term counterparty risk ratings assigned by Moody's.

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

Fitch Ratings agency assigned the "A" rating to the covered bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A. The reasons underlying the Agency's decision included the high rating assigned to Pekao Bank Hipoteczny S.A. ("A-"), legal regulations pertaining to the covered bonds collateral register and the excess of collateral over the volume of bonds in issue, as declared by the bank.

The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity. The national long-term rating of Pekao Bank Hipoteczny S.A. is at the level "AA+(pol)" with a Stable outlook. On June 9, 2017, agency confirmed the rating of covered bonds at the level of "A" and changed outlook from Evolving to Stable. During the latest revision on October 20, 2017, agency confirmed the rating of Pekao Bank Hipoteczny at the level of "A-" and changed outlook from Stable to Negative.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

5.6 Achievements of Bank Pekao S.A.

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

Distribution channels

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

	30.09.2017	30.09.2016
Total number of outlets	917	942
Total number of own ATMs	1,761	1,754

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

As at the end of September 2017, the Bank maintained 5,582.0 thousand PLN-denominated current accounts, 349.2 thousand mortgage loan accounts and 619.0 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

(in thousand)

	30.09.2017	30.09.2016
Total number of PLN current accounts ^(*)	5,582.0	5,434.6
of which packages	4,143.4	4,024.4
Number of mortgage loans accounts ^(**)	349.2	323.5
of which PLN mortgage loans accounts	315.6	288.7
Number of "Pożyczka Ekspresowa" loan accounts ^(***)	619.0	574.3

(*) Number of accounts including accounts of prepaid cards.

(**) Retail customers accounts.

(***) "Pożyczka Ekspresowa", Pożyczka Ekspresowa Biznes.

Individual clients

Individual clients service

In the third quarter of 2017, Bank Pekao S.A. consequently realized the strategy of growth in retail customer segment concentrating on cash and mortgage loans, investment products and acquisition of new customers. Growth in loans and deposits volumes in the third quarter of 2017, was higher than in the banking sector allowing to further strengthen the market position of the Bank.

The total value of new key loans granted for individual customers, including cash and PLN mortgage loans in the third quarter of 2017, amounted to PLN 4.5 billion and was higher by 14% in comparison to the third quarter of 2016. The high dynamics of loans granted was reflected in the volume of loan portfolio for individual customers which increased by 10.5% year on year.

Bank Pekao S.A. is one of the leaders in electronic banking in Poland. Within the framework of electronic banking the Bank provides customers with full range of solutions such as: the Internet and mobile service, mobile application on mobile phones and tablets as well as the PeoPay mobile payments. Since the first half of 2017, the Bank offered new mobile service Pekao24, which in addition to visual change, user-friendly navigation and intuitive service, has also functions well known from the "Pekao24 na tablety" application and the Internet service: expenses reporting by category, possibility to use loan offer "na klik" ("on click") and FX conversion with a preferential rate. In the third quarter of 2017, the Bank provided another functions – currently each user can view currency rates and use a convenient calculator in order to determine quickly the currency conversion value. A new service provides also the possibility to reschedule the debt of Elastyczna credit card.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

The Bank regularly expands the scope of services available through remote access channels. In the third quarter of 2017, the Bank launched new forms of communication with customer through text chat, video and audio which are available after login into the Pekao24 Internet banking. The customers can use a new form of contact 7 days a week from 07:00 till 22:00.

In the third quarter of 2017, Bank Pekao S.A. in cooperation with PZU SA provided clients with possibility to purchase insurance in a simple and convenient way through the Bank's website, the Pekao24 electronic banking and mobile service. The offer is available in portal Moje PZU and includes PZU Dom, PZU Wojażer and PZU Auto insurance.

Realizing the strategy of young customers acquisition, the Bank focused on long-term cooperation with the largest universities in Poland and various educational initiatives all over the country. In the third quarter of 2017, the Bank signed the agreements with four universities on issuance of Elektroniczna Legitymacja Studencka (Electronic Student Card) with payment card function. The contest „Rodzinna Podróż Marzeń” (Dream Travel) that supports the accounts opening for children was also launched. In the third quarter of 2017, nearly 40 thousand new saving accounts of Mój Skarb, Eurokonto Kieszonkowe and Eurokonto Intro were opened.

The Bank actively informed clients on the possibility to submit applications in Family 500 plus Government Program through the Bank's Internet service. The customers submitted over 72 thousand online applications through the Pekao24, representing 12% share in the total number of applications submitted electronically. The Bank is among the top three banks with the highest number of applications received electronically under this Program.

Loans

In the third quarter of 2017, the value of cash loans granted achieved the highest level in the Bank's history and amounted to over PLN 2.3 billion, an increase by 13% in comparison to the third quarter of 2016. Cash loans portfolio increased by 18% year on year which resulted in market share increase by 0.5 p.p. The increase was achieved thanks to the competitive offer of Pożyczka Ekspresowa (Express Loan), fast and transparent granting procedure, preparation of individual loan offers with the use of CRM tools as well as active use of electronic channels including website dedicated to cash loan, the Pekao24 system and mobile application.

In the third quarter of 2017, the Bank in order to meet the expectations of customers extended the loan period to 96 months, raised the maximum loan amount to PLN 200 thousand, offered a 3-months grace period in installments, expanded the group of customers with the available loan offer Klik Gotówka, which sale in electronic channels increased over three times compared to the third quarter of 2016.

Within the framework of processes „na klik” (“by click”), the Bank provided users of the Internet service with a simple application for cash loan and credit card. The credit decision is made online and loan disbursement is automatically processed after approval of agreement. The offer is available for selected group of clients.

In the third quarter of 2017, the Bank maintained strong position in the area of mortgage loans, granting loans for the total amount of PLN 2.1 billion that translated into 12.0% increase of PLN mortgage loans volume year on year. Market share in new sales amounted to 21% since the beginning of 2017.

The Bank keeps a leading position in mortgage loans granting within the government program “Mieszkanie dla Młodych” (“Apartment for the Young”) supporting the persons aged up to 35 in acquisition of the first new apartment, with over 41% market share in 2017.

In the third quarter of 2017, the Bank implemented solution which enables electronic submission of loan application with all necessary documentations to the loan granting process through the Bank's phone service, which is available 7 days a week. This is a new quality in servicing housing loans, implemented in response to the market's expectations, whereas time and availability matter.

The Bank conducted also local and country-wide promotional activities of mortgage loans, including promotional campaigns using internal channels of marketing communication and participated in real estate fairs organized all over the country.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Payment cards

The total number of cards was higher by 203 thousand in comparison to September 2016. More than half of debit cards issued in 2017 were multicurrency debit cards. Multicurrency debit card is one of the most innovative products in the market that enables execution of transactions in PLN as well as in selected foreign currencies without FX conversion thanks to card's connection with corresponding currency accounts. The Bank's multicurrency debit card is used abroad most frequently for transactions in EUR realized in the European Union countries. Within the scope of promotion of multicurrency cards, in the third quarter of 2017, the Bank launched contest with prizes for the Bank's customers.

In the third quarter of 2017, the Bank promoted also credit cards as a payment tool that facilitates travelling. The customers, apart from credit card related foreign travel insurance package, are provided with commission-free FX conversion of transactions and transactions in popular currencies are converted directly based on exchange rate table of the Bank.

In the offer of credit card Elastyczna, the Bank enabled, in the promotional period, repayment of debt in three installments with zero interest rate. The Bank promoted also silver and gold cards with reduced interest rate – 7.99 % till the end of 2017.

Elektroniczna Legitymacja Studencka (Electronic Student Card), which combines functionality of student and payment card with the possibility to add also another services such as library card or public transport ticket is well distinguished in a wide offer of payment cards of the Bank.

Savings and investment products

Thanks to a wide range of deposit products of the Bank, as at the end of September 2017, individual customers deposits increased by PLN 3.7 billion as compared to the end of December 2016. In comparison to the third quarter of 2016, deposits volume of individual customers increased by 10.2%, i.e. almost doubling the pace of growth in the banking sector. The Internet deposits (e-lokata) placed through the Pekao24 Internet banking and 6-month and 12-month term deposits were also very popular among the customers.

In the third quarter of 2017, the structured products offer of the Bank was extended by Certyfikat Amerykański Koszyk which is based on change in prices of ten American companies. The new proposal allows customers to diversify their investment portfolios.

Brokerage activity

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

As at the end of September 2017, the retail brokerage entities of the Group maintained 337.6 thousand investment accounts. The Group's brokerage entities were serving 182.7 thousand accounts with an active access to services through remote channels, including in particular the Internet and mobile applications. As at the end of September 2017, direct service of individual customers was conducted through nationwide network of 449 Points of Brokerage Services located all over the country.

As of September 30, 2017, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 25.8 billion.

In the third quarter of 2017, activities of the Group's brokerage entities focused on clients service on the secondary market, acquisition of new customers through public offers, extension of the scope of remote services and activities associated with their security.

In the third quarter of 2017, the brokerage entities of the Group participated in consortia serving 5 IPO's, registering records of completed issuances for the total amount of over PLN 132.5 million. In September 2017, Dom Maklerski operated as the bidder in Covered Bonds Program of Pekao Bank Hipoteczny S.A. conducting registration within the framework of covered bonds issuance.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Private Banking

Private Banking of Bank Pekao S.A. is the market leader in Private Banking area in terms of the value of assets. Client service model is based on cooperation with dedicated Relationship Managers, who provide customers with product solutions tailored to their individual needs and market situation. A group of Relationship Managers consists of experienced employees who hold certificates of European Financial Planning Association. Relationship Managers are supported by assistants and product specialists teams what, combined with a unique experience and knowledge of markets, allows to maintain high level of services and to develop an offer for the most demanding customer segment.

In the third quarter of 2017, the activity in the area of Private Banking focused on new clients acquisition and strengthening existing relations, continuation of realization of initiatives aimed at maintaining high level of service by offering products solutions tailored to the customers' needs.

Investment Advisory was very popular among customers. As at the end of September 2017, total value of assets covered by this service exceeded PLN 2.8 billion.

The Private Banking clients were offered with two issues of structured certificates. In the third quarter of 2017, two issues of certificates with a profit of 5.5% per annum were also completed. Moreover, in September of 2017, the product offer available through CDM was expanded by four Subfunds under Esaliens Parasol Zagraniczny SFIO.

Private Banking customers had the opportunity to participate in events sponsored by the Bank such as the 25th Pekao Szczecin Open Tennis Tournament and the 11th Film and Art Festival Dwa Brzegi.

In addition, the Private Banking representatives participated in workshops Kompetencje Przyszłości (Competencies for the Future) organized by Fundacja Firm Rodzinnych (Family Businesses Foundation). Workshops consists of four thematic blocks: strategies and management, including new technologies used in business efficiency growth, new media – how to effectively use mobile marketing, empathy in business and its impact on customer service and cyber security – how to use electronic banking safely. These meetings held in several cities in Poland were very popular among participants and were a great opportunity to meet new clients and to strengthen existing relations.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Electronic banking for Individuals

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

Individual clients may also use innovative mobile application dedicated for tablets – "Pekao24 na tablety". The application, apart from main transactional functions known from the Pekao24 Internet system was equipped with a tool of financial analysis that helps clients to overview income and expenditure on their accounts. A simplified form of transfer and advanced search engine of transactions history facilitate day-to-day usage of bank account. The "Pekao24 na tablety" application is available on devices with Android and iOS operating systems.

The Pekao24 electronic banking system and mobile application for individual clients also offer access to brokerage accounts held by Dom Maklerski.

The Bank regularly expands the scope of services available through remote access channels. In the third quarter of 2017, the Bank launched new forms of communication with customer through text chat, video and audio which are available after login into the Pekao24 Internet banking. The customers can use a new form of contact 7 days a week from 07:00 till 22:00.

The Bank offers to its clients convenient and secure system of mobile payments PeoPay that allows, among others, payments execution in terminals accepting contactless payments in Poland and abroad, payments for online purchases, immediate transfers for system users on telephone number and cash withdrawal from the Bank's ATMs without payment card. Thanks to the PeoPay application it is possible to make payments in over 514 thousand of POS terminals in Poland (ca. 91.3% of total number of POS), in ca. 6 million terminals abroad as well as in majority of on-line shops in Poland and 300 thousand on-line shops with Masterpass logo abroad.

As at the end of September 2017, the number of individual users with an access to the Pekao24 system amounted to 3,325.1 thousand and was higher by 236.0 thousand as compared to the end of September 2016. In the third quarter of 2017, 1,803.5 thousand individual users logged in to the Pekao24 electronic banking services.

As at the end of September 2017, the number of individual users with an access to mobile banking amounted to 1,792.9 thousand and was higher by 425.5 thousand as compared to the end of September 2016.

	(in thousand)	
	30.09.2017	30.09.2016
Number of individual users with an access to electronic banking Pekao24 as at the end of period	3,325.1	3,089.1
Number of individual users with an access to mobile banking as at the end of period ^(*)	1,792.9	1,367.4

^(*) User actively using at least one of the following mobile solutions: the mobile service m.pekao24.pl, the Pekao24 mobile banking application or the PeoPay application.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Small and micro enterprises (SME)

In line with the growing strength of the SME segment in Bank Pekao S.A., SME Banking Division has been established to support the business development of clients in this area. The Bank's goal in 2017 is to strengthen its position in the segment of micro and small enterprises on specific local markets.

In the third quarter of 2017, initiatives were undertaken in order to simplify, facilitate and accelerate processes related to financing tailored to the needs of companies as well as to improve flexibility in communication with the Bank. The value of loans portfolio of SME customers increased by 13.4% in comparison to December 2016.

In the third quarter of 2017, the Bank continued promotional campaigns of loans „SLK - szybko dostępny limit kredytowy” (“SLK – quickly available credit limit”) addressed to the selected customers with dedicated short term loans offer and credit and charge cards limits available in simplified loans granting process.

Within the scope of active promotion of payment cards, the Bank participated in promotion organized by VISA „Zakupy z kartą VISA to dobry Biznes” (“Shopping with a VISA card is a Good Business”).

In 2017, the Bank (as one of the first institutions in the market) introduced to its offer loans with guarantees for innovative projects or for innovative companies which are financed from the EU funds within the framework of Program Operacyjny Inteligentny Rozwój (Smart Growth Operational Programme). The Program is managed by Bank Gospodarstwa Krajowego (BGK) and is targeted to micro, small and medium-sized enterprises implementing new investment projects. The guarantees are long-term (maximum up to 20 years), secure as much as 80% of the loan and are commission-free for the clients.

Moreover, the Bank actively participates in de minimis guarantees program managed by BGK for micro, small and medium-sized enterprises.

Electronic banking for SME customers

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

As at the end of September 2017, 255.7 thousand business users had an access to the electronic banking systems and was higher by 0.8 thousand as compared to the end of September 2016. In the third quarter of 2017, 175.6 thousand business users logged in to the Pekao24 electronic banking services.

As at the end of September 2017, 23.4 thousand business users had an access to the mobile banking application for SME clients. The number of business users with an access to the mobile banking application increased by 2.5 thousand compared to the end of September 2016.

(in thousand)

	30.09.2017	30.09.2016
Number of business users (SME) with an access to the electronic banking systems as at the end of period	255.7	254.9
Number of business users (SME) with an access to the mobile banking as at the end of period	23.4	20.9

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Corporate customers

Bank Pekao S.A. Group is composed of financial and non-financial institutions organized around a universal bank and offers a full range of financial services available on the Polish market to individual and institutional customers (including factoring and leasing services). Bank Pekao S.A. is the largest corporate bank in Poland financing major strategic projects. A wide range of products, innovative solutions and an individual approach provide comprehensive financial services to enterprises, institutions and state-budget units.

The Bank is available to clients at every stage of the business activity. The Bank supports the processes of financial management of the production and sales network, automation of service processes, finances the development of products and services and provides advisory services and funds for investments and international expansion.

“Tailor-made” solutions of Bank Pekao S.A. for corporate banking are recognized both in Poland and internationally. Specialized knowledge and experience in the arrangement and financing of investments, trading in Treasury securities, custodian business, a depository bank, trade finance and cash management are areas of corporate banking appreciated by clients and a group of independent, national and international, experts.

Participation in the most challenging and most prestigious transactions, strong position in the corporate banking market and numerous awards are a proof of confidence in the expertise and experience of the Bank’s specialists and the value that the Bank creates for the clients.

Transactional services

The Bank holds a leading market position in the comprehensive range of transactional products for corporate clients and the PekaoBiznes24 Internet platform that offers the widest range of products and financial services is the most commonly chosen electronic banking system for companies in Poland.

Key achievements in the area of transactional banking in the third quarter of 2017 include:

- processing within the framework of Pekao Collect service (mass payments identification) in the three quarters of 2017 nearly 106 million transactions with total volume of over PLN 118 billion, i.e. increase by 2.5% and nearly 18%, respectively year on year,
- an increase in the number of SEPA outgoing and incoming payments by 68% and by 16% respectively in comparison to the third quarter of 2016, with an increase by 88% in volumes of SEPA payments,
- issuing and service of nearly 550 corporate payment cards for management board members, executives and employees within the framework of cooperation with one of the largest insurance companies in Poland,
- acquiring of over 800 petrol stations of one of the largest fuel distributors for servicing cash deposits in closed form, which translated into growth of monthly cash volumes of the customers from PLN 370 million in the second quarter of 2017 to over PLN 1.1 billion on a monthly basis in the third quarter of 2017.

Pekao Connect system integration

In the third quarter of 2017, within the framework of extension of available solutions integrating financial and accounting system of corporates with the PekaoBiznes24 Internet banking, Bank Pekao S.A. acquired for cooperation three new partners, including Microsoft Dynamics NAV software vendor.

The solutions offered by the Bank’s Partners enable direct online communication with the Bank, while maintaining the highest security standards for a constantly growing client base.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Trade finance

The Bank holds a leading position on trade finance market maintaining a substantial market share. As at the end of the third quarter of 2017, debts financed by the Bank amounted to over 20% of the total market debts financed by the banks.

In the third quarter of 2017, in the area of trade finance a significant increase in the amount of import L/Cs by 11% and financed debts by 15% was noted in comparison to the third quarter of 2016. The number of debt finance transactions also increased by 15%.

In the third quarter of 2017, the Bank extended the range of bank guarantees:

- new guarantees for payment of custom debt, adapted to the EU amended regulations allowing customers to obtain permission for selected customs operations without necessity of cash deposit collateral in favour of custom service,
- two new types of excise guarantee which is a collateral for excise tax obligation and fuel surcharge. These guarantees are an alternative to a cash deposit placed as collateral for claims of the State Treasury to an entity obliged to pay the amount of tax due and a fuel surcharge.

Cooperation with international clients

In the third quarter of 2017, the Bank continued and developed cooperation with its international clients as well as acquired new customers. In August of 2017, an agreement regulating the rules of activity of Bank Pekao S.A. and UniCredit Group in terms of servicing common international clients was signed. The main benefit of this agreement is a significant expansion of the potential international clients base being the customers of UniCredit Group who want to run business in Poland. As a result, a role of the Bank in the area of cross-border solutions for the international clients increases significantly and the Bank as a Polish institution gains the European range of activity. On the other hand, it allows to offer the Polish customers an opportunity to operate in countries where UniCredit Group is present, which facilitates expansion of Polish companies to those markets.

The Bank continues its cooperation with international chambers of commerce and industry, strengthening its image as a partner of foreign companies operating in Poland.

Investment banking, structured finance and commercial real estates

The Bank consistently supports the development of enterprises and infrastructure through financing, organizing and securing the transactions. It offers clients a wide range of services in the field of project financing, structured financing and commercial real estate project financing.

In the third quarter of 2017, the Bank participated, among others, in the following investment projects of institutional customers:

- financing of cars sale development by a leasing company in the amount of PLN 400 million,
- comprehensive refinancing of the activity of a leading manufacturer of interior furnishing articles, the Bank's share in the amount of PLN 353 million,
- financing one of the most important Polish electricity distributing companies, the Bank's share in the amount of PLN 250 million,
- supporting of EU expansion of the Polish company, financing in the amount of PLN 88 million.

Value of new loan agreements in the area of commercial real estate amounted to over PLN 5 billion, including, among others, the following:

- financing the construction of office building in Wrocław for a leading Polish developer in the amount of EUR 16 million,
- financing the development of a warehouse located in Dolnośląskie province for one of the leaders in the industry, financing in the amount of PLN 24 million.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Financial market and treasury products

In the third quarter of 2017, the Bank dynamically developed its activity in the Treasury area and recorded a considerable, two-digit growth of volumes of FX Spot and FX Forward transactions with corporate clients.

In order to meet the clients' expectations, the Bank is continuously developing its electronic transaction channels. In the third quarter of 2017, the Bank successfully completed a pilot phase of the modern PekaoFX currency exchange platform (available also in mobile version) dedicated to the most active clients of the Bank. The platform will be fully implemented in the fourth quarter of 2017.

Another segment of Treasury activity showing a considerable growth is protection against the risk of changes in prices of raw materials and commodities, where the annual dynamics of turnovers exceeded 50%.

The Bank is also one of the key players on the domestic interbank market performing the role of market maker for the Polish currency.

Issuance of debt instruments

In the area of arrangement and management of commercial debt securities, Bank Pekao S.A. has over 17% market share (2nd place), as of September 30, 2017 (data based on the Rating&Market bulletin published by Fitch Polska), including in particular:

- 1st place on the market of corporate bonds and corporate revenue bonds issued in 2017 (with maturities over 365 days) with a share of nearly 31%,
- 1st place on the market of municipal bonds issued in 2017 (with maturities over 365 days) with a share of over 54%.

In the third quarter of 2017, the Bank issued debt securities for the total value of over PLN 1.5 billion, including:

- the issue of 9.5-year bonds for a leading manufacturer of packaging for the amount of EUR 100 million,
- the issue of 4-year bonds for the bank operating in Poland for the amount of PLN 300 million,
- the issue of bank securities with the maturity date up to 3.5 years for the bank operating in Poland for the total amount of PLN 220 million,
- the issue of 3-year bonds for the bank operating in Poland for the amount of PLN 100 million,
- the issue of 4 series of bonds with the maturity date up to 3 years for a company operating in leasing sector for the total amount of PLN 100 million,
- the issue of 7-year covered bonds for mortgage bank for the amount of PLN 50 million.

In addition, the Bank signed a new bond issue agreement for the amount of PLN 250 million with an entity from debt collection industry and 20 new local governments bonds issue agreements for the total amount of over PLN 218 million.

Comprehensive services for the public finance sector

The Bank continues the strategy of maintaining a substantial share in the financing of Polish local government authorities and provides a full range of services designed to support their budgets. The Bank has exceptional achievements in the field of capital intensive, local government infrastructure projects financing including those implemented under the Public-Private Partnership (PPP).

In the third quarter of 2017, the Bank participated, among others, in the following transactions:

- finalized the transaction financing purchase of tram, bus and technical facilities for MZK in Gorzów Wielkopolski Sp. o.o. for the amount of PLN 116.9 million,
- granted short-term loans to Miasto Wrocław for the total amount of PLN 100 million,
- finalized the transaction financing rail transport for Łódzka Kolej Aglomeracyjna for the amount of PLN 77 million,
- granted additional financing to Miejskie Przedsiębiorstwo Oczyszczania w Warszawie for the amount of PLN 22.5 million.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Cooperation with international and domestic financial institutions

Bank Pekao S.A. maintains correspondent relations with 1.6 thousand Polish and foreign banks (according to the number of swift keys).

As at the end of September 2017, the Bank maintains 72 nostro accounts in 48 banks in 26 countries; it runs 223 loro accounts for 208 foreign clients (banks and other financial institutions) from 48 countries and 42 current accounts for 40 foreign financial institutions.

The Bank also intermediates in the execution of transactions on behalf of clients of other domestic banks, running 35 loro accounts for 13 Polish banks and keeping 6 nostro accounts in one Polish bank.

The Bank renders also services for Polish banks and branches of foreign banks in Poland in terms of purchase and sale of foreign and domestic currency.

The Bank has started cooperation with a significant entity from mutual funds segment, which translates into increase in assets value in 2018 perspective as well as increase in share in the market of the depository services.

EU Funds and public Programs

Bank Pekao S.A. actively participates in implementation of programs supporting the Polish companies. Increasingly popular among enterprises are programs offering support in a form of the so-called re-payable instruments, most often in a form of bank loans with the EU, the European financial institutions or domestic guarantees.

In 2017, the Bank (as one of the first institutions in the market) introduced to its offer loans with guarantees for innovative projects or for innovative companies which are financed from the EU funds within the framework of Program Operacyjny Inteligentny Rozwój (Smart Growth Operational Programme). The Program is managed by Bank Gospodarstwa Krajowego (BGK) and is targeted to micro, small and medium-sized enterprises implementing new investment projects. The guarantees are long-term (maximum up to 20 years), secure as much as 80% of the loan and are commission-free for the clients.

Moreover, the Bank actively participates in de minimis guarantees program managed by BGK for micro, small and medium-sized enterprises.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

5.7 Factors which will affect the results of the Group

The activity of Bank Pekao S.A. and the Group's companies is in majority conducted on the Polish territory, hence the Group's performance will be mainly affected by economic situation in the country and international events that have influence on domestic economy.

2017 is the first full year in which some financial institutions will pay tax on certain financial institutions. The tax applies to most banks operating in Poland. According to estimates, in 2017 the burden of the tax on the banking sector will be at the level of ca. PLN 3.5 billion.

The capital and liquidity requirements will continue to have a significant impact on banks' operations in the course of the year. Some banks have also been obliged to provide individually defined additional capital buffers. The situation of individual banks with regard to their capital and liquidity position significantly determines their risk appetite and at the sector level the intensity of competition in particular credit and deposit sub-markets.

In 2017, there were some changes in the functioning of the system ensuring stable and secure operation of the banking sector in Poland as well as the protection of insured deposits. As a result of the changes, the overall level of the sector's burdens did not change materially, but individual contributions differ as the burden are now more closely linked to the particular institution risk profile. The changes had an impact on the schedule of contributions over the year.

Monetary policy is constantly an important factor influencing the banks' results. For the time being, stabilization of NBP rates throughout 2017 seem to be the most likely scenario.

Right now the Polish Parliament is working on two draft bills related to the portfolio of mortgage loans denominated in foreign currencies. First project provides on returns for some receivables resulting from the loans agreements. It assumes, that in case of FX loans banks will have to return to the clients the difference between acceptable spread (the difference between the rate of buying and selling of the currency set by the law) and the one actually charged. Estimates point out, that if the law is passed the cost for the banking sector may amount to couple of billions of the zloty. Second project proposes special fund to help troubled borrowers. The contribution to the funds would cost banks up to PLN 3.2 billion per year. The entry into force of any of these solutions may have a strong negative impact on the financial performance of banks with significant portfolio of foreign currency denominated mortgages. However, taking into account the relatively minor share of these loans in the total assets of the Bank (almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007), Bank Pekao S.A. assesses that potentially taken solutions should not materially affect the financial standing of the Group.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

6 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 30 September, 2017 and 2016 respectively is presented in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the three quarters of 2017.

The Report on activities of Bank Pekao S.A. Group for the third quarter of 2017 includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements are discussed.

6.1 Structure of the consolidated statement of financial position – short form

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of September 2017, the total assets of Bank Pekao S.A. constitutes 98.2% of the total assets of the whole Group.

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

ASSETS	30.09.2017		30.09.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	6,106.1	3.6%	3,996.0	2.4%	52.8%
Loans and advances to banks ^(*)	2,926.7	1.7%	3,290.3	2.0%	(11.1%)
Loans and advances to customers ^(**)	129,429.4	75.5%	121,306.8	74.3%	6.7%
Reverse repo transactions	-	x	-	x	x
Securities ^(***)	27,058.9	15.8%	28,318.4	17.3%	(4.4%)
Investments in associates	167.9	0.1%	127.3	0.1%	31.9%
Property, plant and equipment and intangible assets	2,039.8	1.2%	1,983.0	1.2%	2.9%
Other assets	3,734.1	2.1%	4,230.9	2.7%	(11.7%)
Total assets	171,462.9	100.0%	163,252.7	100.0%	5.0%

(*) Including net investments in financial leases to banks.

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

(***) Including financial assets held for trading and other financial instruments at fair value through profit and loss.

EQUITY AND LIABILITIES	30.09.2017		30.09.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	6.1	0.0%	6.1	0.0%	0.0%
Amounts due to other banks	4,371.3	2.5%	5,500.2	3.4%	(20.5%)
Amounts due to customers	135,222.6	78.9%	126,546.2	77.5%	6.9%
Debt securities issued	2,435.9	1.4%	1,626.1	1.0%	49.8%
Repo transactions	970.7	0.6%	418.9	0.3%	> 100%
Other liabilities	6,187.9	3.6%	6,416.0	3.9%	(3.6%)
Total equity, including	22,268.4	13.0%	22,739.2	13.9%	(2.1%)
non-controlling interests	15.5	0.0%	14.8	0.0%	4.7%
Total equity and liabilities	171,462.9	100.0%	163,252.7	100.0%	5.0%

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	30.09.2017	30.09.2016	CHANGE
Loans and advances at nominal value⁽¹⁾	134,260.9	126,364.2	6.2%
Loans ⁽²⁾	122,238.9	113,798.0	7.4%
Retail	62,793.3	56,824.0	10.5%
Corporate	59,445.6	56,974.0	4.3%
Non-quoted securities	12,022.0	12,566.2	(4.3%)
Other ⁽³⁾	717.0	643.3	11.5%
Nominal value adjustment	305.0	319.2	(4.4%)
Impairment losses	(5,853.5)	(6,019.9)	(2.8%)
Total net receivables	129,429.4	121,306.8	6.7%
Securities issued by non-monetary entities ⁽⁴⁾	619.8	870.1	(28.8%)
Reverse repo transactions	-	-	x
Total customers' financing⁽⁵⁾	134,880.7	127,234.3	6.0%
Total customers' financing excluding reverse repo transactions	134,880.7	127,234.3	6.0%

(¹) Excluding reverse repo transactions.

(²) Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.

(³) Including interest and receivables in transit.

(⁴) Securities issued by non-monetary entities being loans equivalents.

(⁵) Total customers' financing includes loans and advances at nominal value, securities issued by non-monetary entities and reverse repo transactions.

As at the end of September 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 134,880.7 million, an increase of PLN 7,646.4 million, i.e. 6.0% in comparison to the end of September 2016 with significant growth in key strategic areas.

As at the end of September 2017, the volume of retail loans amounted to PLN 62,793.3 million, an increase of PLN 5,969.3 million, i.e. 10.5% in comparison to the end of September 2016.

As at the end of September 2017, corporate loans amounted to PLN 59,445.6 million, an increase of PLN 2,471.6 million, i.e. 4.3% in comparison to the end of September 2016.

The volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 72,087.4 million as at the end of September 2017, an increase of PLN 1,677.1 million, i.e. 2.4% as compared to the end of September 2016.

Receivables and impairment losses

(in PLN million)

	30.09.2017	30.09.2016	CHANGE
Gross receivables⁽¹⁾	134,642.5	126,742.2	6.2%
Not impaired	126,522.4	118,637.5	6.6%
Impaired	8,120.1	8,104.7	0.2%
Impairment losses	(5,853.5)	(6,019.9)	(2.8%)
Interest	640.4	584.5	9.6%
Total net receivables	129,429.4	121,306.8	6.7%

(¹) Including debt securities eligible for rediscounting at Central Bank, net investments in financial leases to customers, non-quoted securities and excluding reverse repo transactions.

As of September 30, 2017, the ratio of impaired receivables to total receivables excluding reverse repo transactions amounted to 6.0% as compared to 6.4% as at the end of September 2016.

Impairment losses as at the end of September 2017 amounted to PLN 5,853.5 million.

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Loans and advances to customers by currency^(*)

	30.09.2017		30.09.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	111,896.0	82.7%	104,072.5	81.7%	7.5%
Denominated in foreign currencies ^(**)	23,386.9	17.3%	23,254.2	18.3%	0.6%
Total	135,282.9	100.0%	127,326.7	100.0%	6.2%
Impairment losses	(5,853.5)	x	(6,019.9)	x	(2.8%)
Total net	129,429.4	x	121,306.8	x	6.7%

(*) Including interest and receivables in transit and excluding reverse repo transactions.

(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of September 2017, their share was 82.7%. The largest portion of foreign currency loans and advances to customers is represented by those denominated in EUR (68.0%), CHF (17.0%) and USD (14.0%).

Loans and advances to customers by contractual maturities^(*)

	30.09.2017		30.09.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	16,701.6	12.3%	15,804.0	12.4%	5.7%
1 to 3 months	5,617.7	4.2%	4,947.5	3.9%	13.5%
3 months to 1 year	11,735.8	8.7%	11,090.3	8.7%	5.8%
1 to 5 years	42,071.4	31.1%	39,366.4	30.9%	6.9%
Over 5 years	58,439.4	43.2%	55,475.2	43.6%	5.3%
Other	717.0	0.5%	643.3	0.5%	11.5%
Total	135,282.9	100.0%	127,326.7	100.0%	6.2%
Impairment losses	(5,853.5)	x	(6,019.9)	x	(2.8%)
Total net	129,429.4	x	121,306.8	x	6.7%

(*) Including interest and receivables in transit and excluding reverse repo transactions.

As at the end of September 2017, loans and advances with maturity over 5 years represents 43.2% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Credit exposures towards Ukraine

As of September 30, 2017, the net balance sheet value of remaining exposures towards Ukraine amounted to PLN 12 million (which constitutes 0.01% of the total Group exposures), less by PLN 99 million in comparison to the end of December 2016.

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External sources of financing

(in PLN million)

	30.09.2017	30.09.2016	CHANGE
Amounts due to Central Bank	6.1	6.1	0.0%
Amounts due to other banks	4,371.3	5,500.2	(20.5%)
Amounts due to customers	135,222.6	126,546.2	6.9%
Debt securities issued	2,435.9	1,626.1	49.8%
Repo transactions	970.7	418.9	> 100%
Total external sources of financing	143,006.6	134,097.5	6.6%

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

Total customer savings

(in PLN million)

	30.09.2017	30.09.2016	CHANGE
Corporate deposits	60,940.2	59,036.7	3.2%
Non-financial entities	42,586.6	45,721.3	(6.9%)
Non-banking financial entities	8,646.1	6,999.4	23.5%
Budget entities	9,707.5	6,316.0	53.7%
Retail deposits	73,823.1	66,983.4	10.2%
Other (*)	459.3	526.1	(12.7%)
Amounts due to customers(**)	135,222.6	126,546.2	6.9%
Debt securities issued, of which	2,435.9	1,626.1	49.8%
Structured Certificates of Deposit (SCD)	85.4	169.2	(49.5%)
Certificates of Deposit	1,025.0	167.0	x
Pekao Bank Hipoteczny S.A. covered bonds	1,315.9	1,281.6	2.7%
Interest	9.6	8.3	15.7%
Amounts due to customers and debt securities issued, total(**)	137,658.5	128,172.3	7.4%
Repo transactions	970.7	418.9	> 100%
Investment funds of Pioneer Pekao TFI	17,895.3	16,750.9	6.8%
Bond and money market funds	12,795.3	12,048.0	6.2%
Balanced funds	2,655.7	2,457.4	8.1%
Equity funds	2,444.3	2,245.5	8.9%
including distributed through the Group's network	17,558.6	16,424.8	6.9%

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

(**) Excluding repo transactions.

As at the end of September 2017, the total amounts due to the Group's customers and debt securities issued amounted to PLN 137,658.5 million, an increase of PLN 9,486.2 million, i.e. 7.4% in comparison to the end of September 2016.

Retail deposits amounted to PLN 73,823.1 million as at the end of September 2017, an increase of PLN 6,839.7 million, i.e. 10.2% in comparison to the end of September 2016.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 74,327.4 million as at the end of September 2017, an increase of PLN 6,737.3 million, i.e. 10.0% in comparison to the end of September 2016.

Corporate deposits amounted to PLN 60,940.2 million as at the end of September 2017, an increase of PLN 1,903.5 million, i.e. 3.2% as compared to the end of September 2016.

The total volume of corporate deposits, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 63,331.1 million as at the end of September 2017, an increase of PLN 2,748.9 million, i.e. 4.5% as compared to the end of September 2016.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Repo transactions amounted to PLN 970.7 million as at the end of September 2017, an increase by PLN 551.8 million, i.e. more than doubled in comparison to the end of September 2016.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,895.3 million as at the end of September 2017, an increase of PLN 1,144.4 million, i.e. 6.8% in comparison to the end of September 2016.

Amounts due to customers by currency^(*)

	30.09.2017		30.09.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	110,557.6	81.8%	103,075.4	81.5%	7.3%
Denominated in foreign currencies	24,665.0	18.2%	23,470.8	18.5%	5.1%
Total	135,222.6	100.0%	126,546.2	100.0%	6.9%

(*) Including interest and amounts due in transit and excluding repo transactions.

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of September 2017 amounted to 81.8%. The majority of amounts due to customers denominated in foreign currencies was in EUR (61.4%) and USD (31.5%).

Amounts due to customers by contractual maturities^(*)

	30.09.2017		30.09.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	81,117.5	60.2%	74,417.8	59.1%	9.0%
Term deposits	53,645.7	39.8%	51,602.3	40.9%	4.0%
Total deposits	134,763.2	100.0%	126,020.1	100.0%	6.9%
Interest accrued	168.3	x	217.5	x	(22.6%)
Funds in transit	291.1	x	308.6	x	(5.7%)
Total	135,222.6	x	126,546.2	x	6.9%

(*) Excluding repo transactions.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

6.2 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for the three quarters of 2017 amounted to PLN 1,421.0 million, nominally was lower by PLN 363.6 million, i.e. 20.4% than net profit for the three quarters of 2016. Net profit for the three quarters of 2017 would be higher by 6.2% year on year, excluding one-off non-recurring items recognized in the previous year (i.e. net result on disposal of loans and settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc), and including costs of contribution to the Bank Guarantee Fund attributable only to the three quarters of 2017 and tax on certain financial institutions for the full nine months period of 2016.

Thanks to the effective commercial activity of the Group in the three quarters of 2017, a significant growth in loan volumes in the area of retail loans (an increase of 10.5% year on year) and growth in corporate loans by 4.3% year on year was reported. Such increase in lending was financed almost fully by higher volumes of retail deposits growing by 10.2% year on year.

Total capital ratio (TCR) amounted to 16.5% as at the end of September 2017 and has decreased due to discontinuation of application of credit conversion factor 0% for off-balance sheet items in accordance with Financial Supervision Authority (KNF) recommendations. On October 30, 2017, the Bank issued subordinated bonds in the amount of PLN 1,250.0 million, which after KNF approval will increase the level of TCR by approximately 1 p.p.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 94.0% as at the end of September 2017. This, together with high level of capital, enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

(in PLN million)

	3 QUARTERS OF 2017	3 QUARTERS OF 2016	CHANGE
Net interest income	3,403.3	3,269.2	4.1%
Dividend income and income from equity investments	51.3	46.2	11.0%
Total net interest income, dividend income and other income from equity investments	3,454.6	3,315.4	4.2%
Net fee and commission income	1,735.9	1,777.6	(2.3%)
Trading result	49.7	316.4	(84.3%)
Net other operating income and expenses	87.8	176.3	(50.2%)
Net non-interest income	1,873.4	2,270.3	(17.5%)
Operating income	5,328.0	5,585.7	(4.6%)
Operating costs	(2,408.8)	(2,418.1)	(0.4%)
Gross operating profit	2,919.2	3,167.6	(7.8%)
Net impairment losses on loans and off-balance sheet commitments	(368.5)	(394.5)	(6.6%)
Net operating profit	2,550.7	2,773.1	(8.0%)
Net result on other provisions	(22.0)	(9.4)	> 100%
Guarantee funds charges	(246.4)	(196.8)	25.2%
Tax on certain financial institutions	(383.4)	(321.6)	19.2%
Net result on investment activities	0.3	5.2	(94.2%)
Profit before tax	1,899.2	2,250.5	(15.6%)
Income tax expense	(477.6)	(465.6)	2.6%
Net profit	1,421.6	1,784.9	(20.4%)
Attributable to equity holders of the Bank	1,421.0	1,784.6	(20.4%)
Attributable to non-controlling interest	0.6	0.3	100.0%

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Operating income

In the three quarters of 2017, the Group's operating income amounted to PLN 5,328.0 million, nominally lower by PLN 257.7 million, i.e. 4.6% in comparison with the three quarters of 2016, mainly due to one-off non-recurring items in the amount of PLN 412.8 million in 2016 (i.e. net result on disposal of loans and settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc).

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

(in PLN million)

	3 QUARTERS OF 2017	3 QUARTERS OF 2016	CHANGE
Interest income	4,181.6	4,073.7	2.6%
Interest expense	(778.3)	(804.5)	(3.3%)
Net interest income	3,403.3	3,269.2	4.1%
Dividend income	19.6	16.6	18.1%
Income from equity investments	31.7	29.6	7.1%
Total net interest income, dividend income and income from equity investments	3,454.6	3,315.4	4.2%

Total net interest income, dividend income and income from equity investments in the three quarters of 2017, amounted to PLN 3,454.6 million and was higher by PLN 139.2 million, i.e. 4.2% compared to the three quarters of 2016, driven by higher volumes.

Net non-interest income

(in PLN million)

	3 QUARTERS OF 2017	3 QUARTERS OF 2016	CHANGE
Fee and commission income	1,960.0	1,992.5	(1.6%)
Fee and commission expense	(224.1)	(214.9)	4.3%
Net fee and commission income	1,735.9	1,777.6	(2.3%)
Trading result	49.7	316.4	(84.3%)
of which gains on disposal of AFS assets	25.8	276.0	(90.7%)
Net other operating income and expense	87.8	176.3	(50.2%)
Net non-interest income	1,873.4	2,270.3	(17.5%)

Net non-interest income in the three quarters of 2017, amounted to PLN 1,873.4 million and was higher by PLN 15.9 million in comparison with the three quarters of 2016 (excluding one-off non-recurring items recognized in the previous year), with net fee and commission income (including fees on margins on foreign exchange transactions with clients) lower by 2.3% compared to the three quarters of 2016 mainly due to lower net fee and commission income on loans and other net fee and commission.

In the first quarter of 2017, the Group introduced changes in presentation in the income statement of the margins on foreign exchange transactions with the Group's clients. Before the change such margins were presented in the item Trading result, after the change are presented in the item Fee and commission income. In order to ensure comparability, data for the three quarters of 2016 in the Report on the activities of Bank Pekao S.A. Group for the three quarters of 2017 were restated in comparison to those previously published. Changes in presentation of financial data are described in detail in the Note 5 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the three quarters of 2017.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

The Group's net fee and commission income in the three quarters of 2017, amounted to PLN 1,735.9 million and was lower by PLN 41.7 million, i.e. 2.3% in comparison with the three quarters of 2016, mainly due lowered credit activity of corporate clients and continued migration of customers to the digital channels.

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

(in PLN million)

	3 QUARTERS OF 2017	3 QUARTERS OF 2016	CHANGE
Net fee and commission income	1,735.9	1,777.6	(2.3%)
on loans	357.4	389.0	(8.1%)
on cards	270.6	279.3	(3.1%)
on margins on foreign exchange transactions with clients	330.5	319.2	3.5%
on mutual funds	199.0	186.1	6.9%
other	578.4	604.0	(4.2%)

Operating costs

The operating costs amounted to PLN 2,408.8 million in the three quarters of 2017. They were lower by PLN 9.3 million, i.e. 0.4% as compared with the three quarters of 2016.

(in PLN million)

	3 QUARTERS OF 2017	3 QUARTERS OF 2016	CHANGE
Personnel expenses	(1,445.5)	(1,414.0)	2.2%
Other administrative expenses	(709.7)	(747.6)	(5.1%)
Depreciation and amortization	(253.6)	(256.5)	(1.1%)
Operating costs	(2,408.8)	(2,418.1)	(0.4%)

In the three quarters of 2017, cost / income ratio amounted to 45.2% in comparison with 43.3% in the three quarters of 2016.

As of September 30, 2017, the Group employed 17,381 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 17,994 employees as at the end of September 2016.

As of September 30, 2017, the Bank employed 15,551 employees as compared to 16,100 employees as at the end of September 2016.

Guarantee funds charges

Guarantee funds charges in the three quarters of 2017, amounted to PLN 246.4 million, an increase of PLN 49.6 million, i.e. 25.2% in comparison with the three quarters of 2016, mainly due to one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 178.4 million in the three quarters of 2017.

Tax on certain financial institutions

On February 1, 2016, tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In the three quarters of 2017, it amounted to PLN 383.4 million and was higher by PLN 61.8 million, mainly due to the shorter life of the tax regulations in the three quarters of 2016.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

6.3 The structure of the net profit

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

(in PLN million)

	3 QUARTERS OF 2017	3 QUARTERS OF 2016	CHANGE
Net profit of Bank Pekao S.A.	1,472.5	1,825.1	(19.3%)
Entities consolidated under full method			
Centralny Dom Maklerski Pekao S.A.	26.5	18.2	45.6%
Pekao Leasing Sp. z o.o.	25.4	27.4	(7.3%)
Pekao Faktoring Sp. z o.o.	8.0	6.6	21.2%
Pekao Investment Banking S.A.	6.6	20.2	(67.3%)
Pekao Financial Services Sp. z o.o.	4.6	5.9	(22.0%)
Pekao Bank Hipoteczny S.A.	3.9	6.2	(37.1%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	2.4	1.8	33.3%
Pekao Pioneer PTE S.A.	1.7	0.9	88.9%
Centrum Kart S.A.	0.6	0.4	50.0%
FPB "Media" Sp. z o.o.	0.3	0.1	> 100%
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji (*)	0.3	0.3	0.0%
Pekao Property S.A.	0.2	(0.2)	x
Pekao Leasing Holding S.A. w likwidacji (**)	-	0.4	x
Entities valued under the equity method			
Pioneer Pekao Investment Management S.A.	29.6	28.1	5.3%
Dom Inwestycyjny Xelion Sp. z o.o.	2.1	1.5	40.0%
Exclusions and consolidation adjustments (***)	(163.7)	(158.3)	3.4%
Net profit of the Group attributable to equity holders of the Bank	1,421.0	1,784.6	(20.4%)

(*) On July 21, 2016 the Extraordinary Shareholders Meeting of Pekao Fundusz Kapitałowy Sp. z o. o. took the resolution on starting liquidation procedure of the Company.

(**) On September 20, 2016 Pekao Leasing Holding S.A. w likwidacji was removed from the National Court Register.

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

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

The results of Bank Pekao S.A.

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

(in PLN million)

	3 QUARTERS OF 2017	3 QUARTERS OF 2016	CHANGE
Net interest income	3,324.1	3,182.3	4.5%
Dividend income	187.9	132.5	41.8%
Total net interest income and dividend income	3,512.0	3,314.8	5.9%
Net non-interest income	1,663.9	2,067.2	(19.5%)
Operating income	5,175.9	5,382.0	(3.8%)
Operating costs	(2,237.1)	(2,253.6)	(0.7%)
Gross operating profit	2,938.8	3,128.4	(6.1%)
Net impairment losses on loans and off-balance sheet commitments	(364.0)	(385.8)	(5.7%)
Net operating profit	2,574.8	2,742.7	(6.1%)
Net result on other provisions	(19.7)	(9.6)	> 100%
Guarantee funds charges	(243.7)	(195.2)	24.8%
Tax on certain financial institutions	(383.5)	(321.6)	19.2%
Net result on investment activities	0.3	51.9	(99.4%)
Profit before tax	1,928.2	2,266.2	(15.0%)
Net profit	1,472.5	1,825.1	(19.3%)

Net profit of Bank Pekao S.A. for the three quarters of 2017 amounted to PLN 1,472.5 million, nominally was lower by PLN 352.6 million, i.e. 19.3% than net profit for the three quarters of 2016. Net profit for the three quarters of 2017 would be higher by 6.8% year on year, excluding one-off non-recurring items recognized in the previous year (i.e. net result on disposal of loans and settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc), and including costs of contribution to the Bank Guarantee Fund attributable only to the three quarters of 2017 and tax on certain financial institutions for the full nine months period of 2016.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

The main Bank's financial information are as follows:

	30.09.2017	30.09.2016	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	130,825.4	122,624.5	6.7%
Securities issued by non-monetary entities ^(**)	619.8	870.1	(28.8%)
Reverse repo transactions	-	-	x
Amounts due to customers	135,474.7	126,814.2	6.8%
Structured Certificates of Deposit	85.4	169.2	(49.5%)
Certificates of Deposit	1,025.0	167.0	> 100%
Repo transactions	970.7	418.9	> 100%
Total assets	168,364.1	160,095.5	5.2%
Investment funds distributed through the Bank's network	16,660.4	15,539.3	7.2%
SELECTED RATIOS			
Impaired receivables to total receivables in % ^(***)	5.9%	6.2%	(0.3) p.p.
TCR (Basel III) in %	17.0%	18.6%	(1.6) p.p.

(*) Including loans and non-quoted securities.

(**) Securities issued by non-monetary entities being loans equivalents.

(***) Excluding reverse repo transactions.

As at the end of September 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 131,445.2 million, an increase of PLN 7,950.6 million, i.e. 6.4% in comparison to the end of September 2016. As at the end of September 2017, the volume of retail loans amounted to PLN 61,883.7 million and the volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 69,561.5 million.

As at the end of September 2017, the amounts due to the customers, Structured Certificates of Deposit and Certificates of Deposit amounted to PLN 136,585.1 million, an increase of PLN 9,434.7 million, i.e. 7.4% in comparison to the end of September 2016.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. distributed through the Bank's network amounted to PLN 16,660.4 million as at the end of September 2017, an increase of PLN 1,121.1 million, i.e. 7.2% in comparison to the end of September 2016.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Results of the Bank's major related entities

Pioneer Pekao Investment Management S.A. – PPIM

In the three quarters of 2017, consolidated net profit of PPIM amounted to PLN 60.4 million compared with PLN 57.4 million in the three quarters of 2016. The Bank's share in the company's profit was **PLN 29.6 million**.

Centralny Dom Maklerski Pekao S.A. – CDM

In the three quarters of 2017, net profit of CDM amounted to **PLN 26.5 million** compared with PLN 18.2 million profit earned in the three quarters of 2016, influenced by favourable situation on capital markets, higher turnover on the WSE and higher revenues on mutual funds.

Pekao Leasing Sp. z o.o. – Pekao Leasing

In the three quarters of 2017, Pekao Leasing reported a net profit of **PLN 25.4 million** compared with PLN 27.4 million in the three quarters of 2016. In the three quarters of 2017, Pekao Leasing signed over 8 thousand new agreements, i.e. 5% increase year on year, while the value of leased assets was higher by 13% year on year and amounted to PLN 1,729.4 million.

Pekao Faktoring Sp. z o.o. – Pekao Faktoring

In the three quarters of 2017, Pekao Faktoring reported a net profit of **PLN 8.0 million** compared with PLN 6.6 million in the three quarters of 2016 influenced by favourable situation on factoring market and increased factoring commitment (increase by 39.5% year on year).

Pekao Investment Banking S.A. – PIB

In the three quarters of 2017, PIB reported net profit of **PLN 6.6 million** compared with PLN 20.2 million in the three quarters of 2016 resulting from the realization of large transactions in 2016.

Pekao Financial Services Sp. z o.o. – PFS

In the three quarters of 2017, PFS reported a net profit in the amount of **PLN 4.6 million** compared with PLN 5.9 million in the three quarters of 2016. 2016 profit was also influenced by additional income achieved from one-off services for customers.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In the three quarters of 2017, Pekao Bank Hipoteczny reported a net profit of **PLN 3.9 million** compared with PLN 6.2 million in the three quarters of 2016.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

6.4 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	30.09.2017	30.09.2016	30.09.2017	30.09.2016
Total provisions	596.5	499.3	599.6	499.7
of which:				
provisions for off-balance sheet commitments	222.8	182.8	229.9	189.3
provisions for liabilities to employees	334.3	298.5	330.9	295.7
other provisions	39.4	18.0	38.8	14.7
Deferred tax liabilities	4.1	5.2	-	-
Deferred tax assets	924.9	985.5	693.1	764.3

6.5 Net impairment losses

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	3 QUARTERS OF 2017	3 QUARTERS OF 2016	3 QUARTERS OF 2017	3 QUARTERS OF 2016
Impairment losses on loans	(365.8)	(332.5)	(359.6)	(321.1)
Impairment losses on off-balance sheet commitments	(2.7)	(62.0)	(4.3)	(64.7)
Net impairment losses on loans and off-balance sheet commitments	(368.5)	(394.5)	(364.0)	(385.8)

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 368.5 million in the three quarters of 2017, a decrease of PLN 26.0 million, i.e. 6.6% as compared with the three quarters of 2016.

The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 364.0 million in the three quarters of 2017, a decrease of PLN 21.8 million i.e. 5.7% as compared with the three quarters of 2016.

6.6 Off-balance sheet items

(in PLN million)

	30.09.2017	30.09.2016	CHANGE
Contingent liabilities granted and received	58,496.1	57,470.0	1.8%
Liabilities granted:	45,024.8	44,942.3	0.2%
financial	33,610.8	32,658.8	2.9%
guarantees	11,414.0	12,283.5	(7.1%)
Liabilities received:	13,471.3	12,527.7	7.5%
financial	999.5	1,632.2	(38.8%)
guarantees	12,471.8	10,895.5	14.5%
Derivative financial instruments	196,230.2	194,776.6	0.7%
interest rate transactions	92,093.5	96,163.0	(4.2%)
transactions in foreign currency and in gold	103,240.1	97,962.1	5.4%
transactions based on commodities and equity securities	896.6	651.5	37.6%
Total off-balance sheet items	254,726.3	252,246.6	1.0%

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

6.7 Capital adequacy

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

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

The minimum Total Capital Ratio required by law is the sum of minimal capital requirement defined by CRR Regulation (equal to 8% TCR and 6% Tier I) and combined buffer requirement as defined in Act of 5 August 2015 on macro-prudential supervision over financial system and crisis management in financial system (a conservation buffer of 1.25% and another systemically important institution buffer of 0.75%)

According to the recommendation of the Polish Financial Supervision Authority, after taking into account the combined buffer requirement, the Group's minimum total capital ratio should remain at the level of not less than 14.00% and the Tier I capital ratio at the level of not less than 11.00%. Both levels are increased by additional capital requirement imposed by KNF¹.

At the end of September 2017 for Pekao Group, total capital ratio amounted to 16.5% and was higher than the minimum value required by the law and above the level recommended by KNF.

The table below presents the basic data concerning the Pekao Group capital adequacy as at September 30, 2017, December 31, 2016 and September 30, 2016 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	30.09.2017	31.12.2016	30.09.2016
Credit risk	9,093,274	8,323,345	8,203,196
Exceeding the exposure concentration limit and large exposures limit	-	-	-
Market risk	45,670	44,022	41,595
Counterparty credit risk including CVA	144,824	187,820	212,712
Operational risk	489,678	493,557	504,367
Total capital requirement	9,773,446	9,048,744	8,961,870
OWN FUNDS			
Common Equity Tier I Capital	20,146,611	19,954,579	20,238,201
Own funds for total capital ratio	20,146,611	19,954,579	20,238,201
Common Equity Tier I Capital ratio (%)	16.5%	17.6%	18.1%
Total capital ratio TCR (%)	16.5%	17.6%	18.1%

Total Capital Ratio as at the end of September 2017 compared to the end of September 2016 decreased by 1.6 p.p.

Total capital requirement increased by 9.1%, mainly due to KNF recommendation concerning discontinuation of application of credit conversion factor 0%. Possible application of CCF 0% will be subject to arrangements with KNF. Own funds are slightly lower (by 0.5%) than those reported as at the end of September 2016.

¹ In case of Bank Pekao S.A. Group, additional capital requirement imposed by KNF on total capital ratio is equal to 0.01 p.p. and for Tier I capital 0.0075 p.p.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

On September 22, 2017, in the current report no. 51/2017, the Management Board of Bank Pekao S.A. informed that on September 22, 2017, it has given permission to start the book building process in connection with the preparation of the non-public issuance of the Bank's subordinated bonds. The main parameters of the prepared issuance are as follows:

1. bonds will be subordinated within the meaning of art. 22 of the Bonds Act, and after obtaining the approval of the Polish Financial Supervision Authority in accordance with Art. 127 sec. 2 of the Banking Law, bonds will be classified as Tier II instruments;
2. the maximum total nominal value of the issuing Bonds is up to PLN 1,000,000,000,
3. interest rate will be variable, based on the WIBOR6M reference rate, increased by the margin established in the book building process,
4. bonds will be unsecured,
5. bonds will have a 10-year maturity,
6. considered issue date of the bonds is October 2017, provided that the dates and the final value of the issue will depend on the situation on the bond market.

On October 19, 2017, referring to information on the initiation of a book-building process in connection with the preparation of a non-public issue of subordinated bonds of Bank Pekao S.A., as reported on September 22, 2017 in the current report no. 51/2017, the Management Board of Bank Pekao S.A. in the current report no. 54/2017 informed that after the end of the book-building process on October 19, 2017, it passed a resolution on issuance of subordinated bonds in accordance with Art. 22 of the Act of January 15, 2015 on bonds and the allocation of funds from the issue - after obtaining the approval of the Polish Financial Supervision Authority - to increase the supplementary funds of the Bank pursuant to Art. 127 sec. 2 pt. 2 of the Banking Law and Art. 63 of Regulation of the European Parliament and of the Council (EC) No 575/2013 of June 26, 2013, on prudential requirements for credit institutions and investment firms and amending the Regulation (UE) nr 648/2012.

At the same time, the Management Board of the Bank informed that due to the significant interest of investors expressed during the book-building process, the Bank has decided to increase the original amount of the issue from PLN 1.0 billion to PLN 1.25 billion.

The main terms and conditions of the issue of subordinated bonds covered by the Bank's Management Board's decision are as follows:

1. type of bonds: bearer bonds, not having a document form,
2. total nominal value of the issue: PLN 1,250,000,000,
3. unit nominal value of the issue: PLN 1,000,
4. bond interest rate: variable, based on the WIBOR6M reference rate, increased by a fixed margin of 1.52%,
5. format of issue: 10NC5, ten-year maturity bonds, with a reserved call option giving the Bank the right to redeem all bonds within 5 years from the issue date, subject to the approval of KNF,
6. issue price equal to the nominal value,
7. issue date: October 30, 2017,
8. maturity date: October 29, 2027, subject to the possibility of their early redemption on the terms described in point 5,
9. records and turnover: the records of subordinated bonds will be kept by KDPW, subordinated bonds will be placed on the Catalyst ASO market.

In case the approval of KNF to include subordinated bonds to the own funds is obtained, TCR will increase by ca. 1 p.p.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

6.8 Reconciliation of income statement – presentation form and long form

Consolidated income statement for the three quarters of 2017

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	3 QUARTERS OF 2017	COMMENTS
Net interest income		<u>3,403,330</u>	
Dividend income and income from equity investments		<u>51,300</u>	
	Dividend income	19,641	
	Gains (losses) on subsidiaries and associates	31,659	
Total net interest income, dividend income and other income from equity investments		3,454,630	
Net fee and commission income	Net fee and commission income	<u>1,735,852</u>	
Trading result		<u>49,703</u>	
	Result on financial assets and liabilities held for trading	20,119	
	Result on fair value hedge accounting	3,966	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	25,770	
	(Gains) losses on disposal of financial liabilities	(152)	
Net other operating income and expenses		<u>87,840</u>	
	Net other operating income and expenses	87,522	
	less - Refunding of administrative expenses	(1,888) ^{1/}	
	Gains (losses) on disposal of loans and other financial receivables	2,206	
Net non-interest income		1,873,395	
Operating income		5,328,025	
Operating costs		<u>(2,408,861)</u>	
	Personnel expenses	(1,445,502)	
	Other administrative expenses	(1,341,466)	
	less –Guarantee funds charges	246,376	
	less – Tax on certain financial institutions	383,480	
	Refunding of administrative expenses	1,888 ^{1/}	
	Depreciation and amortization	(253,637)	
Gross operating profit		2,919,164	
Net impairment losses on loans and off-balance sheet commitments		<u>(368,454)</u>	
	Net impairment losses on loans	(365,824)	
	Net impairment provision for off-balance sheet commitments	(2,630)	
Net operating profit		2,550,710	
Net result on other provisions	Net result on other provisions	<u>(21,970)</u>	
Guarantee funds charges	Guarantee funds charges	(246,376)	
Tax on certain financial institutions	Tax on certain financial institutions	(383,480)	
Net result on investment activities		<u>342</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	441	
	Net impairment losses on available for sale financial assets and held to maturity investments	(99)	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
Profit before income tax		1,899,226	
Income tax expense	Income tax expense	<u>(477,649)</u>	
Net profit for the period	Net profit for the period	1,421,577	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	1,420,998	
Attributable to non-controlling interest	Attributable to non-controlling interest	579	

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

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Consolidated income statement for the three quarters of 2016

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	3 QUARTERS OF 2016	COMMENTS
Net interest income		<u>3,269,194</u>	
Dividend income and income from equity investments		<u>46,235</u>	
	Dividend income	16,562	
	Gains (losses) on subsidiaries and associates	29,673	
Total net interest income, dividend income and other income from equity investments		3,315,429	
Net fee and commission income	Net fee and commission income	<u>1,777,552</u>	
Trading result		<u>316,448</u>	
	Result on financial assets and liabilities held for trading	44,426	
	Result on fair value hedge accounting	(3,952)	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	276,033	
	(Gains) losses on disposal of financial liabilities	(59)	
Net other operating income and expenses		<u>176,269</u>	
	Net other operating income and expenses	22,522	
	less - Refunding of administrative expenses	(1,973) /1	
	Gains (losses) on disposal of loans and other financial receivables	155,720	
Net non-interest income		2,270,269	
Operating income		5,585,698	
Operating costs		<u>(2,418,099)</u>	
	Personnel expenses	(1,414,000)	
	Other administrative expenses	(1,267,984)	
	less –Guarantee funds charges	196,848	
	less – Tax on certain financial institution	321,571	
	Refunding of administrative expenses	1,973 /1	
	Depreciation and amortization	(256,507)	
Gross operating profit		3,167,599	
Net impairment losses on loans and off-balance sheet commitments		<u>(394,450)</u>	
	Net impairment losses on loans	(332,498)	
	Net impairment provision for off-balance sheet commitments	(61,952)	
Net operating profit		2,773,149	
Net result on other provisions	Net result on other provisions	<u>(9,481)</u>	
Guarantee funds charges	Guarantee funds charges	(196,848)	
Tax on certain financial institution	Tax on certain financial institution	(321,571)	
Net result on investment activities		<u>5,241</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	5,261	
	Net impairment losses on available for sale financial assets and held to maturity investments	-	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	(20)	
Profit before income tax		2,250,490	
Income tax expense	Income tax expense	<u>(465,610)</u>	
Net profit for the period	Net profit for the period	1,784,880	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	1,784,563	
Attributable to non-controlling interest	Attributable to non-controlling interest	317	

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

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

7 Quarterly Income Statement

7.1 Consolidated income statement – long form

Consolidated income statement for 2017 and 2016 - Provided for comparability purposes.

(in PLN thousand)

	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Interest income	1,414,047	1,392,566	1,374,967	1,374,829	1,382,257	1,338,188	1,353,216
Interest expense	(261,926)	(256,384)	(259,940)	(262,018)	(264,806)	(256,183)	(283,478)
Net interest income	1,152,121	1,136,182	1,115,027	1,112,811	1,117,451	1,082,005	1,069,738
Fee and commission income	658,913	659,104	641,974	690,629	666,331	689,289	636,862
Fee and commission expense	(78,829)	(76,818)	(68,492)	(78,191)	(69,592)	(70,648)	(74,690)
Net fee and commission income	580,084	582,286	573,482	612,438	596,739	618,641	562,172
Dividend income	223	19,269	149	236	151	16,410	1
Result on financial assets and liabilities held for trading	11,246	858	8,015	9,957	10,510	11,906	22,010
Result on fair value hedge accounting	919	1,334	1,713	5,265	1,449	(2,533)	(2,868)
Gains (losses) on disposal of:	21,882	5,118	824	4,209	7,811	273,500	150,383
loans and other financial receivables	2,113	27	66	3,773	-	5,796	149,924
available for sale financial assets and held to maturity investments	19,841	5,120	809	460	7,862	267,707	464
financial liabilities	(72)	(29)	(51)	(24)	(51)	(3)	(5)
Operating income	1,766,475	1,745,047	1,699,210	1,744,916	1,734,111	1,999,929	1,801,436
Net impairment losses on financial assets and off-balance sheet commitments:	(138,579)	(114,848)	(115,126)	(106,179)	(133,882)	(131,179)	(129,389)
loans and other financial receivables	(129,100)	(112,254)	(124,470)	(68,911)	(131,532)	(72,740)	(128,226)
available for sale financial assets and held to maturity investments	(99)	-	-	-	-	-	-
off-balance sheet commitments	(9,380)	(2,594)	9,344	(37,268)	(2,350)	(58,439)	(1,163)
Net result on financial activity	1,627,896	1,630,199	1,584,084	1,638,737	1,600,229	1,868,750	1,672,047
Administrative expenses	(884,976)	(865,632)	(1,036,360)	(920,340)	(895,948)	(911,446)	(874,590)
personnel expenses	(493,184)	(482,349)	(469,969)	(482,836)	(469,837)	(472,983)	(471,180)
other administrative expenses ⁽¹⁾	(391,792)	(383,283)	(566,391)	(437,504)	(426,111)	(438,463)	(403,410)
Depreciation and amortization	(84,070)	(85,225)	(84,342)	(84,359)	(85,037)	(85,677)	(85,793)
Net result on other provisions	(7,968)	(8,467)	(5,535)	(4,994)	(6,628)	(2,024)	(829)
Net other operating income and expenses	39,630	12,153	35,739	8,006	12,010	3,971	6,541
Operating costs	(937,384)	(947,171)	(1,090,498)	(1,001,687)	(975,603)	(995,176)	(954,671)
Gains (losses) on subsidiaries and associates	11,105	10,444	10,110	8,908	9,862	9,788	10,003
Gains (losses) on disposal of property, plant and equipment, and intangible assets	375	(59)	125	98	3,617	363	1,281
Profit before income tax	701,992	693,413	503,821	646,056	638,105	883,725	728,660
Income tax expense	(165,406)	(158,214)	(154,029)	(151,172)	(117,330)	(193,098)	(155,182)
Net profit for the period	536,586	535,199	349,792	494,884	520,775	690,627	573,478
Attributable to equity holders of the Bank	536,220	535,069	349,709	494,712	520,654	690,513	573,396
Attributable to non-controlling interest	366	130	83	172	121	114	82

⁽¹⁾ Other administrative expenses includes tax on certain financial institutions and guarantee funds charges. In the fourth quarter of 2016, the item includes also one-off charge to the Bank Guarantee Fund in relation to bankruptcy of Bank Spółdzielczy in Nadarzyn.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

7.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2017 and 2016

(in PLN thousand)

	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net profit	536,586	535,199	349,792	494,884	520,775	690,627	573,478
Attributable to equity holders of the Bank	536,220	535,069	349,709	494,712	520,654	690,513	573,396
Attributable to non-controlling interest	366	130	83	172	121	114	82
Other comprehensive income							
<i>Items that are or may be reclassified subsequently to profit or loss:</i>							
Change in fair value of available-for-sale financial assets	2,986	94,566	172,399	(342,128)	17,670	(313,460)	29,099
Change in fair value of cash flow hedges	25,287	(27,607)	(4,491)	(44,063)	4,712	(6,281)	40,075
Income tax expense on other comprehensive income	(5,373)	(12,721)	(31,903)	73,376	(4,253)	60,751	(13,143)
<i>Items that will never be reclassified to profit or loss:</i>							
Re-measurements of the defined benefit liabilities	-	-	-	(11,560)	-	-	-
Share in re-measurements of the defined benefit liabilities of associates	-	-	-	18	-	-	-
Tax on items that will never be reclassified to profit or loss	-	-	-	2,196	-	-	-
Other comprehensive income (net)	22,900	54,238	136,005	(322,161)	18,129	(258,990)	56,031
Total comprehensive income	559,486	589,437	485,797	172,723	538,904	431,637	629,509
Attributable to equity holders of the Bank	559,120	589,307	485,714	172,551	538,783	431,523	629,427
Attributable to non-controlling interest	366	130	83	172	121	114	82

Note: The fourth quarter of 2016 net profit includes one-off charge to the Bank Guarantee Fund in relation to bankruptcy of Bank Spółdzielczy in Nadarzyn.

The first quarter of 2017 net profit includes one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

7.3 Consolidated income statement – presentation form

Consolidated income statement for 2017 and 2016

	(in PLN thousand)						
	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	1,152,121	1,136,182	1,115,027	1,112,811	1,117,451	1,082,005	1,069,738
Dividend income and income from equity investments	11,328	29,713	10,259	9,143	10,033	26,198	10,004
Total net interest income, dividend income and other income from equity investments	1,163,449	1,165,895	1,125,286	1,121,954	1,127,484	1,108,203	1,079,742
Net fee and commission income	580,084	582,286	573,482	612,438	596,739	618,641	562,172
Trading result	31,934	7,283	10,486	15,658	19,770	277,077	19,601
Net other operating income and expenses	41,106	11,609	35,125	11,470	11,351	9,095	155,823
Net non-interest income	653,124	601,178	619,093	639,566	627,860	904,813	737,596
Operating income	1,816,573	1,767,073	1,744,379	1,761,520	1,755,344	2,013,016	1,817,338
Operating costs	(814,899)	(800,246)	(793,716)	(793,808)	(793,841)	(812,143)	(812,115)
Gross operating profit	1,001,674	966,827	950,663	967,712	961,503	1,200,873	1,005,223
Net impairment losses on loans and off-balance sheet commitments	(138,480)	(114,848)	(115,126)	(106,179)	(133,882)	(131,179)	(129,389)
Net operating profit	863,194	851,979	835,537	861,533	827,621	1,069,694	875,834
Net result on other provisions	(7,968)	(8,467)	(5,535)	(4,994)	(6,628)	(2,024)	(829)
Guarantee funds charges	(22,715)	(22,509)	(201,152)	(66,016)	(65,758)	(64,104)	(66,986)
One-off charge in favour of the Bank Guarantee Fund related to bankruptcy of Bank Spółdzielczy in Nadarzyn	-	-	-	(16,604)	-	-	-
Tax on certain financial institutions	(130,795)	(127,531)	(125,154)	(127,962)	(120,727)	(120,204)	(80,640)
Net result on investment activities	276	(59)	125	99	3,597	363	1,281
Profit before income tax	701,992	693,413	503,821	646,056	638,105	883,725	728,660
Income tax expense	(165,406)	(158,214)	(154,029)	(151,172)	(117,330)	(193,098)	(155,182)
Net profit	536,586	535,199	349,792	494,884	520,775	690,627	573,478
Attributable to equity holders of the Bank	536,220	535,069	349,709	494,712	520,654	690,513	573,396
Attributable to non-controlling interest	366	130	83	172	121	114	82

Note: The first quarter of 2017 net profit includes one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

8 Other Information

8.1 Management Board position regarding the possibility of achieving previously published forecasts

The Bank has not published the forecast of the financial results for 2017.

8.2 The issuer's shares held by the Management and Supervisory Board Members

According to information available to the Bank as of September 30, 2017 and as the date of submitting of this report, the Members of the Bank's management and supervisory bodies did not held shares of Bank Pekao S.A.

8.3 Related party transactions

In the third quarter of 2017, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In the third quarter of 2017, the Bank and its subsidiaries did not provide any sureties in respect of loans or advances or did not provide any guarantees for repayment of loans or advances to an entity or a subsidiary of such entity, as a result of which the total value of sureties and guarantees at the balance sheet date would have equaled or exceeded 10% of the Bank's equity.

Detailed information on related party transactions is included in Note 40 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the three quarters of 2017.

8.4 Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in Note 5 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the three quarters of 2017.

8.5 Seasonality or cyclical nature of the Bank's activity

The demand for the financial services offered by the Bank is stable with no material impact of seasonal changes. Due to the nature of the Bank's activity, it is not subject to seasonal or cyclical changes.

8.6 Issuance, redemption and repayment of debt securities

Structured Certificates of Deposit

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 85.4 million (principal value) as at the end of September 2017. There is 1 issue of Structured Certificates of Deposit open in PLN with the maturity date on February 5, 2018.

Certificates of Deposit

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 1,025.0 million (principal value) as at the end of September 2017. There are 4 issues of Certificates of Deposit. Those certificates, that mature up to 6 months and up to 1 year accounts for 37.6% and 62.4% of its total value respectively.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of liabilities due to covered bonds amounted to PLN 1,321.8 million as at the end of September, 2017. The liabilities under covered bonds with maturity date up to 1 year account for 15.1%, with maturity date from 1 up to 3 years account for 16.9%, with maturity date from 3 up to 5 years account for 60.5% and with maturity date from 5 up to 10 years account for 7.5% of the total nominal value.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

8.7 Pending litigations

In the third quarter of 2017, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 584 with the total value amounting to PLN 171,689.6 million. The number of legal proceedings in respect of receivables was 13,389 with the total value of PLN 1,198.8 million.

In the third quarter of 2017, there were no legal proceedings relating to the liabilities and/or receivables of the Group in which asserted claims accounted for at least 10% of the Bank's own funds.

In the opinion of the Bank none of the individual pending proceedings before any courts, arbitration bodies or public administration authorities during the third quarter of 2017, nor the proceedings in aggregate pose any threat to the Bank's financial liquidity.

8.8 Subsequent events

Acquisition of shares

On October 17, 2017, after receiving regulatory consent, the Bank acquired 7,266 ordinary stocks of PTE with the nominal value PLN 1,000 per stock representing 35% of voting rights at the General Stockholder Meeting of PTE and 35% share in equity. Following the transaction, the Bank is the only stockholder of PTE with 100% in equity and voting rights at the General Stockholders Meeting of PTE.

Approval of the Polish Financial Supervision Authority to entrust Mr. Marek Lusztyn function of member of the Management Board of Bank Pekao S.A. supervising the management of significant risk in the Bank's activity

On October 17, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 53/2017 that at the meeting held on October 17, 2017, the Polish Financial Supervision Authority unanimously gave its consent to entrust Mr. Marek Lusztyn function of member of the Management Board of Bank Pekao S.A. supervising the management of significant risk in the Bank's activity.

Issuance of subordinated bonds of Bank Pekao S.A.

On October 19, 2017, referring to information on the initiation of a book-building process in connection with the preparation of a non-public issue of subordinated bonds of Bank Pekao S.A., as reported on September 22, 2017 in the current report no. 51/2017, the Management Board of Bank Pekao S.A. in the current report no. 54/2017 informed that after the end of the book-building process on October 19, 2017, it passed a resolution on issuance of subordinated bonds in accordance with Art. 22 of the Act of January 15, 2015 on bonds and the allocation of funds from the issue - after obtaining the approval of the Polish Financial Supervision Authority - to increase the supplementary funds of the Bank pursuant to Art. 127 sec. 2 pt. 2 of the Banking Law and Art. 63 of Regulation of the European Parliament and of the Council (EC) No 575/2013 of June 26, 2013, on prudential requirements for credit institutions and investment firms and amending the Regulation (UE) nr 648/2012.

At the same time, the Management Board of the Bank informed that due to the significant interest of investors expressed during the book-building process, the Bank decided to increase the original amount of the issue from PLN 1.0 billion to 1.25 billion.

The main terms and conditions of the issue of subordinated bonds covered by the Bank's Management Board's decision are as follows:

1. type of bonds: bearer bonds, not having a document form,
2. total nominal value of the issue: PLN 1,250,000,000,
3. unit nominal value of the issue: PLN 1,000,
4. bond interest rate: variable, based on the WIBOR6M reference rate, increased by a fixed margin of 1.52%,
5. format of issue: 10NC5, ten-year maturity bonds, with a reserved call option giving the Bank the right to redeem all bonds within 5 years from the issue date, subject to the approval of KNF,
6. issue price equal to the nominal value,
7. issue date: October 30, 2017,

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

8. maturity date: October 29, 2027, subject to the possibility of their early redemption on the terms described in point 5,
9. records and turnover: the records of subordinated bonds will be kept by KDPW, subordinated bonds will be placed on the Catalyst ASO market.

Fitch Ratings affirmed the Long-Term IDRs at ("A-") and the Viability Rating (VR) at "a-" of the Bank Pekao S.A. Outlook Revised to Negative from Stable

On October 20, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 55/2017 that on October 19, 2017, Fitch Ratings (Fitch) informed the Bank of confirming the Long-Term rating of IDR at "A-" and Viability Rating (VR) at "a-". The affirmation of the IDR and VR ratings of Bank Pekao S.A. reflect financial stability, well-established domestic market franchise, stable business model, conservative risk appetite, strong capitalization, sound asset quality, solid profitability and robust funding and liquidity.

At the same time, Fitch has changed the Outlook from Stable to Negative and Support Rating to "5".

The Outlook Revision for Bank Pekao S.A. reflects Fitch's expectation that the Bank's capital ratios are likely to gradually moderate. Capitalization is, in Fitch's view, Bank Pekao S.A. key rating strength relative to some of its direct peers. The change of Support rating reflects the change in ownership of the Bank. After this decision, the Bank's ratings are as follows: Long-term IDR: "A-", Outlook: "Negative", Short-term IDR: "F2", Viability Rating: "a-", Support Rating: "5".

Disclosure of the delayed inside information regarding actualization of the Bank's strategy referring to potential investment opportunities

On October 23, 2017, due to the fact that the reason for the delay of inside information is no longer valid, the Management Board of Bank Pekao S.A. acting on the basis of Article 17 sections 1, 4 and 7 of European Parliament and Council Regulation no. 596/2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directive 2003/124/EC, 2003/125/EC and 2004/72/EC (Journal of Laws No 2014, No. 173, page 1, as amended, hereinafter referred to as "MAR"), transferred the following confidential information in the current report no. 56/2017 regarding the update of the Bank's strategy for reviewing potential investment opportunities. Publication of Confidential Information was delayed on October 11, 2017, pursuant to Article 17 section 4 of MAR.

Text of delayed Confidential Information of October 11, 2017:

The Management Board of Bank Pekao S.A. hereby informs that as a part of ongoing work on actualization of the Bank's strategy for the coming years, the Bank reviews potential investment opportunities. Current analyzes are preliminary. At this stage, the Bank is considering a series of scenarios, including initiating work to study feasibility and cost-effectiveness, and assessing the potential conditions for the acquisition and/or merger (merger) with Polish financial institution - Alior Bank S.A. In the Management Board's opinion, undertaken activities precedes eventual negotiations in relation to which the delay of disclosure is the justified interest of the Bank. At this stage, the decisions are purely directional and are intended only for analytical work, but in the case of positive results it may affect the final decision, and disclosure at the decision stage could jeopardize the public's judgment and negatively impact the implementation of possible takeover plan and/or merger.

Signing of letter of intent with Alior Bank S.A.

On October 23, 2017, in the current report no. 57/2017 with reference to the current report no. 56/2017 of October 23, 2017, the Management Board of Bank Pekao S.A. informed that on October 23, 2017, Bank Pekao S.A. and Alior Bank S.A. (the Parties) signed the letter of intent regarding preliminary discussions and analysis of the feasibility of their potential cooperation and exchange of information – always within the scope of necessary authorizations (the LoI). The LoI is to enable the feasibility analysis and assessment of various forms of potential cooperation or combination of the two entities. Currently, the Parties have not made any binding decisions regarding their potential cooperation. In particular, until possible strategic and financial benefits can be assessed, no such decisions will be taken and implemented.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017

Approval of the Polish Financial Supervision Authority to appoint Mr. Michał Krupiński as President of the Management Board of Bank Pekao S.A.

On November 7, 2017, the Management Board of Bank Pekao S.A. in the current report no. 58/2017 in fulfilment of provisions of § 5 section 1 point 22 of the Regulation of the Minister of Finance of February 19, 2009 on current and interim reports published by issuers of securities and on the conditions under which such information is recognized as equivalent to information required under regulations of a non-member state, and in reference to the current report no. 42/2017 of June 14, 2017 informed that on November 7, 2017 the Polish Financial Supervision Authority unanimously expressed consent to the appointment of Mr. Michał Krupiński as the President of the Management Board of Bank Pekao S.A.

Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the three quarters of 2017



Warsaw, November 2017

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

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Consolidated income statement

(in PLN thousand)

	NOTE	III QUARTER 2017 PERIOD FROM 01.07.2017 TO 30.09.2017	3 QUARTERS 2017 PERIOD FROM 01.01.2017 TO 30.09.2017	III QUARTER 2016 PERIOD FROM 01.07.2016 TO 30.09.2016 RESTATED	3 QUARTERS 2016 PERIOD FROM 01.01.2016 TO 30.09.2016 RESTATED
Interest income	9	1 414 047	4 181 580	1 382 257	4 073 661
Interest expense	9	(261 926)	(778 250)	(264 806)	(804 467)
Net interest income		1 152 121	3 403 330	1 117 451	3 269 194
Fee and commission income	10	658 913	1 959 991	666 331	1 992 482
Fee and commission expense	10	(78 829)	(224 139)	(69 592)	(214 930)
Net fee and commission income		580 084	1 735 852	596 739	1 777 552
Dividend income	11	223	19 641	151	16 562
Result on financial assets and liabilities held for trading	12	11 246	20 119	10 510	44 426
Result on fair value hedge accounting	29	919	3 966	1 449	(3 952)
Gains (losses) on disposal of:	13	21 882	27 824	7 811	431 694
loans and other financial receivables		2 113	2 206	-	155 720
available for sale financial assets and held to maturity investments		19 841	25 770	7 862	276 033
financial liabilities		(72)	(152)	(51)	(59)
Operating income		1 766 475	5 210 732	1 734 111	5 535 476
Net impairment losses on financial assets and off-balance sheet commitments:	17	(138 579)	(368 553)	(133 882)	(394 450)
loans and other financial receivables		(129 100)	(365 824)	(131 532)	(332 498)
available for sale financial assets and held to maturity investments		(99)	(99)	-	-
off-balance sheet commitments		(9 380)	(2 630)	(2 350)	(61 952)
Net result on financial activity		1 627 896	4 842 179	1 600 229	5 141 026
Administrative expenses	14	(884 976)	(2 786 968)	(895 948)	(2 681 984)
personnel expenses		(493 184)	(1 445 502)	(469 837)	(1 414 000)
other administrative expenses		(391 792)	(1 341 466)	(426 111)	(1 267 984)
Depreciation and amortization	15	(84 070)	(253 637)	(85 037)	(256 507)
Net result on other provisions		(7 968)	(21 970)	(6 628)	(9 481)
Net other operating income and expenses	16	39 630	87 522	12 010	22 522
Operating costs		(937 384)	(2 975 053)	(975 603)	(2 925 450)
Gains (losses) on subsidiaries and associates	18	11 105	31 659	9 862	29 653
Gains (losses) on disposal of property, plant and equipment and intangible assets	19	375	441	3 617	5 261
Profit before income tax		701 992	1 899 226	638 105	2 250 490
Income tax expense	20	(165 406)	(477 649)	(117 330)	(465 610)
Net profit		536 586	1 421 577	520 775	1 784 880
1. Attributable to equity holders of the Bank		536 220	1 420 998	520 654	1 784 563
2. Attributable to non-controlling interests		366	579	121	317
Earnings per share (in PLN per share)	21				
basic for the period		2.04	5.41	1.98	6.80
diluted for the period		2.04	5.41	1.98	6.80

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	III QUARTER 2017 PERIOD FROM 01.07.2017 TO 30.09.2017	3 QUARTERS 2017 PERIOD FROM 01.01.2017 TO 30.09.2017	III QUARTER 2016 PERIOD FROM 01.07.2016 TO 30.09.2016	3 QUARTERS 2016 PERIOD FROM 01.01.2016 TO 30.09.2016
Net profit		536 586	1 421 577	520 775	1 784 880
1. Attributable to equity holders of the Bank		536 220	1 420 998	520 654	1 784 563
2. Attributable to non-controlling interests		366	579	121	317
Other comprehensive income					
Item that are or may be reclassified subsequently to profit or loss:					
Change in fair value of available-for-sale financial assets		2 986	269 951	17 670	(266 691)
Change in fair value of cash flow hedges	29	25 287	(6 811)	4 712	38 506
Tax on items that are or may be reclassified subsequently to profit or loss	20	(5 373)	(49 997)	(4 253)	43 355
Items that will never be reclassified to profit or loss:					
Remeasurements of the defined benefit liabilities		-	-	-	-
Share in remeasurements of the defined benefit liabilities of associates		-	-	-	-
Tax on items that will never be reclassified to profit or loss	20	-	-	-	-
Other comprehensive income (net of tax)		22 900	213 143	18 129	(184 830)
Total comprehensive income		559 486	1 634 720	538 904	1 600 050
1. Attributable to equity holders of the Bank		559 120	1 634 141	538 783	1 599 733
2. Attributable to non-controlling interests		366	579	121	317

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	30.09.2017	31.12.2016	30.09.2016
ASSETS				
Cash and due from Central Bank	23	6 106 127	5 872 911	3 996 010
Bill of exchange eligible for rediscounting at Central Bank		-	-	-
Loans and advances to banks	24	2 926 419	3 257 829	3 289 041
Financial assets held for trading	25	1 099 916	732 469	978 207
Derivative financial instruments (held for trading)	26	1 438 044	1 913 429	1 982 411
Loans and advances to customers	27	125 176 264	118 689 267	117 489 075
Receivables from finance leases	28	4 253 407	3 974 643	3 818 961
Hedging instruments	29	234 540	289 752	335 138
Investments (placement) securities	30	25 958 986	35 120 619	27 340 168
1. Available for sale		22 488 146	32 101 634	24 384 107
2. Held to maturity		3 470 840	3 018 985	2 956 061
Assets held for sale	31	48 315	48 277	48 168
Investments in associates		167 881	136 221	127 295
Intangible assets	32	647 113	596 181	585 040
Property, plant and equipment	33	1 392 691	1 422 930	1 397 938
Investment properties		22 408	24 874	25 177
Income tax assets		925 480	1 104 343	989 729
1. Current tax assets		603	100 992	4 238
2. Deferred tax assets		924 877	1 003 351	985 491
Other assets		1 065 266	1 031 198	850 343
TOTAL ASSETS		171 462 857	174 214 943	163 252 701
EQUITY AND LIABILITIES				
Liabilities				
Amounts due to Central Bank	23	6 055	6 091	6 065
Amounts due to other banks	35	4 371 334	4 823 440	5 500 160
Financial liabilities held for trading	25	629 558	673 165	498 530
Derivative financial instruments (held for trading)	26	1 376 300	1 952 674	2 066 992
Amounts due to customers	36	136 193 277	137 815 926	126 965 080
Hedging instruments	29	1 130 244	1 638 718	1 663 189
Debt securities issued	37	2 435 932	1 522 963	1 626 090
Income tax liabilities		117 094	11 579	9 462
1. Current tax liabilities		113 001	6 694	4 269
2. Deferred tax liabilities		4 093	4 885	5 193
Provisions	38	596 475	560 392	499 275
Other liabilities		2 338 165	2 298 052	1 678 638
TOTAL LIABILITIES		149 194 434	151 303 000	140 513 481
Equity				
Share capital		262 470	262 470	262 470
Other capital and reserves		20 600 414	20 375 527	20 697 688
Retained earnings and net profit for the period		1 390 036	2 259 022	1 764 310
Total equity attributable to equity holders of the Bank		22 252 920	22 897 019	22 724 468
Non-controlling interests		15 503	14 924	14 752
TOTAL EQUITY		22 268 423	22 911 943	22 739 220
TOTAL LIABILITIES AND EQUITY		171 462 857	174 214 943	163 252 701

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2017 to 30 September 2017

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										TOTAL EQUITY
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 1.01.2017	262 470	20 375 527	9 137 221	1 982 324	9 092 735	(223 394)	386 641	2 259 022	22 897 019	14 924	22 911 943
Management options	-	-	-	-	-	-	-	-	-	-	-
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management options	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	213 143	-	-	-	213 143	-	1 420 998	1 634 141	579	1 634 720
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of available-for-sale investments (net of tax)	-	218 660	-	-	-	218 660	-	-	218 660	-	218 660
Revaluation of hedging financial instruments (net of tax)	-	(5 517)	-	-	-	(5 517)	-	-	(5 517)	-	(5 517)
Net profit for the period	-	-	-	-	-	-	-	1 420 998	1 420 998	579	1 421 577
Appropriation of retained earnings	-	11 744	-	135	-	-	11 609	(2 289 984)	(2 278 240)	-	(2 278 240)
Dividend paid	-	-	-	-	-	-	-	(2 278 240)	(2 278 240)	-	(2 278 240)
Profit appropriation to other reserves including consolidation adjustments	-	11 744	-	135	-	-	11 609	(11 744)	-	-	-
Equity as at 30.09.2017	262 470	20 600 414	9 137 221	1 982 459	9 092 735	(10 251)	398 250	1 390 036	22 252 920	15 503	22 268 423

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2016 to 31 December 2016

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY	
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES					OTHER
Equity as at 1.01.2016	262 470	20 869 976	9 137 221	1 975 415	9 092 740	283 597	381 003	2 275 783	23 408 229	15 964	23 424 193
Management options	-	-	-	-	-	-	-	-	-	-	-
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	(506 991)	-	-	-	(506 991)	-	2 279 275	1 772 284	489	1 772 773
Remeasurements of the defined benefit liabilities (net of tax)	-	(9 346)	-	-	-	(9 346)	-	-	(9 346)	-	(9 346)
Revaluation of available-for-sale investments (net of tax)	-	(493 144)	-	-	-	(493 144)	-	-	(493 144)	-	(493 144)
Revaluation of hedging financial instruments (net of tax)	-	(4 501)	-	-	-	(4 501)	-	-	(4 501)	-	(4 501)
Net profit for the period	-	-	-	-	-	-	-	2 279 275	2 279 275	489	2 279 764
Appropriation of retained earnings	-	12 547	-	6 909	-	-	5 638	(2 296 036)	(2 283 489)	(1 529)	(2 285 018)
Dividend paid	-	-	-	-	-	-	-	(2 283 489)	(2 283 489)	(1 529)	(2 285 018)
Profit appropriation to other reserves including consolidation adjustments	-	12 547	-	6 909	-	-	5 638	(12 547)	-	-	-
Other	-	(5)	-	-	(5)	-	-	-	(5)	-	(5)
Other	-	(5)	-	-	(5)	-	-	-	(5)	-	(5)
Equity as at 31.12.2016	262 470	20 375 527	9 137 221	1 982 324	9 092 735	(223 394)	386 641	2 259 022	22 897 019	14 924	22 911 943

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2016 to 30 September 2016

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 1.01.2016	262 470	20 869 976	9 137 221	1 975 415	9 092 740	283 597	381 003	2 275 783	23 408 229	15 964	23 424 193
Management options	-	-	-	-	-	-	-	-	-	-	-
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	(184 830)	-	-	-	(184 830)	-	1 784 563	1 599 733	317	1 600 050
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of available-for-sale investments (net of tax)	-	(216 020)	-	-	-	(216 020)	-	-	(216 020)	-	(216 020)
Revaluation of hedging financial instruments (net of tax)	-	31 190	-	-	-	31 190	-	-	31 190	-	31 190
Net profit for the period	-	-	-	-	-	-	-	1 784 563	1 784 563	317	1 784 880
Appropriation of retained earnings	-	12 547	-	6 909	-	-	5 638	(2 296 036)	(2 283 489)	(1 529)	(2 285 018)
Dividend paid	-	-	-	-	-	-	-	(2 283 489)	(2 283 489)	(1 529)	(2 285 018)
Profit appropriation to other reserves including consolidation adjustments	-	12 547	-	6 909	-	-	5 638	(12 547)	-	-	-
Other	-	(5)	-	-	(5)	-	-	-	(5)	-	(5)
Other	-	(5)	-	-	(5)	-	-	-	(5)	-	(5)
Equity as at 30.09.2016	262 470	20 697 688	9 137 221	1 982 324	9 092 735	98 767	386 641	1 764 310	22 724 468	14 752	22 739 220

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	III QUARTER 2017 PERIOD FROM 01.07.2017 TO 30.09.2017	3 QUARTERS 2017 PERIOD FROM 01.01.2017 TO 30.09.2017	III QUARTER 2016 PERIOD FROM 01.07.2016 TO 30.09.2016	3 QUARTERS 2016 PERIOD FROM 01.01.2016 TO 30.09.2016
Cash flow from operating activities – indirect method					
Net profit for the period		536 220	1 420 998	520 654	1 784 563
Adjustments for:		(1 220 842)	(9 359 559)	(2 023 901)	(178 454)
Depreciation and amortization	15	84 070	253 637	85 037	256 507
Share of profit (loss) of associates	18	(11 105)	(31 659)	(9 862)	(29 653)
(Gains) losses on investing activities		(20 010)	(25 789)	(11 426)	(280 933)
Net interest income	9	(1 152 121)	(3 403 330)	(1 117 451)	(3 269 194)
Dividend income	11	(223)	(19 641)	(151)	(16 562)
Interest received		1 438 563	4 244 292	1 345 384	3 980 865
Interest paid		(254 113)	(806 714)	(301 963)	(824 645)
Income tax		165 406	477 649	298 364	595 980
Income tax paid		(101 018)	(251 285)	(184 950)	(424 911)
Change in loans and advances to banks		50 431	164 434	325 973	444 957
Change in financial assets held for trading		1 109 718	(367 643)	1 351 260	148 180
Change in derivative financial instruments (assets)		(78 478)	475 385	274 736	1 224 036
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(3 457 151)	(6 403 953)	(971 855)	1 184 469
Change in receivables from finance leases		(157 083)	(278 764)	(8 518)	(314 982)
Change in investment (placement) securities		(241 766)	(327 617)	(121 602)	(717 847)
Change in other assets		(200 208)	(222 576)	(183 031)	1 407 026
Change in amounts due to banks		(125 763)	(452 474)	518 881	(452 310)
Change in financial liabilities held for trading		339 750	(43 607)	(287 503)	(112 912)
Change in derivative financial instruments (liabilities)		(118 163)	(576 374)	(218 067)	(1 137 336)
Change in amounts due to customers		1 587 059	(1 593 471)	105 788	(1 900 041)
Change in debt securities issued		44 845	51 931	(7 501)	3 175
Change in provisions		21 849	36 083	8 557	73 901
Change in other liabilities		(145 331)	(258 073)	(2 914 001)	(16 224)
Net cash flows from operating activities		(684 622)	(7 938 561)	(1 503 247)	1 606 109
Cash flow from investing activities					
Investing activity inflows		11 220 010	31 305 872	5 771 892	69 262 540
Sale of investment securities		10 954 673	30 663 945	5 474 345	68 564 369
Sale of intangible assets and property, plant and equipment		508	815	8 983	12 898
Dividend received		18 468	19 641	151	16 562
Other investing inflows		246 361	621 471	288 413	668 711
Investing activity outflows		(10 271 583)	(21 881 438)	(6 450 626)	(74 784 251)
Acquisition of investment securities		(10 146 450)	(21 643 952)	(6 384 744)	(74 634 373)
Acquisition of intangible assets and property, plant and equipment		(125 133)	(237 486)	(65 882)	(149 878)
Net cash flows from investing activities		948 427	9 424 434	(678 734)	(5 521 711)

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	III QUARTER 2017 PERIOD FROM 01.07.2017 TO 30.09.2017	3 QUARTERS 2017 PERIOD FROM 01.01.2017 TO 30.09.2017	III QUARTER 2016 PERIOD FROM 01.07.2016 TO 30.09.2016	3 QUARTERS 2016 PERIOD FROM 01.01.2016 TO 30.09.2016
Cash flows from financing activities					
Financing activity inflows		1 075 000	1 075 000	50 000	1 129 733
Issue of debt securities	37	1 075 000	1 075 000	50 000	1 129 733
Financing activity outflows		(2 279 125)	(2 492 584)	(499 271)	(4 676 761)
Redemption of debt securities	37	(885)	(214 344)	(499 271)	(2 393 272)
Dividends and other payments to shareholders		(2 278 240)	(2 278 240)	-	(2 283 489)
Net cash flows from financing activities		(1 204 125)	(1 417 584)	(449 271)	(3 547 028)
Total net cash flows		(940 320)	68 289	(2 631 252)	(7 462 630)
including: effect of exchange rate fluctuations on cash and cash equivalents held		28 329	(94 664)	(95 989)	5 951
Net change in cash and cash equivalents		(940 320)	68 289	(2 631 252)	(7 462 630)
Cash and cash equivalents at the beginning of the period		9 674 699	8 666 090	9 682 017	14 513 395
Cash and cash equivalents at the end of the period		8 734 379	8 734 379	7 050 765	7 050 765

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated income statement of Bank Pekao S.A.

	III QUARTER 2017 PERIOD FROM 01.07.2017 TO 30.09.2017	3 QUARTERS 2017 PERIOD FROM 01.01.2017 TO 30.09.2017	III QUARTER 2016 PERIOD FROM 01.07.2016 TO 30.09.2016 RESTATED	3 QUARTERS 2016 PERIOD FROM 01.01.2016 TO 30.09.2016 RESTATED
Interest income	1 382 708	4 085 383	1 347 824	3 969 047
Interest expense	(256 177)	(761 265)	(259 001)	(786 761)
Net interest income	1 126 531	3 324 118	1 088 823	3 182 286
Fee and commission income	600 535	1 776 899	600 727	1 814 543
Fee and commission expense	(87 251)	(235 973)	(71 806)	(225 467)
Net fee and commission income	513 284	1 540 926	528 921	1 589 076
Dividend income	136	187 940	-	132 552
Result on financial assets and liabilities held for trading	7 252	10 929	6 514	31 909
Result on fair value hedge accounting	919	3 966	1 449	(3 952)
Gains (losses) on disposal of:	21 882	27 824	7 811	431 694
loans and other financial receivables	2 113	2 206	-	155 720
available for sale financial assets and held to maturity investments	19 841	25 770	7 862	276 033
financial liabilities	(72)	(152)	(51)	(59)
Operating income	1 670 004	5 095 703	1 633 518	5 363 565
Net impairment losses on financial assets and off-balance sheet commitments:	(137 889)	(363 974)	(133 229)	(385 777)
loans and other financial receivables	(126 099)	(359 580)	(129 483)	(321 136)
off-balance sheet commitments	(11 790)	(4 394)	(3 746)	(64 641)
Net result on financial activity	1 532 115	4 731 729	1 500 289	4 977 788
Administrative expenses	(833 003)	(2 626 802)	(845 531)	(2 530 174)
personnel expenses	(441 932)	(1 291 921)	(421 217)	(1 267 505)
other administrative expenses	(391 071)	(1 334 881)	(424 314)	(1 262 669)
Depreciation and amortization	(79 733)	(240 840)	(80 625)	(243 337)
Net result on other provisions	(8 102)	(19 759)	(6 671)	(9 621)
Net other operating income and expenses	37 964	83 558	12 449	21 653
Operating costs	(882 874)	(2 803 843)	(920 378)	(2 761 479)
Gains (losses) on subsidiaries and associates	-	-	46 853	46 853
Gains (losses) on disposal of property, plant and equipment, and intangible assets	197	299	3 327	5 080
Profit before income tax	649 438	1 928 185	630 091	2 268 242
Income tax expense	(157 139)	(455 683)	(108 895)	(443 144)
Net profit	492 299	1 472 502	521 196	1 825 098
Earnings per share (in PLN per share)				
basic for the period	1.88	5.61	1.98	6.95
diluted for the period	1.88	5.61	1.98	6.95

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated statement of comprehensive income of Bank Pekao S.A.

	III QUARTER 2017 PERIOD FROM 01.07.2017 TO 30.09.2017	3 QUARTERS 2017 PERIOD FROM 01.01.2017 TO 30.09.2017	III QUARTER 2016 PERIOD FROM 01.07.2016 TO 30.09.2016	3 QUARTERS 2016 PERIOD FROM 01.01.2016 TO 30.09.2016
Net profit	492 299	1 472 502	521 196	1 825 098
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Change in fair value of available-for-sale financial assets	2 896	269 393	17 610	(266 553)
Change in fair value of cash flow hedges	25 287	(6 811)	4 712	38 506
Tax on items that are or may be reclassified subsequently to profit or loss	(5 356)	(49 891)	(4 241)	43 329
Items that will never be reclassified to profit or loss:				
Remeasurements of the defined benefit liabilities	-	-	-	-
Tax on items that will never be reclassified to profit or loss	-	-	-	-
Other comprehensive income (net of tax)	22 827	212 691	18 081	(184 718)
Total comprehensive income	515 126	1 685 193	539 277	1 640 380

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated statement of financial position of Bank Pekao S.A.

	30.09.2017	31.12.2016	30.09.2016
ASSETS			
Cash and due from Central Bank	6 085 398	5 861 342	3 945 450
Bill of exchange eligible for rediscounting at Central Bank	-	-	-
Loans and advances to banks	3 025 297	3 454 679	3 484 493
Financial assets held for trading	1 091 994	721 031	957 456
Derivative financial instruments (held for trading)	1 457 505	1 955 499	2 030 877
Loans and advances to customers	126 120 729	119 033 599	117 713 958
Hedging instruments	234 540	289 752	335 138
Investment (placement) securities	25 699 630	34 864 031	27 115 952
1. Available for sale	22 324 676	31 938 170	24 226 203
2. Held to maturity	3 374 954	2 925 861	2 889 749
Assets held for sale	48 315	48 277	48 168
Investments in subsidiaries	1 063 050	1 063 050	1 063 050
Investments in associates	27 552	27 552	27 552
Intangible assets	622 461	571 076	559 345
Property, plant and equipment	1 373 325	1 405 100	1 380 007
Investment properties	12 554	12 710	12 828
Income tax assets	693 055	875 287	764 326
1. Current tax assets	-	97 009	-
2. Deferred tax assets	693 055	778 278	764 326
Other assets	808 685	805 867	656 883
TOTAL ASSETS	168 364 090	170 988 852	160 095 483
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	6 055	6 091	6 065
Amounts due to other banks	3 083 929	3 367 125	4 100 735
Financial liabilities held for trading	629 558	673 165	498 530
Derivative financial instruments (held for trading)	1 381 571	1 949 335	2 064 620
Amounts due to customers	136 445 323	138 066 129	127 233 107
Hedging instruments	1 130 244	1 638 718	1 663 189
Debt securities issued	1 114 090	300 945	338 084
Income tax liabilities	108 799	-	2 042
1. Current tax liabilities	108 799	-	2 042
2. Deferred tax liabilities	-	-	-
Provisions	599 587	560 483	499 750
Other liabilities	2 175 424	2 144 304	1 538 067
TOTAL LIABILITIES	146 674 580	148 706 295	137 944 189
Equity			
Share capital	262 470	262 470	262 470
Other capital and reserves	19 954 538	19 741 712	20 063 726
Retained earnings and net profit for the period	1 472 502	2 278 375	1 825 098
TOTAL EQUITY	21 689 510	22 282 557	22 151 294
TOTAL LIABILITIES AND EQUITY	168 364 090	170 988 852	160 095 483

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated statement of changes in equity of Bank Pekao S.A.

For the period from 1 January 2017 to 30 September 2017

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 1.01.2017	262 470	19 741 712	9 137 221	1 982 324	8 612 550	(223 510)	233 127	2 278 375	22 282 557	
Management options	-	-	-	-	-	-	-	-	-	
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	
Revaluation of management options	-	-	-	-	-	-	-	-	-	
Comprehensive income	-	212 691	-	-	-	212 691	-	1 472 502	1 685 193	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	
Revaluation of available-for-sale investments (net of tax)	-	218 208	-	-	-	218 208	-	-	218 208	
Revaluation of hedging financial instruments (net of tax)	-	(5 517)	-	-	-	(5 517)	-	-	(5 517)	
Net profit for the period	-	-	-	-	-	-	-	1 472 502	1 472 502	
Appropriation of retained earnings	-	135	-	135	-	-	-	(2 278 375)	(2 278 240)	
Dividend paid	-	-	-	-	-	-	-	(2 278 240)	(2 278 240)	
Profit appropriation	-	135	-	135	-	-	-	(135)	-	
Equity as at 30.09.2017	262 470	19 954 538	9 137 221	1 982 459	8 612 550	(10 819)	233 127	1 472 502	21 689 510	

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

For the period from 1 January 2016 to 31 December 2016

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 1.01.2016	262 470	20 241 535	9 137 221	1 975 415	8 612 550	283 222	233 127	2 290 398	22 794 403	
Management options	-	-	-	-	-	-	-	-	-	
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	
Revaluation of management options	-	-	-	-	-	-	-	-	-	
Comprehensive income	-	(506 732)	-	-	-	(506 732)	-	2 278 375	1 771 643	
Remeasurements of the defined benefit liabilities (net of tax)	-	(9 234)	-	-	-	(9 234)	-	-	(9 234)	
Revaluation of available-for-sale investments (net of tax)	-	(492 997)	-	-	-	(492 997)	-	-	(492 997)	
Revaluation of hedging financial instruments (net of tax)	-	(4 501)	-	-	-	(4 501)	-	-	(4 501)	
Net profit for the period	-	-	-	-	-	-	-	2 278 375	2 278 375	
Appropriation of retained earnings	-	6 909	-	6 909	-	-	-	(2 290 398)	(2 283 489)	
Dividend paid	-	-	-	-	-	-	-	(2 283 489)	(2 283 489)	
Profit appropriation	-	6 909	-	6 909	-	-	-	(6 909)	-	
Equity as at 31.12.2016	262 470	19 741 712	9 137 221	1 982 324	8 612 550	(223 510)	233 127	2 278 375	22 282 557	

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

For the period from 1 January 2016 to 30 September 2016

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 1.01.2016	262 470	20 241 535	9 137 221	1 975 415	8 612 550	283 222	233 127	2 290 398	22 794 403	
Management options	-	-	-	-	-	-	-	-	-	
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	
Revaluation of management options	-	-	-	-	-	-	-	-	-	
Comprehensive income	-	(184 718)	-	-	-	(184 718)	-	1 825 098	1 640 380	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	
Revaluation of available-for-sale investments (net of tax)	-	(215 908)	-	-	-	(215 908)	-	-	(215 908)	
Revaluation of hedging financial instruments (net of tax)	-	31 190	-	-	-	31 190	-	-	31 190	
Net profit for the period	-	-	-	-	-	-	-	1 825 098	1 825 098	
Appropriation of retained earnings	-	6 909	-	6 909	-	-	-	(2 290 398)	(2 283 489)	
Dividend paid	-	-	-	-	-	-	-	(2 283 489)	(2 283 489)	
Profit appropriation	-	6 909	-	6 909	-	-	-	(6 909)	-	
Equity as at 30.09.2016	262 470	20 063 726	9 137 221	1 982 324	8 612 550	98 504	233 127	1 825 098	22 151 294	

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated cash flow statement of Bank Pekao S.A.

	III QUARTER 2017 PERIOD FROM 01.07.2017 TO 30.09.2017	3 QUARTERS 2017 PERIOD FROM 01.01.2017 TO 30.09.2017	III QUARTER 2016 PERIOD FROM 01.07.2016 TO 30.09.2016	3 QUARTERS 2016 PERIOD FROM 01.01.2016 TO 30.09.2016
Cash flow from operating activities – indirect method				
Net profit for the period	492 299	1 472 502	521 196	1 825 098
Adjustments for:	(1 233 879)	(9 645 032)	(2 101 132)	(330 869)
Depreciation and amortization	79 733	240 840	80 625	243 337
(Gains) losses on investing activities	(19 831)	(25 830)	(11 171)	(280 796)
Net interest income	(1 126 531)	(3 324 118)	(1 088 823)	(3 182 286)
Dividend income	(136)	(187 940)	-	(132 552)
Interest received	1 407 232	4 148 030	1 309 622	3 868 768
Interest paid	(247 206)	(788 396)	(295 702)	(806 747)
Income tax	157 139	455 683	288 626	562 408
Income tax paid	(80 291)	(218 622)	(179 065)	(409 268)
Change in loans and advances to banks	23 638	166 147	327 170	444 093
Change in financial assets held for trading	1 120 074	(371 159)	1 356 189	159 132
Change in derivative financial instruments (assets)	(72 160)	497 994	282 357	1 223 240
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank	(3 612 913)	(7 004 061)	(1 136 755)	912 965
Change in investment (placement) securities	(240 740)	(324 399)	(119 089)	(706 790)
Change in other assets	(172 374)	(193 989)	(155 909)	1 427 816
Change in amounts due to banks	(90 409)	(283 541)	580 294	(446 504)
Change in financial liabilities held for trading	339 750	(43 607)	(287 503)	(112 912)
Change in derivative financial instruments (liabilities)	(118 159)	(567 764)	(217 492)	(1 137 178)
Change in amounts due to customers	1 567 046	(1 591 703)	70 181	(2 020 586)
Change in debt securities issued	243	826	546	(993)
Change in provisions	28 142	39 104	10 091	76 820
Change in other liabilities	(176 126)	(268 527)	(2 915 324)	(12 836)
Net cash flows from operating activities	(741 580)	(8 172 530)	(1 579 936)	1 494 229
Cash flow from investing activities				
Investing activity inflows	11 217 229	31 440 753	5 769 947	69 297 620
Sale of investment securities	10 954 357	30 635 447	5 474 241	68 540 387
Sale of intangible assets and property, plant and equipment	115	133	8 759	10 810
Dividend received	18 381	187 940	-	132 552
Other investing inflows	244 376	617 233	286 947	613 871
Investing activity outflows	(10 266 952)	(21 837 716)	(6 443 651)	(74 710 318)
Acquisition of investment securities	(10 146 588)	(21 612 136)	(6 384 743)	(74 577 295)
Acquisition of intangible assets and property, plant and equipment	(120 364)	(225 580)	(58 908)	(133 023)
Net cash flows from investing activities	950 277	9 603 037	(673 704)	(5 412 698)

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

	III QUARTER 2017 PERIOD FROM 01.07.2017 TO 30.09.2017	3 QUARTERS 2017 PERIOD FROM 01.01.2017 TO 30.09.2017	III QUARTER 2016 PERIOD FROM 01.07.2016 TO 30.09.2016	3 QUARTERS 2016 PERIOD FROM 01.01.2016 TO 30.09.2016
Cash flows from financing activities				
Financing activity inflows	1 025 000	1 025 000	-	1 079 733
Issue of debt securities	1 025 000	1 025 000	-	1 079 733
Financing activity outflows	(2 279 125)	(2 492 584)	(499 271)	(4 676 761)
Redemption of debt securities	(885)	(214 344)	(499 271)	(2 393 272)
Dividends and other payments to shareholders	(2 278 240)	(2 278 240)	-	(2 283 489)
Net cash flows from financing activities	(1 254 125)	(1 467 584)	(499 271)	(3 597 028)
Total net cash flows	(1 045 428)	(37 077)	(2 752 911)	(7 515 497)
including: effect of exchange rate fluctuations on cash and cash equivalents held	31 922	(94 876)	(99 238)	5 936
Net change in cash and cash equivalents	(1 045 428)	(37 077)	(2 752 911)	(7 515 497)
Cash and cash equivalents at the beginning of the period	9 758 362	8 750 011	9 805 836	14 568 422
Cash and cash equivalents at the end of the period	8 712 934	8 712 934	7 052 925	7 052 925

Notes to financial statements

(in PLN thousand)

The accompanying notes to the financial statements constitute an integral part of the condensed consolidated interim financial statements.

1. General information

Bank Polska Kasa Opieki Spółka Akcyjna (hereafter 'Bank Pekao S.A.' or 'the Bank'), with its headquarters in Warsaw 00-950, Grzybowska Street 53/57, was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously operating since its incorporation.

Bank Pekao S.A. is registered in the National Court Registry – Enterprise Registry of the Warsaw District Court, XII Commercial Division of the National Court Registry in Warsaw under the reference number KRS 0000014843.

According to IFRS 10 'Consolidated financial statements', the parent entity of Bank Pekao S.A. is Powszechny Zakład Ubezpieczeń S.A. (hereinafter 'PZU S.A.') with its registered office in Warsaw at Al. Jana Pawła II 24.

The condensed consolidated interim financial statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 30 September 2017 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and the associates accounted for using equity method.

Changes in share ownership structure of the Bank

In the current report no. 33/2017, the Management Board of Bank Pekao S.A. informed that on 7 June 2017 the Bank has received a notice from PZU S.A. and the Polski Fundusz Rozwoju S.A. (hereinafter 'PFR S.A.'), pursuant to which as a result of settlement on 7 June 2017 of the purchase transaction from UniCredit S.p.A. by PZU S.A. and PFR S.A. of 86 090 172 shares of the Bank, constituting 32.8% of the Bank's share capital and carrying 86 090 172 votes accounting for 32.8% of the total number of votes, PZU S.A. and PFR S.A. jointly exceeded the threshold of 25% of the total number of votes at the Bank.

Since the acquisition of the Bank's shares, PZU S.A. and PFR S.A. hold together 86 090 173 shares of the Bank, accounting for approximately 32.8% of the Bank's share capital and entitling them to 86 090 173 votes representing approximately 32.8% of the total number of votes, with the following votes as at 30 September 2017:

- PZU S.A. holds directly 52 494 007 shares of the Bank, representing approximately 20% of the Bank's share capital and entitling to 52 494 007 votes representing approximately 20% of total number of votes, while
- PFR S.A. holds directly 33 596 166 shares of the Bank, constituting approximately 12.8% of the Bank's share capital and entitling to 33 596 166 votes representing approximately 12.8% of the total number of votes.

Changes in the composition of the Management Board and the Supervisory Board of the Bank

The changes in the composition of the Management Board and the Supervisory Board of the Bank are presented in the Note 5.3 'Changes in the Statutory Bodies of the Bank' of the Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017.

Notes to financial statements (cont.)

(in PLN thousand)

2. Group structure

The Group consists of Bank Pekao S.A. as the parent entity and the following subsidiaries

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			30.09.2017	31.12.2016
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Leasing Sp. z o.o.	Warsaw	Leasing services	100.00	100.00
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	65.00	65.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A., including:	Warsaw	Real estate development	100.00	100.00
<i>FPB - Media Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development</i>	<i>100.00</i>	<i>100.00</i>
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00

As at 30 September 2017, all subsidiaries of the Bank have been consolidated.

Associates

Bank Pekao S.A. Group has an interest in the following associates

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			30.09.2017	31.12.2016
Dom Inwestycyjny Xelion Sp. z o.o. (*)	Warsaw	Financial intermediary	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	49.00	49.00
<i>Pioneer Pekao TFI S.A.</i>	<i>Warsaw</i>	<i>Asset management</i>	<i>49.00</i>	<i>49.00</i>
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00

(*)The Group has no control over the entity due to provisions in the Company's Articles of Association.

As at 30 September 2017, the Group held no shares in entities under joint control.

Changes in the Group structure

On 1 June 2017, the Bank as a Buyer has entered into a preliminary sales agreement with Pioneer Global Asset Management S.p.A. with its registered office in Milan (hereinafter referred to as 'PGAM') concerning 14 746 shares of Pioneer Pekao Investment Management S.A. with its registered office in Warsaw (hereinafter referred to as 'PPIM'), constituting 51% of PPIM's shares and 51% of its share capital and in the total number of votes at the General Meeting of PPIM. PPIM owns 100% shares in Pioneer Pekao Investment Funds S.A. with registered office in Warsaw.

The total amount to be paid to PGAM is EUR 140 million and includes the price of 35% shares of Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. (hereinafter referred to as 'PTE').

On that day, the Bank as the Buyer also concluded a preliminary purchase agreement of 50% shares in Dom Inwestycyjny Xelion Sp. z o.o. (hereinafter referred to as 'Xelion') from UniCredit S.p.A.

The conclusion of the final sales agreements, the terms and conditions of which have been agreed in the preliminary contracts, are conditional upon obtaining appropriate regulatory consent for each transaction.

Notes to financial statements (cont.)

(in PLN thousand)

As a result of the acquisition of the aforementioned shares, the Bank will hold 100% in the share capital and in the total number of votes at the General Meetings of PPIM and at the Shareholders' Meeting of Xelion.

On 17 October 2017, the Bank acquired the remaining 35% of the issued shares of Pekao Pioneer PTE S.A. for a purchase consideration of PLN 8 463 thousand. The Group now holds 100% share in the equity of Pekao Pioneer PTE S.A. The carrying amount of the non-controlling interests in Pekao Pioneer PTE S.A. on the date of acquisition was PLN 15 503 thousand. The Group derecognized non-controlling interests amounting to PLN 15 503 thousand and recorded an increase in equity attributable to equity holders of the Bank amounting to PLN 7 040 thousand.

The effect of changes in the ownership interest of Pekao Pioneer PTE S.A. on the equity attributable to equity holders of the Bank during the reporting period is presented in the table below.

	3 QUARTERS 2017	3 QUARTERS 2016
Carrying amount of non-controlling interests acquired	15 503	-
Consideration paid to non-controlling interests	(8 463)	-
Increase in equity attributable to equity holders of the Bank	7 040	-

3. Business combinations

In the three quarters of 2017 and in 2016 there were no business combinations in the Group.

4. Statement of compliance

The condensed consolidated interim financial statements of Bank Pekao S.A. Group have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) as adopted by the European Union and other applicable regulations.

These financial statements do not include all information required for annual financial statements, and shall be read in conjunction with the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2016.

The consolidated financial statements of Bank Pekao S.A. Group as at and for the year ended 31 December 2016 are available at the Bank's website, www.pekao.com.pl

In accordance with the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133 with further amendments) the Bank is required to publish the financial report for the nine months period ended 30 September 2017, i.e. current interim period.

The condensed consolidated interim financial statements have been prepared in Polish Zloty, and all amounts are stated in PLN thousand, unless indicated otherwise.

The financial data presented in condensed consolidated interim financial statements of the Group were prepared in the way ensuring their comparability.

These condensed consolidated interim financial statements were authorized for issue by the Management Board on 7 November 2017.

Notes to financial statements (cont.)

(in PLN thousand)

5. Significant accounting policies

5.1 Basis of preparation of Consolidated Financial Statements

General information

Consolidated Financial Statements of the Group have been prepared based on the following valuation methods:

- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets recognized initially at fair value through profit or loss and available-for-sale financial assets, except for those for which the fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for non-financial assets and liabilities or financial assets available for sale whose fair value cannot be reliably measured,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

In the three quarters of 2017 the Group did not amend its accounting policies in respect to valuation of assets and liabilities and profit measurement in comparison to those accounting policies that were applied by the Group in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2016, except for the changes in presentation of the margins on foreign exchange transactions with the Group's clients. Those accounting policies have been applied uniformly to all presented reporting period and by all entities of the Group.

Changes in presentation of financial data

The Bank provides customers with the services of buying and selling foreign currencies, for which it receives remuneration in the form of exchange rate margins included in the exchange rates offered to the Bank's customers. So far such margins have been presented under the item 'Result on financial assets and liabilities held for trading' ('Foreign exchange result').

According to the Bank, the exchange rate margin is of similar nature to other fees and commissions charged by the Bank for the services rendered and therefore should be presented in the Bank's fee and commission income.

As a result, for three quarters of 2017 the Group introduced changes in presentation in the income statement of the margins on foreign exchange transactions with the Bank's clients and currently the margins are presented under the item 'Fee and commission income'.

Due to the change the comparative data presented in these financial statements were restated.

The impact of the change in accounting policy on comparative data in income statement is presented in the below tables.

Notes to financial statements (cont.)

(in PLN thousand)

Consolidated income statement

	III QUARTER 2016 (BEFORE RESTATEMENT)	RESTATEMENT	III QUARTER 2016 (AFTER RESTATEMENT)
Interest income	1 382 257	-	1 382 257
Interest expense	(264 806)	-	(264 806)
Net interest income	1 117 451	-	1 117 451
Fee and commission income	559 541	106 790	666 331
Fee and commission expense	(69 592)	-	(69 592)
Net fee and commission income	489 949	106 790	596 739
Dividend income	151	-	151
Result on financial assets and liabilities held for trading	117 300	(106 790)	10 510
Result on fair value hedge accounting	1 449	-	1 449
Gains (losses) on disposal of:	7 811	-	7 811
loans and other financial receivables	-	-	-
available for sale financial assets and held to maturity investments	7 862	-	7 862
financial liabilities	(51)	-	(51)
Operating income	1 734 111	-	1 734 111
Net impairment losses on financial assets and off-balance sheet commitments	(133 882)	-	(133 882)
loans and other financial receivables	(131 532)	-	(131 532)
off-balance sheet commitments	(2 350)	-	(2 350)
Net result on financial activity	1 600 229	-	1 600 229
Administrative expenses	(895 948)	-	(895 948)
personnel expenses	(469 837)	-	(469 837)
other administrative expenses	(426 111)	-	(426 111)
Depreciation and amortization	(85 037)	-	(85 037)
Net result on other provisions	(6 628)	-	(6 628)
Net other operating income and expenses	12 010	-	12 010
Operating costs	(975 603)	-	(975 603)
Gains (losses) on subsidiaries and associates	9 862	-	9 862
Gains (losses) on disposal of property, plant and equipment and intangible assets	3 617	-	3 617
Profit before income tax	638 105	-	638 105
Income tax expense	(117 330)	-	(117 330)
Net profit	520 775	-	520 775
1. Attributable to equity holders of the Bank	520 654	-	520 654
2. Attributable to non-controlling interests	121	-	121
Earnings per share (in PLN per share)			
basic for the period	1.98	-	1.98
diluted for the period	1.98	-	1.98

Notes to financial statements (cont.)

(in PLN thousand)

Consolidated income statement

	3 QUARTERS 2016 (BEFORE RESTATEMENT)	RESTATEMENT	3 QUARTERS 2016 (AFTER RESTATEMENT)
Interest income	4 073 661	-	4 073 661
Interest expense	(804 467)	-	(804 467)
Net interest income	3 269 194	-	3 269 194
Fee and commission income	1 673 360	319 122	1 992 482
Fee and commission expense	(214 930)	-	(214 930)
Net fee and commission income	1 458 430	319 122	1 777 552
Dividend income	16 562	-	16 562
Result on financial assets and liabilities held for trading	363 548	(319 122)	44 426
Result on fair value hedge accounting	(3 952)	-	(3 952)
Gains (losses) on disposal of:	431 694	-	431 694
loans and other financial receivables	155 720	-	155 720
available for sale financial assets and held to maturity investments	276 033	-	276 033
financial liabilities	(59)	-	(59)
Operating income	5 535 476	-	5 535 476
Net impairment losses on financial assets and off-balance sheet commitments	(394 450)	-	(394 450)
loans and other financial receivables	(332 498)	-	(332 498)
off-balance sheet commitments	(61 952)	-	(61 952)
Net result on financial activity	5 141 026	-	5 141 026
Administrative expenses	(2 681 984)	-	(2 681 984)
personnel expenses	(1 414 000)	-	(1 414 000)
other administrative expenses	(1 267 984)	-	(1 267 984)
Depreciation and amortization	(256 507)	-	(256 507)
Net result on other provisions	(9 481)	-	(9 481)
Net other operating income and expenses	22 522	-	22 522
Operating costs	(2 925 450)	-	(2 925 450)
Gains (losses) on subsidiaries and associates	29 653	-	29 653
Gains (losses) on disposal of property, plant and equipment and intangible assets	5 261	-	5 261
Profit before income tax	2 250 490	-	2 250 490
Income tax expense	(465 610)	-	(465 610)
Net profit	1 784 880	-	1 784 880
1. Attributable to equity holders of the Bank	1 784 563	-	1 784 563
2. Attributable to non-controlling interests	317	-	317
Earnings per share (in PLN per share)			
basic for the period	6.80	-	6.80
diluted for the period	6.80	-	6.80

Notes to financial statements (cont.)

(in PLN thousand)

Unconsolidated income statement

	III QUARTER 2016 (BEFORE RESTATEMENT)	RESTATEMENT	III QUARTER 2016 (AFTER RESTATEMENT)
Interest income	1 347 824	-	1 347 824
Interest expense	(259 001)	-	(259 001)
Net interest income	1 088 823	-	1 088 823
Fee and commission income	493 937	106 790	600 727
Fee and commission expense	(71 806)	-	(71 806)
Net fee and commission income	422 131	106 790	528 921
Dividend income	-	-	-
Result on financial assets and liabilities held for trading	113 304	(106 790)	6 514
Result on fair value hedge accounting	1 449	-	1 449
Gains (losses) on disposal of:	7 811	-	7 811
loans and other financial receivables	-	-	-
available for sale financial assets and held to maturity investments	7 862	-	7 862
financial liabilities	(51)	-	(51)
Operating income	1 633 518	-	1 633 518
Net impairment losses on financial assets and off-balance sheet commitments	(133 229)	-	(133 229)
loans and other financial receivables	(129 483)	-	(129 483)
off-balance sheet commitments	(3 746)	-	(3 746)
Net result on financial activity	1 500 289	-	1 500 289
Administrative expenses	(845 531)	-	(845 531)
personnel expenses	(421 217)	-	(421 217)
other administrative expenses	(424 314)	-	(424 314)
Depreciation and amortization	(80 625)	-	(80 625)
Net result on other provisions	(6 671)	-	(6 671)
Net other operating income and expenses	12 449	-	12 449
Operating costs	(920 378)	-	(920 378)
Gains (losses) on subsidiaries and associates	46 853	-	46 853
Gains (losses) on disposal of property, plant and equipment and intangible assets	3 327	-	3 327
Profit before income tax	630 091	-	630 091
Income tax expense	(108 895)	-	(108 895)
Net profit	521 196	-	521 196
Earnings per share (in PLN per share)			
basic for the period	1.98	-	1.98
diluted for the period	1.98	-	1.98

Notes to financial statements (cont.)

(in PLN thousand)

Unconsolidated income statement

	3 QUARTERS 2016 (BEFORE RESTATEMENT)	RESTATEMENT	3 QUARTERS 2016 (AFTER RESTATEMENT)
Interest income	3 969 047	-	3 969 047
Interest expense	(786 761)	-	(786 761)
Net interest income	3 182 286	-	3 182 286
Fee and commission income	1 495 421	319 122	1 814 543
Fee and commission expense	(225 467)	-	(225 467)
Net fee and commission income	1 269 954	319 122	1 589 076
Dividend income	132 552	-	132 552
Result on financial assets and liabilities held for trading	351 031	(319 122)	31 909
Result on fair value hedge accounting	(3 952)	-	(3 952)
Gains (losses) on disposal of:	431 694	-	431 694
loans and other financial receivables	155 720	-	155 720
available for sale financial assets and held to maturity investments	276 033	-	276 033
financial liabilities	(59)	-	(59)
Operating income	5 363 565	-	5 363 565
Net impairment losses on financial assets and off-balance sheet commitments	(385 777)	-	(385 777)
loans and other financial receivables	(321 136)	-	(321 136)
off-balance sheet commitments	(64 641)	-	(64 641)
Net result on financial activity	4 977 788	-	4 977 788
Administrative expenses	(2 530 174)	-	(2 530 174)
personnel expenses	(1 267 505)	-	(1 267 505)
other administrative expenses	(1 262 669)	-	(1 262 669)
Depreciation and amortization	(243 337)	-	(243 337)
Net result on other provisions	(9 621)	-	(9 621)
Net other operating income and expenses	21 653	-	21 653
Operating costs	(2 761 479)	-	(2 761 479)
Gains (losses) on subsidiaries and associates	46 853	-	46 853
Gains (losses) on disposal of property, plant and equipment, and intangible assets	5 080	-	5 080
Profit before income tax	2 268 242	-	2 268 242
Income tax expense	(443 144)	-	(443 144)
Net profit	1 825 098	-	1 825 098
Earnings per share (in PLN per share)			
basic for the period	6.95	-	6.95
diluted for the period	6.95	-	6.95

Notes to financial statements (cont.)

(in PLN thousand)

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2017, had no material impact on the Group's financial statements (Note 5.2).

The financial statements does not take into consideration interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 5.3 and Note 5.4).

In the Group's opinion, amendments to Standards and interpretations will not have a significant influence on the consolidated financial statements of the Group, with the exception of IFRS 9 'Financial Instruments'.

IFRS 9 'Financial Instruments'

In November 2016 the European Commission has adopted International Financial Reporting Standard no. 9 'Financial Instruments' that will replace IAS 39 'Financial Instruments: Recognition and Measurement'.

IFRS 9 will be mandatorily effective for annual periods beginning on or after 1 January 2018.

The new standard will introduce a revised model for classification and measurement of financial assets, an impairment model for credit allowances based on 'expected loss' and a reformed approach to hedge accounting.

Classification and measurement

According to IFRS 9, classification of financial assets at initial recognition will be based upon:

- the entity's business model for managing the financial assets,
- the contractual cash flow characteristics of the financial asset (i.e. whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding, hereinafter 'SPPI').

Depending on the entity's business model, financial assets may be classified as:

- 'held to collect' contractual cash flows (measured at amortized cost, if SPPI criteria are met, and subject to the expected loss impairment),
- 'held to collect or sale' (measured at fair value through other comprehensive income, if SPPI criteria are met, and subject to the expected loss impairment), or
- 'held for trading' or other (measured at fair value through profit or loss).

Financial assets may be reclassified when, and only when, the Bank changes its business model for managing financial assets. In such a case the Bank shall reclassify all financial assets affected by the change of business model.

IFRS 9 allows an entity at initial recognition to make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. Dividends from such an investment shall be recognized in profit or loss.

The Bank has performed an analysis of business models used for managing the particular categories of financial assets as well as characteristics of the cash flows and concluded that:

- loans and advances to banks, loans and advances to customers and debt securities which, in accordance with IAS 39 are classified as loans and receivables and are held to collect contractual cash flows will be mostly measured at amortized cost under IFRS 9,
- debt securities, which according to IAS 39 are classified as held to maturity, are held to collect contractual cash flows and will be measured at amortized cost under IFRS 9,
- the majority of the debt securities which in accordance with IAS 39 are classified as available for sale, are held to collect contractual cash flows or for sale and will be still measured at fair value through other comprehensive income in accordance with IFRS 9,
- financial assets and liabilities held for trading, including assets and liabilities arising from derivative financial instruments, will continue to be measured at fair value through profit or loss,
- investments in equity instruments classified as available for sale according to IAS 39, will be measured at fair value through profit or loss in accordance with IFRS 9. The Bank has not yet made a final decision regarding the possibility of making an irrevocable election regarding recognition of changes in fair value of the equity instrument in other comprehensive income.

The Bank assesses that the implementation of the new standard will have no impact on the accounting treatment of financial liabilities, as IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

Notes to financial statements (cont.)

(in PLN thousand)

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. Because of the aforementioned change the Bank will be obliged to calculate loss allowances based on the expected credit loss over the life of a financial instrument, taking into consideration forecasts of future economic conditions with regard to the measurement of the credit risk of an exposure.

The new impairment model will be applied to financial instruments measured, in accordance with IFRS 9, at amortized cost or at fair value through other comprehensive income, except for equity instruments.

Replacing the concept of 'incurred loss' with the concept of 'expected credit loss' will influence significantly the way of modelling credit risk parameters and the final amount of loss allowances. The currently applied loss identification period will not be used anymore, therefore the IBNR (incurred but not reported) category of loss allowance will be eliminated. In accordance with IFRS 9, the loss allowances will be calculated in the following categories (instead of the IBNR loss allowances and the loss allowances for non-performing exposures):

1. Stage 1 – 12-month expected credit losses – the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date,
2. Stage 2 – lifetime expected credit losses – the expected credit losses taking into account the probability of default events over the life of a financial instrument,
3. Stage 3 – lifetime expected credit losses – the expected credit losses over the life of financial instruments in default.

The measurement of lifetime expected credit losses will be applied to all exposures for which during the period between the initial recognition and the reporting date the Bank has identified a significant increase in credit risk (Stage 2) or has identified impairment (Stage 3). The measurement of 12-month expected credit losses (Stage 1) will be applied to all exposures for which the Bank has not identified a significant increase in credit risk or impairment during the period between the initial recognition and the reporting date.

The new approach to calculating the impairment of the financial assets will also have an impact on the interest income recognition. In particular, interest income on financial assets allocated to Stages 1 and 2 will be calculated based on the gross carrying amount of the exposure, whereas interest income on financial assets allocated to Stage 3 will be calculated based on the net carrying amount of the exposure (similarly to impaired financial assets under the requirements of IAS 39).

The Bank assumes that the implementation of the new impairment model based on the concept of ECL will have an impact on the level of the Bank's loss allowances, particularly with regard to exposures allocated to Stage 2. Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment triggers in order to estimate lifetime credit losses in Stage 2. Instead, the Bank is obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition.

In the event of significant increase in credit risk since the initial recognition of the asset, the Bank will be obliged to calculate lifetime expected credit losses – Stage 2. Such an approach will result in the earlier recognition of credit losses which will cause an increase in loss allowances and therefore it will also affect profit or loss.

Within the scope of the IFRS 9 implementation project, the Bank is implementing a new methodology of loss allowances calculation as well as appropriate modifications in IT systems and processes used by the Bank, in particular on acquiring appropriate data, designing the processes and tools for calculation of loss allowances in accordance with IFRS 9. Methodological tasks are focused on development of models of estimating risk parameters PD, EAD and RR, and on development of models of identification of significant increase in credit risk for the purpose of estimating of expected credit loss. The new components of the models are the economic projections.

Modelling of the future exposure on the date of default will leverage on available payment schedules as well as information regarding prepayments. For the exposures without defined payment schedules the Bank will apply the methodology aimed at modelling limit utilization at the date of default. In respect of transfer between Stage 1 and Stage 2 the Bank develops statistical transfer logic models of identification of significant increase in credit risk on the basis of probability of default parameter and other characteristics of the exposure such as product type, rating class or time to maturity, supplemented by additional qualitative transfer triggers.

In the Bank's opinion, the implementation of the new Standard requires the application of more complex credit risk models of greater predictive abilities which require a significantly broader set of source data than the currently applied models.

Notes to financial statements (cont.)

(in PLN thousand)

Hedge accounting

The Bank decided to take advantage of the choice which gives IFRS 9 and will to continue to apply the hedge accounting requirements of IAS 39. This decision will apply to all hedging relationships, for which the Bank applies and will apply hedge accounting in the future.

Therefore, in the case of hedge accounting, the entry into force of IFRS 9 will have no impact on the financial position of the Bank.

Disclosures and comparatives

The Bank expects that new requirements of IFRS 9 will significantly change the presentation and extent of the disclosures on financial instruments, particularly in the year of the adoption of the new standard.

The Bank plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings as at 1 January 2018.

Implementation schedule

The Bank has launched a dedicated project of IFRS 9 implementation in 2015. The project is organized into two main streams: (1) C&M (classification and measurement including hedge accounting) and (2) LLP (impairment) which are managed by the key management persons of Finance and Risk Division respectively. Additionally the Bank has appointed the Steering Committee responsible for supervision over the project. The key members of Steering Committee are CFO, CRO and COO. Main objectives of Steering Committee are setting and monitoring key milestones and budget and taking major decisions concerning methodology and the operating model. The project involves also employees of Finance Division, Risk Division, as well as the main Business functions, Organization and Information Technology departments.

In parallel with the work on the methodology, the Bank develops architecture of IT systems in order to allow both the implementation of the new standard in the framework of impairment calculations and determining the risk parameters used.

Potential impact of IFRS 9 on the financial situation and the own funds

Quantitative assessment of the impact of changes on the financial statements upon adoption of the standard is not yet available primarily due to ongoing methodological works regarding adjustments of credit risk models to IFRS 9 requirements which are still in progress as well as from the lack of uniform market practice. From the legislative standpoint, the supervisory and regulatory authorities are working on updating prudential requirements which will be binding for the Bank. On 30 October 2017, the CRD IV/CRR revision proposal, in particular concerning IFRS 9, was presented for opinion. The proposal is expected to be approved on "fast track" approach by the end of 2017. The proposal assumes the amortization of IFRS 9 impact on capital, i.e. an increase of Common Equity Tier 1 (CET1) by a part of the increase in allowances for expected credit losses during the five-year transitional period. The increase in the value of allowances for credit losses will be calculated as a difference between the level of allowances for credit losses calculated in accordance with IFRS 9 as at 1 January 2018 and the level of allowances for credit losses calculated in accordance with IAS 39 as at 31 December 2017. For 2018, it is proposed to increase CET1 by 95% of the amount of the increase in allowances for credit losses.

In the Bank's opinion, disclosing quantitative data that would not reflect the potential impact of all aspects of IFRS 9 on the Bank's financial situation and own funds could have a negative impact on the informative value of the financial statements for its users. Therefore, the Bank has chosen to disclose solely qualitative information on the Bank's approach to the IFRS 9 implementation, which in the Bank's opinion will enable the users of the financial statements to understand the impact of IFRS 9 on the financial situation and capital management of the Bank.

In the Bank's view the implementation of the new standard, and especially the introduction of the new impairment model based on the ECL concept, will increase the value of impairment allowances, especially in terms of exposures to Stage 2. The Bank does not anticipate a significant impact on the level or volatility of P&L/OCI, as expected changes in classification and measurement methods will be limited to a minor part of financial assets. The final result will depend on the structure of assets at the date of initial application of IFRS 9. Any changes in the carrying value of financial instruments due to the adoption of IFRS 9 will be recognized in the Bank's equity as of 1 January 2018.

Notes to financial statements (cont.)

(in PLN thousand)

The most significant impact on the Bank's own funds will have the above-mentioned increase in the value of allowances for credit losses and the change in the classification and valuation of equity securities which in accordance with IAS 39 are classified to available-for-sale portfolio and measured at fair value recognized through other comprehensive income (provided that the Bank does not exercise the OCI option in accordance with IFRS 9).

According to Bank's judgment the changes of the tax regulations, which are amended to reflect the new standard, may have an impact on the value of the deferred tax asset and the current income tax liability of the Bank resulting from the cost of allowances for credit losses.

5.2 New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective on or after 1 January 2017

No new standards, interpretations or amendments to the existing standards issued by IASB and adopted by the EU have become effective since 1 January 2017.

5.3 New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and approved by the European Union but are not yet effective

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 'Financial Instruments'	<p>New regulations constitute a part of changes designed to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes, introduced by the new standard, are as follows:</p> <ul style="list-style-type: none"> • new categorisation of financial assets, • new criteria of assets classification to the group of financial assets measured at amortized cost, • new impairment model – expected credit losses model, • new principles for recognition of changes in fair value measurement of capital investment in financial instruments, • elimination of the necessity to separate embedded derivatives from financial assets. <p>The major part of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged. Date of application: the first financial year beginning after 1 January 2018.</p>	<p>The impact assessment of the new standard implementation on Group's financial statements is described in note 5.1 Basis of preparation of Consolidated Financial Statements.</p>
IFRS 15 'Revenue from Contracts with Customers'	<p>The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.</p> <p>The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer. Date of application: the first financial year beginning after 1 January 2018.</p>	<p>The Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.</p>

Notes to the financial statements (cont.)

(in PLN thousand)

5.4 New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and not yet approved by the European Union

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 14 'Regulatory deferral accounts'	The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. Date of application: the first financial year beginning on or after 1 January 2016. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.	The Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.
IFRS 16 'Leases'	Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. Date of application: annual periods beginning on or after 1 January 2019.	The Group is currently assessing the impact of the IFRS 16 application on its financial statements.
IFRS 17 'Insurance Contracts'	The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2021.	The Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.
IFRS 10 (amendment) 'Consolidated Financial Statements' and IAS 28 (amendment) 'Investments in Associates and Joint Ventures'	The amendments concern the sale or contribution of assets between the investor and the associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Effective date has been deferred indefinitely until the research project on the equity method has been concluded.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 7 (amendment) 'Statement of Cash Flows' - Disclosure Initiative	The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Date of application: annual periods beginning on or after 1 January 2017. At the date of authorisation of these financial statements the amendment has not been endorsed by EU.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 12 (amendment) 'Income Taxes'	The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Date of application: annual periods beginning on or after 1 January 2017. At the date of authorisation of these financial statements the amendment has not been endorsed by EU.	The Group is currently analyzing the impact of those changes on the financial statements.
IFRS 2 (amendment) 'Share-based Payment'	The amendments provide requirements on the accounting for (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, (b) share-based payment transactions with a net settlement feature for withholding tax obligations, and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Date of application: annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.

Notes to the financial statements (cont.)

(in PLN thousand)

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 4 (amendment) 'Insurance Contracts'	The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4. Date of application: annual periods beginning on or after 1 January 2018 or when IFRS 9 'Financial Instruments' is applied first time.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IFRS 9 (amendment) 'Financial Instruments'	Amendments to IFRS 9 - Prepayment Features with Negative Compensation – modify the existing requirements regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. Date of application: annual periods beginning on or after 1 January 2019.	The Group is currently analyzing the impact of those changes on the financial statements.
IFRS 15 (amendment) 'Revenue from Contracts with Customers'	Clarifications to IFRS 15 Revenue from Contracts with Customers. Date of application: annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.
IAS 28 (amendment) 'Investments in Associates and Joint Ventures'	Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures - were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests. Date of application: annual periods beginning on or after 1 January 2019.	The Group is currently analyzing the impact of those changes on the financial statements.
IAS 40 (amendment) 'Investment Property'	Amendments to IAS 40 'Investment Property' - Transfers of Investment Property state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Amendments also state that the list of evidence in paragraph 57 was designated as non-exhaustive list of examples instead of the previous exhaustive list. Date of application: annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.
Improvements to IFRS 2014-2016	Amendments result from the annual improvement project of IFRS. Amendments relate to IFRS 1, IFRS 12 and IAS 28 and were introduced primarily with a view to removing inconsistencies and clarifying wording. Date of application: amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.
IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Date of application: annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.
IFRIC 23 'Uncertainty over Income Tax Treatments'	It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. Date of application: annual periods beginning on or after 1 January 2019.	The Group is currently analyzing the impact of those changes on the financial statements.

Notes to the financial statements (cont.)

(in PLN thousand)

6. Accounting estimates

The preparation of interim financial statements in accordance with IFRS requires the Management Board of the Bank to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

The estimates at balance sheet day reflect market conditions on that date (e.g. market prices, interest rates, exchange rates).

Although the estimates are based on the best knowledge concerning current conditions and activities of the Group, the actual results may differ from those estimates.

In preparing these interim financial statements, the significant judgments made by management in applying the Group's accounting policies were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2016 taking into account reasons and sources of uncertainty expected at the balance sheet day.

During the nine months period ended 30 September 2017 the most significant estimates are as follows:

- impairment of financial assets and off-balance sheet commitments,
- fair value measurement for derivative financial instruments and unquoted debt securities available for sale.

7. Risk management

Credit risk

The credit risk management process and measurement methods have not significantly changed in relation to those described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2016.

The tables below present the loan portfolio quality for exposures encompassed by internal rating models.

The distribution of rated portfolio for individual client segment (excluding impaired loans) – mortgage loans

RATING CLASS	RANGE OF PD	30.09.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.06%	11 489 428	24.4%	11 544 215	26.2%
2	0.06% <= PD < 0.19%	6 480 082	13.8%	6 794 533	15.4%
3	0.19% <= PD < 0.35%	19 245 651	40.9%	17 482 613	39.7%
4	0.35% <= PD < 0.73%	6 588 507	14.0%	5 463 689	12.4%
5	0.73% <= PD < 3.50%	1 822 760	3.9%	1 435 604	3.3%
6	3.50% <= PD < 14.00%	685 096	1.4%	638 891	1.5%
7	14.00% <= PD < 100.00%	742 768	1.6%	671 745	1.5%
Total		47 054 292	100.0%	44 031 290	100.0%

The distribution of rated portfolio for individual client segment (excluding impaired loans) – consumer loans

RATING CLASS	RANGE OF PD	30.09.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.34%	703 368	7.0%	687 697	7.9%
2	0.34% <= PD < 0.80%	947 118	9.4%	948 701	10.8%
3	0.80% <= PD < 1.34%	1 490 285	14.8%	1 506 160	17.2%
4	1.34% <= PD < 2.40%	3 173 385	31.6%	2 669 352	30.5%
5	2.40% <= PD < 4.75%	2 379 632	23.7%	1 815 307	20.7%
6	4.75% <= PD < 14.50%	917 485	9.1%	756 550	8.7%
7	14.50% <= PD < 31.00%	215 156	2.1%	186 915	2.1%
8	31.00% <= PD < 100.00%	228 764	2.3%	186 336	2.1%
Total		10 055 193	100.0%	8 757 018	100.0%

Notes to financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for corporate client segment (excluding impaired loans) – clients with income not exceeding EUR 500 million

RATING CLASS	RANGE OF PD	30.09.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.15%	563 675	3.3%	515 756	3.5%
2	0.15% <= PD < 0.27%	1 035 676	6.1%	2 188 032	14.8%
3	0.27% <= PD < 0.45%	2 783 118	16.4%	1 984 785	13.5%
4	0.45% <= PD < 0.75%	3 515 006	20.8%	2 105 131	14.3%
5	0.75% <= PD < 1.27%	2 665 975	15.8%	2 131 155	14.5%
6	1.27% <= PD < 2.25%	2 915 982	17.2%	2 269 874	15.4%
7	2.25% <= PD < 4.00%	1 142 793	6.8%	1 266 801	8.6%
8	4.00% <= PD < 8.50%	2 152 495	12.7%	1 948 049	13.2%
9	8.50% <= PD < 100.00%	144 716	0.9%	319 268	2.2%
Total		16 919 436	100.0%	14 728 851	100.0%

The distribution of rated portfolio for corporate client segment (excluding impaired loans) – clients assessed by central model with income exceeding EUR 500 million

RATING CLASS	RANGE OF PD	30.09.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.0000% <= PD < 0.0011%	-	0.0%	-	0.0%
2	0.0011% <= PD < 0.0031%	-	0.0%	-	0.0%
3	0.0031% <= PD < 0.0069%	-	0.0%	-	0.0%
4	0.0069% <= PD < 0.0124%	76	0.0%	-	0.0%
5	0.0124% <= PD < 0.0223%	-	0.0%	1	0.0%
6	0.0223% <= PD < 0.0395%	-	0.0%	-	0.0%
7	0.0395% <= PD < 0.0691%	-	0.0%	5	0.0%
8	0.0691% <= PD < 0.1208%	407 297	9.1%	430 448	8.0%
9	0.1208% <= PD < 0.2091%	708 515	15.7%	1 029 404	19.1%
10	0.2091% <= PD < 0.3581%	1 303 260	29.0%	255 864	4.8%
11	0.3581% <= PD < 0.6132%	1 343 740	29.9%	2 486 615	46.2%
12	0.6132% <= PD < 1.0807%	73 852	1.6%	-	0.0%
13	1.0807% <= PD < 1.9599%	643 969	14.3%	847 569	15.7%
14	1.9599% <= PD < 3.5545%	18 267	0.4%	331 740	6.2%
15	3.5545% <= PD < 7.6705%	8	0.0%	11	0.0%
16	7.6705% <= PD < 19.6959%	-	0.0%	-	0.0%
17	19.6959% <= PD < 100.0000%	-	0.0%	-	0.0%
Total		4 498 984	100.0%	5 381 657	100.0%

For specialized lending, the Bank adopts slotting criteria approach within internal rating method which uses supervisory categories in the process of assigning risk weigh category.

Notes to financial statements (cont.)

(in PLN thousand)

Distribution of the portfolio exposure to specialized lending (excluding impaired loans)

SUPERVISORY CATEGHORY	30.09.2017		31.12.2016	
	CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
High	1 311 471	17.6%	3 470 755	42.6%
Good	4 575 344	61.6%	3 623 153	44.5%
Satisfactory	1 540 648	20.7%	1 010 603	12.4%
Low	6 947	0.1%	44 728	0.5%
Total	7 434 410	100.0%	8 149 239	100.0%

Division of loans and advances to customers for covered and not covered by internal rating models

	30.09.2017	31.12.2016
Loans with no impairment:	126 514 300	120 112 554
Loans to individuals:	60 522 928	55 863 932
Covered by internal rating model:	57 109 485	52 788 308
Mortgage loans	47 054 292	44 031 290
Consumer loans	10 055 193	8 757 018
Other, not covered by internal rating model	3 413 443	3 075 624
Loans to corporates:	65 991 372	64 248 622
Covered by internal rating model:	21 418 420	20 110 508
Clients with income not exceeding EUR 500 million	16 919 436	14 728 851
Clients assessed by central model with income exceeding EUR 500 million	4 498 984	5 381 657
Specialized lending exposures	7 434 410	8 149 239
Debt securities, not covered by internal rating model	12 015 090	12 352 160
Repo transactions, not covered by internal rating model	-	-
Other, not covered by internal rating model	25 123 452	23 636 715
Impaired loans	2 915 115	2 550 658
Total loans and advances to customers (*)	129 429 415	122 663 212

(*) Loans and advances to customers include receivables from financial leases.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting agreements or similar agreements, irrespective of whether they are offset in the statement of financial position.

The netting agreements concluded by the Group are:

- ISDA agreements and similar master netting agreements on derivatives,
- GMRA agreements on repo and reverse-repo transactions.

The netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the one of the counterparty. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives,
- repo and reverse-repo transactions.

Such collateral is subject to standard industry terms. The collateral in the form of cash stems from an ISDA Credit Support Annex (CSA).

Notes to financial statements (cont.)

(in PLN thousand)

The securities received/given as collateral on repo and reverse-repo transaction can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

Financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements and which may be potentially offset in the statement of financial position.

30.09.2017	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	1 387 194	(938 148)	(276 981)	172 065
TOTAL	1 387 194	(938 148)	(276 981)	172 065

30.09.2017	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	2 226 016	(938 148)	(1 204 628)	83 240
TOTAL	2 226 016	(938 148)	(1 204 628)	83 240

31.12.2016	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	1 848 236	(1 434 265)	(182 765)	231 206
TOTAL	1 848 236	(1 434 265)	(182 765)	231 206

31.12.2016	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	3 254 372	(1 434 265)	(1 651 984)	168 123
TOTAL	3 254 372	(1 434 265)	(1 651 984)	168 123

The carrying amount of financial assets and financial liabilities disclosed in the above tables have been measured in the statement of financial position on the following bases:

- derivatives – fair value,
- assets and liabilities resulting from repo and reverse-repo transactions – amortized cost.

Notes to financial statements (cont.)

(in PLN thousand)

Reconciliation of the carrying amount of financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements to the amounts presented in the statement of financial position.

30.09.2017	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 319 623	Derivative financial instruments (held for trading)	1 438 044	118 421	26
	67 571	Hedging instruments	234 540	166 969	29
FINANCIAL LIABILITIES					
Derivatives	1 099 114	Derivative financial instruments (held for trading)	1 376 300	277 186	26
	1 126 902	Hedging instruments	1 130 244	3 342	29

31.12.2016	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 791 677	Derivative financial instruments (held for trading)	1 913 429	121 752	26
	56 559	Hedging instruments	289 752	233 193	29
FINANCIAL LIABILITIES					
Derivatives	1 618 110	Derivative financial instruments (held for trading)	1 952 674	334 564	26
	1 636 262	Hedging instruments	1 638 718	2 456	29

Notes to financial statements (cont.)

(in PLN thousand)

The quality analysis of the Group's financial assets

The Group exposures to credit risk with impairment recognized, broken down by delays in repayment

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	30.09.2017	31.12.2016	30.09.2017	31.12.2016
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	991 882	642 927
- up to 1 month	-	-	228 204	106 904
- between 1 month and 3 months	-	-	47 080	31 323
- between 3 months and 1 year	-	-	99 549	228 925
- between 1 year and 5 years	7 165	8 192	1 874 264	2 565 907
- above 5 years	-	-	2 293 411	1 498 788
Total gross carrying amount	7 165	8 192	5 534 390	5 074 774
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(252 015)	(292 907)
- up to 1 month	-	-	(18 717)	(30 285)
- between 1 month and 3 months	-	-	(10 468)	(7 077)
- between 3 months and 1 year	-	-	(29 766)	(121 057)
- between 1 year and 5 years	(7 165)	(8 192)	(1 244 493)	(1 563 402)
- above 5 years	-	-	(1 708 225)	(1 170 559)
Total allowance for impairment	(7 165)	(8 192)	(3 263 684)	(3 185 287)
Net carrying amount of exposure individually impaired	-	-	2 270 706	1 889 487
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	206 586	166 121
- up to 1 month	-	-	51 024	69 664
- between 1 month and 3 months	-	-	68 416	56 545
- between 3 months and 1 year	-	-	307 768	286 856
- between 1 year and 5 years	-	-	1 213 951	1 297 813
- above 5 years	9 800	9 800	953 229	914 748
Total gross carrying amount	9 800	9 800	2 800 974	2 791 747
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(77 911)	(54 371)
- up to 1 month	-	-	(16 840)	(21 678)
- between 1 month and 3 months	-	-	(25 054)	(20 975)
- between 3 months and 1 year	-	-	(162 462)	(152 797)
- between 1 year and 5 years	-	-	(1 011 706)	(1 038 042)
- above 5 years	(9 800)	(9 800)	(862 592)	(842 713)
Total allowance for impairment	(9 800)	(9 800)	(2 156 565)	(2 130 576)
Net carrying amount of exposure collectively impaired	-	-	644 409	661 171

(*) Loans and advances to banks and loans and advances to customers include receivables from financial leases.

Notes to financial statements (cont.)

(in PLN thousand)

The Group exposures to credit risk with no impairment recognized, broken down by delays in repayment

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)			
	30.09.2017	31.12.2016	CORPORATE		RETAIL	
			30.09.2017	31.12.2016	30.09.2017	31.12.2016
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	2 926 692	3 258 534	65 970 404	64 156 501	59 197 895	54 316 545
- up to 30 days	-	-	203 355	240 713	1 074 944	1 314 340
- between 30 days and 60 days	-	-	25 364	27 468	206 413	177 909
- above 60 days	-	-	86 301	88 700	182 846	184 075
Total gross carrying amount	2 926 692	3 258 534	66 285 424	64 513 382	60 662 098	55 992 869
IBNR PROVISION						
- not past due	(18)	(8)	(288 143)	(256 869)	(97 132)	(80 772)
- up to 30 days	-	-	(3 449)	(5 106)	(23 898)	(30 818)
- between 30 days and 60 days	-	-	(1 674)	(1 425)	(11 217)	(9 873)
- above 60 days	-	-	(786)	(1 360)	(6 923)	(7 474)
Total IBNR provision	(18)	(8)	(294 052)	(264 760)	(139 170)	(128 937)
Net carrying amount of exposure with no impairment	2 926 674	3 258 526	65 991 372	64 248 622	60 522 928	55 863 932

(*) Loans and advances to banks and loans and advances to customers include receivables from financial leases.

The Group exposures to credit risk, broken down by impairment triggers criteria

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	30.09.2017	31.12.2016	30.09.2017	31.12.2016
IMPAIRED EXPOSURES				
Gross carrying amount	16 965	17 992	8 335 364	7 866 521
Allowance for impairment	(16 965)	(17 992)	(5 420 249)	(5 315 863)
Total net carrying amount	-	-	2 915 115	2 550 658
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	-	-	166 029	100 560
<i>Exposure with collateral value included in expected discounted cash flow, in this:</i>	-	-	166 029	100 560
- <i>Past due exposures</i>	-	-	25 502	35 382
IBNR provision	-	-	(7 894)	(2 610)
Total net carrying amount	-	-	158 135	97 950
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	2 926 692	3 258 534	126 781 493	120 405 691
IBNR provision	(18)	(8)	(425 328)	(391 087)
Total net carrying amount	2 926 674	3 258 526	126 356 165	120 014 604

(*) Loans and advances to banks and loans and advances to customers include receivables from financial leases.

Notes to financial statements (cont.)

(in PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 30 September 2017

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (*)	
AA+ to AA-	-	598 413	-	-	598 413
A+ to A-	980 045	21 027 973	3 470 840	633 632	26 112 490
no rating	111 950	656 944	-	-	768 894
Total	1 091 995	22 283 330	3 470 840	633 632	27 479 797

(*) Fair value of debt securities purchased in the reverse repo transactions.

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2016

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (***)	
AA+ to AA-	-	327 613	-	-	327 613
A+ to A-	654 918	24 719 097	2 998 379	700 960	29 073 354
BBB+ to BBB-	9 719	-	-	-	9 719
no rating	66 113	6 903 060 (*)	20 606 (**)	-	6 989 779
Total	730 750	31 949 770	3 018 985	700 960	36 400 465

(*) Including NBP bills in an amount of PLN 5 978 629 thousand.

(**) Including NBP bills in an amount of PLN 20 606 thousand.

(***) Fair value of debt securities purchased in the reverse repo transactions.

Classification of exposures to derivative financial instruments according to Standard & Poor's ratings as at 30 September 2017

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	19	-	-	-	-	-	19
AA+ to AA-	46 118	-	-	-	-	-	46 118
A+ to A-	605 166	109 692	-	25 206	-	-	740 064
BBB+ to BBB-	28 422	-	-	4 432	-	-	32 854
no rating	249 069	150 792	248 766	36 760	168 142	-	853 529
Total	928 794	260 484	248 766	66 398	168 142	-	1 672 584

Classification of exposures to derivative financial instruments according to Standard & Poor's ratings as at 31 December 2016

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	143	-	-	-	-	-	143
AA+ to AA-	75 047	-	-	1 044	-	-	76 091
A+ to A-	581 997	179 546	-	22 224	-	-	783 767
BBB+ to BBB-	379 748	-	-	4 414	-	-	384 162
no rating	303 021	69 325	324 602	26 868	235 202	-	959 018
Total	1 339 956	248 871	324 602	54 550	235 202	-	2 203 181

Notes to financial statements (cont.)

(in PLN thousand)

Forbearance measures

The identifying process of Forborne exposures has not changed in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2016.

Share of forbore exposures in the Group's loan portfolio

	30.09.2017	31.12.2016
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	126 514 300	120 112 554
forborne exposures	569 570	574 117
Impaired exposures, of which:	2 915 115	2 550 658
forborne exposures	1 929 151	1 476 521
Total net carrying amount, of which:	129 429 415	122 663 212
forborne exposures	2 498 721	2 050 638

The quality analysis of forbore exposures

	30.09.2017	31.12.2016
Exposures with no impairment		
Gross carrying amount	589 520	587 347
IBNR provisions	(19 950)	(13 230)
Net carrying amount	569 570	574 117
Impaired exposures		
Gross carrying amount, of which:	3 699 115	3 152 110
exposures individually impaired	3 322 116	2 816 470
exposures collectively impaired	376 999	335 640
Allowances for impairment, of which:	(1 769 964)	(1 675 589)
exposures individually impaired	(1 596 521)	(1 524 510)
exposures collectively impaired	(173 443)	(151 079)
Net carrying amount	1 929 151	1 476 521
Total net carrying amount	2 498 721	2 050 638

CHF loans to individuals

Since 2003 Bank Pekao S.A. has not granted CHF loans for individuals. Almost the entire portfolio of CHF loans for individuals was granted before August 2006 by Bank BPH S.A. and then taken over by Bank Pekao S.A. as a result of the merger.

A few concepts of restructuring of CHF mortgage loans for individuals have been proposed recently. The proposed solutions are under discussion and may change significantly. Therefore, at the moment, the Group is not able to reliably estimate the impact of the proposed solutions on the financial statements. However, taking into account the relatively minor share of these loans in the total assets and limited market share, the Group assesses that potentially taken solutions should not materially affect the financial standing of the Group.

Notes to financial statements (cont.)

(in PLN thousand)

The tables below present the structure and quality of CHF loans for individuals.

Structure of CHF loans to individuals

	30.09.2017	31.12.2016
Gross carrying amount, of which:	3 770 676	4 492 086
- denominated in CHF	3 748 023	4 461 077
- indexed to CHF	22 653	31 009
Impairment allowances, of which:	(84 609)	(91 931)
- denominated in CHF	(84 289)	(91 604)
- indexed to CHF	(320)	(327)
Net carrying amount, of which:	3 686 067	4 400 155
- denominated in CHF	3 663 734	4 369 473
- indexed to CHF	22 333	30 682

Quality of CHF loans to individuals

	30.09.2017	31.12.2016
Gross carrying amount of exposures with no impairment, of which:	3 598 390	4 302 638
- not past due	3 380 365	3 956 983
- up to 30 days	164 589	280 365
- between 30 days and 60 days	38 805	47 308
- above 60 days	14 631	17 982
IBNR provisions for exposures with no impairment, of which:	(9 380)	(11 261)
- not past due	(4 364)	(4 183)
- up to 30 days	(2 825)	(4 464)
- between 30 days and 60 days	(1 457)	(1 755)
- above 60 days	(734)	(859)
Gross carrying amount of impaired exposures, of which:	172 286	189 448
- not past due	36 616	31 997
- up to 1 month	11 848	18 589
- between 1 month and 3 months	13 915	12 590
- between 3 months and 1 year	22 993	32 948
- between 1 year and 5 years	49 022	55 254
- above 5 years	37 892	38 070
Allowances for impairment, of which:	(75 229)	(80 670)
- not past due	(7 543)	(6 020)
- up to 1 month	(1 781)	(2 867)
- between 1 month and 3 months	(2 661)	(2 720)
- between 3 months and 1 year	(6 300)	(9 379)
- between 1 year and 5 years	(28 801)	(31 609)
- above 5 years	(28 143)	(28 075)
Total net carrying amount	3 686 067	4 400 155

As of 30 September 2017 the average LTV for CHF loans to individuals granted by the Group amounted to 48.6% (56.3% as at 31 December 2016), with an average LTV for the whole portfolio of 63.3% (66.0% as at 31 December 2016).

Notes to financial statements (cont.)

(in PLN thousand)

Credit exposures towards Ukraine

As at 30 September 2017, the net balance sheet value of remaining exposures towards Ukraine amounted to PLN 12 million (which constitutes 0.01% of total Group exposures), less by PLN 99 million in comparison to the end of December 2016.

The below table presents the Group's exposure towards the Ukrainian entities

	30.09.2017	31.12.2016
Balance sheet exposures		
Loans and advances to customers	268 698	321 048
Total gross carrying amount	268 698	321 048
IBNR provision / Allowance for impairment	(256 933)	(209 687)
Total net carrying amount	11 765	111 361
Off-balance sheet exposure		
Credit lines granted	188	428
Total gross carrying amount	188	428
IBNR provision	(1)	-
Total net carrying amount	187	428

Market risk of the trading book

The model of market risk measurement has not changed in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2016.

The table below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk in the period from 1 January to 30 September 2017 and in 2016.

	30.09.2017	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	435	13	293	1 918
interest rate risk	662	571	1 125	1 925
Trading portfolio	844	644	1 224	3 046

	31.12.2016	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	60	14	275	1 958
interest rate risk	819	804	1 106	1 677
Trading portfolio	791	791	1 187	2 174

Interest rate risk of the banking book

The banking book interest rate risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended on 31 December 2016.

The following table presents contractual NII sensitivity to the change of interest rates by 100 basis points and the EVE sensitivity to the change of interest rates by 200 basis points as at 30 September 2017 and as at 31 December 2016.

SENSITIVITY IN %	30.09.2017	31.12.2016
NII	(7.91)	(8.03)
EVE	(0.23)	(0.76)

Notes to financial statements (cont.)

(in PLN thousand)

Currency risk

The foreign currency exchange risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2016.

The tables below present the Group's foreign currency risk profile measured by Value at Risk and currency position.

Value at Risk

CURRENCY	30.09.2017	31.12.2016
Currencies total (*)	329	208

(*) VaR presented in 'Currencies total' is VaR for the whole portfolio, and includes correlations among currencies.

Currency position

30.09.2017	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	19 825 032	18 731 104	10 961 008	12 150 122	(95 186)
USD	4 969 227	8 145 830	10 357 193	7 129 968	50 622
CHF	3 939 986	908 867	3 752 701	6 785 498	(1 678)
GBP	240 792	917 835	1 071 475	391 396	3 036
CZK	51 857	241 188	267 213	77 848	34
Other currencies	288 244	322 687	324 522	284 044	6 035
TOTAL	29 315 138	29 267 511	26 734 112	26 818 876	(37 137)

31.12.2016	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	21 197 815	17 067 038	12 655 773	16 763 013	23 537
USD	5 210 025	7 710 838	6 409 305	3 980 769	(72 277)
CHF	4 722 131	1 049 133	3 606 673	7 285 284	(5 613)
GBP	212 581	869 553	687 217	29 324	921
CZK	34 786	529 413	602 343	107 358	358
Other currencies	262 357	164 008	208 033	304 055	2 327
TOTAL	31 639 695	27 389 983	24 169 344	28 469 803	(50 747)

Notes to financial statements (cont.)

(in PLN thousand)

Liquidity risk

In the area of liquidity risk, in relation to the situation described in the consolidated financial statement of Bank Pekao S.A. Group for the year ended 31 December 2016, the limit system was expanded by introducing a limit on total intraday liquidity position in PLN. The limit will be used for early identification of potential problems concerning intraday liquidity.

The tables below present adjusted liquidity gap and structure of financial liabilities maturity.

Adjusted liquidity gap

30.09.2017	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	32 909 489	7 791 787	24 528 499	54 623 685	51 609 397	171 462 857
Balance sheet liabilities	12 060 121	6 455 587	21 779 447	18 093 053	113 074 649	171 462 857
Off-balance sheet assets/liabilities (net)	(5 250 917)	(730 283)	(244 181)	2 544 825	2 918 131	(762 425)
Periodic gap	15 598 451	605 917	2 504 871	39 075 457	(58 547 121)	(762 425)
Cumulated gap	-	16 204 368	18 709 239	57 784 696	(762 425)	-

31.12.2016	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	42 255 570	4 225 036	24 539 554	50 597 089	52 597 694	174 214 943
Balance sheet liabilities	19 300 857	6 459 100	18 513 533	20 417 900	109 523 553	174 214 943
Off-balance sheet assets/liabilities (net)	(4 956 771)	(16 411)	862 106	1 309 640	1 496 475	(1 304 961)
Periodic gap	17 997 942	(2 250 475)	6 888 127	31 488 829	(55 429 384)	(1 304 961)
Cumulated gap	-	15 747 467	22 635 594	54 124 423	(1 304 961)	-

Notes to financial statements (cont.)

(in PLN thousand)

Structure of financial liabilities by contractual maturity (*)

30.09.2017	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (**)	1 413 646	11 196	77 841	1 921 040	1 038 374	4 462 097
Amounts due to customers	104 477 861	11 503 332	19 705 882	828 612	20 893	136 536 580
Debt securities issued	1 651	154 646	1 194 356	1 079 092	105 000	2 534 745
Financial liabilities held for trading	-	-	252 801	177 253	199 504	629 558
Total	105 893 158	11 669 174	21 230 880	4 005 997	1 363 771	144 162 980
OFF-BALANCE SHEET COMMITMENTS						
Financial liabilities granted	33 610 803	-	-	-	-	33 610 803
Guarantees issued	11 413 954	-	-	-	-	11 413 954
Total	45 024 757	-	-	-	-	45 024 757

31.12.2016	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (**)	1 568 626	7 866	62 274	1 490 498	1 775 910	4 905 174
Amounts due to customers	107 386 695	11 705 237	18 590 217	529 562	81 291	138 293 002
Debt securities issued	28 936	194 369	171 915	1 056 438	206 332	1 657 990
Financial liabilities held for trading	102 076	-	131 194	263 435	176 460	673 165
Total	109 086 333	11 907 472	18 955 600	3 339 933	2 239 993	145 529 331
OFF-BALANCE SHEET COMMITMENTS						
Financial liabilities granted	32 304 313	-	-	-	-	32 304 313
Guarantees issued	11 259 832	-	-	-	-	11 259 832
Total	43 564 145	-	-	-	-	43 564 145

(*) Exposure amounts from balance liabilities, financing-related off-balance sheet commitments granted and guarantee liabilities granted have been allocated to earliest tenors, for which an outflow of assets from the Group is possible based on contracts entered into by the Group. However, outflows expected by the Group are actually significantly lower than those indicated by the specification presented above. The above is a consequence of considerable diversification of amounts due to customers and stages of life of individual contracts. Risk monitoring and management in relation to the outflow of assets are provided by the Group on continuous basis. The Group estimates also more probable flows that are reflected in Tables 'Adjusted liquidity gap'.

(**) Including Central Bank.

Notes to financial statements (cont.)

(in PLN thousand)

The financial cash flows associated with off-balance sheet derivative transactions

The following are the liabilities and financial cash flows associated with off-balance sheet derivative transactions, settled, respectively in net and gross amounts.

Off-balance sheet derivative transactions settled by the Group in net amounts include:

- Interest Rate Swaps (IRS),
- Forward Rate Agreements (FRA),
- Foreign currency options and options for gold,
- Interest rate options (Cap/Floor),
- Transactions based on equity securities and stock indexes,
- Transactions based on commodities and precious metals.

Off-balance sheet derivative transactions settled by the Group in gross amounts include:

- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps (FX-Swap),
- Forward contracts based on securities.

Liabilities from off-balance sheet derivatives transactions settled in net amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.09.2017	11 024	45 079	102 538	861 753	303 390	1 323 784
31.12.2016	26 757	51 903	131 715	1 219 802	449 921	1 880 098

Cash flows related to off-balance sheet derivative transactions settled in gross amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.09.2017						
Inflows	24 604 204	6 989 784	6 347 534	6 154 770	2 636 108	46 732 400
Outflows	24 615 117	6 960 918	6 493 069	6 653 849	2 800 418	47 523 371
31.12.2016						
Inflows	20 805 957	6 032 490	7 701 296	8 030 511	2 915 201	45 485 455
Outflows	20 827 342	6 055 624	7 823 747	8 745 485	3 322 026	46 774 224

Notes to financial statements (cont.)

(in PLN thousand)

Operational risk

There have been no significant changes in the operational risk management process in relation to the one described in consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2016.

Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the consolidated statement of financial position of the Group

The measurement of fair value of financial instruments, for which market values from active markets are available, is based on market quotations of a given instrument (mark-to-market).

The measurement of fair value of Over-the-counter ('OTC') derivatives and instruments with limited liquidity (i.e. for which no market quotations are available), is made on the basis of other instruments quotations on active markets by replication thereof using a number of valuation techniques, including the estimation of present value of future cash flows (mark-to-model).

As of 30 September 2017 and 31 December 2016, the Group classified the financial assets and liabilities measured at fair value into the following hierarchy of three categories based on the following hierarchy:

- Level 1: mark-to-market, applies to securities quoted on active markets,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument, applies to illiquid government, municipal, corporate and central bank debt securities, linear and non-linear derivative instruments of interest rate markets (including forward transactions on debt securities), equity, commodity and foreign currency exchange markets, except for those cases that meet the criteria of Level 3,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors, applicable to corporate and municipal debt securities and for linear and non-linear derivative instruments of interest rate, equity, commodity and foreign currency exchange markets for which unobservable parameters (e.g. credit risk factors) are recognized as significant.

The measurement at fair value is performed directly by an organizational unit within Risk Management Division, independent of front-office units. The methodology of fair value measurement, including the changes of its parameterization, is subject to approval of Assets and Liabilities Committee (ALCO). The adequacy of measurement methods is subject to on-going analysis and periodical reviews in the framework of model risk management. The same Risk Management Division unit performs the assessment of adequacy and significance of risk factors and assignment of valuation models to appropriate method class, according to established hierarchy of classification.

Notes to financial statements (cont.)

(in PLN thousand)

Assets and liabilities measured at fair value in breakdown by fair value hierarchy levels

30.09.2017	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	18 516 087	6 533 770	210 789	25 260 646
Financial assets held for trading	960 532	30 535	108 849	1 099 916
Derivative financial instruments, including:	-	1 438 044	-	1 438 044
- Banks	-	928 794	-	928 794
- Customers	-	509 250	-	509 250
Hedging instruments, including:	-	234 540	-	234 540
- Banks	-	66 398	-	66 398
- Customers	-	168 142	-	168 142
Securities available for sale	17 555 555	4 830 651	101 940	22 488 146
Liabilities:	553 842	2 582 260	-	3 136 102
Financial liabilities held for trading	553 767	75 791	-	629 558
Derivative financial instruments, including:	75	1 376 225	-	1 376 300
- Banks	-	866 491	-	866 491
- Customers	75	509 734	-	509 809
Hedging instruments, including:	-	1 130 244	-	1 130 244
- Banks	-	1 126 902	-	1 126 902
- Customers	-	3 342	-	3 342

31.12.2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	20 944 182	13 685 790	407 312	35 037 284
Financial assets held for trading	636 385	29 971	66 113	732 469
Derivative financial instruments, including:	1	1 913 428	-	1 913 429
- Banks	-	1 339 956	-	1 339 956
- Customers	1	573 472	-	573 473
Hedging instruments, including:	-	289 752	-	289 752
- Banks	-	54 550	-	54 550
- Customers	-	235 202	-	235 202
Securities available for sale	20 307 796	11 452 639	341 199	32 101 634
Liabilities:	527 840	3 736 717	-	4 264 557
Financial liabilities held for trading	527 836	145 329	-	673 165
Derivative financial instruments, including:	4	1 952 670	-	1 952 674
- Banks	-	1 349 082	-	1 349 082
- Customers	4	603 588	-	603 592
Hedging instruments, including:	-	1 638 718	-	1 638 718
- Banks	-	1 636 262	-	1 636 262
- Customers	-	2 456	-	2 456

Notes to financial statements (cont.)

(in PLN thousand)

Change in fair value of financial assets measured at fair value according to Level 3 by the Group

3 QUARTERS 2017	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
Opening balance	66 113	-	341 199
Increases, including:	299 060	-	21 767
Reclassification	-	-	-
Acquisition	298 000	-	-
Settlement	-	-	-
Gains on financial instruments	1 060	-	21 767
recognized in the income statement	1 060	-	3 526
recognized in revaluation reserves	-	-	18 241
Decreases, including:	(256 324)	-	(261 026)
Reclassification	-	-	-
Settlement/redemption	(974)	-	(252 796)
Sale	(255 339)	-	-
Losses on financial instruments	(11)	-	(8 230)
recognized in the income statement	(11)	-	(7 489)
recognized in revaluation reserves	-	-	(741)
Closing balance	108 849	-	101 940
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	99	-	18 241
Income statement:	99	-	-
net interest income	100	-	-
result on financial assets and liabilities held for trading	(1)	-	-
Other comprehensive income	-	-	18 241

Notes to financial statements (cont.)

(in PLN thousand)

Change in fair value of financial assets measured at fair value according to Level 3 by the Group

2016	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
Opening balance	47 389	943	456 169
Increases, including:	188 786	-	68 170
Reclassification	-	-	-
Acquisition	187 298	-	58 952
Settlement	-	-	-
Gains on financial instruments	1 488	-	9 218
recognized in the income statement	1 488	-	7 598
recognized in revaluation reserves	-	-	1 620
Decreases, including:	(170 062)	(943)	(183 140)
Reclassification	-	(943)	-
Settlement / redemption	(23 454)	-	(181 678)
Sale	(146 585)	-	-
Loss on financial instruments	(23)	-	(1 462)
recognized in the income statement	(23)	-	(4)
recognized in revaluation reserves	-	-	(1 458)
Closing balance	66 113	-	341 199
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	25	-	(1 187)
Income statement:	25	-	271
net interest income	41	-	271
result on financial assets and liabilities held for trading	(16)	-	-
Other comprehensive income	-	-	(1 458)

Transfers of instruments between fair value hierarchy levels are based on changes in availability of active market quotations as at the end of the reporting periods.

In the period from 1 January to 30 September 2017 there were no transfers between fair value hierarchy levels.

Notes to financial statements (cont.)

(in PLN thousand)

The impact of estimated parameters on measurement of financial instruments, for which the Group applies fair value valuation according to Level 3 as at 30 September 2017 and 31 December 2016, is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 30.09.2017	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 30.09.2017	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate debt securities	108 849	Discounted cash flow	Credit spread	0.73%-1.3%	379	(211)

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2016	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2016	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate debt securities	316 025	Discounted cash flow	Credit spread	0.32%-1.13%	613	(627)

Financial instruments that are not measured at fair value in the consolidated statement of financial position of the Group

The Group also holds financial instruments which are not presented at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As of 30 September 2017 and 31 December 2016, the Group classified the financial assets and liabilities not measured at fair value in the consolidated statement of financial position into the following three categories based on the valuation level:

- Level 1: mark-to-market, applies to government securities quoted on the liquid market and cash,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument, applies to interbank deposits, own issues, illiquid government, municipal, corporate and central bank debt securities,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors, is applicable to corporate and municipal debt securities and loans and deposits for which the applied credit risk factor (an unobservable parameter) is recognized significant.

In case of certain groups of financial assets, recognized at the amount to be received with impairment considered, the fair value was assumed to be equal to carrying amount. The above applies in particular to cash and other financial assets and liabilities.

In the case of loans for which no quoted market values are available, the fair values presented are generally estimated using valuation techniques taking into consideration the assumption, that at the moment when the loan is granted its fair value is equal to its carrying amount. Fair value of non-impaired loans is equal to the sum of future expected cash flows, discounted at the balance sheet date. The discount rate is defined as the appropriate market risk-free rate plus the credit risk margin and current sales margin for the given loan products group. The margin is computed on loans granted during last three months broken down by loan product groups and maturity.

For the purpose of the fair value of foreign currency loans estimation, the margin on PLN loans adjusted by the cross-currency basis swap quotes is used. The fair value of impaired loans is defined as equal to the sum of expected recoveries, discounted with the use of effective interest rate, since the average expected recovery values take the element of credit risk fully into consideration. In case of loans without repayment schedule (loans in current account, overdrafts and credit cards), the fair value was assumed as equal to the carrying amount.

For the Group's capital exposure, for which no active market prices are available and market values are unattainable, the Group does not measure their fair value. Such exposures include companies from financial sector, associated with the use of the financial and banking infrastructure and payment card services and companies taken-over as a result of debt restructuring.

Notes to the financial statements (cont.)

(in PLN thousand)

Since no quoted market prices are available for deposits, their fair values have been generally estimated using valuation techniques with the assumption that the fair value of a deposit at the moment of its receipt is equal to its carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows, discounted at the relevant balance sheet date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. The margin is computed on deposits acquired during last three months broken down by deposit product groups and maturity. In case of short term deposits (current deposits, overnights, saving accounts), the fair value was assumed as equal to the carrying amount.

The fair value of deposits and loans, apart from mortgage loans denominated in PLN and CHF for which prepayment model is used, is calculated based on contractual cash flows.

The mark-to-model valuation of own issue debt instruments is based on the method of discounting the future cash flows. Variable cash flows are estimated based upon rates adopted for specific markets (depending upon issue specifications). Both the fixed and implied cash flows are discounted using interbank money market rates.

Assets and liabilities not measured at fair value in the financial statement in breakdown by fair value hierarchy levels

30.09.2017	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	6 106 127	6 106 127	2 471 236	3 634 891	-
Loans and advance to banks	2 926 419	2 926 416	-	1 353 196	1 573 220
Loans and advances to customers	125 176 264	123 688 435	-	5 981 745	117 706 690
Receivables from financial leases	4 253 407	4 316 362	-	-	4 316 362
Debt securities held to maturity	3 470 840	3 488 743	3 488 743	-	-
Total Assets	141 933 057	140 526 083	5 959 979	10 969 832	123 596 272
Liabilities					
Amounts due to Central Bank	6 055	6 057	-	-	6 057
Amounts due to other banks	4 371 334	4 398 773	-	479 871	3 918 902
Amounts due to customers	136 193 277	136 363 225	-	970 659	135 392 566
Debt securities issued	2 435 932	2 388 194	-	2 388 194	-
Total Liabilities	143 006 598	143 156 249	-	3 838 724	139 317 525

31.12.2016	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	5 872 911	5 872 802	2 639 531	3 233 271	-
Loans and advance to banks	3 257 829	3 257 936	-	1 089 488	2 168 448
Loans and advances to customers	118 689 267	117 912 278	-	5 789 241	112 123 037
Receivables from financial leases	3 974 643	4 038 178	-	-	4 038 178
Debt securities held to maturity	3 018 985	3 033 397	3 012 791	20 606	-
Total Assets	134 813 635	134 114 591	5 652 322	10 132 606	118 329 663
Liabilities					
Amounts due to Central Bank	6 091	6 185	-	-	6 185
Amounts due to other banks	4 823 440	4 870 778	-	482 375	4 388 403
Amounts due to customers	137 815 926	137 494 049	-	1 436 240	136 057 809
Debt securities issued	1 522 963	1 565 925	-	1 565 925	-
Total Liabilities	144 168 420	143 936 937	-	3 484 540	140 452 397

Notes to financial statements (cont.)

(in PLN thousand)

8. Operating segments

Data reported in the section stem from the application of the management model ('Model') in which the main criterion for segmentation is the classification of customers based on their profile and service model.

Reporting and monitoring of results, for managerial purposes, includes all components of the income statement up to the gross profit level. Therefore, the income from the segment's activities as well as operating costs related to those activities (including direct and allocated costs in line with the allocation model applied) and other components of income statement are attached to each segment.

The Group settles transactions between segments on an arm's length basis by applying current market prices. Fund transfers between retail, private, corporate and investment banking segments, and the assets and liabilities management and other area are based on market prices applicable to the funds' currency and maturity, including liquidity margins.

Operating segments

The operating segments of the Group are as follows:

- Retail banking – all banking activities related to retail customers (excluding private banking customers), small and micro companies with annual turnover not exceeding PLN 20 million, as well as results of the subsidiaries, and shares in net profit of associates accounted for using the equity method, that are assigned to the retail banking activity,
- Private banking – all banking activities related to the most affluent individual customers,
- Corporate and Investment banking – all banking activities related to the medium and large companies, interbank market, debt securities and other instruments, and results of the of the subsidiaries that are assigned to the Corporate and Investment banking activity,
- Assets and liabilities management and other – supervision and monitoring of fund transfers, other activities centrally managed as well as the results of subsidiaries and share in net profit of associated accounted for using equity method that are not assigned to other reported segments.

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 30 September 2017

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	1 951 646	44 656	1 206 274	252 054	3 454 630
Non-interest income	1 121 889	19 714	662 197	69 595	1 873 395
Operating income	3 073 535	64 370	1 868 471	321 649	5 328 025
Personnel expenses	(835 337)	(18 385)	(197 778)	(394 002)	(1 445 502)
Other administrative expenses	(949 586)	(19 405)	(254 143)	513 412	(709 722)
Depreciation and amortisation	(120 808)	(1 013)	(16 695)	(115 121)	(253 637)
Operating costs	(1 905 731)	(38 803)	(468 616)	4 289	(2 408 861)
Gross operating profit	1 167 804	25 567	1 399 855	325 938	2 919 164
Net impairment losses on loans and off-balance sheet commitments	(184 388)	(564)	(188 274)	4 772	(368 454)
Net operating profit	983 416	25 003	1 211 581	330 710	2 550 710
Net result on other provisions	(2 645)	-	154	(19 479)	(21 970)
Guarantee funds charges	(81 265)	(465)	(100 415)	(64 231)	(246 376)
Tax on certain financial institutions	-	-	-	(383 480)	(383 480)
Net result on investment activities	(258)	-	302	298	342
Profit before tax	899 248	24 538	1 111 622	(136 182)	1 899 226
Income tax expense					(477 649)
Net profit for the period					1 421 577
Attributable to equity holders of the Bank					1 420 998
Attributable to non-controlling interests					579
Allocated assets	68 744 364	260 890	96 793 429	(2 512 609)	163 286 074
Unallocated assets					8 176 783
Total assets					171 462 857
Allocated liabilities	82 576 644	8 576 020	58 807 701	(5 591 969)	144 368 396
Unallocated liabilities					27 094 461
Total liabilities					171 462 857

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 30 September 2016

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	1 825 732	35 694	1 228 022	225 981	3 315 429
Non-interest income	1 130 518	22 704	688 832	428 215	2 270 269
Operating income	2 956 250	58 398	1 916 854	654 196	5 585 698
Personnel expenses	(829 646)	(19 103)	(192 236)	(373 015)	(1 414 000)
Other administrative expenses	(945 468)	(18 976)	(252 739)	469 591	(747 592)
Depreciation and amortisation	(133 860)	(1 370)	(17 111)	(104 166)	(256 507)
Operating costs	(1 908 974)	(39 449)	(462 086)	(7 590)	(2 418 099)
Gross operating profit	1 047 276	18 949	1 454 768	646 606	3 167 599
Net impairment losses on loans and off-balance sheet commitments	(202 440)	562	(194 474)	1 902	(394 450)
Net operating profit	844 836	19 511	1 260 294	648 508	2 773 149
Net result on other provisions	(3)	(100)	(395)	(8 983)	(9 481)
Guarantee funds charges	(75 847)	(500)	(101 609)	(18 892)	(196 848)
Tax on certain financial institutions	-	-	-	(321 571)	(321 571)
Net result on investment activities	(198)	-	379	5 060	5 241
Profit before tax	768 788	18 911	1 158 669	304 122	2 250 490
Income tax expense					(465 610)
Net profit for the period					1 784 880
Attributable to equity holders of the Bank					1 784 563
Attributable to non-controlling interests					317
Allocated assets	62 128 662	284 779	96 238 248	(3 937 874)	154 713 815
Unallocated assets					8 538 886
Total assets					163 252 701
Allocated liabilities	75 220 646	8 257 763	56 884 890	(4 878 402)	135 484 897
Unallocated liabilities					27 767 804
Total liabilities					163 252 701

Reconciliations of operating income for reportable segments

	3 QUARTERS 2017	3 QUARTERS 2016
Total operating income for reportable segments	5 328 025	5 585 698
Share in gains (losses) from associates	(31 659)	(29 673)
Net other operating income and expenses	(87 522)	(22 522)
Refunding of administrative expenses	1 888	1 973
Operating income	5 210 732	5 535 476

Geographical segment

The operating activity of Bank Pekao S.A. Group is concentrated in Poland through the network of branches and the subsidiaries.

Notes to financial statements (cont.)

(in PLN thousand)

9. Interest income and expense

Interest income

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Loans and other receivables from customers	1 197 761	3 481 347	1 121 081	3 306 387
Interbank placements	20 969	60 495	17 557	60 512
Reverse repo transactions	6 098	24 813	11 878	38 767
Investment securities	158 872	507 501	192 805	553 426
Hedging derivatives	28 628	95 671	34 351	106 123
Financial assets held for trading	1 719	11 753	4 585	8 446
Total	1 414 047	4 181 580	1 382 257	4 073 661

Interest expense

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Deposits from customers	(233 382)	(685 857)	(231 866)	(707 859)
Interbank deposits	(3 672)	(12 896)	(8 019)	(18 575)
Repo transactions	(10 986)	(44 786)	(12 610)	(33 596)
Loans and advances received	(2 057)	(6 620)	(2 432)	(8 401)
Debt securities issued	(11 829)	(28 091)	(9 879)	(36 036)
Total	(261 926)	(778 250)	(264 806)	(804 467)

10. Fee and commission income and expense

Fee and commission income

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Accounts maintenance, payment orders and cash transactions	148 764	449 483	155 867	470 438
Payment cards	153 748	436 103	151 652	440 753
Loans and advances	98 757	311 345	104 638	337 169
Margin on foreign exchange transactions with clients	114 439	330 469	106 790	319 122
Investment products sales intermediation	64 997	196 487	62 294	184 578
Securities operations	24 077	69 921	22 597	65 811
Custody activity	19 434	52 727	15 969	47 312
Pension and investment funds service fees	12 700	37 982	12 396	36 730
Guarantees, letters of credit and similar transactions	13 829	40 026	11 869	41 615
Other	8 168	35 448	22 259	48 954
Total	658 913	1 959 991	666 331	1 992 482

Fee and commission expense

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Payment cards	(59 835)	(165 549)	(51 482)	(161 426)
Money orders and transfers	(4 812)	(15 280)	(4 845)	(15 073)
Securities and derivatives operations	(7 341)	(22 021)	(7 108)	(19 061)
Accounts maintenance	(1 109)	(3 648)	(1 293)	(3 569)
Custody activity	(3 568)	(10 924)	(3 323)	(11 059)
Pension funds management charges	(79)	(754)	(79)	(777)
Acquisition services	(1 271)	(3 542)	(1 028)	(2 750)
Other	(814)	(2 421)	(434)	(1 215)
Total	(78 829)	(224 139)	(69 592)	(214 930)

Notes to financial statements (cont.)

(in PLN thousand)

11. Dividend income

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Issuers of securities held for trading	48	64	108	125
Issuers of securities available for sale	175	19 577	43	16 437
Total	223	19 641	151	16 562

12. Result on financial assets and liabilities held for trading

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Foreign currency exchange result	(9 642)	(32 923)	(758)	(2 915)
Gains (losses) on derivatives	14 877	37 531	8 441	30 858
Gains (losses) on securities	6 011	15 511	2 827	16 483
Total	11 246	20 119	10 510	44 426

13. Gains (losses) on disposal

Realized gains

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Loans and other financial receivables (*)	2 178	2 271	-	155 720
Available for sale financial assets – debt instruments	19 841	25 594	8 506	14 033
Available for sale financial assets – equity instruments (**)	-	-	-	262 827
Held to maturity investments	-	176	-	-
Debt securities issued	-	-	1	1
Total	22 019	28 041	8 507	432 581

(*) In 2016 the Bank sold loans with a total debt of PLN 1 863 million. The realized gross result on the transaction was PLN 149.9 million.

(**) In 2016 the Bank has received information about the closing of the acquisition of Visa Europe Limited by Visa Inc.

Realized losses

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Loans and other financial receivables	(65)	(65)	-	-
Available for sale financial assets – debt instruments	-	-	(645)	(828)
Debt securities issued	(72)	(152)	(51)	(59)
Total	(137)	(217)	(696)	(887)

Net realized profit	21 882	27 824	7 811	431 694
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Notes to financial statements (cont.)

(in PLN thousand)

14. Administrative expenses

Personnel expenses

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Wages and salaries	(417 100)	(1 214 392)	(397 083)	(1 189 248)
Insurance and other charges related to employees	(71 952)	(217 264)	(70 805)	(216 270)
Share-based payments expenses	(4 132)	(13 846)	(1 949)	(8 482)
Total	(493 184)	(1 445 502)	(469 837)	(1 414 000)

Other administrative expenses

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
General expenses	(228 207)	(668 480)	(236 118)	(706 719)
Taxes and charges	(9 755)	(31 933)	(10 010)	(31 391)
Bank Guarantee Fund fee	(22 491)	(245 208)	(65 392)	(196 780)
Financial supervision authority fee (KNF)	(544)	(12 365)	6 136	(11 523)
Tax on certain financial institutions	(130 795)	(383 480)	(120 727)	(321 571)
Total	(391 792)	(1 341 466)	(426 111)	(1 267 984)

Total administrative expenses	(884 976)	(2 786 968)	(895 948)	(2 681 984)
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From 1 January 2017 new rules for making contributions to Bank Guarantee Fund (hereinafter 'BGF'), defined in the Act of 10 June 2016 on Bank Guarantee Fund, deposit guarantee schemes and resolution of banks (hereinafter 'BGF Act'), have to be applied.

In accordance with BGF Act, the banks are committed to make quarterly contributions to deposit guarantee fund of banks and annual contribution to resolution fund of banks. Such contributions are expenses not deductible for tax purposes. The obligation to make quarterly contribution to deposit guarantee fund of banks arises at the first day of each quarter, whereas the obligation to make annual contribution to resolution fund of banks arises at 1 January of the year concerned.

As a result of application of the Interpretation IFRIC 21 *Levies* for recognition of the above obligations, the costs of quarterly contribution to deposit guarantee fund of banks in the amount of PLN 66 819 thousand and the costs of annual contribution to resolution fund of banks in the amount of PLN 178 389 thousand are charged to the income statement of Bank Pekao Group for the three quarters of 2017.

In 2016 other legal provisions in respect of determining and payment of contributions (obligatory and prudential) to BGF were binding. Those legal provisions allowed recognizing the costs of contributions to BGF in the income statements on a quarterly basis. Moreover the obligatory contributions were expenses deductible for tax purposes.

Notes to financial statements (cont.)

(in PLN thousand)

15. Depreciation and amortization

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Property, plant and equipment	(42 986)	(128 338)	(41 640)	(127 067)
Investment property	(232)	(700)	(271)	(913)
Intangible assets	(40 852)	(124 599)	(43 126)	(128 527)
Total	(84 070)	(253 637)	(85 037)	(256 507)

16. Net other operating income and expenses

Other operating income

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Rental income	5 189	15 418	4 972	15 552
Miscellaneous income	4 251	9 611	3 608	8 720
Recovery of debt collection costs	3 638	10 349	3 146	9 918
Revenues from sale of products, goods and services	20 131	59 949	1 424	4 133
Excess payments, repayments	263	1 393	7 607	9 202
Compensation, recoveries, penalty fees and fines received	31 482	70 191	1 298	4 391
Revenues from leasing activity	809	2 883	436	1 590
Refunding of administrative expenses	637	1 888	659	1 973
Income from written off liabilities	59	72	58	228
Releases of impairment allowances for litigation and other assets	150	561	214	720
Gains on sale of leasing assets for third person and other assets	278	576	71	527
Other	933	3 423	1 337	3 576
Total	67 820	176 314	24 830	60 530

Other operating expenses

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Costs related to leasing activity	(426)	(1 566)	(319)	(1 110)
Credit insurance expenses	(1 540)	(6 187)	(2 565)	(8 252)
Sundry expenses	(3 110)	(7 254)	(2 866)	(7 315)
Reimbursement and deficiencies	(189)	(2 751)	(269)	(1 901)
Costs from sale of products, goods and services	(18 736)	(55 870)	(806)	(1 888)
Customers complaints expenses	(248)	(811)	(261)	(1 382)
Impairment allowance for litigations and other assets	(591)	(1 997)	(720)	(3 254)
Costs of litigation and claims	(140)	(1 675)	(213)	(924)
Compensation, penalty fees and fines paid	(315)	(533)	(1 195)	(1 338)
Losses on disposal of leasing assets for third person and other	(33)	(593)	(66)	(466)
Other	(2 862)	(9 555)	(3 540)	(10 178)
Total	(28 190)	(88 792)	(12 820)	(38 008)
Net other operating income and expenses	39 630	87 522	12 010	22 522

Notes to financial statements (cont.)

(in PLN thousand)

17. Net impairment losses on financial assets and off-balance sheet commitments

3 QUARTERS 2017	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks measured at amortized cost	17 993	415	215	-	(570)	(1 077)	16 976	155
Loans and advances to customers measured at amortized cost	5 542 619	811 527	93 419	(147 114)	(449 794)	(168 350)	5 682 307	(361 733)
Receivables from financial leases	166 947	17 945	8	(18)	(13 699)	(12)	171 171	(4 246)
Financial assets available for sale	1 257	99	-	-	-	-	1 356	(99)
Off-balance sheet commitments	220 983	53 572	-	-	(50 942)	(827)	222 786	(2 630)
Total financial assets and off-balance sheet commitments	5 949 799	883 558	93 642	(147 132)	(515 005)	(170 266)	6 094 596	(368 553)
Impairment of other assets								
Investments in associates	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Property, plant and equipment	7 758	531	-	(1 039)	-	-	7 250	(531)
Investment properties	7 031	-	-	-	-	-	7 031	-
Other	80 266	1 997	-	(97)	(561)	(1 014)	80 591	(1 436)
Total impairment of other assets	95 055	2 528	-	(1 136)	(561)	(1 014)	94 872	(1 967)
Total	6 044 854	886 086	93 642	(148 268)	(515 566)	(171 280)	6 189 468	(370 520)

(*) Including foreign exchange differences and transfers between positions.

Notes to financial statements (cont.)

(in PLN thousand)

3 QUARTERS 2016	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT (**)
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks measured at amortized cost	19 774	622	803	-	(2 923)	(886)	17 390	2 301
Loans and advances to customers measured at amortized cost	5 678 633	798 413	67 909	(171 120)	(455 308)	(65 880)	5 852 647	(343 105)
Receivables from financial leasing	163 704	13 708	2	(86)	(9 518)	(548)	167 262	(4 190)
Financial assets available for sale	122	-	-	-	-	(100)	22	-
Impairment of off-balance sheet commitments	120 771	118 200	74	-	(56 249)	-	182 796	(61 951)
Total financial assets and off-balance sheet commitments	5 983 004	930 943	68 788	(171 206)	(523 998)	(67 414)	6 220 117	(406 945)
Impairment of other assets								
Investments in associates	60	-	-	-	-	(60)	-	-
Intangible assets	10 961	-	-	(10 961)	-	-	-	-
Property, plant and equipment	8 451	-	-	(413)	-	-	8 038	-
Investment properties	8 682	-	-	(926)	-	(725)	7 031	-
Other	77 736	3 254	3 038	(243)	(720)	(1 433)	81 632	(2 534)
Total impairment of other assets	105 890	3 254	3 038	(12 543)	(720)	(2 218)	96 701	(2 534)
Total	6 088 894	934 197	71 826	(183 749)	(524 718)	(69 632)	6 316 818	(409 479)

(*) Including foreign exchange differences and transfers between positions.

(**) 'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 406 945 thousand and proceeds from recovered bad debt in the amount of PLN 12 495 thousand, the total is PLN minus 394 450 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

18. Gains (losses) on subsidiaries and associates

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Share in gains (losses) from associates				
Dom Inwestycyjny Xelion Sp. z o.o.	643	2 083	596	1 530
Pioneer Pekao Investment Management S.A.	10 462	29 576	9 286	28 143
Total share in gains (losses) from associates	11 105	31 659	9 882	29 673
Losses on liquidation of subsidiaries	-	-	(20)	(20)
Total gains (losses) from subsidiaries and associates	11 105	31 659	9 862	29 653

19. Gains (losses) on disposal of property, plant and equipment, and intangible assets

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	663	1 383	340	804
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	(288)	(942)	3 277	4 457
Total gains (losses) on disposal of property, plant and equipment and intangible assets	375	441	3 617	5 261

20. Basic components of income tax charge in the income statement and equity

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
INCOME STATEMENT				
Current tax	(175 478)	(449 962)	(108 810)	(492 285)
Current tax charge in the income statement	(175 434)	(452 978)	(109 159)	(491 809)
Adjustments related to the current tax from previous years	-	3 298	352	207
Other taxes (e.g. withholding tax)	(44)	(282)	(3)	(683)
Deferred tax	10 072	(27 687)	(8 520)	26 675
Occurrence and reversal of temporary differences	10 072	(27 687)	(8 520)	26 675
Tax charge in the consolidated income statement	(165 406)	(477 649)	(117 330)	(465 610)
EQUITY				
Deferred tax	(5 373)	(49 997)	(4 253)	43 355
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	(4 805)	1 294	(895)	(7 316)
revaluation of available for sale financial assets – debt securities	734	(39 796)	(3 226)	12 860
revaluation of available for sale financial assets – equity securities	(1 302)	(11 495)	(132)	37 811
Tax on items that are or may be reclassified subsequently to profit or loss	(5 373)	(49 997)	(4 253)	43 355
Total charge	(170 779)	(527 646)	(121 583)	(422 255)

Notes to financial statements (cont.)

(in PLN thousand)

21. Earnings per share

Basic earnings per share

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

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Net profit	536 220	1 420 998	520 654	1 784 563
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	2.04	5.41	1.98	6.80

Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of the ordinary shares outstanding during the given period adjusted for all potential dilution of ordinary shares.

As at 30 September 2017 there were no diluting instruments in the form of convertible bonds in the Group.

	III QUARTER 2017	3 QUARTERS 2017	III QUARTER 2016	3 QUARTERS 2016
Net profit	536 220	1 420 998	520 654	1 784 563
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	2.04	5.41	1.98	6.80

22. Dividend payment

The dividends and other payments to shareholders are recognized directly in equity. The dividend payable is not recognized until the entity has no obligation to pay dividends that is until the payment is approved by the General Meeting.

On 19 April 2017 the Ordinary General Meeting of Bank Pekao S.A. made the resolution regarding the dividend payment for year 2016. The dividend to the shareholders contributed an amount of PLN 2 278 239 895.12, wherein the amount of the dividend per one share was PLN 8.68. The dividend's day was fixed for 21 June 2017.

The payment of the dividend was on 6 July 2017.

Notes to financial statements (cont.)

(in PLN thousand)

23. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	30.09.2017	31.12.2016	30.09.2016
Cash	2 471 224	2 639 532	2 464 474
Current account at Central Bank	3 614 172	1 718 775	1 480 970
Other	20 731	1 514 604	50 566
Total	6 106 127	5 872 911	3 996 010

AMOUNTS DUE TO CENTRAL BANK	30.09.2017	31.12.2016	30.09.2016
Term deposits	6 055	6 091	6 065
Total	6 055	6 091	6 065

Cash and balances with Central Bank by currency

30.09.2017	ASSETS	LIABILITIES
PLN	5 193 370	6 055
EUR	426 976	-
USD	262 227	-
CHF	57 530	-
Other currencies	166 024	-
Total	6 106 127	6 055

31.12.2016	ASSETS	LIABILITIES
PLN	4 944 326	6 091
EUR	443 480	-
USD	260 015	-
CHF	59 727	-
Other currencies	165 363	-
Total	5 872 911	6 091

30.09.2016	ASSETS	LIABILITIES
PLN	3 109 230	6 065
EUR	393 890	-
USD	267 222	-
CHF	48 015	-
Other currencies	177 653	-
Total	3 996 010	6 065

Notes to financial statements (cont.)

(in PLN thousand)

24. Loans and advances to banks

Loans and advances to banks by product type

	30.09.2017	31.12.2016	30.09.2016
Current accounts	166 736	118 142	163 649
Interbank placements	551 558	267 828	745 026
Loans and advances	32 871	34 517	33 734
Cash collaterals	1 271 870	1 771 842	1 693 758
Reverse repo transactions	635 155	703 635	504 409
Cash in transit	285 205	379 858	165 855
Total gross amount	2 943 395	3 275 822	3 306 431
Impairment allowances	(16 976)	(17 993)	(17 390)
Total net amount	2 926 419	3 257 829	3 289 041

Loans and advances to banks by quality

	30.09.2017	31.12.2016	30.09.2016
Loans and advances to banks, including:			
non impaired (gross)	2 926 430	3 257 830	3 289 069
impaired (gross)	16 965	17 992	17 362
individual impairment allowances	(7 165)	(8 192)	(7 562)
collective impairment allowances (*)	(9 811)	(9 801)	(9 828)
Total	2 926 419	3 257 829	3 289 041

(*) Including estimated impairment allowances for losses incurred but not reported (IBNR).

Loans and advances to banks by contractual maturity

	30.09.2017	31.12.2016	30.09.2016
Loans and advances to banks, including:			
up to 1 month	2 917 313	3 178 259	3 225 909
between 1 and 3 months	1 166	345	217
between 3 months and 1 year	8	69 684	53 058
between 1 and 5 years	169	47	123
over 5 years	50	2	2
past due	24 689	27 485	27 122
Total gross amount	2 943 395	3 275 822	3 306 431
Impairment allowances	(16 976)	(17 993)	(17 390)
Total net amount	2 926 419	3 257 829	3 289 041

Loans and advances to banks by currency

	30.09.2017	31.12.2016	30.09.2016
PLN	1 300 187	1 012 264	812 878
CHF	5 570	19 462	11 419
EUR	1 415 882	2 010 070	1 869 235
USD	38 791	68 792	486 305
Other currencies	165 989	147 241	109 204
Total	2 926 419	3 257 829	3 289 041

Changes in impairment allowances in the period from 1 January to 30 September 2017 and in the period from 1 January to 30 September 2016 are presented in the Note 17.

Notes to financial statements (cont.)

(in PLN thousand)

25. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.09.2017	31.12.2016	30.09.2016
FINANCIAL ASSETS			
Debt securities	1 091 995	730 750	965 706
Equity securities	7 921	1 719	12 501
Total financial assets	1 099 916	732 469	978 207
FINANCIAL LIABILITIES			
Debt securities	629 558	673 165	498 530
Total financial liabilities	629 558	673 165	498 530

Debt securities held for trading

	30.09.2017	31.12.2016	30.09.2016
FINANCIAL ASSETS			
Debt securities issued by State Treasury	980 045	654 918	897 590
T- bills	-	-	-
T- bonds	980 045	654 918	897 590
Debt securities issued by banks	60 154	9 719	14 398
Debt securities issued by business entities	51 796	66 113	53 718
Total financial assets	1 091 995	730 750	965 706
FINANCIAL LIABILITIES			
Debt securities issued by State Treasury	629 558	673 165	498 530
T- bonds	629 558	673 165	498 530
Total financial liabilities	629 558	673 165	498 530

Equity securities held for trading

	30.09.2017	31.12.2016	30.09.2016
Shares	7 921	1 719	12 501
Total	7 921	1 719	12 501

Notes to financial statements (cont.)

(in PLN thousand)

Debt securities held for trading by maturity

	30.09.2017	31.12.2016	30.09.2016
FINANCIAL ASSETS			
Debt securities, including:			
up to 1 month	252	-	143 968
between 1 and 3 months	-	239	-
between 3 months and 1 year	440	117 804	110 403
between 1 and 5 years	953 051	324 868	535 558
over 5 years	138 252	278 120	167 526
unspecified term	-	9 719	8 251
Total financial assets	1 091 995	730 750	965 706
FINANCIAL LIABILITIES			
Debt securities, including:			
up to 1 month	-	102 076	-
between 1 and 3 months	-	-	-
between 3 months and 1 year	252 801	131 194	27 854
between 1 and 5 years	177 253	263 435	352 861
over 5 years	199 504	176 460	117 815
Total financial liabilities	629 558	673 165	498 530

Debt securities held for trading by currency

	30.09.2017	31.12.2016	30.09.2016
FINANCIAL ASSETS			
PLN	1 083 931	710 575	949 705
EUR	4 697	5 629	5 441
USD	3 367	14 546	10 560
Total financial assets	1 091 995	730 750	965 706
FINANCIAL LIABILITIES			
PLN	629 558	673 165	498 530
Total financial liabilities	629 558	673 165	498 530

Notes to financial statements (cont.)

(in PLN thousand)

26. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.09.2017	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 012 057	1 044 194
Forward Rate Agreements (FRA)	53	-
Options	6 654	2 368
Other	1 138	788
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	25 248	56 635
Currency Forward Agreements	85 125	117 834
Currency Swaps (FX-Swap)	215 613	62 723
Options for currency and gold	23 589	23 471
Transactions based on equity securities and stock indexes		
Options	10 067	10 074
Other	-	75
Transactions based on commodities and precious metals		
Options	3 347	3 186
Other	55 153	54 952
Total	1 438 044	1 376 300

31.12.2016	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 517 526	1 503 394
Forward Rate Agreements (FRA)	347	155
Options	1 837	1 710
Other	426	618
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	49 978	161 421
Currency Forward Agreements	183 636	84 759
Currency Swaps (FX-Swap)	62 207	93 089
Options for currency and for gold	52 971	53 605
Transactions based on equity securities and stock indexes		
Options	5 403	5 422
Other	1	9 723
Transactions based on commodities and precious metals		
Options	2 113	1 971
Other	36 984	36 807
Total	1 913 429	1 952 674

Notes to financial statements (cont.)

(in PLN thousand)

Fair value of trading derivatives

30.09.2016	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 751 727	1 760 007
Forward Rate Agreements (FRA)	403	191
Options	2 544	2 520
Other	205	166
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	43 529	94 868
Currency Forward Agreements	72 399	84 065
Currency Swaps (FX-Swap)	55 903	63 582
Options for currency and gold	25 505	23 221
Transactions based on equity securities and stock indexes		
Options	5 298	5 324
Other	84	8 252
Transactions based on commodities and precious metals		
Options	3 602	3 702
Other	21 212	21 094
Total	1 982 411	2 066 992

27. Loans and advances to customers

Loans and advances to customers by product type

	30.09.2017	31.12.2016	30.09.2016
Mortgage loans	58 489 288	54 713 809	53 610 598
Current accounts	11 982 728	10 599 898	11 699 552
Operating loans	13 431 514	13 897 871	14 351 950
Investment loans	17 602 521	16 810 632	15 988 623
Cash loans	11 794 248	10 211 931	9 923 840
Payment cards receivables	1 058 939	970 673	941 910
Purchased debt receivables	2 851 951	2 890 930	2 412 080
Other loans and advances	1 463 298	1 595 088	1 709 424
Debt securities	12 107 506	12 451 372	12 644 940
Reverse repo transactions	-	-	-
Cash in transit	76 578	89 682	58 805
Total gross amount	130 858 571	124 231 886	123 341 722
Impairment allowances	(5 682 307)	(5 542 619)	(5 852 647)
Total net amount	125 176 264	118 689 267	117 489 075

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by customer type

	30.09.2017	31.12.2016	30.09.2016
Corporate	57 630 654	55 257 059	55 509 352
Individuals	63 040 900	58 379 647	57 089 960
Budget entities	10 187 017	10 595 180	10 742 410
Total gross amount	130 858 571	124 231 886	123 341 722
Impairment allowances	(5 682 307)	(5 542 619)	(5 852 647)
Total net amount	125 176 264	118 689 267	117 489 075

Loans and advances to customers by quality

	30.09.2017	31.12.2016	30.09.2016
Loans and advances to customers, including:			
non impaired (gross)	122 757 906	116 571 271	115 262 381
impaired (gross)	8 100 665	7 660 615	8 079 341
individual impairment allowances	(3 469 247)	(3 189 149)	(3 398 061)
collective impairment allowances (*)	(2 213 060)	(2 353 470)	(2 454 586)
Total	125 176 264	118 689 267	117 489 075

(*) Including estimated impairment allowances for losses incurred but not reported (IBNR).

Loans and advances to customers by contractual maturity

	30.09.2017	31.12.2016	30.09.2016
Loans and advances to customers, including:			
up to 1 month	16 824 814	15 184 650	15 891 053
between 1 and 3 months	5 393 768	3 050 503	4 751 021
between 3 months and 1 year	10 732 176	12 393 167	10 190 927
between 1 and 5 years	39 578 336	37 323 318	37 137 302
over 5 years	52 611 248	50 359 575	49 170 210
past due	5 718 229	5 920 673	6 201 209
Total gross amount	130 858 571	124 231 886	123 341 722
Impairment allowances	(5 682 307)	(5 542 619)	(5 852 647)
Total net amount	125 176 264	118 689 267	117 489 075

Loans and advances to customers by currency

	30.09.2017	31.12.2016	30.09.2016
PLN	104 333 562	96 647 980	96 472 286
CHF	3 875 299	4 640 419	4 621 876
EUR	13 880 000	13 934 872	13 218 172
USD	2 851 640	3 289 584	3 026 618
Other currencies	235 763	176 412	150 123
Total	125 176 264	118 689 267	117 489 075

Changes in impairment allowances in the period from 1 January to 30 September 2017 and in the period from 1 January to 30 September 2016 are presented in the Note 17.

Notes to financial statements (cont.)

(in PLN thousand)

28. Receivables from financial leases

The Group conducts leasing operations through its subsidiary Pekao Leasing Sp. z o.o.

The value of gross lease investments and minimum lease payments are follows as:

30.09.2017	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 748 698	1 617 839
Between 1 and 5 years	2 647 961	2 512 560
Over 5 years	308 473	294 179
Total	4 705 132	4 424 578
Unearned finance income	(280 554)	
Net leasing investment	4 424 578	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	4 424 578	
Impairment allowances	(171 171)	
Balance sheet value	4 253 407	

31.12.2016	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 632 601	1 492 018
Between 1 and 5 years	2 520 358	2 353 845
Over 5 years	322 590	295 727
Total	4 475 549	4 141 590
Unearned finance income	(333 959)	
Net leasing investment	4 141 590	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	4 141 590	
Impairment allowances	(166 947)	
Balance sheet value	3 974 643	

30.09.2016	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 607 632	1 472 973
Between 1 and 5 years	2 401 972	2 242 517
Over 5 years	293 069	270 733
Total	4 302 673	3 986 223
Unearned finance income	(316 450)	
Net leasing investment	3 986 223	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	3 986 223	
Impairment allowances	(167 262)	
Balance sheet value	3 818 961	

Notes to financial statements (cont.)

(in PLN thousand)

The Group is acting as a lessor in financial leases mainly for transport vehicles, machines and equipment.

Moreover, when the Group is a lessee in a financial lease contract among the Group entities, the inter-company transactions relating to the financial leases are eliminated in the consolidated financial statements.

Receivables from financial leases from banks by quality

	30.09.2017	31.12.2016	30.09.2016
Receivables from financial leases from banks, including:			
non impaired (gross)	263	704	1 267
impaired (gross)	-	-	-
individual impairment allowances	-	-	-
collective impairment allowances (*)	(7)	(6)	(8)
Total	256	698	1 259

(*) Including estimated impairment allowances for losses incurred but not reported (IBNR).

Receivables from financial leases from clients by quality

	30.09.2017	31.12.2016	30.09.2016
Receivables from financial leases from clients, including:			
non impaired (gross)	4 189 616	3 934 980	3 757 623
impaired (gross)	234 699	205 906	227 333
individual impairment allowances	(29 617)	(30 047)	(32 352)
collective impairment allowances (*)	(141 547)	(136 894)	(134 902)
Total	4 253 151	3 973 945	3 817 702

(*) Including estimated impairment allowances for losses incurred but not reported (IBNR).

Receivables from financial leases by currency

	30.09.2017	31.12.2016	30.09.2016
PLN	2 674 264	2 450 665	2 390 208
CHF	635	1 416	1 634
EUR	1 562 378	1 522 242	1 426 581
USD	16 130	320	538
Total	4 253 407	3 974 643	3 818 961

Changes in impairment allowances in the period from 1 January to 30 September 2017 and in the period from 1 January to 30 September 2016 are presented in the Note 17.

Notes to financial statements (cont.)

(in PLN thousand)

29. Hedge accounting

As at 30 September 2017 the Group applies fair value hedge accounting and cash flow hedge accounting.

In the period from 1 January to 30 September 2017 the Group continued to apply the following hedge accounting:

- fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swap (IRS) transactions,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions,
- cash flow hedge accounting for variable portfolio of loans in EUR and USD hedged with FX-Swap instruments,
- fair value hedge accounting for fixed coupon debt securities classified as loans and receivables hedged with interest rate swaps (IRS).

In the period from 1 January to 30 September 2017 the Group:

- designated to the hedge accounting the hedging relationship – cash flow hedge accounting for highly probable cash flow denominated in EUR (short position in EUR for the Group) hedged with foreign exchange forward transactions (a series of FX-Spot and FX-Swap transactions),
- designated to the hedge accounting the hedging relationship – cash flow hedge accounting for deposits portfolio in PLN, which economically reflect long-term variable-rate liability, hedged with interest rate swap (IRS) transactions.

The tables below present the fair value of hedging derivatives

30.09.2017	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	18 118	185 121
Cross-currency interest rate swap (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	185 134	343
Cross-currency interest rate swap (CIRS)	-	931 656
FX-Swaps	31 288	13 124
Total	234 540	1 130 244

31.12.2016	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	14 683	267 311
Cross-currency interest rate swap (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	263 752	-
Cross-currency interest rate swap (CIRS)	-	1 370 905
FX-Swaps	11 317	502
Total	289 752	1 638 718

Notes to financial statements (cont.)

(in PLN thousand)

The table below presents the fair value of hedging derivatives

30.09.2016	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	-	330 272
Cross-currency interest rate swap (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	272 432	-
Cross-currency interest rate swap (CIRS)	-	1 329 069
FX-Swaps	62 706	3 848
Total	335 138	1 663 189

The table below presents the amounts recognized in the income statement and in the revaluation reserves due to cash flow hedge accounting

	3 QUARTERS 2017	3 QUARTERS 2016
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portions recognized as effective hedge - gross value)	32 913	83 788
Net interest income on hedging derivatives	146 847	160 735
Ineffective portions of changes in the fair value of hedging transactions recognized in the income statement	1	(788)

The table below presents changes in the revaluation reserves during the period due to cash flow hedge accounting

	3 QUARTERS 2017	3 QUARTERS 2016
Opening balance	39 724	45 281
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	(6 755)	38 590
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from the revaluation reserves and presented in net profit or loss	(56)	(83)
Closing balance	32 913	83 788

The table below presents the amounts recognized in the income statement due to the fair value hedge accounting

TYPE OF GAINS/LOSSES	3 QUARTERS 2017	3 QUARTERS 2016
Gains/losses from revaluation of hedging instruments to fair value	49 754	(77 559)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	(45 788)	73 607
Result on fair value hedge accounting	3 966	(3 952)
Net interest income on hedging derivatives	(51 176)	(54 612)

Notes to financial statements (cont.)

(in PLN thousand)

30. Investment (placement) securities

	30.09.2017	31.12.2016	30.09.2016
Debt securities available for sale (AFS)	22 283 330	31 949 770	24 233 292
Equity securities available for sale (AFS)	204 816	151 864	150 815
Debt securities held to maturity (HTM)	3 470 840	3 018 985	2 956 061
Total	25 958 986	35 120 619	27 340 168

Debt securities available for sale (AFS)

	30.09.2017	31.12.2016	30.09.2016
Securities issued by State Treasury	21 626 386	25 046 710	23 298 295
T-bills	-	-	-
T-bonds	21 626 386	25 046 710	23 298 295
Securities issued by Central Banks	-	5 978 629	-
Securities issued by business entities	-	249 912	252 285
Securities issued by local governments	656 944	674 519	682 712
Total	22 283 330	31 949 770	24 233 292
including impairment of assets	-	-	-

Equity securities available for sale (AFS)

	30.09.2017	31.12.2016	30.09.2016
Shares	204 778	151 864	150 815
Investment certificates	38	-	-
Total	204 816	151 864	150 815
including impairment of assets	(1 356)	(1 257)	(22)

Debt securities held to maturity (HTM)

	30.09.2017	31.12.2016	30.09.2016
Securities issued by State Treasury	3 470 840	2 998 379	2 956 061
T-bills	-	-	-
T-bonds	3 470 840	2 998 379	2 956 061
Securities issued by Central Banks	-	20 606	-
Total	3 470 840	3 018 985	2 956 061
including impairment of assets	-	-	-

Investment debt securities according to contractual maturity

	30.09.2017	31.12.2016	30.09.2016
Debt securities, including:			
up to 1 month	246 876	7 424 354	2 248 257
between 1 and 3 months	-	573 661	-
between 3 months and 1 year	5 243 050	6 072 130	6 805 774
between 1 and 5 years	12 322 354	12 109 707	9 597 420
over 5 years	7 941 890	8 788 903	8 537 902
Total	25 754 170	34 968 755	27 189 353

Investment debt securities by currency

	30.09.2017	31.12.2016	30.09.2016
PLN	22 007 641	30 844 812	23 438 348
EUR	2 153 429	2 790 183	2 771 634
USD	1 593 100	1 333 760	979 371
Total	25 754 170	34 968 755	27 189 353

Notes to financial statements (cont.)

(in PLN thousand)

31. Assets and liabilities held for sale

According to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the Group identified non-current assets meeting requirements of IFRS 5 (concerning classification of non-current assets as held for sale) in the item 'Assets held for sale'.

As at 30 September 2017 non-current assets classified as held for sale are as follows:

- real estate,
- other property, plant and equipment.

Assets held for sale are presented below

	30.09.2017	31.12.2016	30.09.2016
ASSETS HELD FOR SALE			
Property, plant and equipment	25 741	25 703	25 594
Other assets	22 574	22 574	22 574
Total assets	48 315	48 277	48 168

The effect of disposal of other assets is as follows

	3 QUARTERS 2017	2016	3 QUARTERS 2016
Sales revenues	1 660	3 849	3 315
Net carrying amount of disposed assets (including sale costs)	(277)	(2 820)	(2 511)
Profit/loss on sale before income tax	1 383	1 029	804

32. Intangible assets

	30.09.2017	31.12.2016	30.09.2016
Intangible assets, including:	591 593	540 661	529 520
research and development expenditures	1 532	3 024	4 252
licenses and patents	513 739	455 647	427 192
other	6 875	7 688	8 531
assets under construction	69 447	74 302	89 545
Goodwill	55 520	55 520	55 520
Total	647 113	596 181	585 040

In the period from 1 January to 30 September 2017 the Group acquired intangible assets in the amount of PLN 173 246 thousand (PLN 130 182 thousand in 2016).

In the period from 1 January to 30 September 2017 and in 2016 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 30 September 2017 the contractual commitments for the acquisition of intangible assets amounted to PLN 42 140 thousand, whereas as at 31 December 2016 - PLN 43 930 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

33. Property, plant and equipment

	30.09.2017	31.12.2016	30.09.2016
Non-current assets, including:	1 337 480	1 308 234	1 294 893
land and buildings	985 966	1 000 882	1 007 213
machinery and equipment	258 666	245 479	223 886
transport vehicles	54 291	24 026	26 717
other	38 557	37 847	37 077
Non-current assets under construction and prepayments	55 211	114 696	103 045
Total	1 392 691	1 422 930	1 397 938

In the period from 1 January to 30 September 2017 the Group acquired property, plant and equipment in the amount of PLN 64 239 thousand (in 2016 - PLN 143 081 thousand), while the value of property, plant and equipment sold amounted to PLN 607 thousand (PLN 8 150 thousand in 2016).

In the period from 1 January to 30 September 2017 and in 2016 there have been no property, plant and equipment whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 30 September 2017 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 32 602 thousand, whereas as at 31 December 2016 - PLN 17 525 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

34. Assets pledged as security for liabilities

As at 30 September 2017 the Group held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	1 363 948	1 296 124	1 366 183
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	758 570	770 200	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	23 509	24 000	20 046
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	60 356	61 600	53 497
Lombard and technical loan	bonds	4 648 205	4 585 391	-
Other loans	bonds	322 628	319 500	245 576
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 692 653	1 692 624	1 321 842
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	46 803	46 741	-
Derivatives	bonds	40 486	42 452	19 129

As at 31 December 2016 the Group held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transaction	bonds	1 774 747	1 678 677	1 775 808
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	750 701	720 200	-
Lombard and technical loan	bonds	4 808 629	4 515 159	-
Other loans	bonds	357 614	353 900	297 497
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 678 258	1 679 057	1 222 018
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposit	51 155	50 890	-
Derivatives	bonds	60 792	65 302	31 987

As at 30 September 2016 the Group held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	1 493 055	1 424 165	1 493 683
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	711 542	680 200	-
Lombard and technical loan	bonds	3 172 520	3 015 115	-
Other loans	bonds	391 769	388 500	326 054
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 714 205	1 716 367	1 288 006
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	41 288	40 515	-
Derivatives	bonds	44 990	46 133	21 773

Notes to financial statements (cont.)

(in PLN thousand)

35. Amounts due to other banks

Amounts due to other banks by product type

	30.09.2017	31.12.2016	30.09.2016
Current accounts	736 219	902 856	824 877
Interbank deposits and other liabilities	264 030	309 837	379 413
Loans and advances received	2 945 743	3 249 417	3 205 682
Repo transactions	395 524	339 568	1 074 755
Cash in transit	29 818	21 762	15 433
Total	4 371 334	4 823 440	5 500 160

Amounts due to other banks by currency

	30.09.2017	31.12.2016	30.09.2016
PLN	1 240 789	1 442 611	2 108 805
CHF	623 886	731 657	706 859
EUR	2 460 443	2 592 591	2 626 587
USD	40 426	48 467	48 203
Other currencies	5 790	8 114	9 706
Total	4 371 334	4 823 440	5 500 160

36. Amounts due to customers

Amounts due to customers by entity and product type

	30.09.2017	31.12.2016	30.09.2016
Amounts due to corporate, including:	51 258 587	57 989 927	52 760 107
current accounts	32 896 086	33 946 882	31 602 151
term deposits and other liabilities	18 362 501	24 043 045	21 157 956
Amounts due to budget entities, including:	9 710 318	7 809 235	6 317 728
current accounts	6 199 492	5 461 224	4 904 172
term deposits and other liabilities	3 510 826	2 348 011	1 413 556
Amounts due to individuals, including:	73 962 652	70 347 039	67 159 761
current accounts	42 022 371	39 682 587	37 911 847
term deposits and other liabilities	31 940 281	30 664 452	29 247 914
Repo transactions	970 659	1 436 241	418 928
Cash in transit	291 061	233 484	308 556
Total	136 193 277	137 815 926	126 965 080

Amounts due to customers by currency

	30.09.2017	31.12.2016	30.09.2016
PLN	111 528 217	115 090 198	103 494 329
CHF	283 386	315 787	258 660
EUR	15 138 417	13 400 735	14 664 241
USD	7 781 661	7 476 067	7 538 663
Other currencies	1 461 596	1 533 139	1 009 187
Total	136 193 277	137 815 926	126 965 080

Notes to financial statements (cont.)

(in PLN thousand)

37. Debt securities issued

Debt securities issued by type

	30.09.2017	31.12.2016	30.09.2016
Certificates of deposit	1 114 090	300 945	338 084
Mortgage bonds	1 321 842	1 222 018	1 288 006
Total	2 435 932	1 522 963	1 626 090

The Group redeems its own debt securities issued on a timely basis.

Debt securities issued by currency

	30.09.2017	31.12.2016	30.09.2016
PLN	2 063 212	1 200 548	1 312 437
EUR	372 720	322 415	313 653
USD	-	-	-
Total	2 435 932	1 522 963	1 626 090

Changes in debt securities issued

	3 QUARTERS 2017	2016	3 QUARTERS 2016
Opening balance	1 522 963	2 903 233	2 903 233
Increase (issuance)	1 075 000	1 129 733	1 129 733
Decrease (redemption)	(214 344)	(2 467 807)	(2 390 807)
Decrease (partial redemption)	-	(38 245)	(2 465)
Foreign currency exchange differences	(7 679)	11 885	3 692
Purchase	-	-	-
Sale	58 315	-	-
Other	1 677	(15 836)	(17 296)
Closing balance	2 435 932	1 522 963	1 626 090

Notes to financial statements (cont.)

(in PLN thousand)

38. Provisions

Changes in provisions in the reporting period

3 QUARTERS 2017	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	8 551	294 014	220 983	36 844	560 392
Provision charges/revaluation	5 234	20 648	53 572	31 801	111 255
Provision utilization	(5 282)	(11 359)	-	(5 375)	(22 016)
Provision releases	(1 153)	-	(50 942)	(110)	(52 205)
Foreign currency exchange differences	-	-	(827)	-	(827)
Other changes	46	-	-	(170)	(124)
Closing balance	7 396	303 303	222 786	62 990	596 475
Short term	2 620	36 180	62 768	32 016	133 584
Long term	4 776	267 123	160 018	30 974	462 891

2016	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	10 608	268 858	120 771	25 137	425 374
Provision charges/revaluation	4 092	26 635	160 561	23 386	214 674
Provision utilization	(3 405)	(13 020)	-	(11 207)	(27 632)
Provision releases	(3 202)	(19)	(61 341)	(442)	(65 004)
Foreign currency exchange differences	-	-	992	-	992
Other changes	458	11 560	-	(30)	11 988
Closing balance	8 551	294 014	220 983	36 844	560 392
Short term	3 214	47 435	67 159	14 201	132 009
Long term	5 337	246 579	153 824	22 643	428 383

3 QUARTERS 2016	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	10 608	268 858	120 771	25 137	425 374
Provision charges/revaluation	3 013	19 682	118 200	16 278	157 173
Provision utilization	(2 693)	(11 604)	-	(11 187)	(25 484)
Provision releases	(1 559)	(24)	(56 249)	-	(57 832)
Foreign currency exchange differences	-	-	74	-	74
Other changes	-	-	-	(30)	(30)
Closing balance	9 369	276 912	182 796	30 198	499 275
Short term	2 625	9 584	66 336	8 032	86 577
Long term	6 744	267 328	116 460	22 166	412 698

Notes to the financial statements (cont.)

(in PLN thousand)

Provisions for litigation and claims

Provisions for litigation and claims include court, administrative and other legal proceedings. The provisions were estimated in the amount of expected outflow of resources embodying economic benefits.

Provisions for defined benefits plans

Provisions for defined benefits plans consist of provisions for retirement benefits and death-in-service benefits. The present value of such obligations is measured by an independent actuary using the projected unit credit method.

Other provisions

Other provisions include in particular provisions for other employee benefits.

39. Contingent commitments

Litigation

In the third quarter of 2017 the total value of the litigation subject in the ongoing court proceedings against the Group was PLN 171 689 621 thousand (in the third quarter of 2017 it was PLN 798 774 thousand).

In the third quarter of 2017 still going on was the court litigation against the Group, brought by a minority shareholder of the Bank for an ascertainment of invalidity or alternatively for repealing the resolutions no 5 and 21 of the Ordinary General Meeting of Shareholders dated 19 April 2017 for an approval of financial statements for 2016 and for granting of approval of the performance by the member of the Management Board of his duties in 2016. In the opinion of the Bank, the claim is unfounded and the value of the litigation subject in the amount of PLN 170 988 852 thousand indicated by the plaintiff is incorrect, as confirmed by the value of the litigation subject by a decision of the District Court in Warsaw of 5 September 2017, the value of the litigation subject was set at PLN 6 850. As at 30 September 2017, the value of the litigation subject in the above case amounted to PLN 6 850.

In the third quarter of 2017 there were no proceedings before the court or state administration bodies related to the receivables or payables of the Bank and its subsidiaries in which the pursued claim value (amount to be paid) is at least 10% of the Group's equity.

In the third quarter of 2017 still going on was the court litigation against the Group entities, Bank Pekao SA and Pekao SA Central Brokerage House, brought by private individuals for the payment of damage arising from the purchase of stocks and the financial compensation for the injury resulting from the execution process, in which the value of the litigation subject, as at 30 September 2017, was PLN 206 422 thousand (previously PLN 306 622 thousand). In the first half of 2015 the sentence dismissing the plaint against defendants was adjudicated. The plaintiffs lodged an appeal against the sentence, i.e. its part related to the amount of PLN 206 422 thousand. In the third quarter of 2016 was issued a judgment dismissing the appeal. The verdict of the Court of II instance has been appealed against by the plaintiffs by means of a cassation appeal.

Moreover against the Group currently are pending the following essential litigations, in which the Bank – in the current factual and legal circumstances – assess the risk of outflow as possible :

- proceedings instigated in the second quarter of 2014 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 55 996 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2015 as a result of the plaint brought by guarantee beneficiary for the payment of PLN 29 205 thousand as the bank guarantee drawing,
- proceeding instigated in the fourth quarter of 2016 as a result plaint brought by private individual for the payment of PLN 38 916 thousand taken by the Bank way of settlement of term financial transactions.

The Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the provisions as at 30 September 2017 is PLN 7 396 thousand (PLN 8 551 thousand as at 31 December 2016).

Notes to financial statements (cont.)

(in PLN thousand)

Financial commitments granted

Financial commitments granted by entity

	30.09.2017	31.12.2016	30.09.2016
Financial commitments granted to:			
financial entities	797 622	734 503	1 355 683
non - financial entities	31 678 390	31 088 328	30 620 313
budget entities	1 134 791	481 482	682 775
Total	33 610 803	32 304 313	32 658 771

Guarantees issued

Guarantees issued by entity

	30.09.2017	31.12.2016	30.09.2016
Issued to financial entities:			
guarantees	1 040 798	991 115	1 107 886
Issued to non - financial entities:			
guarantees	9 786 169	9 999 478	10 860 219
securities' underwriting guarantees	6 408 635	6 194 199	6 569 375
sureties	3 044 834	3 455 429	3 969 218
Issued to budget entities:			
guarantees	332 700	349 850	321 626
securities' underwriting guarantees	586 987	269 239	315 393
guarantees	13 155	11 279	17 913
securities' underwriting guarantees	573 832	257 960	297 480
Total	11 413 954	11 259 832	12 283 498

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.09.2017	31.12.2016	30.09.2016
Financial received from:			
financial entities	999 482	209 107	1 632 169
non - financial entities	958 766	209 107	1 632 169
budget entities	-	-	-
Guarantees received from:			
financial entities	40 716	-	-
non - financial entities	12 471 796	10 818 912	10 895 522
budget entities	2 428 342	1 552 730	1 499 380
non - financial entities	9 088 495	8 344 980	8 504 580
budget entities	954 959	921 202	891 562
Total	13 471 278	11 028 019	12 527 691

Moreover, the Group has the ability to obtain financing from National Bank of Poland secured by government securities.

Notes to financial statements (cont.)

(in PLN thousand)

40. Related party transactions

The transactions between the Bank and related parties are typical transactions arising from current operating activities conducted by the Bank. Such transactions mainly include loans, deposits, foreign currency transactions and guarantees.

The credit granting process applicable to the Bank's management and entities related to the Bank

According to the Banking Act, credit transactions with Members of the Bank's Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, shall be effected according to Regulation adopted by the Supervisory Board of the Bank.

The Regulation provides detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels authorized to take decisions. In particular, the transactions with the Members of the Bank's Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank's Management Board and Supervisory Board.

Members of the Bank's Management Board and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is performed using the methodology applied by the Bank, tailored to the client's segment and type of transaction.

In case of entities related to the Bank, the standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank's Head Office.

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions

Related party transactions as at 30 September 2017

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	5 470	-	-	1 688	3 964	5 516	11
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	6 953	-	41	1 079	6 124	6 599	-
Associates of Bank Pekao S.A. Group							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	45	34 159	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	196 759	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	-	13 789	105 668	-	-
Total Associates of Bank Pekao S.A. Group	-	-	-	13 834	336 586	-	-
Key management personnel of the Bank Pekao S.A.	2 364	-	-	-	9 324	-	-
Total	14 787	-	41	16 601	355 998	12 115	11

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by contractual maturity

30.09.2017	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	-	5 470	-	-	-	-	5 470
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	900	5 470	10	279	294	-	6 953
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-	-
Key management personnel of the Bank Pekao S.A.	-	-	-	-	129	2 235	2 364
Total	900	10 940	10	279	423	2 235	14 787

(*) Current receivables include Nostro account and cash collaterals.

Liabilities from loans and deposits by contractual maturity

30.09.2017	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	3 964	-	-	-	-	-	3 964
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	4 019	2 105	-	-	-	-	6 124
Associates of Bank Pekao S.A. Group	18 941	18 428	299 217	-	-	-	336 586
Key management personnel of the Bank Pekao S.A.	6 564	755	2 005	-	-	-	9 324
Total	33 488	21 288	301 222	-	-	-	355 998

(*) Current liabilities include Loro account and cash collaterals.

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by currency

30.09.2017	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	-	-	-	5 470	-	5 470
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	6 953	-	6 953
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-
Key management personnel of the Bank Pekao S.A.	-	-	414	1 950	-	2 364
Total	-	-	414	14 373	-	14 787

Liabilities from loans and deposits by currency

30.09.2017	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	311	-	-	3 653	-	3 964
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	88	1	273	5 762	-	6 124
Associates of Bank Pekao S.A. Group	-	-	-	336 586	-	336 586
Key management personnel of the Bank Pekao S.A.	3 624	259	5	5 429	7	9 324
Total	4 023	260	278	351 430	7	355 998

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions as at 31 December 2016

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	187 357	-	-	443	9 261	-	1 674
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	682 836	9 719	32 072	1 306	614 127	620 819	2 972
Associates of Bank Pekao S.A Group							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	48	28 682	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	137 850	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	-	15 199	112 949	-	-
Total Associates of Bank Pekao S.A. Group	-	-	-	15 247	279 481	-	-
Key management personnel of the Bank and UniCredit S.p.A.	7 948	-	-	-	28 457	-	-
Total	878 141	9 719	32 072	16 996	931 326	620 819	4 646

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by contractual maturity

31.12.2016	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	12 342	175 015	-	-	-	-	187 357
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	597 829	85 007	-	-	-	-	682 836
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	5 506	-	-	202	2 240	7 948
Total	610 171	265 528	-	-	202	2 240	878 141

(*) Current receivables include Nostro account and cash collaterals.

Liabilities from loans and deposits by contractual maturity

31.12.2016	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	9 261	-	-	-	-	-	9 261
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	65 821	126 115	315	1 451	420 425	-	614 127
Associates of Bank Pekao S.A. Group	17 348	91 256	170 877	-	-	-	279 481
Key management personnel of the Bank and UniCredit S.p.A.	8 501	3 226	15 748	982	-	-	28 457
Total	100 931	220 597	186 940	2 433	420 425	-	931 326

(*) Current liabilities include Loro account and cash collaterals.

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and deposits by currency

31.12.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	2 160	10 180	-	175 017	-	187 357
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	561 564	113	7	99 082	22 070	682 836
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	7 948	-	7 948
Total	563 724	10 293	7	282 047	22 070	878 141

Liabilities from loans and deposits by currency

31.12.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	543	-	-	8 718	-	9 261
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	52 131	-	391 206	167 723	3 067	614 127
Associates of Bank Pekao S.A. Group	-	-	-	279 481	-	279 481
Key management personnel of the Bank and UniCredit S.p.A.	6 818	295	-	21 333	11	28 457
Total	59 492	295	391 206	477 255	3 078	931 326

Notes to financial statements (cont.)

(in PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January to 30 September 2017

NAME OF ENTITY	INTEREST INCOME	INTEREST EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
PZU S.A. – the Bank 's parent entity (*)	32	(58)	2 192	-	11	(111)
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities (*)	173	(134)	3 126	(28)	1 464	(39)
UniCredit S.p.A. – the Bank's parent entity (**)	154	(153)	391	(1 197)	1 510	(3 825)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities (**)	3 275	(1 253)	3 321	(62)	14 472	(1 725)
Associates of Bank Pekao S.A. Group						
Dom Inwestycyjny Xelion Sp. z o.o.	-	(294)	30	-	248	-
Pioneer Pekao Investment Management S.A.	-	(1 417)	7	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(981)	148 480	-	11	(4)
Total Associates of Bank Pekao S.A. Group	-	(2 692)	148 517	-	259	(4)
Key management personnel of the Bank Pekao S.A.	107	(181)	2	-	-	-
Total	3 741	(4 471)	157 549	(1 287)	17 716	(5 704)

(*) data from the date of taking control by PZU S.A.

(**) data until the day of loss of control by UniCredit S.p.A.

Income and expenses from transactions with related parties for the period from 1 January to 30 September 2016

NAME OF ENTITY	INTEREST INCOME	INTEREST EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	(573)	(337)	732	(2 002)	434	(11 525)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	12 172	(2 731)	6 922	(154)	13 995	(36 784)
Associates of Bank Pekao S.A. Group						
Dom Inwestycyjny Xelion Sp. z o.o.	-	(236)	33	(151)	245	-
Pioneer Pekao Investment Management S.A.	-	(1 447)	193	-	14	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(1 047)	141 585	-	-	-
Total Associates of Bank Pekao S.A. Group	-	(2 730)	141 811	(151)	259	-
Key management personnel of the Bank and UniCredit S.p.A.	177	(229)	11	-	-	-
Total	11 776	(6 027)	149 476	(2 307)	14 688	(48 309)

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees as at 30 September 2017

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
PZU S.A. – the Bank's parent entity	269	-	-	-
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	20	-	-	-
Associates of Bank Pekao S.A Group				
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	98	-	-	-
Total Associates of Bank Pekao S.A. Group	113	-	-	-
Key management personnel of the Bank Pekao S.A.	542	-	-	-
Total	944	-	-	-

Off-balance sheet financial commitments and guarantees granted by contractual maturity

30.09.2017	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	-	-	-	-	269	-	269
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	20	-	-	-	-	20
Financial commitments granted							
Associates of Bank Pekao S.A. Group	-	-	-	-	113	-	113
Key management personnel of the Bank Pekao S.A.	11	-	-	-	164	367	542
Total	11	20	-	-	546	367	944

Off-balance sheet financial commitments and guarantees granted by currency

30.09.2017	EUR	USD	CHF	PLN	INNE	TOTAL
PZU S.A. – the Bank's parent entity	-	-	-	269	-	269
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	20	-	20
Financial commitments granted						
Associates of Bank Pekao S.A. Group	-	-	-	113	-	113
Key management personnel of the Bank Pekao S.A.	-	-	-	542	-	542
Total	-	-	-	944	-	944

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2016

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
UniCredit S.p.A. – the Bank's parent entity	50 162	246 519	-	53 963
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	202 191	599 604	5 192	192 481
Associates of Bank Pekao S.A. Group				
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	96	-	-	-
Total Associates of Bank Pekao S.A. Group	111	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	217	-	-	-
Total	252 681	846 123	5 192	246 444

Off-balance sheet financial commitments and guarantees issued by contractual maturity

31.12.2016	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	-	-	50 162	50 162
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	-	-	-	-	202 191	202 191
Associates of Bank Pekao S.A. Group	-	-	-	-	111	-	111
Key management personnel of the Bank and UniCredit S.p.A.	30	-	5	-	182	-	217
Total	30	-	5	-	293	252 353	252 681
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	-	2 624	-	50 190	81 659	112 046	246 519
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	9 343	24 475	113 978	293 599	158 209	599 604
Total	-	11 967	24 475	164 168	375 258	270 255	846 123
FINANCIAL COMMITMENTS RECEIVED							
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	5 192	-	-	-	-	5 192
Total	-	5 192	-	-	-	-	5 192
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	4 645	752	33 619	13 399	1 548	53 963
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	-	3 322	75 122	11 062	102 975	192 481
Total	-	4 645	4 074	108 741	24 461	104 523	246 444

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees issued by currency

31.12.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	30 164	-	-	19 998	-	50 162
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	98 535	41 716	-	61 580	360	202 191
Associates of Bank Pekao S.A. Group	-	-	-	111	-	111
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	217	-	217
Total	128 699	41 716	-	81 906	360	252 681
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	12 167	-	-	234 352	-	246 519
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	53 077	-	-	546 527	-	599 604
Total	65 244	-	-	780 879	-	846 123
FINANCIAL COMMITMENTS RECEIVED						
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	-	-	-	5 192	5 192
Total	-	-	-	-	5 192	5 192
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	29 130	-	-	24 833	-	53 963
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	109 606	-	-	82 090	785	192 481
Total	138 736	-	-	106 923	785	246 444

Notes to financial statements (cont.)

(in PLN thousand)

Remuneration expenses of the Bank's Management Board and Supervisory Board Members

Short-term employee benefits related to the Management Board of the Bank for three quarters of 2017 amounted to PLN 21 219 thousand, compared to PLN 14 027 thousand for three quarters of 2016. Short-term employee benefits included: base salary, bonuses and other benefits due in next 12 months from the balance sheet date.

Long-term benefits related to the Management Board of the Bank amounted to PLN 1 794 thousand for three quarters of 2017, compared to PLN 1 493 thousand for three quarters of 2016 and comprised of provisions for deferred bonus payments.

The expenses for three quarters of 2017 included PLN 9 555 thousand in respect of share-based payments, compared to PLN 4 880 thousand for three quarters of 2016. The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of phantom shares, granted to the Members of the Bank's Management Board.

In the period of three quarters of 2017, the Bank paid termination benefits for former Members of the Management Board of the Bank in the amount of PLN 3 034 thousand.

Remuneration expenses of Supervisory Board of the Bank, comprising short-term employee benefits, amounted to PLN 823 thousand for three quarters of 2017, compared to PLN 837 thousand for three quarters of 2016.

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in the period from 1 January to 30 September 2017 and in the period from 1 January to 30 September 2016.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

Remuneration expenses of Management Boards of Group's subsidiaries, comprising short-term employee benefits, amounted to PLN 11 181 thousand for three quarters of 2017, compared to PLN 10 911 thousand for three quarters of 2016.

The expenses in respect of share-base payments to the Management Board of the Bank and subsidiaries for three quarters 2017 amounted 808 thousand.

Remuneration expenses of Supervisory Boards of Group's subsidiaries, comprising short-term employee benefits, amounted to PLN 189 thousand for three quarters of 2017, compared to PLN 220 thousand for three quarters of 2016.

41. Subsequent events

Significant subsequent events are presented in the Note 8.8 'Subsequent events' of the Report on the activities of Bank Pekao S.A. Group for the third quarter of 2017.

Signatures of the Management Board Members

07.11.2017	Michał Krupiński	President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.11.2017	Andrzej Kopyrski	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.11.2017	Tomasz Kubiak	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.11.2017	Michał Lehmann	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.11.2017	Marek Lusztyn	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.11.2017	Tomasz Styczyński	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.11.2017	Marek Tomczuk	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature

Glossary

Glossary

IFRS – International Financial Reporting Standards – the standards, interpretations and their structure adopted by the International Accounting Standards Board (IASB.)

IAS – International Accounting Standards – previous name of the standards forming part of the current IFRS.

IFRIC – International Financial Reporting Interpretations Committee – the committee operating under the International Accounting Standards Board publishing interpretations of IFRS.

CIRS – Currency Interest Rate Swap – the transaction exchange of principal amounts and interest payments in different currencies between two counterparties.

IRS – Interest Rate Swap – the agreement between two counterparties, under which the counterparties pay each other (at specified intervals during the contract life) interest on contractual principal of the contract, charged at a different interest rate.

FRA – Forward Rate Agreement – the contract under which two counterparties fix the interest rate that will apply in the future for a specified amount expressed in currency of the transaction for a predetermined period.

CAP – the financial agreement, which limits the risk borne by lender on a variable interest rate, exposed to the potential loss as a result of increase in interest rates. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer the compensation of the additional interest costs, that the buyer must pay if the interest rate on loan increases above the fixed interest rate.

FLOOR – the financial agreement, which limits the risk of incurring losses resulting from decrease in interest rates by the lender providing the loan at a variable interest rate. Floor option is a series of put options on interest rates, in which the issuer guarantees the interest to be paid on the loan if the interest rate on the loan decreases below the fixed interest rate.

IBNR – Incurred but Not Reported losses.

PD – Probability Default – the parameter used in Internal Ratings-Based Approach which determines the likelihood that the debtor will be unable to meet its obligation. PD is a financial term describing the likelihood of a default over an one year time horizon.

LGD – Loss Given Default – the percentage of loss over the total exposure when bank's counterparty goes to default.

EAD – Exposure at Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

A-IRB – Advanced Internal Ratings-Based Approach – advanced method where all parameters of risk (PD, LGD, EAD) are estimated by the bank using its own quantitative model for calculating the risk weighted assets (RWA).

VaR – Value at Risk – the risk measure by which the market value of an asset or portfolio may be reduced for a given assumptions, probability and time horizon.

EaR – Earnings at Risk – the maximum decrease of earnings, relative to specific goal, which might occur due to impact of market risk on specific risk factors for the given time horizon and confidence level.

ICAAP – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.