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.

Unconsolidated Financial Statements of Bank Pekao S.A. for the year ended on 31 December 2016

Warsaw, February 2017

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Unconsolidated income statement

(In PLN thousand)

	NOTE	2016	2015
Interest income	8	5 309 548	5 301 459
Interest expense	8	(1 042 675)	(1 261 836)
Net interest income		**4 266 873**	**4 039 623**
Fee and commission income	9	2 009 842	2 142 637
Fee and commission expense	9	(306 473)	(392 122)
Net fee and commission income		**1 703 369**	**1 750 515**
Dividend income	10	**132 824**	**210 609**
Result on financial assets and liabilities held for trading	11	**470 184**	**418 506**
Result on fair value hedge accounting	27	**1 313**	**5 547**
Gains (losses) on disposal of:	12	**435 903**	**229 601**
loans and other financial receivables		159 493	534
available for sale financial assets and held to maturity investments		276 493	229 551
financial liabilities		(83)	(484)
Operating income		**7 010 466**	**6 654 401**
Net impairment losses on financial assets and off-balance sheet commitments:	16	**(491 385)**	**(513 978)**
loans and other financial receivables		(390 638)	(495 724)
off-balance sheet commitments		(100 747)	(18 254)
Net result on financial activity		**6 519 081**	**6 140 423**
Administrative expenses	13	**(3 398 574)**	**(3 214 722)**
personnel expenses		(1 701 176)	(1 719 090)
other administrative expenses		(1 697 398)	(1 495 632)
Depreciation and amortization	14	**(323 231)**	**(312 220)**
Net result on other provisions		**(15 471)**	**(28 576)**
Net other operating income and expenses	15	**29 505**	**142 717**
Operating costs		**(3 707 771)**	**(3 412 801)**
Gains (losses) on subsidiaries and associates	17	**46 853**	**51 827**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	18	**5 030**	**12 106**
Profit before income tax		**2 863 193**	**2 791 555**
Income tax expense	19	**(584 818)**	**(501 157)**
Net profit for the period		**2 278 375**	**2 290 398**
Earnings per share (in PLN per share)	20		
basic for the period		8.68	8.73
diluted for the period		8.68	8.73

Notes to the financial statements presented on pages 10 – 144 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2016	2015
Net profit		**2 278 375**	**2 290 398**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		-	(1 169)
Change in fair value of available-for-sale financial assets		(608 638)	(237 077)
Change in fair value of cash flow hedges	27	(5 557)	(93 341)
Tax on items that are or may be reclassified subsequently to profit or loss	19	116 697	62 780
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities	43	(11 400)	12 678
Tax on items that will never be reclassified to profit or loss	19	2 166	(2 409)
Other comprehensive income (net of tax)		**(506 732)**	**(258 538)**
Total comprehensive income		**1 771 643**	**2 031 860**

Notes to the financial statements presented on pages 10 – 144 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2016	31.12.2015
ASSETS			
Cash and due from Central Bank	22	5 861 342	7 881 598
Bill of exchange eligible for rediscounting at Central Bank		-	70
Loans and advances to banks	23	3 454 679	7 512 226
Financial assets held for trading	24	721 031	1 116 993
Derivative financial instruments (held for trading)	25	1 955 499	3 254 117
Loans and advances to customers	26	119 033 599	118 508 582
Hedging instruments	27	289 752	421 640
Investment (placement) securities	28	34 864 031	20 989 942
1. Available for sale		31 938 170	17 699 881
2. Held to maturity		2 925 861	3 290 061
Assets held for sale	30	48 277	45 302
Investments in subsidiaries	31	1 063 050	1 099 654
Investments in associates	32	27 552	27 552
Intangible assets	33	571 076	611 620
Property, plant and equipment	34	1 405 100	1 443 757
Investment properties	35	12 710	17 317
Income tax assets		875 287	759 559
1. Current tax assets		97 009	75 935
2. Deferred tax assets	19	778 278	683 624
Other assets	36	805 867	2 070 741
TOTAL ASSETS		**170 988 852**	**165 760 670**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to Central Bank	22	6 091	914
Amounts due to other banks	38	3 367 125	4 553 114
Financial liabilities held for trading	24	673 165	611 442
Derivative financial instruments (held for trading)	25	1 949 335	3 201 798
Amounts due to customers	39	138 066 129	129 256 866
Hedging instruments	27	1 638 718	1 702 759
Debt securities issued	40	300 945	1 668 706
Income tax liabilities		-	-
1. Current tax liabilities		-	-
2. Deferred tax liabilities		-	-
Provisions	41	560 483	422 930
Other liabilities	42	2 144 304	1 547 738
TOTAL LIABILITIES		**148 706 295**	**142 966 267**
Equity			
Share capital	47	262 470	262 470
Other capital and reserves	48	19 741 712	20 241 535
Retained earnings and profit for the period	48	2 278 375	2 290 398
TOTAL EQUITY		**22 282 557**	**22 794 403**
TOTAL LIABILITIES AND EQUITY		**170 988 852**	**165 760 670**

Notes to the financial statements presented on pages 10 – 144 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity

(In PLN thousand)

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER		
Note	47	48							48	
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 share 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)
Foreign currency translation differences	-	-	-	-	-	-	-	-	-	-
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**

Notes to the financial statements presented on pages 10 – 144 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity (cont.)

(In PLN thousand)

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER		
Note	47	48							48	
Equity as at 1.01.2015	**262 470**	**20 462 508**	**9 137 221**	**1 937 850**	**8 612 550**	**540 591**	**1 169**	**233 127**	**2 662 266**	**23 387 244**
Management options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	-	-	-	-	-	-	-	-	-
Comprehensive income	**-**	**(258 538)**	**-**	**-**	**-**	**(257 369)**	**(1 169)**	**-**	**2 290 398**	**2 031 860**
Remeasurements of the defined benefit liabilities (net of tax)	-	10 269	-	-	-	10 269	-	-	-	10 269
Revaluation of available-for-sale investments (net of tax)	-	(192 032)	-	-	-	(192 032)	-	-	-	(192 032)
Revaluation of hedging financial instruments (net of tax)	-	(75 606)	-	-	-	(75 606)	-	-	-	(75 606)
Foreign currency translation differences	-	(1 169)	-	-	-	-	(1 169)	-	-	(1 169)
Net profit for the period	-	-	-	-	-	-	-	-	2 290 398	2 290 398
Appropriation of retained earnings	**-**	**37 565**	**-**	**37 565**	**-**	**-**	**-**	**-**	**(2 662 266)**	**(2 624 701)**
Dividend paid	-	-	-	-	-	-	-	-	(2 624 701)	(2 624 701)
Profit appropriation	-	37 565	-	37 565	-	-	-	-	(37 565)	-
Equity as at 31.12.2015	**262 470**	**20 241 535**	**9 137 221**	**1 975 415**	**8 612 550**	**283 222**	**-**	**233 127**	**2 290 398**	**22 794 403**

Notes to the financial statements presented on pages 10 – 144 constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement

(In PLN thousand)

	NOTE	2016	2015
Cash flow from operating activities – indirect method			
Net profit for the period		**2 278 375**	**2 290 398**
Adjustments for:		**8 912 557**	**(3 668 415)**
Depreciation and amortization	14	323 231	312 220
(Gains) losses on investing activities		(280 478)	(241 401)
impairment on Investments in subsidiaries	17	-	24 000
Net interest income	8	(4 266 873)	(4 039 623)
Dividend income	10	(132 824)	(210 609)
Interests received		5 200 248	5 132 583
Interests paid		(1 081 547)	(1 240 360)
Income tax		760 897	540 832
Income tax paid		(588 333)	(599 653)
Change in loans and advances to banks		254 845	27 031
Change in financial assets held for trading		395 262	(603 074)
Change in derivative financial instruments (assets)		1 298 618	1 210 777
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(433 828)	(6 943 355)
Change in investment (placement) securities		(915 972)	(818 181)
Change in other assets		1 274 345	575 288
Change in amounts due to banks		(1 179 820)	1 423 875
Change in financial liabilities held for trading		61 723	20 131
Change in derivative financial instruments (liabilities)		(1 252 463)	(1 220 494)
Change in amounts due to customers		8 831 221	2 850 037
Change in debt securities issued		(518)	1 915
Change in provisions		137 553	(14 022)
Change in other liabilities		507 270	143 668
Net cash flows from operating activities		**11 190 932**	**(1 378 017)**
Cash flow from investing activities			
Investing activity inflows		**83 108 936**	**269 156 419**
Sale of associates		-	75 000
Sale of investment securities		82 209 397	268 244 997
Sale of intangible assets and property, plant and equipment		11 729	13 600
Dividend received	10	132 824	210 609
Other investing inflows		754 986	612 213
Investing activity outflows		**(96 483 471)**	**(264 989 107)**
Acquisition of subsidiary	31	-	(274 334)
Acquisition of investment securities		(96 231 218)	(264 436 552)
Acquisition of intangible assets and property, plant and equipment	33, 34	(252 253)	(278 221)
Net cash flows from investing activities		**(13 374 535)**	**4 167 312**

Notes to the financial statements presented on pages 10 – 144 constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement (cont.)

(In PLN thousand)

	NOTE	2016	2015
Cash flows from financing activities			
Financing activity inflows		**1 079 733**	**3 858 026**
Issue of debt securities	40	1 079 733	3 858 026
Financing activity outflows		**(4 714 541)**	**(7 632 240)**
Redemption of debt securities	40	(2 431 052)	(5 007 539)
Dividends and other payments to shareholders		(2 283 489)	(2 624 701)
Net cash flows from financing activities		**(3 634 808)**	**(3 774 214)**
Total net cash flows		**(5 818 411)**	**(984 919)**
including: effect of exchange rate fluctuations on cash and cash equivalents held		98 767	151 526
Net change in cash and cash equivalents		**(5 818 411)**	**(984 919)**
Cash and cash equivalents at the beginning of the period		**14 568 422**	**15 553 341**
Cash and cash equivalents at the end of the period	49	**8 750 011**	**14 568 422**

Notes to the financial statements presented on pages 10 – 144 constitute an integral part of the unconsolidated financial statements.

Notes to the financial statements

(In PLN thousand)

The accompanying notes to the financial statements constitute an integral part of the unconsolidated financial statements.

1. General information

Bank Polska Kasa Opieki Spółka Akcyjna (hereafter referred to as 'Bank Pekao S.A.' or 'the Bank'), with Head Office in Warsaw, at 53/57 Grzybowska Street, 00-950 Warsaw, operates as a public listed company in compliance with binding law regulations, especially the Banking Act, Commercial Code and the Bank's Articles of Association.

The Bank was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously in operation since its incorporation.

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

The Bank's statistical REGON number is 000010205.

The entity has been established for an indefinite period of time.

Bank Pekao S.A. is a part of the UniCredit S.p.A. Group with seat in Roma, Italy.

The Bank's shares are quoted on the Warsaw Stock Exchange (WSE). The Bank's securities, traded on regulated markets, are classified in the banking sector.

Bank Pekao S.A. is a universal commercial bank, offering a broad range of banking services on domestic and foreign financial markets, provided to retail and corporate clients, in compliance with the scope of services, set forth in the Bank's Articles of Association. The Bank runs both PLN and forex operations, and it actively participates in both domestic and foreign financial markets.

Changes in share ownership structure of the Bank

In the current report No. 17/2016, the Management Board of Bank Pekao S.A. informed that on 18 July 2016 it received the notification from UniCredit S.p.A. according to which, UniCredit S.p.A. sold 26 247 003 shares of the Bank as a result of the execution on 13 July 2016 of the block trades concluded as a result of the accelerated book-building process. The transactions were settled on 15 July 2016.

In the current report No. 30/2016, the Management Board of Bank Pekao S.A. informed that on 8 December 2016 UniCredit S.p.A. announced it has entered into an agreement for the disposal of a 32.8% stake in Bank Pekao S.A. to Powszechny Zakład Ubezpieczeń S.A. ('PZU') and Polish Development Fund S.A. ('PFR').

The Transaction is subject to the customary regulatory and antitrust approvals and is expected to be completed around mid-2017.

Moreover in the current report No. 31/2016 on 8 December 2016 the Bank informed that it had received communication from UniCredit S.p.A. concerning announcement on sale offer of 1 916 of certificates exchangeable for the Bank shares of total reference value of approx. EUR 500 million, compulsorily settled in the Bank common shares no later than on 15 December 2019. Those certificates shall be used to sell the remaining 7.3% of the Bank shares belonging to UniCredit S.p.A. (after the conclusion of sale agreement mentioned above).

2. Business combination

In 2016 there were no business combinations in the Bank. In 2015 the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. (presently Pekao Investment Banking S.A.). The transaction was detailed in the consolidated financial statements of Bank Pekao S.A. Group for the period ended on 31 December 2015.

3. Statement of compliance

The annual unconsolidated financial statements ('financial statements') of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with further amendments) and respective operating regulations, and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock exchange listing market.

The Bank also prepares the Consolidated Financial Statements of Bank Pekao S.A. Group.

These Unconsolidated Financial Statements were approved for publication by the Bank's Management Board on 9 February 2017.

4. Significant accounting policies

4.1 Basis of preparation of Unconsolidated Financial Statements

General information

The Financial Statements of Bank Pekao S.A. have been prepared for the period from 1 January 2016 to 31 December 2016. Comparable data have been presented for the period from 1 January 2015 to 31 December 2015.

The financial statements have been prepared in Polish zloty, and all amounts are presented in PLN thousand, unless indicated otherwise.

The financial statements have been prepared on a going concern basis on the assumption that the Bank will continue its business operations substantially unchanged in scope for a period of at least one year from the balance sheet date.

The accounting principles as described below have been consistently applied for all the reporting periods.

Unconsolidated Financial Statements of the Bank have been prepared based on the following valuation methods:

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

The unconsolidated 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 2016, had no material impact on the unconsolidated financial statements (Note 4.9).

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 4.10 and Note 4.11).

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

Notes to the financial statements (cont.)

(In PLN thousand)

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 asserts, 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 the 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, taking into consideration forecasts of future economic conditions with regard to the measurement of the credit risk of an exposure, which is unacceptable under IAS 39.

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 and 3 – lifetime expected credit losses – the expected credit losses that result from all possible default events over the expected life of a financial instrument.

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 working on implementing a new methodology of loss allowances calculation as well as on implementing appropriate modifications in IT systems and processes used by the Bank, in particular on the foundations of the impairment model, acquiring appropriate data as well as designing the processes and tools and performing a detailed estimation of the impact of IFRS 9 on the level of loss allowances. Methodological tasks are focused on both development of currently applied solutions as well as implementation of the brand new solutions. In terms of the development of existing solutions, the Bank is currently adjusting PD, RR, EAD and CCF models so that they may be used to estimate expected credit losses.

The development of credit risk models is focused on estimating the life time credit risk parameters adjusted to take into account forward looking information in respect of Bank's expectations regarding future macroeconomic outlook. 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 is developing 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 utilizing 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 terms of new solutions, the works mainly include the development of criteria for the transfer between the stages, as well as taking into account the economic forecasts in the estimation of expected credit losses.

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 the 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.

Currently, the Bank is in the process of designing and building the necessary solutions for particular requirements based on the results of the analysis gaps and defined methodological assumptions. The Bank plans to gradually finish the design work till the end of third quarter of 2017.

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. However, it needs to be noted that these works are not advanced enough to enable Bank to unambiguously determine the impact of the IFRS 9 on the financial position and capital adequacy indicators.

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.

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).

Moreover, in connection to the changes resulting from implementation of IFRS 9 in the accounting regulations and lack at present of the information on the direction of the changes in the tax regulations, according to Bank's judgment there is a significant uncertainty concerning the future shape of the tax regulations, which will have to be amended to reflect the new standard and which can have an impact on the value of the deferred tax asset of the Bank created on the cost of allowances for credit losses.

4.2 Accounting estimates

Preparation of financial statements in accordance with IFRS requires the Bank to make certain estimates and to adopt certain assumptions, which affect the amounts of assets and liabilities presented in the financial statements.

Estimates and assumptions are reviewed on an ongoing basis and rely on historic data and other factors including expectation of the future events which seems justified in given circumstances. Although the estimates are based on the best knowledge of current conditions and activities which the Bank will undertake, the actual results may differ from such estimates.

Estimates and underlying assumptions are subject to regular review. Revisions to accounting estimates are recognized prospectively starting from the period in which the estimates are revised.

Information on the applied estimates and the underlying uncertainity related to significant risk of the material adjustments in the financial statements are presented below.

Impairment of loans and advances to customers

At each balance sheet date the Bank assesses whether there is any objective evidence ('trigger') that loan exposures are impaired. Impairment losses are incurred if, and only if at least one impairment trigger is identified and the event implicating the impairment trigger has a negative impact on the estimated future cash flows of the loan exposure. Whilst the identification of loan exposures impairment the Bank does not consider future events, irrespective of probability of its occurrence.

In the process of impairment assessment the Bank considers all loan exposures, irrespective of the level of risk of particular loan exposures or a group of loan exposures.

The Bank splits the loan exposures into individually significant exposures and individually insignificant exposures. The individually significant exposures are in particular all loan exposures of the borrower, for whom total Bank's exposure exceeds the threshold value as at balance sheet date and the restructuring loan exposures of debtors being the entrepreneurs within the meaning of the Article 43 of the Civil Code. The individually insignificant exposures are all loan exposures, which are not classified as individually significant exposures.

For all loans exposures, which are impaired, the Bank measures the amount of impairment allowance as the difference between the loan exposure's carrying amount and the present value of estimated future cash flows, discounted at the loan exposure's original effective interest rate.

For all individually significant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Bank's employees and consists of individual verification of the impairment occurrence and projection of future cash flows from foreclosure less costs for obtaining and selling the collateral or other resources. The Bank compares the estimated future cash flows applied for measurement of individual impairment allowances with the actual cash flows on a regular basis.

For all individually insignificant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of collective assessment. Each exposure assessed collectively is grouped based on similar credit risk characteristics (on the basis of the borrower's type, the product's type, past-due status or other relevant factors impacting on the debtor's ability to pay all amounts due according to the contractual terms). The future cash flows are estimated on the basis of historical data of cash flows and historical loss experience for exposures with credit risk characteristics similar to those in the group. Historical data, when necessary, are adjusted on the basis of current data to remove the effects of conditions in the historical period that do not exist currently. The recovery rates and the methodology and assumptions used for estimating future cash flows for particular groups of loan exposures are reviewed regularly.

For all loan exposures, for which no impairment triggers have been identified, the Bank measures the allowance for losses incurred, but not reported ('IBNR').

Notes to the financial statements (cont.)

(In PLN thousand)

The following table presents the impact on the net impairment losses as part of collective assessment and IBNR of a change in the estimated recovery rates (RR) and estimated probability of default (PD) by 10%.

31.12.2016	NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND OFF-BALANCE SHEET COMMITMENTS	
	10% INCREASE	10% DECREASE
Recovery rates (RR)	98 821	(99 182)
Probability of default (PD)	(32 689)	32 956

31.12.2015	NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND OFF-BALANCE SHEET COMMITMENTS	
	10% INCREASE	10% DECREASE
Recovery rates (RR)	110 990	(112 736)
Probability of default (PD)	(43 102)	43 219

Impairment of non-current assets

At each balance sheet date the Bank reviews its assets for indications of impairment. Where such indications exist, the Bank makes a formal estimation of the recoverable value. If the carrying amount of a given asset is in excess of its recoverable value, impairment is defined and a write-down is recorded to adjust the carrying amount to the level of its recoverable value. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use.

Estimation of the value-in-use of an assets (or cash generating unit) requires assumptions to be made regarding, among other, future cash flows which the Bank may obtain from the given asset (or cash generating unit), any changes in amount or timing of occurrence of these cash flows and other factors such as the lack of liquidity. The adoption of different measurement assumptions may affect the carrying amount of some of the Bank's non-current assets.

Measurement of derivatives and unquoted debt securities available for sale

The fair value of non-option derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Bank also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments. The assumptions used for fair value measurement are described in detail in Note 5.7 'Fair value of financial assets and liabilities'.

Provisions for defined benefit plans

The principal actuarial assumptions applied to estimation of provisions for defined benefit plans, as well as the sensitivity analysis were presented in Note 43.

Goodwill

The Bank performs an impairment test of goodwill on a yearly basis or more often if impairment triggers occur. The assessment of goodwill impairment requires an estimate of value in use of all cash-generating units to which the goodwill relates. The principal assumptions applied to an impairment test of goodwill were presented in Note 33.

4.3 Foreign currencies

- Functional and presentation currency
  The financial statements of the Bank, including the Bank's Branch in Paris, are presented in their functional currencies, i.e. in the currency of the primary economic environment in which the entity operates.
  The financial statements are presented in Polish zlotys. Polish zloty is the functional currency and the presentation currency of the Bank.
  The Bank applies as the closing rate the average the National Bank of Poland ('NBP') exchange rate, valid as at the balance sheet date.
- Transactions and balances
  Foreign currency transactions are calculated into the functional currency using the spot exchange rate from the date of the transaction. Gains and losses from foreign currency translation differences resulting from settlements of such transactions and from the statement of financial position valuation of monetary assets and liabilities expressed in foreign currencies are recognized in the income statement.
- Foreign currency translation differences arising from non-monetary items, such as equity instruments classified as financial assets measured at fair value through the profit or loss are recognized together with the changes in the fair value of that item in the income statement.
  Foreign currency translation differences arising from non-monetary items such as equity instruments classified as available for sale financial assets are recognized in the revaluation reserves.

4.4 Income statement

Interest income and expense

The Bank recognizes in the income statement all interest income and expense related to financial instruments valued at amortized cost using the effective interest rate method, financial assets available for sale and financial assets at fair value through profit or loss.

The effective interest rate is the discount rate of estimated future cash inflows and payments made during the expected period until the expiry of the financial instruments, and in justified cases in a shorter time, to the net carrying amount of such financial assets or liabilities. The calculation of the effective interest rate includes all commissions paid and received by parties to the agreement, transaction costs and all other premiums and discounts, comprising an integral part of the effective interest rate.

Interest income includes interest and commission fees received or due from credits, interbank deposits and held to maturity securities, recognized in the calculation of effective interest rate, as well as from securities available for sale and measured at fair value through the income statement, and hedging derivatives.

At the recognition of impairment of financial instruments measured at amortized cost and of available for sale financial assets, the interest income is accrued based on the carrying amount of the receivable (this is the new, lower value reduced by the impairment charge) using the interest rate used when discounting the future cash flows for impairment calculation.

Interest expense of the reporting period related to interest liabilities associated with client accounts and liabilities from the issue of treasury stock are recognized in the income statement using the effective interest rate.

Fee and commission income and expense

Fee and commission income is generated from financial services provided by the Bank. Fee and commission income and expense is recognized in the profit or loss using the following methods:

- fees and commissions directly attributable to financial asset or liability origination (both income and expense) are recognized in the income statement using the effective interest rate method and are described above,
- fees and commissions relating to the loans and advances without a defined repayment schedule and without a defined interest rate schedule e.g. overdraft facilities and credit cards are amortized over the life of the product using the straight line method,
- other fees and commissions arising from the Bank's financial services offering (customer account transaction charges, credit card servicing transactions, brokerage activity and canvassing) are recognized in the income statement up-front when the corresponding service is provided.

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expense from bancassurance

The Bank splits the remuneration for sale of insurance products linked to loans into separate components, i.e. dividing the remuneration into proportion of fair value of financial instrument and fair value of intermediary service to the sum of those values. The fair values of particular components of the remuneration are determined based on market data to a highest degree.

The particular components of the Bank's remuneration for sale of insurance products linked to loans are recognized in the income statement according to the following principles:

- remuneration from financial instrument – as part of effective interest rate calculation, included in interest income,
- remuneration for intermediary service – upfront at the time when the insurance product in sold, included in fee and commission income.

Additionally the Bank estimates the part of the remuneration which will be refunded in the future (eg. due to early termination of insurance contract, early repayment of loan). The estimate of the provision for future refunds is based on the analysis of historical data and expectations in respect to refunds trend in the future.

In 2016 the Bank recognized upfront 11% of bancassurance revenue associated with cash loans and 16% of bancassurance revenue associated with mortgage loans. The remaining portion of bancassurance revenue is amortized over the life of the associated loans as part of effective interest rate.

Result on financial assets and liabilities held for trading

Result on financial assets and liabilities held for trading include:

- Foreign exchange result

  The foreign exchange gains (losses) are calculated taking into account the positive and negative foreign currency translation differences, whether realized or unrealized from the daily valuation of assets and liabilities denominated in foreign currencies. The revaluation is perform using the average exchange rate announced by the NBP on the balance sheet date.

  The foreign exchange result includes the trade margins on foreign exchange transactions with the Bank's clients, as well as swap points from derivative transactions, entered into by the Bank for the purpose of managing the Bank's liquidity in foreign currencies.

  Income from foreign exchange positions includes also foreign currency translation differences from valuation of investments in foreign operations arising on disposal thereof. Until the disposal, foreign currency translation differences from valuation of assets in foreign operations are recognized in 'Other capital and reserves'.

- Income from derivatives and securities held for trading

  The income referred to above includes gains and losses realized on a sale or a change in the fair value of assets and liabilities held for trading.

  The accrued interest and unwinding of a discount or a premium on securities held for trading is presented in the net interest income.

Gains (losses) on financial assets/liabilities at fair value through profit or loss

This includes gains and losses realized on a sale or a change in the fair value of assets and liabilities, designated at fair value through profit or loss.

The accrued interest and unwinding of a discount or a premium on financial assets/ liabilities designated at fair value through profit or loss are recognized in the net interest income.

Other operating income/expense

Other operating income includes mainly amounts received for compensation, revenues from operating leases, recovery of debt collection costs, excess payments, miscellaneous income and releases of provision for legal cases. Other operating expenses include mainly the costs of client claims, compensation paid, sundry expenses and costs of provision for litigations.

4.5 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets

Financial assets are classified into the following categories:

- Financial assets measured at fair value through profit or loss

  This category comprises two sub-categories: financial assets held for trading and financial assets designated at initial recognition as financial assets measured at fair value through profit or loss.

  Financial assets held for trading include: debt and equity securities, loans and receivables purchased or classified into this category for the purpose of disposal thereof on a short-term basis. The classification also includes derivative instruments (not used as hedging instruments).

  Financial assets classified at the moment of original recognition as financial assets measured at fair value through profit or loss include debt securities acquired by the Bank for the purpose of elimination or considerable reduction of inconsistencies in the valuation between these securities and the derivatives, which are economically hedging the interest rate risk of such securities. Otherwise, such securities would have been classified into the 'available for sale' portfolio, with the effect of valuation recognized in revaluation reserves, and valuation of derivatives economically hedging such securities reported in the income statement.

- Held to maturity

  These are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which the entity has an intent and ability to hold to maturity, other than:

  a) those that the entity upon initial recognition designates as at fair value through profit or loss,
  b) those that the entity designates as available for sale, and
  c) those that meet the definition of loans and receivables.

  Financial assets classified into this category are measured at amortized cost using the effective interest rate method. The recognition of amortized cost with the use of effective interest rate is recognized in interest income.

- Loans and receivables

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

  a) those that the entity intends to sell immediately or in the near term which are classified as held for trading and those that the entity designates as at fair value through profit or loss upon initial recognition,
  b) those that the Bank designates upon the initial recognition as available for sale, or
  c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

  This category also contains debt securities, purchased from the issuer, for which there is no active market, as well as credits, loans, receivables from reverse repo transactions and other receivables acquired and granted. Loans and receivables are measured at amortized cost using the effective interest rate method and with consideration of impairment.

- Available for sale

  This includes financial assets with an undefined holding period. The portfolio includes: debt and equity securities, as well as loans and receivables not classified into other categories. Interest on assets available for sale is calculated using the effective interest rate method, and is recognized in the income statement.

  Available for sale financial assets are measured at fair value, whereas gains and losses resulting from changes in fair value against amortized cost are recognized in the revaluation reserves. Amounts in the revaluation reserves are recognized in the income statement either on the sale of an asset, or its impairment. In case of impairment of an asset, previous increases from revaluation to fair value will decrease the 'Revaluation reserves'. Should the amount of previously recognized increases be insufficient to cover the impairment, the difference will be recorded in the income statement as 'Net impairment losses on financial assets and off-balance sheet commitments'.

Dividends from equity instruments are recognized in the profit or loss at the moment the rights to receive such payments are established.

Standardized purchase and sale transactions of financial assets designated at fair value through profit or loss, designated as held for trading (except for derivatives), held to maturity, and available for sale, are recognized and derecognized by the Bank on the settlement date of such transaction, i.e. as at the date of receipt or delivery of such assets.

Changes in the fair value of assets, which occur during the period from transaction date to transaction settlement date, shall be recognized similarly as in the case of the asset held.

Credits and loans are recognized on the date of cash disbursement to the debtor.

Derivative instruments are recognized or derecognized on transaction dates.

Reclassification of financial assets

The Bank may reclassify the financial assets classified as available for sale, which meet the definition of loans and receivables, from the category of available for sale financial assets to the category of loans and receivables, if the Bank has the intent and the ability to hold such financial assets in foreseeable future or until their maturity.

If the financial asset with a given maturity is reclassified, prior gains and losses associated with such asset, recognized in other comprehensive income, are amortized in the profit or loss throughout the remaining period until maturity, using the effective interest rate method. Any differences between such new amortized cost and embedded amount is amortized throughout the period remaining until the maturity of such asset using the effective interest rate method, similar to premium or discount amortization.

The Bank allows the reclassification of financial assets classified as financial assets measured at fair value through profit or loss, if extraordinary circumstances occur, i.e. events that are unusual and highly unlikely to recur in the near term.

Such financial assets are reclassified at fair value as at reclassification date. The gains or losses recognized in the profit or loss before such reclassification cannot be reversed. The fair value of financial assets, as at reclassification date, is recognized as its new cost or its new amortized cost.

Impairment of financial assets

Assets measured at amortized cost – loans and advances

At each balance sheet date the Bank assesses whether there is any objective evidence ('triggers') that loans and advances or financial assets held-to-maturity measured at amortized cost ('loan exposures') are impaired. In the process of impairment assessment the Bank considers all loan exposures, irrespective of the level of risk of particular loan exposures or a group of loan exposures.

The Bank splits the loan exposures into individually significant exposures and individually insignificant exposures.

In respect to exposures assessed individually the Bank applies the following list of impairment triggers:

- overdue in repayment of principal, interest or credit fees more than 90 days and more than 2 working days in case of exposure towards banks including credit transactions and reverse repo/sell-buy-backs,
- significant financial difficulties of borrower (including loss of job or other events that could impact on ability to repayment in case of individuals). Significant financial difficulties of economic entity mean financial standing that could threaten timely repayment of liabilities towards the Bank, especially when incurred losses have consumed equity in 50%, excluding projects where losses have been assumed or where external financial support exists (in form of injections to the equity, granting a loan, warranty/guarantee by related company or other third party, conversion of loan into equity, issuance of shares/bonds),
- restructuring, if it is related with granting an advantage, due to economic or legal reasons resulted from financial difficulties of the borrower, that in other circumstances the Bank would not give. The advantage leads to reduction of the Bank's loan exposure, and may include: reduction of the interest rate, temporary interest accruing holidays, cancelling a part or total of the exposures, in this interest or principal,
- lowering by the well-known and accepted rating agency a borrower's rating or country's rating – country of domicile or rating of debt securities issued by the borrower by at least 4 notches including modifiers within one year. Decrease in credit rating alone is not an evidence of impairment trigger but could be confirmation of impairment if it is analyzed together with other available information,

- significant worsening of rating or scoring analysis results. It means the decrease in rating by 4 notches in the scale and at the same time move to non-performing category based only on rating criterion, excluding situations of rating deterioration resulted from seasonality of activity and excluding impact of classification in RMT ('Risk Management Tool') on rating. Decrease in rating alone is not an evidence of impairment trigger but could be confirmation of impairment if it is analyzed together with other available information,
- the Bank has started an execution process or has been informed about execution towards borrower,
- the debt/loan is questioned by the borrower including commencement of legal proceedings,
- the debt/loan has been due as the credit agreement has been terminated,
- the motion for borrower's bankruptcy has been filled in the court or legal proceedings has been instituted,
- disappearance of active market for given credit exposure resulted from financial difficulties of debtor. This impairment trigger could refer to financial instruments listed on stock exchanges, when due to significant deterioration in financial standing of issuer (eventually bankruptcy), the liquidity of assets trading is so low that reliable price fixing is not possible,
- receivership has been established or debtor has stopped/suspended its activity,
- unknown place of stay and not disclosed assets of the borrower.

In respect to exposures assessed collectively the Bank applies the following list of impairment triggers:

- overdue in repayment of principal, interest or credit fees greater or equal to 90 days,
- significant financial difficulties of debtor, including loss of job or other events that could impact on ability to repayment,
- unknown place of stay and not disclosed assets of the retail debtor or sole trader.

The Bank classifies the exposure as past due in case the borrower has failed to make payment on the principal and/or interest in the contractual maturity date. The Bank presents the whole amount of exposure as past due, regardless of whether the delay of payment affects the whole exposure, or only part of it (installment). The number of days past due for receivables paid by installments is assumed as the period from the date of maturity of the earliest installment, when the repayment is delayed.

In case of identification of impairment triggers for at least one of loan exposures of the borrower, all loan exposures of such borrower are assessed for impairment.

For all loans exposures, which are impaired, the Bank measures the amount of impairment allowance as the difference between the loan exposure's carrying amount and the present value of estimated future cash flows, discounted at the loan exposure's original effective interest rate. The carrying amount of the loan exposure is reduced through use of an allowance account.

The amount of the impairment loss is recognized in profit or loss. If, in a subsequent period, the amount of impairment loss decreases, then the previously recognized impairment loss is reversed by adjusting an allowance account. The amount of the reversal is recognized in profit or loss.

For all individually significant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Bank's employees and consists of individual verification of the impairment occurrence and projection of future cash flows from foreclosure less costs for obtaining and selling the collateral or other resources. The Bank compares the estimated future cash flows applied for measurement of individual impairment allowances with the actual cash flows on a regular basis.

For all individually insignificant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of collective assessment. Each exposure assessed collectively is grouped based on similar credit risk characteristics on the basis of the borrower's type, the product's type, past-due status or other relevant factors impacting on the debtor's ability to pay all amounts due according to the contractual terms. The future cash flows are estimated on the basis of historical data of cash flows and historical loss experience for exposures with credit risk characteristics similar to those in the group (for example, the value of the real estate taken as the collateral for the mortgage). Historical data, when necessary, are adjusted on the basis of current data to remove the effects of conditions in the historical period that do not exist currently. The recovery rates ('RR') and the methodology and assumptions used for estimating future cash flows for particular groups of loan exposures are reviewed regularly.

For all loan exposures, for which no impairment triggers have been identified, the Bank measures the allowance for losses incurred, but not reported ('IBNR'). As part of IBNR assessment the Bank estimates the loss resulting from events not reported as at balance sheet date and for which no impairment triggers have been identified, but the events occurred prior to balance sheet date and the loss was incurred. While estimating the IBNR, it is assumed that there is a several-months period from the date of emergence of objective impairment trigger to the date of its reporting, i.e. loss identification period ('LIP'). The value of LIP parameter is estimated on the basis of statistical analysis using the historical data. The Bank applies different loss identification periods for different groups of loan exposures, taking into account the client's segment, the product's type and the collateral. The update of LIP parameter is carrying out at least once a year.

The IBNR is measured based on the likelihood that the debtor will be unable to meet its obligations during loss identification period ('PD_LIP') multiplied by impairment loss estimated analogously like collective allowance for value of exposure at default ('EAD'). The value of EAD parameter is estimated on the basis of historical data.

The Bank estimates the value of PD_LIP parameter using the PD measured by Basel models with relevant transformation taking into account the shortening of loss identification period for applied length of LIP and Point-in-Time adjustment. Within the transformation the Bank calibrates the values of PD parameter to the most up to date realized PD_LIP values once a month. The values of PD_LIP as estimated reflect the current economic conditions the best. The model applied to measurement of PD_LIP is of 'Point-In-Time' type.

The values of LIP, PD_LIP, EAD and RR applied for IBNR measurement as well as the methodology and assumptions used for estimating such parameters for particular groups of loan exposures are reviewed regularly.

Financial assets available for sale

When a decline in the fair value of an available for sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity is removed from equity and recognized in the income statement. The amount of the cumulative loss transferred to the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Off-balance sheet commitments

The provisions for off-balance sheet commitments is measured as the difference between the expected value of balance sheet exposure arising from granted off-balance sheet commitment and the present value of estimated future cash flows from that balance sheet exposure at the date of impairment identification. The expected value of balance sheet exposure arising from granted off-balance sheet commitment is measured using the credit conversion factor ('CCF'), estimated on the basis of historical data.

The values of CCF applied for measurement of provisions for off-balance sheet commitments as well as the methodology and assumptions used for estimating such parameters for particular groups of loan exposures are reviewed regularly.

The Bank estimates the future cash flows as part of individual assessment or collective assessment depending on classification of particular off-balance sheet commitments as individually significant exposures or individually insignificant exposures.

Repo and reverse-repo agreements

Repo and reverse-repo transactions, as well as sell-buy back and buy-sell back transactions are classified as sales or purchase transactions of securities with the obligation of repurchase or resale at an agreed date and price.

Sales transactions of securities with the repurchase obligation granted (repo and sell-buy back) are recognized as at transaction date in amounts due to other banks or amounts due to customers from deposits depending upon the counterparty to the transaction. Securities purchased in reverse-repo and buy-sell back transactions are recognized as loans and receivables from banks or as loans and receivables from customers, depending upon the counterparty to the transaction.

Notes to the financial statements (cont.)

(In PLN thousand)

The difference between the sale and repurchase price is recognized as interest income or expense, and amortized over the contractual life of the contract using the effective interest rate method.

Derivative financial instruments and hedge accounting

The Bank acquires the derivative financial instruments: currency transactions (spot, forward, currency swap and currency options, CIRS), exchange rate transactions (FRA, IRS, CAP), derivative transactions based on security prices, indices of stock and commodities. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently re-measured at fair value at each balance sheet date. The fair value is established on the basis of market quotations for an instrument traded in an active market, as well as on the basis of valuation techniques, including models using discounted cash flows and options valuation models, depending on which valuation method is appropriate.

Positive valuation of derivative financial instruments is presented in the statement of financial position in the line 'Derivative financial instruments (held for trading)' or 'Hedging instruments' on an asset side, whereas the negative valuation - 'Derivative financial instruments (held for trading)' or 'Hedging instruments' on a liabilities side. For financial instruments with an embedded derivative component, if the whole or part of the cash flows related to such a financial instrument changes in a way similar to what would be the case with the embedded derivative instrument on its own, then the embedded derivative instrument is reported separately from the basic contract.

This occurs under the following conditions:

- the financial instrument is not included in assets held for trading or in assets designated at fair value through the profit or loss account the revaluation results of which are reflected in the financial income or expense of the reporting period,
- the nature of the embedded instrument and the related risks are not closely tied to the nature of the basic contract and to the risks resulting from it,
- a separate instrument the characteristics of which correspond to the features of the embedded derivative instrument would meet the definition of the derivative instrument,
- it is possible to reliably establish the fair value of the embedded derivative instrument.

In case of contracts that are not financial instruments with a component of an instrument meeting the above conditions the built-in derivative instrument is classified in accordance with assets or liabilities of derivatives financial instruments with respect to the income statement in accordance with derivative financial instruments valuation principles.

The method of recognition of the changes in the fair value of an instrument depends on whether a derivative instrument is classified as held for trading or is designated as a hedging item under hedge accounting.

The changes in fair value of the derivative financial instruments held for trading are recognized in the income statement.

The Bank designates some of its derivative instruments as hedging items in applying hedge accounting. The Bank implemented fair value hedge accounting as well as cash flow hedge accounting, under the condition of meeting the criteria of IAS 39 'Financial Instruments: Recognition and Measurement'.

Fair value hedge accounting principles

Changes in the measurement to fair value of financial instruments indicated as hedged positions are recognized: - in the part ensuing from hedged risk - in the income statement. In the remaining part, changes in the carrying amount are recognized in accordance with the principles applicable for the given class of financial instruments.

Changes in the fair market valuation of derivative financial instruments, indicated as hedging positions in fair value hedge accounting, are recognized in the profit or loss in the same caption, in which the gains/losses from change in the value of hedged positions are recognized.

Interest income on derivative instruments hedging interest positions hedged is presented as interest margin.

The Bank ceases to apply hedge accounting, when the hedging instrument expires, is sold, dissolved or released (the replacement of one hedging instrument with another or extension of validity of given hedging instrument is not considered an expiration or release, providing such replacement or extension of validity is a part of a documented hedging strategy adopted by given unit), or does not meet the criteria of hedge accounting or the Bank ceases the hedging relation.

An adjustment for the hedged risk on hedged interest position is amortized in the profit and loss account at the point of ceasing to apply hedge accounting.

Cash flow hedge accounting principles

Changes in the fair value of the derivative financial instruments indicated as cash flow hedging instruments are recognized:

- directly in the caption 'Revaluation reserves' in the part constituting the effective hedge,
- in the income statement in the line 'Result on financial assets and liabilities held for trading' in the part representing ineffective hedge.

The amounts accumulated in the 'Revaluation reserves' are transferred to the income statement in the period, in which the hedge is reflected in the income statement and are presented in the same lines as individual components of the hedged position measurement, i.e. the interest income from hedging derivatives in cash flow hedge accounting is recognized in the interest result, whereas gains/losses from foreign exchange revaluation are presented in the foreign exchange gains (losses).

The Bank ceases to apply hedge accounting when the hedging instrument expires or is sold, or if the Bank revokes the designation. In such cases, the accumulated gains or losses related to such hedging item, initially recognized in 'Revaluation reserves', if the hedge was effective, are still presented in equity until the planned transaction was closed and recognized in the income statement.

If the planned transaction is no longer probable, the cumulative gains or losses recognized in 'Revaluation reserves' are transferred to the income statement for the given period.

Financial liabilities

The Bank's financial liabilities are classified to the following categories:

- financial liabilities held for trading, valued at fair value,
- financial liabilities not held for trading, valued at amounts payable, measured at amortized cost using the effective interest rate method.

Financial liabilities not held for trading consist of amounts due to banks and customers, loans from other banks, and own debt securities issued.

De-recognition of financial instruments from the statement of financial position

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the Bank transfers the contractual rights to receive the cash flows in a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

The Bank derecognizes a credit or a loan receivable, or its part, when it is sold. Additionally, the Bank writes-off a receivable against the corresponding impairment allowance when the debt redemption process is completed and when no further cash flows from the given receivable are expected. Such cases are documented in compliance with the current tax regulations.

The Bank derecognizes a financial liability, or its part, when the liability expires. The liability expires when the obligation stated in the agreement is settled, redeemed or the period for its collection expires.

4.6 Valuation of other items in the Bank's unconsolidated statement of financial position

Investments in subsidiaries and associates

Subsidiaries

Subsidiaries are entities controlled by the Bank, i.e. the Bank has existing rights that give it the current ability to direct the relevant activities - the activities that significantly affect the investee's returns and is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Associates

Associates are entities, over which the Bank has a significant influence and which are neither subsidiaries, nor joint ventures. The Bank usually holds from 20% to 50% of voting rights at the governing body of the entity.

Recognition and measurement

In the Bank's Financial Statements, the investments in subsidiaries, associates and entities under common control are measured at purchase price. The carrying amount of the investment is tested for impairment according to IAS 36 'Impairment of assets'.

The impairment is recognized in the income statement under 'Gains (losses) from associates and subsidiaries. Dividends constituting an income from the investments are recognized in the income statement at the payment date.

Moreover, the capital investments in the entity operating abroad are non-financial assets. Non-financial assets are valued at historical cost in foreign currency, are translated into PLN using the exchange rate at the transaction date. Investments in foreign entity, acquired before the date of adoption of IFRS, are recognized at the carrying amount as at that date.

Business combinations

The Bank recognizes a business combination (except for purchase transactions under common control) using the acquisition method. The consideration transferred in the business combination of projects is measured at fair value of the assets given, liabilities incurred to the former owners of the acquiree and the equity interests issued by the Bank. The consideration transferred includes the fair value of an asset or liability resulting from a contingent payment arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at initial recognition at their fair values at the acquisition date.

Costs related to the acquisition of a business are recorded as expenses in the period.

The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recognized as goodwill. If all of the consideration transferred, the recognized non-controlling interests and the previously held shares is lower than the fair value of the net assets of the subsidiary acquired in a bargain purchase, the difference is recognized directly in the income statement.

Recognition of common control transactions at book value

Business combinations under common control are excluded from the scope of IFRS regulations. As a consequence, following the recommendation included in IAS 8 'Accounting Policies. Changes in Accounting Estimates and Errors', in the absence of any specific guidance within IFRS, Bank Pekao S.A. adopted the accounting policy commonly used in all business combinations under common control within the UniCredit Group, of which the Bank is a member, and recognizes those transactions at book value.

The adopted accounting principles are as follows:

- the acquirer recognizes the assets and liabilities of the target entity at their existing book value adjusted only as a result of aligning the combining enterprises' accounting policies. Neither goodwill, nor negative goodwill is recognized. The difference between the book value of acquired net assets and the fair value of the amount paid is recognized in the Bank's equity. In applying the book value method of accounting, the data concerning the comparative periods is not restated,
- if the transaction results in acquisition of non-controlling interests, the acquisition of any non-controlling interest is recognized separately.

There is no guidance in IFRS how to determine the percentage of non-controlling interests acquired from the perspective of a subsidiary. Accordingly Bank Pekao S.A. uses the same principles as the ultimate parent for estimating the value of non-controlling interests acquired.

Notes to the financial statements (cont.)

(In PLN thousand)

Intangible assets

Goodwill

Goodwill arising in a business combination is recognized in the amount of the excess of the consideration transferred over the fair value of the identified assets, liabilities and contingent liabilities at the date of acquisition. Goodwill at initial recognition is carried at purchase price reduced by any accumulated impairment losses. Impairment is determined by estimating the recoverable value of the cash generating unit, to which given goodwill pertains. If the recoverable value of the cash generating unit is lower than the carrying amount, an impairment charge is made. Impairment identified in the course of such tests is not subject to subsequent adjustments.

Other intangible assets

Intangible assets are assets controlled by the Bank which do not have a physical form which are identifiable and represent future economic benefits for the Bank directly attributable to such assets.

These assets mainly include:

- computer software licenses,
- copyrights,
- costs of completed development works.

Intangible assets are initially carried at purchase price. Subsequently intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with a definite useful life are amortized over their estimated useful life. Intangible assets with indefinite useful life are not amortized.

All intangible assets are reviewed on a periodical basis to verify if any significant impairment triggers occurred, which would require performing a test for impairment and a potential impairment charge.

As far as intangible assets with indefinite useful life and those still not put into service are concerned, impairment test is performed on a yearly basis and additionally when impairment triggers are identified.

Property, plant and equipment

Property, plant and equipment are defined as controlled non-current assets and assets under construction. Non-current assets include certain tangible assets with an expected useful life longer than one year, which are maintained for the purpose of own use or to be leased to other entities.

Property, plant and equipment are recognized at historical cost less accumulated depreciation and accumulated impairment write downs. Historical cost consists of purchase price or development cost and costs directly related to the purchase of a given asset.

Each component of property, plant and equipment, the purchase price or production cost of which is significant compared to the purchase price or production cost of the entire item is subject to separate depreciation. The Bank separates the initial value of property, plant and equipment into its significant parts.

Subsequent expenditures relating to property plant and equipment are capitalized only when it is probable that such expenditures will result in future economic benefits to the Bank, and the cost of such expenses can be reliably measured.

Service and maintenance costs of property, plant and equipment are expensed in the reporting period in which they have been incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

Depreciation and amortization

Depreciation expense for property, plant and equipment and investment properties and the amortization expense for intangible assets are calculated using straight line method over the expected useful life of an asset. Depreciated value is defined as the purchase price or cost to develop a given asset, less residual value of the asset. Depreciation rates and residual values of assets, determined for balance-sheet purposes, are subject to regular reviews, with results of such reviews recognized in the same period.

(In PLN thousand)

The statement of financial position depreciation rates applied to property, plant and equipment, investment properties and intangible assets are as follows:

a) depreciation rates applied for non-current assets

Buildings and structures and cooperative ownership rights to residential premises and cooperative ownership rights to commercial premises	1.5% – 10.0%
Technical equipment and machines	4.5% – 30.0%
Vehicles	7% – 20.0%

b) amortization rates for intangible assets

Software licenses, copyrights	12.5% – 50.0%
Costs of completed development projects	33.3%
Other intangibles	20% - 33.3%

c) depreciation rates for investment properties

Buildings and structures	1.5% – 10.0%

Land, non-current assets under construction and intangible assets under development are not subject to depreciation and amortization.

Depreciation and impairment deductions are charged to the income statement in the item ‘Depreciation and amortization’.

Investment properties

Investment properties assets are recognized initially at purchase cost, taking the transaction costs into consideration. Upon initial recognition, investment property assets are measured using the purchasing price model.

Investment property assets are derecognized from the statement of financial position when disposed of, or when such investment property is permanently decommissioned and no future benefits are expected from its sale. Any gains or losses resulting from de-recognition of an investment property are recognized in the income statement in the period when such de-recognition occurred.

Non-current assets held for sale and discontinued operations

Non-current assets held for sale include assets, the carrying amount of which is to be recovered by way of resale and not from their continued use. The only assets classified as held for sale are those available for immediate sale in their present condition, and the sale of which is highly probable, i.e. when the decision has been made to sell a given asset, an active program to identify a buyer has been launched and the divestment plan is completed. Moreover, such assets are offered for sale at a price which approximates its present fair value, and it is expected that the sale will be recognized as completed within one year from the date of such asset is reclassified into this category.

Non-current assets held for sale are recognized at the carrying amount or at fair value reduced by the cost of such assets, whichever is lower. Assets classified in this category are not subject to depreciation.

A discontinued operation is a component of the Bank’s business which constitutes a separate line of business or a geographical area of operations, which was sold, made available for sale or to be disposed, or is a subsidiary acquired exclusively with a view to re-sale. Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as held for sale, the comparative figures in the income statement are represented as if the operation had been discontinued from the beginning of the comparative period.

Notes to the financial statements (cont.)

(In PLN thousand)

Leases

The Bank is a party to leasing contracts on the basis of which it grants a right to use a non-current asset or an intangible asset for an agreed period of time in return for payment.

The Bank is also a party to leasing contracts under which it receives a right to use a non-asset or an intangible asset for an agreed period of time from another party in return for a payment.

Operating leases

In the case of leasing contracts entered into by the Bank acting as lessor, the leased asset is presented in the Bank's statement of financial position, since there is no transfer to the lessee of essentially all risks and benefits resulting from the asset.

In the case of lease agreements, entered into by the Bank as lessee, the leased asset is not recognized in the Bank's statement of financial position.

The entire amount of charges from operating leases is recognized in the profit or loss on a straight line basis, throughout the leasing period.

Finance leases

In the lease agreements, where essentially all risks and benefits relating to the ownership of an asset are transferred, the leased asset is no longer recognized in the statement of financial position of the Bank. However, receivables are recognized in the amount equal to the present value of the minimum lease payments. Lease payments are split into the financial income and the reduction of receivables balance in order to maintain a fixed interest rate on the outstanding liability. Finance lease costs are recognized directly in the income statement in the position 'Interest expense'.

Non-current assets subject to finance lease agreements are depreciated in the same way as other non-current assets. However, if it is uncertain whether the ownership of the asset subject of the contract will be transferred then the asset is depreciated over the shorter of the expected useful life or the initial period of lease.

Provisions

The provisions are recognized when the Bank has a present obligation (legal or constructive) resulting from the past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, the amount of a provision is established by discounting forecasted future cash flows to the present value, using the discount rate reflecting current market estimates of the time value of money and the possible risk associated with the obligation.

The provisions include the provisions relating to long-term employee benefits, in this those measured by an actuary and provisions for restructuring costs. The provision for restructuring costs is recognized when the general recognition criteria for provisions and detailed criteria for recognition of provisions for restructuring cost under IAS 37 'Provisions, contingent liabilities and contingent assets' are met. The amount of employment restructuring provision is calculated by the Bank on the basis of the best available estimates of direct outlays resulting from restructuring activities, which are not connected with the Bank's current activities.

The provisions are charged to the income statement, except for actuarial gains and losses from the measurement of the defined benefit plans obligations, which are recognized in other comprehensive income.

Deferred income and accrued expenses (liabilities)

This caption includes primarily commission income settled using the straight line method and other income charged in advance, that will be recognized in the income statement in the future periods.

Accrued expenses include accrued costs resulting from services provided for the Bank by counterparties which will be settled in future periods, accrued payroll and other employee benefits (including annual and Christmas bonuses, other bonuses and awards and accrued holiday pay).

Deferred income and accrued expenses are presented in the statement of financial position under the caption 'Other liabilities'.

Notes to the financial statements (cont.)

(In PLN thousand)

Government grants

The Bank recognizes government grants when there is reasonable assurance that it will comply with any conditions attached to the grant and the grant will be received. Government grants are recognized in profit or loss in the periods in which the related expenses are recognized which the grants are intended to compensate. For the settlement of the grant, the Bank uses the income method. Government grants related to assets are presented in the statement of financial position of the Bank as a reduction in the carrying value of the asset.

The Bank's equity

Equity is comprised of the capital and funds created by the Bank in accordance with the binding legal regulations and the appropriate laws and Articles of Association. Equity also includes retained earnings and net profit for the period.

The Bank's equity comprises of the following:

a) share capital – can be increased through the issue of new shares or through an increase of the nominal value of already issued shares. At the General Shareholder's Meeting the share capital can be increased by means of reserve capital or other capital, if it is in accordance with the Bank's Articles of Association and Corporate Code,
b) reserve capital – created out of the annual net profit write-offs to be called in the event of loss, which may occur due to the Bank's operations. Annual write-off should amount to at least 8% of net profit and should be made until the reserve capital reaches 1/3 of share capital value. Share premium formed from agio obtained from the issue of share, reduced by the attributable direct costs incurred with that issue is also a part of reserve capital,
c) revaluation reserve arises from the revaluation of financial instruments classified as available for sale, cash flow hedging derivatives, remeasurements of the defined benefit liabilities and the value of deferred tax for items classified as temporary differences recognized as revaluation reserve. In the statement of financial position revaluation reserve is recognized in net value,
d) exchange rate differences include differences arising from the recalculation of the result of a foreign branch at the weighted average exchange rate at the balance sheet date in relation to the average NBP exchange rate,
e) other reserve capital utilized for the purposes defined in the Articles of Association is created from appropriations of profits,
f) capital components:
   - bonds convertible to shares - includes the fair value of financial instruments issued as part of transactions settled in equity instruments, and
   - provision for purchase of parent entity stocks,
g) general banking risk fund in Bank Pekao S.A. is created in accordance with the Banking Act dated 29 August 1997 with subsequent amendments, from profit after tax,
h) retained earnings from prior periods is created from undistributed result from previous years,
i) net profit/loss, which constitutes of profit/loss for the period. Net profit is after taxation.

Share-based payment

Employee participation programs are established by the Bank under which key management staff is granted pre-emptive rights to buy shares of the Bank, including phantom shares and shares of UniCredit S.p.A. (Note 44).

Bank's Pekao S.A. phantom shares-settled share-based payment transaction

The cost of transactions settled with employees in phantom shares is measured by reference to the fair value of the liability as of the balance sheet date.

The fair value of the liability is estimated based upon the Bank's shares price on the WSE as of the balance sheet date and expected number of phantom shares to which full rights will be acquired.

The cost of phantom share-based payments is recognized in 'Personnel expenses' together with the accompanying increase in the value of liabilities towards employees presented in 'Provisions'.

The accumulated cost recognized for transactions settled in phantom shares for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares the rights to which – in the opinion of the Bank's Management Board for that date based on best available estimates of the number of phantom shares – will be eventually vested.

Stock options and stock of the UniCredit S.p.A.

The Bank entities joined the UniCredit-wide long term incentive program. The aim of the program is to offer to selected key Bank's employees share options and shares of UniCredit S.p.A.

The fair value of the instruments granted to the Bank employees was established following the UCI Bank-wide applied Hull-White model.

The expenses related to the rights granted are recognized in 'Personnel expenses' and respective increase is recognized as liabilities presented in 'Other liabilities'.

The Bank is obliged to pay to UniCredit S.p.A. the fair value of the instruments vested at the time the instruments are exercised.

4.7 Income tax

Income tax expense comprises current and deferred tax. The income tax expense is recognized in the income statement excluding the situations when it is recognized directly in equity. The current tax consists of the tax payable on the taxable income for the period, calculated based on binding tax rates, and any adjustment to tax payable in respect of previous years. The receivables resulting from taxes are disclosed if the company has sufficient certainty that they exist and that they will be recovered.

Deferred income tax assets and liabilities are calculated, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax asset or the deferred tax liability is realized.

A deferred tax asset is recognized for negative temporary differences to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilized.

A deferred tax liability is calculated using the balance sheet method based on identification of positive temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

4.8 Other

Contingent liabilities and commitments

The Bank enters into transactions which are not recognized in the statement of financial position as assets or liabilities, but which result in contingent liabilities and commitments. Contingent liabilities are characterized as:

- a potential obligation the existence of which will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond the control of the Bank (e.g. litigations),
- a current obligation which arises as a result of past events but is not recognized in the statement of financial position as it is improbable that it will result in an outflow of benefits to settle the obligation or the amount of the obligation cannot be reliably measured (mainly: unused credit lines and guarantees and letters of credit issued).

The issuer of the financial guarantee contract recognizes it at the higher of:

- the amount determined in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets',
- the amount initially recognized less, when appropriate, cumulative amortization charges recognized in accordance with IAS 18 'Revenue'.

Cash and cash equivalents

Cash and cash equivalents in the unconsolidated cash flow statement include 'Cash and due from Central Bank' as well as loans and receivables from banks with maturities up to three months.

Segment reporting

Information concerning segment reporting of the Group are presented in Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2016.

Notes to the financial statements (cont.)

(In PLN thousand)

4.9 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 2016

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
Amendments to IFRS 10 'Consolidated Financial Statements', **IFRS 12** 'Disclosure of interests in other entities' and **IAS 28** 'Investments in Associates and Joint Ventures'	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. Date of application: the first financial year beginning on or after 1 January 2016.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IFRS 11 (amendment) 'Joint Arrangements'	The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. Date of application: the first financial year beginning after 1 January 2016.	The Bank claims that the standard's amendment will not have a material impact on its financial statements in the period of its first application.
IAS 1 (amendment) 'Presentation of the financial statements'	The amendments clarify that among others an entity should not reduce understandability by aggregating or disaggregating information in a manner that obscures useful information. Date of application: the first financial year beginning after 1 January 2016.	The Bank claims that the standard's amendment will not have a material impact on its financial statements in the period of its first application.
IAS 16 (amendment) 'Property, Plant and Equipment' and **IAS 38 (amendment)** 'Intangible Assets'	The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. Date of application: the first financial year beginning after 1 January 2016.	The Bank claims that the standards amendments will not have a material impact on its financial statements in the period of its first application.
IAS 16 (amendment) 'Property, Plant and Equipment' and **IAS 41 (amendment)** 'Agriculture'	IAS 41 'Agriculture' currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 'Property, Plant and Equipment', because their operation is similar to that of manufacturing. Date of application: the first financial year beginning after 1 January 2016.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 19 (amendment) 'Employee benefits'	The amendment applies to contributions from employees or third parties to defined benefit plans. The aim of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of remuneration. Date of application: the first financial year beginning on or after 1 February 2015.	The Bank claims that the standard's amendment did not have a material impact on its financial statements in the period of its first application.
IAS 27 (amendment) 'Separate Financial Statements'	The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Date of application: the first financial year beginning after 1 January 2016.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
Improvements to IFRS 2010-2012	The annual improvements to IFRS 2010-2012 principally aim to solve inconsistencies and specify vocabulary. Date of application: the first financial year beginning on or after 1 February 2015.	The Bank claims that the improvements did not have a material impact on its financial statements in the period of its first application.
Improvements to IFRS 2012-2014	The annual improvements to IFRS 2012-2014 principally aim to solve inconsistencies and specify vocabulary. Date of application: the first financial year beginning after 1 January 2016.	The Bank claims that the improvements will not have a material impact on its financial statements in the period of its first application.

Notes to the financial statements (cont.)

(In PLN thousand)

4.10 New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and adopted by the EU but not yet effective

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 'Financial Instruments'	New regulations constitute a part of changes designed to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes, introduced by the new standard, are as follows: • new categorisation of financial assets, • new criteria of assets classification to the group of financial assets measured at amortized cost, • new impairment model – expected credit losses model, • new principles for recognition of changes in fair value measurement of capital investment in financial instruments, • elimination of the necessity to separate embedded derivatives from financial assets. The major part of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged. Date of application: the first financial year beginning after 1 January 2018.	The impact assessment of the new standard implementation on Bank's financial statements is described in note 4.1 Basis of preparation of Unconsolidated Financial Statements.
IFRS 15 'Revenue from Contracts with Customers'	The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer. Date of application: the first financial year beginning after 1 January 2018.	The Bank is currently assessing the impact of the IFRS 15 application on its financial statements.

4.11 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 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 Bank 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 Bank is currently assessing the impact of the IFRS 16 application on its financial statements.

Notes to the financial statements (cont.)

(In PLN thousand)

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 10 (amendment) 'Consolidated Financial Statements' and **IAS 28 (amendment)** 'Investments in Associates and Joint Ventures'	The amendments concern the sale or contribution of assets between the investor and the associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Date of application: the first financial year beginning after 1 January 2016.	The Bank 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.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 12 (amendment) 'Income Taxes'	The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Date of application: annual periods beginning on or after 1 January 2017.	The Bank 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 Bank is currently analyzing the impact of those changes on the financial statements.
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: effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 'Financial Instruments' is applied first time.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
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 Bank 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 Bank 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 Bank is currently analyzing the impact of those changes on the financial statements.

5. Risk management

The risk management policy of the Bank has a goal of optimizing the structure of the statement of financial position and off-balance sheet positions under the consideration of all risks in relation to income and other risk that the Bank encounters in conducting its daily activity. Risks are monitored and controlled with reference to profitability and equity coverage and are regularly reported in accordance with rules briefly presented below.

All important risk types, occurring in the course of the Bank's operations are described as follows.

5.1 Organizational structure of risk management

Supervisory Board

The Supervisory Board provides supervision over the risk management control system, assessing adequacy and effectiveness. Moreover, the Supervisory Board also provides supervision of the compliance with Bank policy with respect to risk management as it relates to the Bank's strategy and financial planning.

Management Board

The Management Board is responsible for the development, implementation and functioning of risk management processes by, among others, introduction of relevant, internal regulations, also taking into consideration the results of internal audit inspections.

The Bank's Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital computation process and the effectiveness of the review of the process of computing and monitoring of internal capital. Moreover, the Management Board also introduces the essential adjustments or improvements to those processes and systems whenever necessary. This need may be a consequence of changing risk levels of the Bank's operations, business environment factors or irregularities in the functioning of processes or systems.

Periodically, the Bank Management Board submits to the Bank's Supervisory Board concise information on the types, scale and significance of risks the Bank is exposed to, as well as on methods used in the management of such risks.

The Bank Management Board is responsible for assessing, whether activities such as identification, measurement, monitoring, reporting and control or mitigation are being carried out appropriately within the scope of the risk management process. Moreover, the Management Board examines whether the management at all levels effectively manage the risks within the scope of their competence.

Committees

In performing these tasks, in terms of risk management, the Management Board is supported by committees:

- Assets, Liabilities and Risk Management Committee (ALCO) – in terms of market risk management, liquidity and capital adequacy,
- Liquidity and Market Risk Committee (LMRC) – in terms of liquidity and market risk management, acting as support for Assets, Liabilities and Risk Management Committee,
- Operational Risk Committee – in operational risk management,
- Credit Committee – in making credit decisions within the powers and in the case of the largest transactions in preparing recommendations for the Board of Directors,
- Change Management Committee – in the implementation of new or modification of existing products and processes in business and outside business,
- Safety Committee – in the field of security and business continuity management,
- Model Risk Committee – in terms of model risk management.

5.2 Credit risk

Credit risk is one of the basic risks associated with activities of the Bank. The percentage share of credits and loans in the Bank's statement of financial position makes the maintenance of this risk at safe level essential to the Bank's performance. The process of credit risk management is centralized and managed mainly by Risk Management Division units, situated at the Bank Head Office or in local units. The integration of various risks in the Risk Management Division, where apart from credit risk, market and operational risk are dealt with, facilitates effective management of all credit-related risks. This process covers all credit functions – credit analysis, making credit decisions, monitoring and loan administration, as well as restructuring and collection. These functions are conducted in compliance with the Bank's credit policy, adopted by the Bank's Management Board and the Bank's Supervisory Board for given year and its related guidelines. The effectiveness and efficiency of credit functions are achieved using diverse credit methods and methodologies, supported by advanced IT tools, integrated into the Bank's general IT system. The Bank's procedures facilitate credit risk mitigation. In particular those related to transaction risk evaluation, establishing collateral, setting authorization limits for granting loans and limiting of exposure to some areas of business activity in line with current client's segmentation scheme in the Bank.

The Bank's lending activity is limited by the restrictions of the Banking Act as well as internal prudential standards in order to increase safety. These restrictions refer in particular to concentration limits for specific sectors of the economy, share of large exposures in the loan portfolio of the Bank and exposure limits for particular foreign countries, foreign banks and domestic financial institutions. Credit granting limits, concentration limits for specific business activities as well as internal and external prudential standards include not only credits, loans and guarantees, but also derivatives transactions and debt securities.

The Bank established the following portfolio limits:

- share of large exposures in the loan portfolio of the Bank – approved by the Management Board and the Supervisory Board of the Bank,
- customer segment limits – established in the Bank's credit policy,
- product limits (mortgage loans given to private individuals, financing commercial real estate) - established in the Bank's credit policy,
- concentration limits for specific sectors of the economy - approved by the Credit Committee of the Bank.

Since key limits are determined by decision-making bodies which simultaneously receive and analyze reports on credit risk (presenting also the Basel parameters of credit risk), limit-related decisions take into consideration the credit risk assessments supported by internal rating systems. Moreover, the Bank limits higher risk credit transactions, marked by excess risk by restricting the decision-making powers in such cases to higher-level decision-making bodies.

The management of the Bank's credit portfolio quality is further supported by regular reviews and continuous monitoring of timely loan repayments and the financial condition of the borrowers.

Rating models utilized in the credit risk management process

For credit risk management purposes, the Bank uses the internal rating models depending on the client's segment and/or exposure type.

The rating process is a significant element of credit risk assessment in relation to clients and transactions, and constitutes a preliminary stage of the credit decision-making process of granting a new credit or changing the terms and conditions of an existing credit and of the credit portfolio quality monitoring process.

In the credit risk measurement the following three parameters are used: PD, LGD and EAD. PD is the probability of a Client's failure to meet its obligations and hence the violation of contract terms and conditions by the borrower within one year horizon, such default may be subject-matter or product-related. LGD indicates the estimated value of the loss to be incurred for any credit transaction from the date of occurrence of such default. EAD reflects the estimated value of credit exposure as at such date.

The risk parameters used in the rating models are designed for calculation of the expected losses resulted from credit risk.

The value of expected loss is one of the significant assessment criteria taken into consideration by the decision-making bodies in the course of the crediting process. In particular, this value is compared to the requested margin level.

The level of minimum margins for given products or client segments is determined based upon risk analysis, taking into consideration the value of risk parameters assessed and comprising an element of internal rating systems.

Notes to financial statements (cont.)

(In PLN thousand)

The client and transaction rating, as well as other credit risk parameters hold a significant role in the Credit Risk Management Information System. For each rating model, the credit risk reports provide information on the comparison between the realized parameters and the theoretical values for each rating class.

Credit risk reports are generated on a monthly basis, with their scope varying depending upon the recipient of the report (the higher the management level, the more aggregated the information presented). Hence, the reports are being effectively used in the credit risk management process.

For internal purposes, within the Bank the following rating models are used, developed in accordance with provisions of Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms:

1) For the private individuals, the Bank uses two separate models applicable for:
   - mortgage loans,
   - consumer loans.
2) For the corporate clients, the Bank uses rating models dividing clients for:
   - clients with income not exceeding EUR 500 million,
   - corporate clients assessed by central model with income exceeding EUR 500 million,
   - specialized lending.

The following exposure types are not covered by internal rating models:

1) retail exposures immaterial in terms of size and perceived risk profile:
   - Eurokonto limits,
   - overdrafts,
   - forced debits,
   - exposures related to credit cards,
   - exposures related to the Building Society (Kasa Mieszkaniowa) unit,
   - other loans,
2) corporate clients immaterial in terms of size and perceived risk profile:
   - exposures to stock exchanges and other financial intermediators,
   - exposures to insurance companies,
   - project financing,
   - purchased receivables,
   - exposures to investment funds,
   - exposures to leasing companies and financial holding companies,
   - other loans,
3) exposures to regional governments and local authorities which are not treated as exposures to central governments, for which the number of significant counterparties is limited,
4) exposures to Pekao Group entities, subject to appropriate prudential requirements.

Notes to the financial statements (cont.)

(In PLN thousand)

Rating scale

The rating scale is determined by the client segment and the exposure type.

The proceeds of assigning a client or an exposure to a given rating class depends on its probability of default (PD parameter).

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

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

RATING CLASS	RANGE OF PD	31.12.2016		31.12.2015	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.06%	11 544 215	26.2%	10 532 502	25.9%
2	0.06% <= PD < 0.19%	6 794 533	15.4%	5 936 116	14.6%
3	0.19% <= PD < 0.35%	17 482 613	39.7%	16 303 771	40.1%
4	0.35% <= PD < 0.73%	5 463 689	12.4%	5 213 593	12.8%
5	0.73% <= PD < 3.50%	1 435 604	3.3%	1 393 240	3.4%
6	3.50% <= PD < 14.00%	638 891	1.5%	651 234	1.6%
7	14.00% <= PD < 100.00%	671 745	1.5%	652 160	1.6%
Total		**44 031 290**	**100.0%**	**40 682 616**	**100.0%**

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

RATING CLASS	RANGE OF PD	31.12.2016		31.12.2015	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.34%	687 697	7.9%	573 469	7.4%
2	0.34% <= PD < 0.80%	948 701	10.8%	805 937	10.3%
3	0.80% <= PD < 1.34%	1 506 160	17.2%	1 390 763	17.8%
4	1.34% <= PD < 2.40%	2 669 352	30.5%	2 393 959	30.6%
5	2.40% <= PD < 4.75%	1 815 307	20.7%	1 594 636	20.4%
6	4.75% <= PD < 14.50%	756 550	8.7%	673 978	8.6%
7	14.50% <= PD < 31.00%	186 915	2.1%	187 224	2.4%
8	31.00% <= PD < 100.00%	186 336	2.1%	194 052	2.5%
Total		**8 757 018**	**100.0%**	**7 814 018**	**100.0%**

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

RATING CLASS	RANGE OF PD	31.12.2016		31.12.2015	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.15%	515 756	3.5%	357 910	2.4%
2	0.15% <= PD < 0.27%	2 188 032	14.8%	1 887 596	12.5%
3	0.27% <= PD < 0.45%	1 984 785	13.5%	2 348 388	15.6%
4	0.45% <= PD < 0.75%	2 105 131	14.3%	2 304 203	15.3%
5	0.75% <= PD < 1.27%	2 131 155	14.5%	3 136 094	20.8%
6	1.27% <= PD < 2.25%	2 269 874	15.4%	1 935 237	12.8%
7	2.25% <= PD < 4.00%	1 266 801	8.6%	1 043 523	6.9%
8	4.00% <= PD < 8.50%	1 948 049	13.2%	1 898 162	12.6%
9	8.50% <= PD < 100.00%	319 268	2.2%	165 709	1.1%
Total		**14 728 851**	**100.0%**	**15 076 822**	**100.0%**

Notes to the financial statements (cont.)

(In PLN thousand)

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

RATING CLASS	RANGE OF PD	31.12.2016		31.12.2015	
		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%	-	0.0%	-	0.0%
5	0.0124% <= PD < 0.0223%	1	0.0%	-	0.0%
6	0.0223% <= PD < 0.0395%	-	0.0%	-	0.0%
7	0.0395% <= PD < 0.0691%	5	0.0%	1 243 315	24.2%
8	0.0691% <= PD < 0.1208%	430 448	8.0%	645 108	12.6%
9	0.1208% <= PD < 0.2091%	1 029 404	19.1%	629 490	12.3%
10	0.2091% <= PD < 0.3581%	255 864	4.8%	375 435	7.3%
11	0.3581% <= PD < 0.6132%	2 486 615	46.2%	81 377	1.6%
12	0.6132% <= PD < 1.0807%	-	0.0%	93 303	1.8%
13	1.0807% <= PD < 1.9599%	847 569	15.7%	-	0.0%
14	1.9599% <= PD < 3.5545%	331 740	6.2%	2 063 695	40.2%
15	3.5545% <= PD < 7.6705%	11	0.0%	-	0.0%
16	7.6705% <= PD < 19.6959%	-	0.0%	16	0.0%
17	19.6959% <= PD < 100.0000%	-	0.0%	-	0.0%
Total		**5 381 657**	**100.0%**	**5 131 739**	**100.0%**

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

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

SUPERVISORY CATHEGORY	31.12.2016		31.12.2015	
	CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
High	3 470 755	42.6%	1 647 122	25.0%
Good	3 623 153	44.5%	4 185 156	63.4%
Satisfactory	1 010 603	12.4%	720 513	10.9%
Low	44 728	0.5%	43 078	0.7%
Total	**8 149 239**	**100.0%**	**6 595 869**	**100.0%**

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

	31.12.2016	31.12.2015
Loans with no impairment:	**116 694 165**	**116 049 828**
Loans to individuals:	**55 008 720**	**50 779 433**
Covered by internal rating model:	52 788 308	48 496 634
Mortgage loans	44 031 290	40 682 616
Consumer loans	8 757 018	7 814 018
Other, not covered by internal rating model	2 220 412	2 282 799
Loans to corporates:	**61 685 445**	**65 270 395**
Covered by internal rating model:	20 110 508	20 208 561
Clients with income not exceeding EUR 500 million	14 728 851	15 076 822
Clients assessed by central model with income exceeding EUR 500 million	5 381 657	5 131 739
Specialized lending exposures	8 149 239	6 595 869
Debt securities, not covered by internal rating model	12 352 160	12 330 221
Repo transactions, not covered by internal rating model	-	4 755 472
Other, not covered by internal rating model	21 073 538	21 380 272
Impaired loans	**2 339 434**	**2 458 823**
Total loans and advances to customers (*)	**119 033 599**	**118 508 651**

(*) Loans and advances to customers include receivables from financial leases and bills of exchange eligible for rediscounting at Central Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

Client/transaction rating and credit risk decision-making level

Decision-making level connected with transaction approval is directly dependent upon the client's rating.

Decision-making entitlement limits are associated with the position held, determined in accordance with the Bank's organizational structure. The limits are determined taking the following matters into consideration:

- the Bank's total exposure to a client, including the amount of the requested transaction,
- type of a client,
- commitments of persons and entities associated with the client.

Validation of rating models

The internal validation of models and risk parameter assessments is focused on the quality assessment of risk models and the accuracy and stability of parameter assessments, applied by the Bank. The validation covers risk models and parameters assessed locally, whereas the validation of central models is carried out within UniCredit Group. Validation is carried out at the level of each risk model, although the Bank may apply several models for each class of exposures.

Moreover, the internal audit unit is obligated to review the Bank's rating systems and their functionality at least once a year. In particular, the internal audit unit reviews the scope of operations of credit division and estimations of risk parameters. It also verifies compliance of rating systems and their functionality with all requirements of advanced methods.

Bank's exposure to credit risk

The maximum credit risk exposure

The table below presents the maximum credit risk exposure for statement of financial position and off-balance sheet positions as at the reporting date.

	31.12.2016	31.12.2015
Due from Central Bank	3 221 816	4 930 181
Loans and advances from banks and from customers (*)	122 488 278	126 020 878
Financial assets held for trading	721 031	1 116 993
Derivative financial instruments (held for trading)	1 955 499	3 254 117
Hedging instruments	289 752	421 640
Investment securities	34 864 031	20 989 942
Other assets (**)	1 848 418	3 154 186
Balance sheet exposure (***)	**165 388 825**	**159 887 937**
Obligations to grant loans	32 123 412	30 556 733
Other contingent liabilities	13 155 896	16 706 417
Off-balance sheet exposure	**45 279 308**	**47 263 150**
Total	**210 668 133**	**207 151 087**

(*) Loans and advances to customers include bills of exchange eligible for rediscounting at Central Bank.

(**) Includes the following items of the statement of financial position: 'Investments in subsidiaries', 'Investments in associates' and part of 'Other assets' (Accrued income, Interbank and interbranch settlements, Card settlements, Other debtor).

(***) Balance sheet exposure is equal to the carrying amount presented in the statement of financial position.

Notes to the financial statements (cont.)

(In PLN thousand)

Credit risk mitigation methods

Bank Pekao S.A. has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations, which are based on supervision rules, specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

The most frequently used types of collateral for credits and loans, accepted in compliance with the relevant policy of Bank Pekao, are as follows:

COLLATERAL	COLLATERAL VALUATION PRINCIPLES
MORTGAGES	
- commercial	Collateral value is defined as the fair market value endorsed by a real estate expert. Other evidenced sources of valuation are acceptable, e.g. binding purchase offer, value dependent on the stage of tendering procedure, etc.
- residential	
REGISTERED PLEDGE/ ASSIGNMENT:	
- inventories	The value is defined basing on well evidenced sources e.g. amount derived from pledge agreement, amount disclosed in last financial statements, insurance policy, stock exchange quotations, the value disclosed through foreclosure procedure supported with evidence e.g. prepared by bailiff/receiver.
- machines and appliances	The value is defined as expert appraisal or present value determined based on other, sound sources, such as current purchase offer, register of debtor's non-current assets, value evidenced by bailiff or court receiver, etc.
- vehicles	The value is defined based on available tables (e.g. from insurance companies) proving the car value depending on its producer, age, initial price, or other reliable sources e.g. value stated in the insurance policy.
- other	The value is defined upon individually. The valuation should result from reliable sources.
- securities and cash	The value is defined upon individually estimated fair market value. Recovery rate shall be assessed prudently reflecting the securities price volatility.
TRANSFER OF RECEIVABLES	
- from clients with investment rating assigned by independent rating agency or by internal rating system of the Bank	The value is defined upon individually assessed claims' amount.
- from other counterparties	The value is defined upon individually assessed claim's amount.
GUARANTIES/SURETIES (INCL. RAFTS)/ACCESSION TO DEBT	
- from banks and the State Treasury	Up to the guaranteed amount.
- from other counterparties enjoying good financial standing, particularly when confirmed by investment rating, assigned by an independent rating agency or by the internal rating system of the Bank	The value is defined upon individually assessed claim's amount.
- from other counterparties	Individually assessed fair market value.

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 1 364 336 thousand as at 31 December 2016 (PLN 1 248 241 thousand as at 31 December 2015). The level of required impairment allowances for the portfolio would increase by this amount, if the discounted cash flows from collateral were not taken into account during estimation.

Notes to the financial statements (cont.)

(In PLN thousand)

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 Bank 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 Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

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

- derivatives,
- repo and reverse-repo transactions.

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

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

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

31.12.2016	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	1 890 313	(1 429 548)	(182 765)	278 000
TOTAL	**1 890 313**	**(1 429 548)**	**(182 765)**	**278 000**

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	3 260 756	(1 429 548)	(1 651 984)	179 224
TOTAL	**3 260 756**	**(1 429 548)**	**(1 651 984)**	**179 224**

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2015	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	3 675 757	(3 007 610)	(295 762)	372 385
TOTAL	**3 675 757**	**(3 007 610)**	**(295 762)**	**372 385**

31.12.2015	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	4 904 557	(3 007 610)	(1 339 417)	557 530
Repo transactions	963 829	(962 346)	-	1 483
TOTAL	**5 868 386**	**(3 969 956)**	**(1 339 417)**	**559 013**

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

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

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

31.12.2016	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	1 833 754	Derivative financial instruments (held for trading)	1 955 499	121 745	25
	56 559	Hedging instruments	289 752	233 193	27
FINANCIAL LIABILITIES					
Derivatives	1 624 494	Derivative financial instruments (held for trading)	1 949 335	324 841	25
	1 636 262	Hedging instruments	1 638 718	2 456	27

31.12.2015	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	3 182 088	Derivative financial instruments (held for trading)	3 254 117	72 029	25
	421 640	Hedging instruments	421 640	-	27
FINANCIAL LIABILITIES					
Derivatives	3 112 138	Derivative financial instruments (held for trading)	3 201 798	89 660	25
	1 702 759	Hedging instruments	1 702 759	-	27
Repo transactions	963 829	Amounts due to other banks	4 553 114	3 589 285	38

Notes to the financial statements (cont.)

(In PLN thousand)

Overall characteristics of monitoring process

The monitoring process is oriented at the identification of symptoms and threats, affecting the client, undertaking actions preventing the deterioration of credit portfolio quality for the purpose of maximizing the probability of recovery of assets made available to the client.

In particular, the monitoring of credit risk includes the control of timely debt service, analysis of client's financial standing, verification of meeting the terms of credit agreement and reviewing the collaterals.

Loans for large corporate clients are monitored using the rating system and data from both internal and external sources of information. In case of small and medium-size clients, the monitoring process is carried out using an internal tool, embedded into the statistical behavioral model. Process efficiency is further enhanced by regular reviews of the credit portfolio, carried out by representatives of the Risk Management Division and other Business Divisions for the purpose of determining the actual quality of individual exposures and of the entire credit portfolio.

The monitoring of individual clients is carried by IT systems and is based on the results of behavioral scoring.

Overall characteristics of provisioning model

The Bank establishes loan loss provisions ('LLP') in line with International Financial Reporting Standards ('IFRS'). LLP reflects the loan impairment and whether the Bank recognizes objective impairment triggers. Impairment of loans is recognized under an individual and collective approach.

The process of identifying impaired exposures covered by individual valuation is carried out with the use of an internal tool and consists of the following stages:

- identification, whether the impairment trigger for a given credit exposure has been recognized and, upon such identification, determination of the type of such trigger and assignment of default status to the exposure,
- assessment of future cash flows, discounted using the effective interest rate, generated both from collateral and client operations,
- calculation and registration of loan loss provision in the IT system.

Exposures covered by the collective approach valuation are classified into the default class for overdue amounts exceeding 90 days. For such exposures, the loan loss provision is calculated using a statistical model.

If an impairment trigger is not recognized, the Bank establishes provisions for incurred but not reported losses (IBNR) applying a statistical model of expected loss.

The applied statistical models are based on historical data for homogenous groups of exposure.

Both the models and parameters applied in the establishment of loan loss provision are subject to regular validation.

Notes to the financial statements (cont.)

(In PLN thousand)

The quality analysis of the Bank's financial assets

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	633 702	537 927
- up to 1 month	-	-	91 713	13 046
- between 1 month and 3 months	-	-	16 619	21 496
- between 3 months and 1 year	-	-	196 924	116 917
- between 1 year and 5 years	8 192	9 927	2 476 782	2 968 023
- above 5 years	-	-	1 411 099	1 334 323
Total gross carrying amount	**8 192**	**9 927**	**4 826 839**	**4 991 732**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(294 032)	(230 039)
- up to 1 month	-	-	(27 867)	(4 933)
- between 1 month and 3 months	-	-	(5 750)	(4 819)
- between 3 months and 1 year	-	-	(112 383)	(47 727)
- between 1 year and 5 years	(8 192)	(9 927)	(1 538 621)	(1 711 053)
- above 5 years	-	-	(1 139 166)	(1 156 423)
Total allowance for impairment	**(8 192)**	**(9 927)**	**(3 117 819)**	**(3 154 994)**
Net carrying amount of exposure individually impaired	**-**	**-**	**1 709 020**	**1 836 738**
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	158 064	109 908
- up to 1 month	-	-	68 614	41 499
- between 1 month and 3 months	-	-	54 001	44 193
- between 3 months and 1 year	-	-	275 341	292 994
- between 1 year and 5 years	-	-	1 165 552	1 235 099
- above 5 years	9 800	9 800	905 203	943 397
Total gross carrying amount	**9 800**	**9 800**	**2 626 775**	**2 667 090**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(47 813)	(37 924)
- up to 1 month	-	-	(20 823)	(10 142)
- between 1 month and 3 months	-	-	(18 903)	(14 292)
- between 3 months and 1 year	-	-	(143 406)	(148 107)
- between 1 year and 5 years	-	-	(930 466)	(948 154)
- above 5 years	(9 800)	(9 800)	(834 950)	(886 386)
Total gross carrying amount	**(9 800)**	**(9 800)**	**(1 996 361)**	**(2 045 005)**
Net carrying amount of exposure collectively impaired	**-**	**-**	**630 414**	**622 085**

Notes to the financial statements (cont.)

(In PLN thousand)

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	3 455 272	7 512 892	61 768 472	65 381 533	53 518 115	49 339 959
- up to 30 days	-	-	94 810	80 827	1 269 909	1 227 905
- between 30 days and 60 days	-	-	11 356	13 781	169 422	170 112
- above 60 days	-	-	83 182	78 993	178 158	187 622
Total gross carrying amount	**3 455 272**	**7 512 892**	**61 957 820**	**65 555 134**	**55 135 604**	**50 925 598**
IBNR PROVISION						
- not past due	(593)	(666)	(264 727)	(280 953)	(79 646)	(89 579)
- up to 30 days	-	-	(4 999)	(2 473)	(30 590)	(36 702)
- between 30 days and 60 days	-	-	(1 322)	(645)	(9 530)	(11 227)
- above 60 days	-	-	(1 327)	(668)	(7 118)	(8 657)
Total gross carrying amount	**(593)**	**(666)**	**(272 375)**	**(284 739)**	**(126 884)**	**(146 165)**
Net carrying amount of exposure with no impairment	**3 454 679**	**7 512 226**	**61 685 445**	**65 270 395**	**55 008 720**	**50 779 433**

(*) Loans and advances to customers include bills of exchange eligible for rediscounting at Central Bank.

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
IMPAIRED EXPOSURE				
Gross carrying amount	17 992	19 727	7 453 614	7 658 822
Allowance for impairment	(17 992)	(19 727)	(5 114 180)	(5 199 999)
Total net carrying amount	**-**	**-**	**2 339 434**	**2 458 823**
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	-	-	23 231	14 868
Exposure with collateral value included in expected discounted cash flow, in this:	-	-	*23 231*	*14 868*
Past due exposures	-	-	*7 338*	*6 957*
IBNR provision	-	-	(2 380)	(1 138)
Total net carrying amount	**-**	**-**	**20 851**	**13 730**
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	3 455 272	7 512 892	117 070 193	116 465 864
IBNR provision	(593)	(666)	(396 879)	(429 766)
Total net carrying amount	**3 454 679**	**7 512 226**	**116 673 314**	**116 036 098**

(*) Loans and advances to customers include bills of exchange eligible for rediscounting at Central Bank.

(In PLN thousand)

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

RATING	DEBT SECURITIES				
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (***)	TOTAL
A+ to A-	-	327 613	-	-	327 613
BBB+ to BBB-	654 918	24 580 189	2 905 255	700 960	28 841 322
no rating	66 113	6 903 060 (*)	20 606 (**)	-	6 989 779
Total	**721 031**	**31 810 862**	**2 925 861**	**700 960**	**36 158 714**

(*) 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 debt securities according to Standard & Poor's ratings as at 31 December 2015

RATING	DEBT SECURITIES				
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (***)	TOTAL
A+ to A-	1 003 007	15 865 408	2 418 961	6 520 122	25 807 498
BBB+ to BBB-	-	251 367	-	-	251 367
no rating	113 986	1 312 168 (*)	871 100 (**)	-	2 297 254
Total	**1 116 993**	**17 428 943**	**3 290 061**	**6 520 122**	**28 356 119**

(*) including NBP bills in an amount of PLN 628 454 thousand.
(**) including NBP bills in an amount of PLN 871 100 thousand.
(***) Fair value of debt securities purchased in the reverse repo transactions.

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

RATING	DERIVATIVE INSTRUMENTS						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHET 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	344 785	69 631	324 602	26 868	235 202	-	1 001 088
Total	**1 381 720**	**249 177**	**324 602**	**54 550**	**235 202**	**-**	**2 245 251**

Notes to the financial statements (cont.)

(In PLN thousand)

Classification of exposures to derivative instruments according to Standard & Poor's ratings as at 31 December 2015

RATING	DERIVATIVE INSTRUMENTS						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	90	-	-	-	-	-	90
AA+ to AA-	126 730	-	-	3 032	-	-	129 762
A+ to A-	1 044 437	272 974	-	64 698	-	749	1 382 858
BBB+ to BBB-	1 003 930	-	503	319 425	-	-	1 323 858
BB+ to BB-	-	-	1 454	-	-	-	1 454
no rating	511 324	52 725	239 950	29 798	3 938	-	837 735
Total	**2 686 511**	**325 699**	**241 907**	**416 953**	**3 938**	**749**	**3 675 757**

Forbearance measures

With reference to European Securities and Markets Authority (ESMA) document 2012/853 and instructions issued by European Banking Authority in terms of disclosure as far as forborne exposures, the Bank in cooperation with its mother company has implemented a process of classification of this type of exposures.

Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Based on these difficulties, the Bank decides to modify the terms and conditions of the contract to allow the borrower sufficient ability to service the debt or refinance the contract, either totally or partially. Modification of the terms and conditions of the contract may include i.e. the reduction of the interest rate, principal, accrued interest or the rescheduling of the dates of payment of principal and/or interests.

In particular, the Bank assumes that the forbearance has taken place when:

- the modified contract was classified as impaired and the modifications were made within restructuring activities,
- the modified contract was totally or partially past-due by more than 30 days (without being impaired) at least once during the three months prior to its modification or would be more than 30 days past-due, totally or partially, without modification,
- simultaneously with or close in time to the concession of additional debt by the Bank, the debtor made payments of principal or interest on another contract with the Bank that was totally or partially 30 days past due at least once during the three months prior to its refinancing.

The classification as forborne exposure shall be discontinued when all the following conditions are met:

- the contract is considered as exposure without impairment triggers,
- a minimum 2 year probation period has passed from the date the forborne exposure was considered as exposure without impairment triggers,
- regular payments of more than an insignificant amount of principal or interest have been made,
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period of forborne exposure.

If a decision is made to extend a concession, modify the contractual terms or refinance, which is not related to the financial difficulties of the borrower, then forbearance has not occurred.

The forbearance agreements are monitored for fulfillment of contractual provisions. Dedicated units of the Bank manage the agreements with identified forbearance measures and monitor such agreements on a current basis.

Notes to the financial statements (cont.)

(In PLN thousand)

When the exposure is classified as forborne and at each balance sheet date the Bank assesses whether there is any objective evidence that the exposure is impaired. The accounting policies in respect to the evaluation and the provisioning of the forborne exposures generally follow the principles in line with the provisions of IAS 39, i.e. whether there are objective evidences that it has incurred a loss for impairment of loans valued at amortized cost, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet incurred) discounted at the original effective interest rate of the loan.

When the forbearance measures lead to derecognition of the original loan, the Bank recognizes the new loan at its fair value. The difference between the carrying amount of the original loan and the fair value of the new loan is recognized in income statement.

The Banks also performs an in-depth analysis of the credit risk characteristics of assets for which forbearance measures have been applied, when assessing for specific as well as collective impairment.

Share of forborne exposures in the Bank's loan portfolio

	31.12.2016	31.12.2015
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	**116 694 165**	**116 049 828**
forborne exposures	521 923	369 929
Impaired exposures, of which:	**2 339 434**	**2 458 823**
forborne exposures	1 423 229	1 497 252
Total net carrying amount, of which:	**119 033 599**	**118 508 651**
forborne exposures	1 945 152	1 867 181

The quality analysis of forborne exposures

	31.12.2016	31.12.2015
Exposures with no impairment		
Gross carrying amount	534 259	383 764
IBNR provisions	(12 336)	(13 835)
Net carrying amount	**521 923**	**369 929**
Impaired exposures		
Gross carrying amount, of which:	3 091 811	2 912 211
exposures individually impaired	2 765 086	2 702 996
exposures collectively impaired	326 725	209 215
Allowances for impairment, of which:	(1 668 582)	(1 414 959)
exposures individually impaired	(1 518 812)	(1 320 652)
exposures collectively impaired	(149 770)	(94 307)
Net carrying amount	**1 423 229**	**1 497 252**
Total net carrying amount	**1 945 152**	**1 867 181**

The Bank holds the collaterals for forborne exposures amounting to PLN 942 225 thousand as at 31 December 2016 (PLN 822 701 thousand as at 31 December 2015).

Notes to the financial statements (cont.)

(In PLN thousand)

The quality analysis of forborne exposures broken down by delays in repayment

	31.12.2016	31.12.2015
Gross carrying amount of exposures with no impairment, of which:	**534 259**	**383 764**
- not past due	449 697	268 114
- up to 30 days	59 739	81 787
- between 30 days and 60 days	14 172	16 086
- above 60 days	10 651	17 777
IBNR provisions for exposures with no impairment, of which:	**(12 336)**	**(13 835)**
- not past due	(7 639)	(5 750)
- up to 30 days	(3 012)	(5 103)
- between 30 days and 60 days	(1 020)	(1 444)
- above 60 days	(665)	(1 538)
Gross carrying amount of impaired exposures, of which:	**3 091 811**	**2 912 211**
- not past due	623 317	577 025
- up to 1 month	135 962	32 642
- between 1 month and 3 months	36 283	27 496
- between 3 months and 1 year	198 096	112 103
- between 1 year and 5 years	2 015 678	2 117 636
- above 5 years	82 475	45 309
Allowances for impairment, of which:	**(1 668 582)**	**(1 414 959)**
- not past due	(273 702)	(202 974)
- up to 1 month	(42 111)	(9 744)
- between 1 month and 3 months	(13 064)	(7 307)
- between 3 months and 1 year	(113 155)	(39 981)
- between 1 year and 5 years	(1 165 597)	(1 117 675)
- above 5 years	(60 953)	(37 278)
Total net carrying amount	**1 945 152**	**1 867 181**

Changes in net carrying amount of forborne exposures

	2016	2015
Net carrying amount at the beginning	**1 867 181**	**2 141 279**
Amount of exposures recognized in the period	526 305	138 575
Amount of exposures derecognized in the period	(191 032)	(137 315)
Changes in impairment allowances	(115 927)	(215 813)
Other changes	(141 375)	(59 545)
Net carrying amount at the end	**1 945 152**	**1 867 181**
Interest income	134 743	163 945

Forborne exposures by type of forbearance activity

	31.12.2016	31.12.2015
Modification of terms and conditions	3 432 795	3 100 908
Refinancing	193 275	195 067
Total gross carrying amount	**3 626 070**	**3 295 975**
Impairment allowances	(1 680 918)	(1 428 794)
Total net carrying amount	**1 945 152**	**1 867 181**

Notes to the financial statements (cont.)

(In PLN thousand)

Forborne exposures by product type

	31.12.2016	31.12.2015
Mortgage loans	1 241 146	938 682
Current accounts	264 371	301 434
Operating loans	977 785	890 578
Investment loans	844 813	935 210
Cash loans	221 506	206 771
Other loans and advances	76 449	23 300
Total gross carrying amount	**3 626 070**	**3 295 975**
Impairment allowances	(1 680 918)	(1 428 794)
Total net carrying amount	**1 945 152**	**1 867 181**

Forborne exposures by industrial sectors

	31.12.2016	31.12.2015
Corporations:	3 056 648	2 754 897
Manufacturing	756 890	703 030
Construction	779 262	615 690
Real estate activities	469 314	451 742
Professional, scientific and technical activities	552 400	521 685
Accommodation and food service activities	201 257	201 675
Wholesale and retail trade	151 160	117 919
Mining and quarrying	57 156	76 346
Transportation and storage	52 817	51 201
Agriculture, forestry and fishing	14 495	2 809
Other sectors	21 897	12 800
Individuals	569 422	541 078
Total gross carrying amount	**3 626 070**	**3 295 975**
Impairment allowances	(1 680 918)	(1 428 794)
Total net carrying amount	**1 945 152**	**1 867 181**

Forborne exposures by geographical structure

	31.12.2016	31.12.2015
Poland	3 278 979	2 984 333
Ukraine	319 396	292 314
Cyprus	26 874	18 503
Other countries	821	825
Total gross carrying amount	**3 626 070**	**3 295 975**
Impairment allowances	(1 680 918)	(1 428 794)
Total net carrying amount	**1 945 152**	**1 867 181**

Notes to the financial statements (cont.)

(In PLN thousand)

Credit risk concentration

According to the current legislation the total exposure of the Bank to the risks associated with the single borrower or a group of borrowers in which entities are related by capital or management may not exceed 25% of the Bank's equity. In 2016 the maximum exposure limits were not exceeded.

a) Breakdown by individual entities.

As at 31 December 2016

EXPOSURE TO 10 LARGERST CLIENTS OF THE BANK	% SHARE OF PORTFOLIO
Client 1	2.3%
Client 2	1.5%
Client 3	1.3%
Client 4	1.2%
Client 5	0.9%
Client 6	0.8%
Client 7	0.8%
Client 8	0.8%
Client 9	0.8%
Client 10	0.8%
Total	**11.2%**

b) Concentration by capital groups.

As at 31 December 2016

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK	% SHARE OF PORTFOLIO
Group 1	4.9%
Group 2	1.7%
Group 3	1.4%
Group 4	1.3%
Group 5	1.2%
Total	**10.5%**

c) Breakdown by industrial sectors.

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the structure of exposures by industrial sectors

SECTOR DESCRIPTION	31.12.2016	31.12.2015
Wholesale and retail trade; repair of motor vehicles	14.2%	14.0%
Real estate activities	11.9%	9.9%
Public administration and defence	10.5%	11.1%
Financial and insurance activities	9.1%	12.1%
Electricity, gas, steam	7.5%	8.7%
Construction	6.5%	6.0%
Transportation and storage	5.4%	6.4%
Manufacture of metals, metal products and machinery	4.8%	3.8%
Manufacture of coke, rafined petroleum products, chemicals and pharmaceutical products	4.3%	2.9%
Manufacture of beverages and food products	4.0%	3.6%
Mining and quarrying	3.2%	4.5%
Other manufacturing	6.7%	6.6%
Other sectors	11.9%	10.4%
Total	**100.0%**	**100.0%**

CHF loans to individuals

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

A few concepts of restructuring of CHF mortgage loans for individuals have been proposed recently, including the President's draft of the act on the restoration of the equality of parties of certain loan agreements. The proposed solutions are under discussion and may change significantly. Therefore, at the moment, the Bank 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 Bank assesses that potentially taken solutions should not materially affect the financial standing of the Bank.

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

Gross and net amount of CHF loans to individuals

	31.12.2016	31.12.2015
Gross carrying amount, of which:	**4 103 581**	**4 345 778**
- denominated in CHF	4 072 572	4 304 140
- indexed to CHF	31 009	41 638
Impairment allowances, of which:	**(88 990)**	**(76 261)**
- denominated in CHF	(88 663)	(75 914)
- indexed to CHF	(327)	(347)
Net carrying amount, of which:	**4 014 591**	**4 269 517**
- denominated in CHF	3 983 909	4 228 226
- indexed to CHF	30 682	41 291

Notes to the financial statements (cont.)

(In PLN thousand)

Quality of CHF loans to individuals

	31.12.2016	31.12.2015
Gross carrying amount of exposures with no impairment, of which:	**3 940 307**	**4 207 082**
- not past due	3 629 664	3 900 096
- up to 30 days	254 847	248 348
- between 30 days and 60 days	42 417	35 794
- above 60 days	13 379	22 844
IBNR provisions for exposures with no impairment, of which:	**(10 208)**	**(12 045)**
- not past due	(3 812)	(4 764)
- up to 30 days	(4 341)	(4 629)
- between 30 days and 60 days	(1 465)	(1 373)
- above 60 days	(590)	(1 279)
Gross carrying amount of impaired exposures, of which:	**163 274**	**138 696**
- not past due	27 090	21 714
- up to 1 month	13 256	7 802
- between 1 month and 3 months	12 014	9 211
- between 3 months and 1 year	24 676	21 791
- between 1 year and 5 years	50 362	49 798
- above 5 years	35 876	28 380
Allowances for impairment, of which:	**(78 782)**	**(64 216)**
- not past due	(5 769)	(4 149)
- up to 1 month	(2 610)	(1 432)
- between 1 month and 3 months	(2 712)	(1 764)
- between 3 months and 1 year	(8 636)	(6 013)
- between 1 year and 5 years	(31 571)	(27 878)
- above 5 years	(27 484)	(22 980)
Total net carrying amount	**4 014 591**	**4 269 517**

As of 31 December 2016 the average LTV for CHF loans to individuals granted by the Bank amounted to 55.5% (55.7% as at 31 December 2015), with an average LTV for the whole portfolio of 66.0% (66.6% as at 31 December 2015).

Notes to the financial statements (cont.)

(In PLN thousand)

Credit exposures towards Ukraine

In 2016 Bank exposure towards Ukraine in the form of interbank placements were repaid in full.

As at 31 December 2016, the net balance sheet value of remaining exposures towards Ukraine amounted to PLN 111 million (which constitutes 0.1% of total Bank exposures), less by PLN 482 million in comparison to the end of December 2015.

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

	31.12.2016	31.12.2015
Balance sheet exposure		
Loans and advances to banks	-	402 630
Loans and advances to customers	320 736	300 551
Total gross carrying amount	**320 736**	**703 181**
IBNR / Impairment allowances	(209 687)	(110 605)
Total net carrying amount	**111 049**	**592 576**
Off-balance sheet exposure		
Credit lines granted	428	4 049
Total gross carrying amount	**428**	**4 049**
IBNR	-	(27)
Total net carrying amount	**428**	**4 022**

5.3 Market risk

The Bank is exposed in its operations to market risk and other types of risk caused by changing market risk parameters.

Market risk is the risk of deteriorating financial result or capital of the Bank resulting from market changes. The main factors of market risk are as follows:

- interest rates,
- foreign exchange rates,
- stock prices,
- commodity prices.

The Bank established a market risk management system, providing structural, organizational and methodological frames for the purpose of shaping the structure of balance and off-balance items to assure the achievement of strategic goals.

The main objective of market risk management is to optimize financial results so as to assure the implementation of financial goals of the Bank while keeping the exposure to market risk within the risk appetite defined through risk limits approved by the Management Board and the Supervisory Board.

The organization of the market risk management process is based on a three-tier control system, established in compliance with the best international banking practices and recommendations from banking supervision. The process of market risk management and procedures regulating it have been developed taking into consideration the split into trading and banking books.

Notes to the financial statements (cont.)

(In PLN thousand)

Market risk of the trading book

The Bank's management of market risk of the trading book aims at optimizing the financial results and assuring the highest possible quality of customer service in reference to the market accessability (market making) while staying within the limits of risk approved by the Management Board and the Supervisory Board.

The main tool for market risk of the trading book measurement is Value at Risk model (VaR). This value corresponds to the level of a one-day loss, which will be exceeded with the probability not greater than 1%. VaR value is calculated with historical simulation method based on 2 years of historical observations of market risk factors' dynamics. The set of factors used when calculating VaR consists of all significant market factors that are taken into account for valuation of financial instruments, excluding specific credit risk of an issuer and counterparty. Estimating the impact of changes in market factors on the present value of a given portfolio is performed under the full revaluation (which is a difference between the value of the portfolio after the adjustments in market parameters' levels by historically observed changes of the parameters and the present value of the portfolio). For such a set of probable changes in the portfolio value (distribution), VaR is defined to be equal to 1% quantile.

The model is subject to continuous, statistical verification by comparing the VaR values to actual and revaluated performance figures. Results of analyses carried out in 2016 and 2015 confirmed the adequacy of the model applied.

The tables below presents the market risk exposure of the trading portfolio of the Bank measured by Value at Risk in 2016 and 2015:

	31.12.2016	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	60	14	275	1 958
interest rate risk	819	804	1 106	1 677
Trading portfolio	845	845	1 207	2 309

	31.12.2015	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	54	15	203	1 674
interest rate risk	1 176	676	1 175	2 103
Trading portfolio	1 153	652	1 212	2 096

Interest rate risk of the banking book

In managing the interest rate risk of the banking book the Bank aims at hedging the economic value of capital and achieving the planned interest result within the accepted limits. The financial position of the Bank in relation to changing interest rates is monitored through the interest rate gap (repricing gap), duration analysis, sensitivity analysis, stress testing and VaR.

The table below presents the sensitivity levels of the contractual interest income (NII) to the interest rate change by 100 b.p. and of economic value of the Bank's equity (EVE) to the interest rate change by 200 b.p. for the end of December 2016 and December 2015. Both analyses assume instant change of market rates. Interest rates of banking products change according to contractual notations, nevertheless in case of contractual NII, for retail deposits the drop of interest rates is limited by 0. In case of EVE sensitivity for current deposits in PLN, the deposit model is applied, which adjusts deposits revaluation profile.

SENSITIVITY IN %	31.12.2016	31.12.2015
NII	(8.00)	(5.89)
EVE	(0.89)	(0.90)

(In PLN thousand)

Currency risk

Currency risk management is performed simultaneously for the trading and the banking book. The objective of currency risk management is to maintain the currency profile of statement of financial position and off-balance items within the internal limits.

The table below presents the Bank's foreign currency risk profile by major foreign currencies measured at Value at Risk:

	31.12.2016	31.12.2015
Currencies total (*)	183	1 546

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

Currency exposure of the Bank

31.12.2016	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVETIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	19 671 015	15 647 626	12 841 581	16 829 373	35 597
USD	5 185 673	7 692 982	6 416 406	3 980 769	(71 672)
CHF	4 115 624	677 268	4 487 951	7 931 700	(5 393)
GBP	211 993	869 070	687 217	29 324	816
CZK	34 786	529 413	602 343	107 358	358
Other currencies	262 334	163 986	208 033	304 055	2 326
TOTAL	**29 481 425**	**25 580 345**	**25 243 531**	**29 182 579**	**(37 968)**

31.12.2015	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	17 386 670	16 571 468	11 212 116	11 841 778	185 540
USD	6 282 902	8 284 937	7 084 286	5 116 062	(33 811)
CHF	4 395 108	625 085	3 873 514	7 646 006	(2 469)
GBP	317 523	708 101	622 872	232 423	(129)
CZK	37 732	16 591	183 225	204 259	107
Other currencies	273 982	161 448	73 793	183 113	3 214
TOTAL	**28 693 917**	**26 367 630**	**23 049 806**	**25 223 641**	**152 452**

The amount of the net long position in EUR (equivalent of PLN 185 540 thousand) as at 31 December 2015 mainly resulted from the recognition of the fair value valuation of shares in Visa Europe (Note 28) in the amount of EUR 40 866 611 (equivalent of PLN 174 153 thousand). The foreign currency position from the valuation of shares in Visa Europe was closed on January 2016.

5.4 Liquidity risk

The objective of liquidity risk management is to:

- ensure and maintain the Bank's solvency with respect to current and future payables taking into account the cost of acquiring liquidity and return on the Bank's equity,
- prevent the occurrance of crisis situations, and
- provide solutions necessary to survive a crisis situation when such circumstances occur.

The Bank has centralized liquidity risk management system covering current liquidity management and first level control performed by the responsible functions, the second level control carried out by a dedicated unit of the Risk Management Division and independent audit.

Managing the Bank's liquidity is carried out in intraday, short-term and long-term horizon. Analysing of Intraday liquidity concerns flows realized during the day, through a short-term liquidity analysis is understood liquidity measurement system which refers to the time horizon shorter than one year, long-term analysis covers period above one year. Due to the specific tools and techniques used for liquidity risk management, the Bank manages current and medium-term liquidity together with short-term liquidity.

The liquidity control is performing as a continuous process of determining and analysing the levels of various indicators and measures related to intraday, short-term and long-term liquidity. Monitoring frequency is matched to the specific liquidity aspect – e.g. daily for short-term liquidity, monthly for long-term liquidity. Liquidity ratios and measures are subject to a formal limiting process. The limits' utilisation is regularly monitored and presented to the Bank Management. In case of exceeding, escalation process is running as to inform decision-makers and ultimately to restore the liquidity risk exposures to acceptable levels.

Scenario-based stress analyses, conducted on a monthly basis, constitute an integral part of the Bank's liquidity monitoring process. Within the scope of these analyses Bank's liquidity is assessed under the conditions of crisis which is caused by financial markets or is caused by internal factors, specific to the Bank. In 2016 the Bank widened the scope of applied tests without making significant changes in their logic.

Managing the liquidity, the Bank pays special attention to the liquidity in foreign currencies through monitoring, limiting and controlling the liquidity individually for each currency, as well as monitoring demand for the current and future currency liquidity and in case of identification of such need the Bank hedges using currency swaps. The Bank monitors also the potential influence on the liquidity of placing required collateral deposits for derivative transaction.

In order to define the principles of contingency liquidity management, Bank introduced, approved by the Management Board, 'Contingency Liquidity Policy', which defines the contingency procedures in the event of crisis situations. This policy involves daily monitoring of the system and specific to the Bank's early-warning indicators as well as three levels of liquidity risk states depending on the level of early-warning indicators, the Bank's and market situation. It also defines the sources for covering the expected outflows from the Bank. This document sets the procedures for monitoring the liquidity states, emergency action procedures, task forces dedicated for restoring the Bank's liquidity and the Bank Management's responsibilities for taking necessary decisions to restore the required liquidity level. In 2016, the Policy was updated in order to be adjusted to the Recovery Plan that is in force in the Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

Below are presented basic quantitative information concerning the Bank's liquidity at the end of 2016 year in comparison to the end of 2015. They cover the structure of financial liabilities by contractual maturity, adjusted liquidity gap and financial flows from derivative transactions.

Structure of financial liabilities by contractual maturities

31.12.2016	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 (*)	1 597 596	6 921	-	46 688	1 775 926	3 427 131
Amounts due to customers	107 841 287	11 537 418	18 576 061	518 100	73 296	138 546 162
Debt securities issued	28 689	185 841	-	87 861	-	302 391
Financial liabilities held for trading	102 076	-	131 194	263 435	176 460	673 165
Total	**109 569 648**	**11 730 180**	**18 707 255**	**916 084**	**2 025 682**	**142 948 849**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off-balance sheet commitments Financial liabilities granted	32 305 984	-	-	-	-	32 305 984
Off-balance sheet commitments Guarantees liabilities granted	12 942 576	-	-	-	-	12 942 576
Total	**45 248 560**	**-**	**-**	**-**	**-**	**45 248 560**

31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 630 926	1 064 802	102 628	58 364	1 803 401	4 660 121
Amounts due to customers	96 842 154	12 010 093	18 135 632	2 772 088	47 014	129 806 981
Debt securities issued	336 199	1 026 371	312 056	-	-	1 674 626
Financial liabilities held for trading	-	-	170 729	382 663	58 050	611 442
Total	**98 809 279**	**14 101 266**	**18 721 045**	**3 213 115**	**1 908 465**	**136 753 170**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off-balance sheet commitments Financial liabilities granted	30 670 749	-	-	-	-	30 670 749
Off-balance sheet commitments Guarantees liabilities granted	15 649 822	-	-	-	-	15 649 822
Total	**46 320 571**	**-**	**-**	**-**	**-**	**46 320 571**

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

Notes to the financial statements (cont.)

(In PLN thousand)

Adjusted liquidity gap

The adjusted liquidity gaps presented below include, inter alia, the adjustments concerning the stability of core deposits and their maturities, adjustments of flows from granted off-balance sheet commitments arising from financing, guarantees and from assets without contractual repayment schedules. On top of that, included are also the adjusted flows stemming from the Bank's security portfolio and flows resulting from earlier repayment of mortgage loans portfolio. These are the main elements differentiating the adjusted gaps from unadjusted ones. Moreover, the gaps are of static nature, i.e. they do not take into consideration the impact of changes of balance sheet and off-balance sheet items volume (i.e. new deposits) as well as the effect of non-equity related cash flows upon the liquidity profile of the Bank.

Adjusted liquidity gap

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	41 021 838	3 706 081	26 287 829	47 701 059	52 272 045	170 988 852
Balance sheet liabilities	18 663 527	6 572 791	18 984 512	18 086 818	108 681 204	170 988 852
Off-balance sheet assets/liabilities (net)	(5 077 072)	(11 391)	987 124	1 315 395	1 527 260	(1 258 684)
Periodic gap	**17 281 239**	**(2 878 101)**	**8 290 441**	**30 929 636**	**(54 881 899)**	**(1 258 684)**
Cumulated gap	**-**	**14 403 138**	**22 693 579**	**53 623 215**	**(1 258 684)**	**-**

31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	37 931 338	6 599 290	26 495 885	47 852 283	46 881 874	165 760 670
Balance sheet liabilities	15 408 998	8 976 969	19 324 880	18 337 767	103 712 056	165 760 670
Off-balance sheet assets/liabilities (net)	(6 851 754)	552 566	1 380 878	2 502 994	1 272 352	(1 142 964)
Periodic gap	**15 670 586**	**(1 825 113)**	**8 551 883**	**32 017 510**	**(55 557 830)**	**(1 142 964)**
Cumulated gap	**-**	**13 845 473**	**22 397 356**	**54 414 866**	**(1 142 964)**	**-**

Off-balance derivative transactions

The tables below show the financial flows relating to derivative off balance transactions.

According to Bank's policy, off-balance derivative transactions settled in net amounts include:

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

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

- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps,
- Securities forwards.

(In PLN thousand)

Liabilities from off-balance transactions on derivatives recognized in net amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2016	26 757	51 901	131 714	1 224 593	440 202	**1 875 167**
31.12.2015	70 648	104 854	151 484	2 007 423	885 750	**3 220 159**

Flows related to off-balance derivative transactions settled in gross amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2016						
Inflows	20 879 240	6 032 490	7 812 463	9 162 449	3 219 881	**47 106 523**
Outflows	20 901 281	6 055 624	7 914 130	9 871 447	3 611 588	**48 354 070**
31.12.2015						
Inflows	16 897 467	6 290 357	7 630 140	8 964 518	3 157 573	**42 940 055**
outflows	16 902 790	6 249 486	7 698 215	9 738 223	3 477 001	**44 065 715**

5.5 Operational risk

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

Operational risk management is based on internal procedures that are consistent with the law requirements, resolutions, recommendations and guidelines of the supervisor, and the standards of UniCredit Group. Operational risk management includes identification, assessment, monitoring, preventing and reporting.

Identification and assessment of operational risk is based on an analysis of internal factors and external factors that may have a significant impact on the achievement of the objectives of the Bank. The main tools used in identifying and assessing operational risk are: internal operational events, external operational events, key risk indicators, scenario analysis and self-assessment of operational risk.

Monitoring activities are conducted on three levels of control: operational control (all employees), risk management control (Financial and Operational Risk Management Department) and internal audit (Internal Audit Department). Preventing operational risk includes definition of operational risk limits, and the obligation to initiate mitigation actions in case they are exceeded, the system of internal control, business continuity plans and insurance coverage.

Operational risk reporting system enables the assessment of the Bank's exposure to operational risk and the effective management of this risk, and also plays a fundamental role in the process of informing the Supervisory Board, the Management Board and executives of the Bank's exposure to operational risk. It is based in particular on the quarterly reports on operational risk control that include, among others: profile of operational risk, loss limit utilization, analysis of trends in the relevant categories of operational risk, potential losses, information on key indicators of operational risk and operational risk capital requirement.

The Supervisory Board, the Management Board and the Operational Risk Committee are involved in operational risk management. The Financial and Operational Risk Management Department coordinates the process of operational risk management. All employees of the Bank and selected specialized units are responsible in their areas for operational risk management, due to diversified character of this risk which requires professional knowledge.

Operational risk management system is subjected to internal validation at least once a year. Validation aims at verification of compliance with regulatory requirements and standards of the UniCredit Group.

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents operational events by categories as defined by the Article 324 of Regulation (EU) No 575/2013 of the European Parliament and of the Council:

- internal frauds – losses resulting from acts of intended fraud, misappropriation of property, circumvention of regulations, the laws and internal policies of a company, excluding losses resulting from diversity or discrimination of employees, which concern at least one internal party,
- external frauds – losses being a consequence of acts of defraud, misappropriation of property or circumvention of regulations performed by a third party,
- employment practices and workplace safety – losses due to acts inconsistent with regulations or employment agreements, workplace health and safety agreements, payments from personal injuries claims or losses from discrimination and unequal employee treatment,
- clients, products and business practices – losses arising from failures of meeting professional obligations towards clients due to unintended or negligent acts (including custody requirements and appropriate behavior) or concerning specific features or a design of a product,
- damages to physical assets – losses due to damage or loss of tangible assets resulting from natural disasters or other events,
- business disruption and system failures – losses stemming from business or system failures,
- execution, delivery and process management – losses resulting from failed transaction settlements or process management and losses from relations with cooperating parties and vendors.

OPERATING EVENTS BY CATEGORIES	2016	2015
Internal frauds	5.28%	20.58%
External frauds	18.45%	4.78%
Employment practices and workplace safety	15.07%	0.64%
Clients, products and business practices Execution, delivery and process management	10.60%	60.11%
Damages to physical assets	34.27%	4.72%
Business disruption and system failures	0.42%	0.72%
Execution, delivery and process management	15.91%	8.45%
Total	**100.00%**	**100.00%**

Notes to the financial statements (cont.)

(In PLN thousand)

5.6 Capital management

The capital management process applied by Bank has been adopted for the following purposes:

- assurance of safe operating by maintaining the balance between the capacity to undertake risk (limited by own funds), and the risk levels generated,
- maintenance of capital for covering risk above the minimum stated levels in order to assure further business operations, taking into consideration the possible, future changes in capital requirements and to safeguarding the interests of shareholders,
- maintenance of the optimal capital structure in order to maintain the desired quality of risk coverage capital,
- creation of value to shareholders by the best possible utilization of the Bank funds.

The Bank has put in place a formalized process of capital management and monitoring, established within the scope of ICAAP process. The Finance Division under the Chief Financial Officer is responsible for functioning of the capital management process in the Bank. The ultimate responsibility for capital management is allocated to the Management Board of the Bank, supported by the Assets, Liabilities and Risk Management Committee, which approves the capital management process. The Bank has also implemented the Capital Contingency Policy which establishes rules and obligations in the event of crisis appearance or further development that would significantly reduce capitalization level of the Bank or Group. The policy defines the principles of supervision including split of responsibilities for the purpose of early and consistent management in case of crisis situation development.

The Capital Management Strategy defines the objectives and general rules of the management and monitoring of the Bank’s capital adequacy, such as the guidelines concerning risk coverage sources, preferred structure of capital for risk coverage, long-term capital targets, capital limits system and sources of additional capital under contingency situations.

The capital adequacy of the Bank is controlled by the Assets, Liabilities and Risk Management Committee and Management Board of Bank. Periodic reports on the scale and direction of changes of the capital ratios together with indication of potential threats are prepared for the Management Board and for the Assets, Liabilities and Risk Management Committee. The level of basic types of risks is monitored according to the external limits of the banking supervision and the internal limits of the Bank. Analyses and evaluations of directions of business activities development are performed assessing the compliance with capital requirements. Forecasting and monitoring of risk weighted assets, own funds and capital ratios constitute an integral part of the planning and budgeting process, including stress tests.

The Bank also has a capital allocation process in place, with an aim of guaranteeing the shareholders a safe and effective return on invested capital. On one hand, the process requires capital allocations to products/clients/business lines, which guarantee profits adequate to the risks taken, while on the other hand taking into consideration the cost of capital associated with the business decisions taken. Risk-related efficiency ratios are used in the analyses of income generated compared against the risk taken as well as for the optimization of capital usage for different types of operations.

Notes to the financial statements (cont.)

(In PLN thousand)

Regulatory capital requirements

Calculations of the regulatory capital requirements were done based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, with further amendments as well as Commission Implementing and Delegated Regulations (EU) (hereinafter: 'Regulation 575/2013').

Capital ratios are the basic measures applied for the measurement of capital adequacy. Minimum capital ratios required by law equal 10.0% for TCR and 8.0% for CET1 which are the sum of minimum value defined in Regulation 575/2013 (8.0% for TCR and 6.0% for T1) and the combined buffer requirement defined in Act on macroprudential supervision (total of 2.0% in line with Chapter 2). According to the recommendation of the Polish Financial Supervision Authority (KNF) total capital ratio of the Pekao Group, taking into account of Other Systemically Important Institution buffer of 0.75%, must be not lower than 14.0% and Tier I capital ratio not lower than 11.0%.

As at 31 December 2016 total capital ratio of the Bank amounted at 18.17% (as at 31 December 2015 – 18.20%).

	31.12.2016	31.12.2015
CAPITAL REQUIREMENTS		
Credit and counterparty risk including CVA	8 045 784	8 082 198
Market risk	43 616	61 806
Operational risk	436 612	483 369
Total capital requirement	**8 526 012**	**8 627 373**
OWN FUNDS		
Common Equity Tier 1 capital	19 368 617	19 623 799
Own funds for total capital ratio	**19 368 617**	**19 623 799**
OWN FUNDS REQUIREMENTS		
Common Equity Tier 1 capital ratio (%)	**18.17%**	**18.20%**
Total capital ratio (%)	**18.17%**	**18.20%**

Total capital ratio at the end of 2016 compared with the end of 2015 decreased by 0.03 p.p. due to decrease of own funds by 1.3% despite decrease of total capital requirement by 1.2%.

Total capital requirement decreased in 2016 as a result of decrease of capital requirements for all risks.

For the purpose of capital requirement calculation the Bank uses:

- Standardised Approach for credit risk capital requirement calculation,
- Financial Collateral Comprehensive Method for credit risk mitigation,
- Mark-to-Market Method for counterparty credit risk capital requirement calculation,
- Standardised Approach for capital requirement calculation of specific risk and duration-based calculation for general risk of debt instruments,
- Standardised Approach for capital requirement calculation of general and specific risk of equity instruments,
- Standardised Approach for capital requirement calculation for pre-funded contributions to the default fund of a qualifying central counterparty,
- Standardised Approach for foreign-exchange risk capital requirement calculation,
- Simplified approach for commodities risk capital requirement calculation,
- Standardised Approach for capital requirements for credit risk valuation adjustment risk,
- Advanced Measurement Approach for operational risk measurement.

Notes to the financial statements (cont.)

(In PLN thousand)

Own funds

The Bank defines components of own funds in line with the binding law, particularly with Regulation No 575/2013 and The Banking Act of 29 August 1997 with further amendments.

The Bank's own funds consist only of Common Equity Tier 1 capital. Additional Tier 1 capital and Tier 2 capital are not identified in the Bank.

	31.12.2016	31.12.2015
OWN FUNDS		
Capital	**22 282 557**	**22 794 403**
Component of the capital not included into own funds, in which:	**(2 278 375)**	**(2 290 398)**
Current year net profit	(2 278 375)	(2 290 398)
Regulatory adjustments, in which:	**(635 565)**	**(880 206)**
Intangible assets	(506 244)	(545 449)
Cash flow hedges	(32 177)	(36 678)
Unrealised loss from debt and capital instruments available for sale	-	-
Unrealised gain from debt and capital instruments available for sale	(51 443)	(266 870)
Additional value adjustments due to prudent calculation	(45 701)	(31 209)
Common Equity Tier 1 capital	**19 368 617**	**19 623 799**
Own funds for total capital ratio	**19 368 617**	**19 623 799**

Components of capital not included into own funds:

- current year net profit – net profit of current reporting period, verified by statutory auditor responsible for auditing of the Bank's accounts reduced by all foreseeable charge and dividend, can be included into Common Equity Tier 1 capital only with the permission of KNF. As at 31 of December 2016, current profit of the Bank was not included into Common Equity Tier 1 capital.

Regulatory adjustments:

- intangible assets (after deduction of related deferred tax liabilities) decrease Common Equity Tier 1 capital, according to Article 36 of Regulation No 575/2013,
- capital from revaluation reflects fair value of cash flow hedges is not included in any element of own funds, according to Article 33 of Regulation No 575/2013,
- unrealised losses from debt and capital instruments classified as available for sale according to Article 467 of Regulation No 575/2013 and Article 171a. Banking Act, decrease Common Equity Tier 1 capital in 100%,
- unrealised gains from debt and capital instruments classified as available for sale according to Article 468 of Regulation No 575/2013 and Article 171a. Banking Act are included in 60% to Common Equity Tier 1 capital,
- additional value adjustments due to prudent valuation are created for every asset measured at fair value, according to Article 34 of Regulation No 575/2013.

(In PLN thousand)

Internal capital adequacy assessment

To assess the internal capital adequacy, the Bank applies methods designed internally.

The Bank takes the following risk types into consideration:

- credit risk,
- operational risk,
- market risk,
- liquidity risk,
- real estate risk,
- macroeconomic risk,
- business risk (including strategic risk),
- compliance risk,
- reputational risk,
- model risk,
- excessive leverage risk,
- bancassurance risk,
- financial investment risk.

For each risk deemed material, the Bank develops and applies adequate risk assessment and measurement methods. The Bank applies the following risk assessment methods:

- qualitative assessment – applied in case of risks which are difficult to measure or for which capital is not a sufficient mean to cover losses (compliance, reputational and bancassurance risks) with potencial capital coverage in other risks areas,
- assessment by estimation of capital buffer, for risks that are not easily quantifiable however some aggregate assessment of their impact is possible (model risk and macroeconomic risk),
- quantitative assessment – applied for risks which can be measured with the use of economic capital (other risk types apart from liquidity risk and excessive leverage risk) or based on other risk-specific measures (liquidity risk and excessive leverage risk).

Preferred methods of measuring quantifiable risks and determining the resulting capital requirements are Value at Risk models, based on assumptions derived from the Bank's risk appetite. The models are developed in compliance with the best market practices and regulatory requirements and supplemented with stress tests or scenario analyses. In case of risk types for which such methodologies have not been finally developed or implemented, the Bank uses modified regulatory models supplemented with stress tests or simplified measurement methods.

Also, a consistent methodology for estimating the buffer for macroeconomic changes and model risks has been developed. The macroeconomic changes risk capital buffer is determined on the basis of the impact of the economic slowdown scenario on economic capital in the forecast horizon.

Model risk is assessed with scenario analyses making it possible to evaluate the impact of potential model inconsistencies on its output. Based on the aggregated output, the model risk capital buffer is determined.

The procedure of estimating capital needs starts with the calculation of economic capital, separately for each material quantifiable risk identified by the Bank. Next, economic capital figures for individual risks are aggregated inclusive of diversification effect. The amount is then increased by the capital buffer for model and macroeconomic changes risks. The sum of economic capital (inclusive of diversification effect) and the capital buffer constitutes the internal capital of the Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

5.7 Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the unconsolidated statement of financial position of the Bank

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

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

As of 31 December 2016 and 31 December 2015, the Bank classified the financial assets and liabilities measured at fair value into the following hierarchy of three categories based on the valuation method:

- Level 1: mark-to-market, applies to securities quoted on active markets,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument, 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, is applicable to corporate and municipal debt securities and for linear and non-linear derivative instruments of interest rate, equity, commodity and foreign currency exchange markets for which unobservable parameters (e.g. credit risk factors) are recognized as significant.

The measurement at fair value is performed directly by a unit within Risk Management Division, independent on 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 for the assignment of valuation models to appropriate method class, according to established hierarchy of classification.

Notes to the financial statements (cont.)

(In PLN thousand)

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

31.12.2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**20 802 716**	**13 718 142**	**383 594**	**34 904 452**
Financial assets held for trading	634 666	20 252	66 113	721 031
Derivative financial instruments, including:	-	1 955 499	-	1 955 499
- Banks	-	1 381 720	-	1 381 720
- Customers	-	573 779	-	573 779
Hedging instruments, including:	-	289 752	-	289 752
- Banks	-	54 550	-	54 550
- Customers	-	235 202	-	235 202
Securities available for sale	20 168 050	11 452 639	317 481	31 938 170
Liabilities:	**527 836**	**3 733 382**	**-**	**4 261 218**
Financial liabilities held for trading	527 836	145 329	-	673 165
Derivative financial instruments, including:	-	1 949 335	-	1 949 335
- Banks	-	1 345 751	-	1 345 751
- Customers	-	603 584	-	603 584
Hedging instruments, including:	-	1 638 718	-	1 638 718
- Banks	-	1 636 262	-	1 636 262
- Customers	-	2 456	-	2 456

31.12.2015	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**15 837 791**	**6 174 061**	**480 779**	**22 492 631**
Financial assets held for trading	934 688	134 916	47 389	1 116 993
Derivative financial instruments, including:	-	3 253 174	943	3 254 117
- Banks	-	2 686 511	-	2 686 511
- Customers	-	566 663	943	567 606
Hedging instruments, including:	-	421 640	-	421 640
- Banks	-	416 953	-	416 953
- Customers	-	4 687	-	4 687
Securities available for sale	14 903 103	2 364 331	432 447	17 699 881
Liabilities:	**611 442**	**4 904 557**	**-**	**5 515 999**
Financial liabilities held for trading	611 442	-	-	611 442
Derivative financial instruments, including:	-	3 201 798	-	3 201 798
- Banks	-	2 745 250	-	2 745 250
- Customers	-	456 548	-	456 548
Hedging instruments, including:	-	1 702 759	-	1 702 759
- Banks	-	1 702 759	-	1 702 759
- Customers	-	-	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

Change in fair value of financial instruments measured by the Bank at fair value according to Level 3

2016	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
Opening balance	**47 389**	**943**	**432 447**
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)	(183 136)
Reclassification	-	(943)	-
Settlement/redemption	(23 454)	-	(181 678)
Sale	(146 585)	-	-
Losses on financial instruments	(23)	-	(1 458)
recognized in the income statement	(23)	-	-
recognized in revaluation reserves	-		(1 458)
Closing balance	**66 113**	**-**	**317 481**
Unrealized income from financial instruments held in portfolio at the end of the 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)

2015	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
Opening balance	**164 408**	**2 967**	**254 781**
Increases, including:	11 252 515	1 942	185 543
Reclassification	-	1 942	313
Acquisition	11 248 756	-	-
Settlement	-	-	-
Gains on financial instruments	3 759	-	185 230
recognized in the income statement	3 759	-	11 077
recognized in revaluation reserves	-	-	174 153
Decreases, including:	(11 369 534)	(3 966)	(7 877)
Reclassification	(57 063)	(2 967)	-
Settlement/redemption	(435 186)	(891)	(7 877)
Sale	(10 877 110)	-	-
Losses on financial instruments	(175)	(108)	-
recognized in the income statement	(175)	(108)	-
Closing balance	**47 389**	**943**	**432 447**
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	**(63)**	**(108)**	**2 674**
Income statement:	108	(108)	268
net interest income	108	-	268
result on financial assets and liabilities held for trading	-	(108)	-
Other comprehensive income	(171)	-	2 406

Notes to the financial statements (cont.)

(In PLN thousand)

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 31 December 2016, the following transfers between fair value hierarchy levels were performed:

- Government bonds in foreign currencies were transferred from Level 1 to Level 2 due to a change in the availability of active market quotations,
- Interest rate derivatives and commodity derivatives (concluded within the year) were transferred from Level 3 to Level 2 due to the decrease of impact on the fair value of credit parameters and correlation parameter respectively.

In the period from 1 January to 31 December 2016 there were no other transfers between fair value hierarchy levels.

The impact of estimated parameters on measurement of financial instruments for which the Bank applies fair value valuation according to Level 3 as at 31 December 2016 and 31 December 2015 is as follows:

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 ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2015	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2015	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate debt securities	298 756	Discounted cash flow	Credit spread	0.54%-1%	526	(1 427)
Interest rate derivatives	943	Discounted cash flow	PD	2.1%-5.4%	39	(44)
			LGD	40.1%-54.1%	16	(16)

Notes to the financial statements (cont.)

(In PLN thousand)

Financial instruments that are not measured at fair value in the unconsolidated statement of financial position of the Bank

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

As of 31 December 2016 and on 31 December 2015, the Bank 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 Bank's capital exposure, for which no active market prices are available and market values are unattainable, the Bank does not measure their fair value. Such exposures include companies from financial sector, associated with the use of the financial and banking infrastructure and payment card services and companies taken-over as a result of debt restructuring.

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

31.12.2016	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
ASSETS					
Cash and due from Central Bank	5 861 342	5 861 234	2 639 526	3 221 708	-
Receivables from banks	3 454 679	3 454 792	-	1 149 710	2 305 082
Loans and advances to customers	119 033 599	118 358 480	-	5 789 241	112 569 239
Debt securities held to maturity	2 925 861	2 940 300	2 919 694	20 606	-
Total assets	**131 275 481**	**130 614 806**	**5 559 220**	**10 181 265**	**114 874 321**
LIABILITIES					
Amounts due to Central Bank	6 091	6 185	-	-	6 185
Amounts due to other banks	3 367 125	3 411 401	-	482 375	2 929 026
Amounts due to customers	138 066 129	138 385 021	-	1 436 240	136 948 781
Debt securities issued	300 945	300 216	-	300 216	-
Total liabilities	**141 740 290**	**142 102 823**	**-**	**2 218 831**	**139 883 992**

31.12.2015	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
ASSETS					
Cash and due from Central Bank	7 881 598	7 881 598	2 951 405	4 930 193	-
Receivables from banks	7 512 226	7 508 581	-	5 360 090	2 148 491
Loans and advances to customers (*)	118 508 652	117 816 239	-	7 140 550	110 675 689
Debt securities held to maturity	3 290 061	3 301 580	2 430 407	871 173	-
Total assets	**137 192 537**	**136 507 998**	**5 381 812**	**18 302 006**	**112 824 180**
LIABILITIES					
Amounts due to Central Bank	914	928	-	-	928
Amounts due to other banks	4 553 114	4 602 708	-	1 182 111	3 420 597
Amounts due to customers	129 256 866	128 894 955	-	4 468 820	124 426 135
Debt securities issued	1 668 706	1 669 266	-	1 669 266	-
Total liabilities	**135 479 600**	**135 167 857**	**-**	**7 320 197**	**127 847 660**

(*) Including bills of exchange eligible for rediscount at Central Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

6. Custody activity

Custody activities are performed by virtue of a permit, issued by the Polish Financial Supervision Authority. The Bank's clients include a number of domestic and foreign financial institutions, banks offering custody and investment services, insurance companies, investment and pension funds, as well as non-financial institutions. The Bank provides custody services, including, inter alia, the settlement of transactions effected on domestic and international markets, custody of clients' assets, running of securities accounts, valuation of assets and services related to dividend and interest payments. The Bank also performs the activities of investment and pension funds depository.

As of 31 December 2016 the Bank maintained 12 333 securities accounts (in comparison to 12 077 securities accounts as at 31 December 2015).

7. Brokerage activity

Bank Pekao S.A. provides access to a wide range of the capital market services and products offered by the separated organizational unit of the Bank – Dom Maklerski Pekao, designed to sell capital market products.

The objective of the entity is to provide the highest quality brokerage services. The comprehensive offer enables investors, especially the individual clients of the Bank to invest in financial instruments traded on the regulated market and on the alternative trading platform organized by the Warsaw Stock Exchange (GPW S.A.) and by the BondSpot S.A. (i.e. shares, treasury and corporate bonds, derivatives - futures and options, ETF, certificates, warrants) as well as the instruments traded on the particular foreign markets using any service channel (mobile application, Internet, mobile service, phone, direct contact in the Brokerage Services Spots) after activation of the service. Dom Maklerski Pekao intermediates also in sales of the Structured Certificates of Deposit issued by Bank Pekao S.A., enables investors to acquire instruments in the IPO's and makes the transactions on the non-public market. The service for the clients is provided in more than 390 Brokerage Services Spots located in the Bank branches throughout Poland and via remote channels of Pekao24Makler (Internet, mobile service, phone, mobile application) fully integrated with the Bank's electronic banking platform Pekao24.

Dom Maklerski Pekao is a member of the Warsaw Stock Exchange (GPW S.A.) and a direct participant in the National Depository of Securities (KDPW).

The activities of Dom Maklerski Pekao conform to the Good Practices Code of Brokerage Firm guaranteeing comprehensive services in accordance with highest ethics standards and is a member of the Chamber of Brokerage Houses.

Dom Maklerski Pekao actively participates in capital market development in Poland.

Information about the financial instruments of the clients held on securities accounts or stored in a form of document.

	31.12.2016		31.12.2015	
	QUANTITY (PCS)	VALUE	QUANTITY (PCS)	VALUE
CLIENTS' FINANCIAL INSTRUMENTS				
Held on securities accounts	662 512 818	2 502 567	769 593 829	2 331 575
Equity securities and rights to such financial assets	661 813 492	2 421 214	769 236 096	2 256 557
Debt instruments and rights to such financial assets	699 326	81 353	357 733	75 018

Notes to the financial statements (cont.)

(In PLN thousand)

Customers' cash on brokerage accounts

	31.12.2016	31.12.2015
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	285 398	248 033
Other customers' cash	15 136	16 279
Total	**300 534**	**264 312**

Settlements due to unsettled transactions

	31.12.2016	31.12.2015
Receivables from executed transactions	3 227	-
Liabilities from executed transactions	-	2 206

Settlements with the National Depository of Securities (KDPW), KDPW_CCP and other stock exchange clearing houses

	31.12.2016	31.12.2015
Receivables from clearing fund	1 273	1 296
Receivables from margin deposits	11 786	10 785
Other receivables	59	63
Total receivables	**13 118**	**12 144**

Items concerning participation in the compensation fund managed by the National Depository of Securities (KDPW)

	31.12.2016	31.12.2015
Receivables from compensation fund	423	367
Prepaid expenses - system maintenance payments	111	85
Deferred income - benefits from system	(534)	(452)
Total net balance sheet items concerning participation In the compensation fund	**-**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

8. Interest income and expense

Interest income

	2016	2015
Loans and other receivables from customers	4 296 707	4 259 049
Interbank placements	79 740	102 935
Reverse repo transactions	50 078	77 626
Investment securities	732 706	696 343
Hedging derivatives	138 866	150 934
Financial assets held for trading	11 451	14 572
Total	**5 309 548**	**5 301 459**

Interest income for 2016 includes income from impaired financial assets in the amount of PLN 234 113 thousand (in 2015 PLN 291 257 thousand).

Total amount of interest income for 2016, measured at amortized cost using the effective interest rate method which applies to financial assets not measured at fair value through profit or loss amounted to PLN 3 623 080 thousand (in 2015 PLN 3 557 535 thousand).

Interest expense

	2016	2015
Deposits from customers	(949 238)	(1 105 058)
Interbank deposits	(24 586)	(23 442)
Repo transactions	(44 045)	(59 166)
Loans and advances received	(11 290)	(15 306)
Debt securities issued	(13 516)	(58 864)
Total	**(1 042 675)**	**(1 261 836)**

Total amount of interest expense for 2016, measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 843 447 thousand (in 2015 PLN 1 067 153 thousand).

(In PLN thousand)

9. Fee and commission income and expense

Fee and commission income

	2016	2015
Accounts maintenance, payment orders and cash transactions	638 944	653 242
Payment cards	598 264	693 095
Loans and advances	439 541	412 852
Investment products sales intermediation	176 425	210 178
Securities operations	13 836	13 441
Custody activity	62 842	69 519
Guarantees, letters of credit and similar transactions	55 196	51 656
Other	24 794	38 654
Total	**2 009 842**	**2 142 637**

Fee and commission expense

	2016	2015
Payment cards	(218 108)	(322 424)
Money orders and transfers	(20 077)	(21 705)
Securities and derivatives operations	(20 044)	(11 703)
Custody activity	(14 378)	(13 388)
Acquisition services	(27 597)	(18 000)
Accounts maintenance	(5 215)	(4 250)
Other	(1 054)	(652)
Total	**(306 473)**	**(392 122)**

10. Dividend income

	2016	2015
Subsidiaries	64 816	139 119
Associates	51 342	58 429
Other entities	16 666	13 061
Total	**132 824**	**210 609**

11. Result on financial assets and liabilities held for trading

	2016	2015
Foreign currency exchange result	412 313	363 807
Gains (losses) on derivatives	37 604	49 437
Gains (losses) on securities	20 267	5 262
Total	**470 184**	**418 506**

In 2016, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN 44 825 thousand (in 2015 PLN 56 111 thousand).

(In PLN thousand)

12. Gains (losses) on disposal

Realized gains

	2016	2015
Loans and other financial receivables (*)	159 495	534
Available for sale financial assets – debt instruments	14 530	229 592
Available for sale financial assets – equity instruments (**)	262 827	-
Debt securities issued	1	6
Total	**436 853**	**230 132**

(*) 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. The details of the transactions are presented in the Note 28.

Realized losses

	2016	2015
Loans and other financial receivables	(2)	-
Available for sale financial assets – debt instruments	(864)	(41)
Debt securities issued	(84)	(490)
Total	**(950)**	**(531)**

Net realized profit	**435 903**	**229 601**

The change in fair value of financial assets available for sale referred in 2016 directly to equity amounted to PLN 332 145 thousand (decrease), in 2015 PLN 7 526 thousand (decrease).

The change in fair value of financial assets, related in 2016 from equity to financial income amounted to PLN 276 493 thousand (profit), in 2015 PLN 229 551 thousand (profit).

13. Administrative expenses

Personnel expenses

	2016	2015
Wages and salaries	(1 432 602)	(1 448 680)
Insurance and other charges related to employees	(259 100)	(264 167)
Share-based payments expenses	(9 474)	(6 243)
Total	**(1 701 176)**	**(1 719 090)**

Other administrative expenses

	2016	2015
General expenses	(925 041)	(913 392)
Taxes and charges (*)	(35 347)	(57 919)
Bank Guarantee Fund fee (**)	(276 868)	(507 190)
Financial supervision authority fee (KNF)	(10 609)	(17 131)
Tax on certain financial institutions (***)	(449 533)	-
Total	**(1 697 398)**	**(1 495 632)**

Total administrative expenses	**(3 398 574)**	**(3 214 722)**

(*) In 2015 this item includes the amount of PLN 21 986 thousand representing the cost of provision for the contribution to the Borrowers Support Fund.
(**) In 2016 this item includes the amount of PLN 16 603 thousand contributed by the Bank to BFG for the purpose of payments of the funds guaranteed to the depositors of Bank Spółdzielczy in Nadarzyn, respectively in 2015 the amount of PLN 234 059 thousand concerns Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin.
(***) On 1 February 2016 tax on certain financial institutions was introduced under the Act on tax on certain financial institutions.

Notes to the financial statements (cont.)

(In PLN thousand)

14. Depreciation and amortization

	2016	2015
Property, plant and equipment	(157 796)	(169 044)
Investment property	(444)	(1 022)
Intangible assets	(164 991)	(142 154)
Total	**(323 231)**	**(312 220)**

15. Net other operating income and expenses

Other operating income

	2016	2015
Rental income	23 511	24 272
Miscellaneous income	16 473	14 574
Recovery of debt collection costs	13 005	15 960
Excess payments, repayments	8 917	7 860
Compensation, penalty fees and fines received (including received compensations from damages in relation to fixed assets)	4 026	114 760
Refunding of administrative expenses	4 022	5 086
Income from written off liabilities	3 437	3 812
Releases of impairment allowances for litigation and other assets	413	444
Other	3 328	5 173
Total	**77 132**	**191 941**

Other operating expenses

	2016	2015
Credit insurance expenses	(11 163)	(10 101)
Reimbursement and deficiencies	(2 804)	(4 076)
Sundry expenses	(13 300)	(12 285)
Customers complaints expenses	(1 730)	(2 285)
Impairment allowance for litigations and other assets	(1 587)	(6 840)
Costs of litigation and claims	(1 383)	(2 130)
Compensation, penalty fees and fines paid	(1 609)	(503)
Other	(14 051)	(11 004)
Total	**(47 627)**	**(49 224)**

Net other operating income and expenses	**29 505**	**142 717**

Notes to the financial statements (cont.)

(In PLN thousand)

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

2016	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks valued at amortized cost	20 393	590	1 451	-	(2 961)	(888)	18 585	2 371
Loans and advances to customers valued at amortized cost	5 630 902	1 000 600	164 262	(555 723)	(588 368)	(138 234)	5 513 439	(412 232)
Financial assets available for sale	100	-	-	-	-	(100)	-	-
Off-balance sheet commitments	124 583	162 088	992	-	(61 341)	-	226 322	(100 747)
Total financial assets and off-balance sheet commitments	**5 775 978**	**1 163 278**	**166 705**	**(555 723)**	**(652 670)**	**(139 222)**	**5 758 346**	**(510 608)**
Impairment of other assets								
Investments in subsidiaries and associates	73 905	-	-	-	-	(60)	73 845	-
Intangible assets	10 961	-	-	(10 961)	-	-	-	-
Property, plant and equipment	8 375	-	-	(617)	-	-	7 758	-
Investment properties	2 530	-	-	(926)	-	(725)	879	-
Other	73 927	1 587	1 435	(341)	(413)	(458)	75 737	(1 174)
Total impairment of other assets	**169 698**	**1 587**	**1 435**	**(12 845)**	**(413)**	**(1 243)**	**158 219**	**(1 174)**
Total	**5 945 676**	**1 164 865**	**168 140**	**(568 568)**	**(653 083)**	**(140 465)**	**5 916 565**	**(511 782)**

(*) Including foreign exchange differences and transfers between positions.
(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 510 608 thousand and proceeds from recovered bad debt in the amount of PLN 19 223 thousand, the total is PLN minus 491 385 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

2015	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks valued at amortized cost	19 518	684	1 541	-	(409)	(941)	20 393	(275)
Loans and advances to customers valued at amortized cost	5 531 256	1 138 308	99 627	(441 064)	(629 234)	(67 991)	5 630 902	(509 074)
Financial assets available for sale	100	-	-	-	-	-	100	-
Off-balance sheet commitments	105 147	72 665	1 182	-	(54 411)	-	124 583	(18 254)
Total financial assets and off-balance sheet commitments	**5 656 021**	**1 211 657**	**102 350**	**(441 064)**	**(684 054)**	**(68 932)**	**5 775 978**	**(527 603)**
Impairment of other assets								
Investments in subsidiaries and associates	51 476	24 000	-	-	-	(1 571)	73 905	(24 000)
Intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	6 591	610	1 569	(152)	-	(243)	8 375	(610)
Investment properties	2 530	-	-	-	-	-	2 530	-
Other	70 451	6 840	73	(991)	(444)	(2 002)	73 927	(6 396)
Total impairment of other assets	**142 009**	**31 450**	**1 642**	**(1 143)**	**(444)**	**(3 816)**	**169 698**	**(31 006)**
Total	**5 798 030**	**1 243 107**	**103 992**	**(442 207)**	**(684 498)**	**(72 748)**	**5 945 676**	**(558 609)**

(*) Including foreign exchange differences and transfers between positions.
(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 527 603 thousand and proceeds from recovered bad debt in the amount of PLN 13 625 thousand, the total is PLN minus 513 978 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

17. Gains (losses) on subsidiaries and associates

	2016	2015
Gains on liquidation of subsidiaries	46 853	2 390
Gains on disposal of associates	-	73 437
Impairment allowances for equity investments	-	(24 000)
Total gains (losses) from subsidiaries and associates	**46 853**	**51 827**

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

	2016	2015
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	688	-
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	4 342	12 106
Total gains (losses) on disposal of property, plant and equipment and intangible assets	**5 030**	**12 106**

19. Income tax

Reconciliation between tax calculated by applying the current tax rate to accounting profit and the actual tax charge presented in the unconsolidated income statement.

	2016	2015
Profit before income tax	**2 863 193**	**2 791 555**
Tax charge according to applicable tax rate 19%	**544 007**	**530 395**
Permanent differences:	**40 811**	**(29 238)**
Non taxable income	(58 869)	(58 891)
Non tax deductible costs	103 939	32 417
Impact of other tax rates applied under a different tax jurisdiction	-	-
Tax relieves not included in the income statement	80	185
Other	(4 339)	(2 949)
Effective income tax charge on gross profit	**584 818**	**501 157**

The applicable tax rate of 19% is corporate income tax rate binding in Poland.

Notes to the financial statements (cont.)

(In PLN thousand)

The basic components of income tax charge presented in the income statement and equity

	2016	2015
INCOME STATEMENT		
Current tax	**(560 609)**	**(451 913)**
Current tax charge in the income statement	(559 564)	(471 567)
Adjustments related to the current tax from previous years	(288)	22 400
Other taxes (e.g. withholding tax, income tax relating to foreign branch)	(757)	(2 746)
Deferred tax	**(24 209)**	**(49 244)**
Occurrence and reversal of temporary differences	(24 209)	(49 244)
Tax charge in the Bank's income statement	**(584 818)**	**(501 157)**
EQUITY		
Deferred tax	**118 863**	**60 371**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, used as cash flows hedges	1 056	17 735
revaluation of available for sale financial assets – debt securities	77 137	84 452
revaluation of available for sale financial assets – equity securities	38 504	(39 407)
Tax on items that are or may be reclassified subsequently to profit or loss	**116 697**	**62 780**
Tax charge on items that will never be reclassified to profit or loss	**2 166**	**(2 409)**
revaluation of the defined benefit liabilities	2 166	(2 409)
Total tax charge	**(465 955)**	**(440 786)**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2016							
	OPENING BALANCE			CHANGES RECOGNIZED IN		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	THE INCOME STATEMENT	IN EQUITY
DEFFERED TAX LIABILITY								
Accrued income – securities	-	-	-	46 022	-	46 022	46 022	-
Accrued income – loans	121 160	121 160	-	15 843	-	137 003	137 003	-
Change in revaluation of financial assets	98 733	15 801	82 932	(15 801)	(75 221)	7 711	-	7 711
Accelerated depreciation	121 465	121 465	-	(7 271)	-	114 194	114 194	-
Investment relief	4 814	4 814	-	(333)	-	4 481	4 481	-
Other	85 745	85 745	-	13 970	-	99 715	99 715	-
Gross deferred tax liability	**431 917**	**348 985**	**82 932**	**52 430**	**(75 221)**	**409 126**	**401 415**	**7 711**
DEFFERED TAX ASSET								
Accrued expenses - securities	22 084	22 084	-	(22 084)	-	-	-	-
Accrued expenses - deposits and loans	45 215	45 215	-	(7 347)	-	37 868	37 868	-
Downward revaluation of financial assets	254 227	254 227	-	4 173	41 476	299 876	258 400	41 476
Income received to be amortized over time from loans and current accounts	173 211	173 211	-	3 711	-	176 922	176 922	-
Loan provisions charges	464 291	464 291	-	48 168	-	512 459	512 459	-
Personnel related provisions	108 175	91 678	16 497	1 447	2 166	111 788	93 125	18 663
Accruals	13 522	13 522	-	(1 488)	-	12 034	12 034	-
Previous year losses	-	-	-	-	-	-	-	-
Other	34 816	34 816	-	1 641	-	36 457	36 457	-
Gross deferred tax asset	**1 115 541**	**1 099 044**	**16 497**	**28 221**	**43 642**	**1 187 404**	**1 127 265**	**60 139**
Deferred tax charge	**x**	**x**	**x**	**(24 209)**	**118 863**	**x**	**x**	**x**
Net deferred tax assets	**683 624**	**750 059**	**(66 435)**	**x**	**x**	**778 278**	**725 850**	**52 428**
Net deferred tax provision	**-**	**-**	**-**	**x**	**x**	**-**	**-**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2015							
	OPENING BALANCE			CHANGES RECOGNIZED IN		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	THE INCOME STATEMENT	IN EQUITY
DEFFERED TAX LIABILITY								
Accrued income – securities	-	-	-	-	-	-	-	-
Accrued income – loans	98 302	98 302	-	22 858	-	121 160	121 160	-
Change in revaluation of financial assets	255 151	109 439	145 712	(93 638)	(62 780)	98 733	15 801	82 932
Accelerated depreciation	123 321	123 321	-	(1 856)	-	121 465	121 465	-
Investment relief	5 475	5 475	-	(661)	-	4 814	4 814	-
Other	88 792	88 792	-	(3 047)	-	85 745	85 745	-
Gross deferred tax liability	**571 041**	**425 329**	**145 712**	**(76 344)**	**(62 780)**	**431 917**	**348 985**	**82 932**
DEFFERED TAX ASSET								
Accrued expenses - securities	96 217	96 217	-	(74 133)	-	22 084	22 084	-
Accrued expenses - deposits and loans	40 395	40 395	-	4 820	-	45 215	45 215	-
Downward revaluation of financial assets	298 267	298 267	-	(44 040)	-	254 227	254 227	-
Income received to be amortized over time from loans and current accounts	155 404	155 404	-	17 807	-	173 211	173 211	-
Loan provisions charges	491 745	491 745	-	(27 454)	-	464 291	464 291	-
Personnel related provisions	100 011	81 105	18 906	10 573	(2 409)	108 175	91 678	16 497
Accruals	20 001	20 001	-	(6 479)	-	13 522	13 522	-
Previous year losses	-	-	-	-	-	-	-	-
Other	41 498	41 498	-	(6 682)	-	34 816	34 816	-
Gross deferred tax asset	**1 243 538**	**1 224 632**	**18 906**	**(125 588)**	**(2 409)**	**1 115 541**	**1 099 044**	**16 497**
Deferred tax charge	**x**	**x**	**x**	**(49 244)**	**60 371**	**x**	**x**	**x**
Net deferred tax assets	**672 497**	**799 303**	**(126 806)**	**x**	**x**	**683 624**	**750 059**	**(66 435)**
Net deferred tax provision	**-**	**-**	**-**	**x**	**x**	**-**	**-**	**-**

(In PLN thousand)

In the opinion of the Bank the deferred tax asset in the amount of PLN 778 278 thousand reported as at 31 December 2016 is sustainable in total amount. The analysis was performed based on the past results of the company and assumed results in the future periods. The analysis assumed the five years' time horizon.

As at 31 December 2016 and 31 December 2015, there were no temporary differences related to investments in subsidiaries and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

As at 31 December 2016 and 31 December 2015, there were no temporary differences, unused tax losses and unused tax relieves which were not included in the deferred tax assets.

20. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing net profit by the weighted average number of the ordinary shares outstanding during the given period.

	2016	2015
Net profit	2 278 375	2 290 398
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Earnings per share (in PLN per share)	8.68	8.73

Diluted earnings per share

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

As at 31 December 2016 there no diluting instruments in the form of convertible bonds in the Bank.

	2016	2015
Net profit	2 278 375	2 290 398
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	8.68	8.73

21. Dividend proposal

The Management Board of the Bank has decided to propose to the Ordinary General Meeting of Shareholders a dividend payment for 2016 in the amount of PLN 8,68 per share. Total dividend proposed to be paid amounts to PLN 2 278 240 thousand. The dividend has not been recognized as liabilities and there are no tax consequences for the Bank.

The final decision on the distribution of net profit and its allocating to dividend will be made by the General Meeting of Shareholders.

(In PLN thousand)

22. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2016	31.12.2015
Cash	2 639 526	2 951 405
Current account at Central Bank	1 718 775	4 930 181
Other	1 503 041	12
Total	**5 861 342**	**7 881 598**

AMOUNTS DUE TO CENTRAL BANK	31.12.2016	31.12.2015
Term deposits	6 091	914
Total	**6 091**	**914**

Cash and balances with Central Bank by currency

31.12.2016	ASSETS	LIABILITIES
PLN	4 932 757	6 091
EUR	443 480	-
USD	260 015	-
CHF	59 727	-
Other currencies	165 363	-
Total	**5 861 342**	**6 091**

31.12.2015	ASSETS	LIABILITIES
PLN	6 900 373	914
EUR	513 012	-
USD	247 073	-
CHF	64 635	-
Other currencies	156 505	-
Total	**7 881 598**	**914**

During the day, the Bank may use funds from the mandatory reserve account for ongoing payments pursuant to an instruction, submitted to the National Bank of Poland. It must, however, ensure that the average monthly balance on such accounts comply with the requirements described in the mandatory reserve declaration.

As at 31 December 2016 the interest rate of funds held on the mandatory reserve account is at 1.35% (0.9 of NBP reference rate). As at 31 December 2015 the interest rate was at 1.35% (0.9 of NBP reference rate).

Notes to the financial statements (cont.)

(In PLN thousand)

23. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2016	31.12.2015
Current accounts	117 659	89 548
Interbank placements	267 827	3 461 543
Loans and advances	171 743	198 453
Cash collaterals	1 771 842	1 675 589
Reverse repo transactions	703 635	1 757 063
Debt securities	60 700	58 509
Cash in transit	379 858	291 914
Total gross amount	**3 473 264**	**7 532 619**
Impairment allowances	(18 585)	(20 393)
Total net amount	**3 454 679**	**7 512 226**

Loans and advances to banks by quality

	31.12.2016	31.12.2015
Loans and advances to banks, including:		
non impaired (gross)	3 455 272	7 512 892
impaired (gross)	17 992	19 727
individual impairment allowances	(8 192)	(9 927)
collective impairment allowances (*)	(10 393)	(10 466)
Total	**3 454 679**	**7 512 226**

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

Loans and advances to banks by contractual maturity

	31.12.2016	31.12.2015
Loans and advances to banks, including:		
up to 1 month	3 273 858	6 939 449
between 1 and 3 months	436	47 126
between 3 months and 1 year	110 827	54 559
between 1 and 5 years	60 656	402 657
over 5 years	2	58 510
past due	27 485	30 318
Total gross amount	**3 473 264**	**7 532 619**
Impairment allowances	(18 585)	(20 393)
Total net amount	**3 454 679**	**7 512 226**

Loans and advances to banks by currency

	31.12.2016	31.12.2015
PLN	1 037 761	2 808 485
CHF	19 462	30 586
EUR	2 181 400	2 106 776
USD	68 816	2 214 880
Other currencies	147 240	351 499
Total	**3 454 679**	**7 512 226**

Changes in impairment allowances in 2016 and 2015 are presented in the Note 16.

Notes to the financial statements (cont.)

(In PLN thousand)

24. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	31.12.2016	31.12.2015
FINANCIAL ASSETS		
Debt securities	721 031	1 116 993
Total financial assets	**721 031**	**1 116 993**
FINANCIAL LIABILITIES		
Debt securities	673 165	611 442
Total financial liabilities	**673 165**	**611 442**

Debt securities held for trading

	31.12.2016	31.12.2015
FINANCIAL ASSETS		
Debt securities issued by State Treasury	654 918	1 003 007
T- bills	-	-
T- bonds	654 918	1 003 007
Debt securities issued by banks	-	37 866
Debt securities issued by business entities	66 113	76 120
Total financial assets	**721 031**	**1 116 993**
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	673 165	611 442
T- bonds	673 165	611 442
Total financial liabilities	**673 165**	**611 442**

Debt securities held for trading by maturity

	31.12.2016	31.12.2015
FINANCIAL ASSETS		
Debt securities, including:		
up to 1 month	-	39 222
between 1 and 3 months	239	23 294
between 3 months and 1 year	117 804	358 296
between 1 and 5 years	324 868	163 738
over 5 years	278 120	532 443
unspecified term	-	-
Total financial assets	**721 031**	**1 116 993**
FINANCIAL LIABILITIES		
Debt securities, including:		
up to 1 month	102 076	-
between 1 and 3 months	-	-
between 3 months and 1 year	131 194	170 729
between 1 and 5 years	263 435	382 663
over 5 years	176 460	58 050
Total financial liabilities	**673 165**	**611 442**

(In PLN thousand)

Debt securities held for trading by currency

	31.12.2016	31.12.2015
FINANCIAL ASSETS		
PLN	700 856	1 102 805
EUR	5 629	10 072
USD	14 546	4 116
Total financial assets	**721 031**	**1 116 993**
FINANCIAL LIABILITIES		
PLN	673 165	611 442
Total financial liabilities	**673 165**	**611 442**

25. Derivative financial instruments (held for trading)

Derivative financial instruments at the Bank

In its operations the Bank uses different financial derivatives that are offered to the clients and are used for managing risks involved in the Bank's business. The majority of derivatives at the Bank include over-the-counter contracts. Regulated stock exchange contracts (mainly futures) represent a small part of those derivatives.

Derivative foreign exchange transactions include the obligation to buy or sell foreign and domestic currency assets. Forward foreign exchange transactions are based on the foreign exchange rates, specified on the transaction date for a predefined future date. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves, relevant for a given market.

Foreign exchange swaps are a combination of a swap of specific currencies as at spot date and of reverse a transaction as at forward date with foreign exchange rates specified in advance on transaction date. Transactions of such type are settled by an exchange of assets These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves relevant for a given market.

Foreign exchange options with delivery are defined as contracts, where one of the parties, i.e. the option buyer, purchases from the other party, referred to as the option writer, at a so-called premium price the right without the obligation to buy (call option) or to sell (put option), at a specified point of time in the future or during a specified time range a foreign currency amount specified in the contract at the exchange rate set during the conclusion of the option agreement.

In case of options settled in net amounts, upon acquisition of the rights, the buyer receives an amount of money equal to the product of notional and difference between spot ad strike price.

Barrier option with one barrier is a type of option where exercise of the option depends on the underlying crossing or reaching a given barrier level. A barrier may be reached starting from lower ('UP') or from higher ('DOWN') level of the underlying instrument. 'IN' options start their lives worthless and only become active when a predetermined knock-in barrier price is breached. 'OUT' options start their lives active and become null and void when a certain knock-out barrier price is breached.

Foreign exchange options are priced using the Garman-Kohlhagen valuation model (and in case of barrier and Asian options using the so-called expanded Garman-Kohlhagen model). Parameters of the model based on market quotations of plain-vanilla at-the-money options and market spreads for out-of-the-money and in-the-money options (volatility smile) for standard maturities.

Derivatives related to interest rates enable the Bank and its customers to transfer, modify or limit interest rate risk.

Notes to the financial statements (cont.)

(In PLN thousand)

In the case of Interest Rate Swaps (IRS), counterparties exchange between each other the flows of interest payments, accrued on the nominal amount identified in the contract. These transactions are valued using the discounted cash flow model. Floating (implied) cash flows are estimated on base of respective IRS rates. Floating and fixed cash flows are discounted by relevant zero-coupon yield curves.

Forward Rate Agreements (FRA) involve both parties undertaking to pay interest on a predefined nominal amount for a specified period starting in the future and charged according to the interest rate determined on the day of the agreement. The parties settle the transaction on value date using the reference rate as a discount rate in the process of discounting the difference between the FRA rate (forward rate as at transaction date) and the reference rate. These transactions are valued using the discounted cash flow model.

Cross currency IRS involves both parties swapping capital and interest flows in different currencies in a specified period. These transactions are valued using the discounted cash flow model. Valuation of Basis Swap transactions (cross currency IRS with floating coupon) takes into account market quotations of basis spread (Basis swap spread).

In the case of forward transactions on securities, counterparties agree to buy or sell specified securities on a forward date for a payment fixed on the date of transaction. Such transactions are measured based upon the valuation of the security (mark-to-market or mark-to-model) and valuation of the related payment (method of discounting cash flows by money market rate).

Interest rate options (cap/floor) are contracts where one of the parties, the option buyer, purchases from the other party, the option writer, at a so-called premium price, the right without the obligation to borrow (cap) or lend (floor) at specified points of time in the future (independently) amounts specified in the contract at the interest rate set during the conclusion of the option. Contracts are net-settled (without fund location) at agreed time. Transactions of this type are valued using the Normal model. The model is parameterized based upon market quotations of at-the-money options as at standard quoted maturities.

Interest rate futures transactions refer to standardized forward contracts purchased on the stock market. Futures contracts are measured based upon quotations available directly from stock exchanges.

Commodity swap contracts are obligations to net settlement equivalent to the execution of a commodity buy or sell transaction at the settlement price according to determination rules set at the trade inception. Commodity instruments are valued with the discounted cash flows method, which includes commodity prices term structure.

Asian commodity options are contracts with the right to buy or sell a certain amount of commodity on an expiry date at the specified price, where settlement price is based on an average level established on the basis of a series of commodity price observations in the period preceding the maturity date of the option. Commodity options are valued with the Black-Scholes model that includes moment matching of commodity price distribution for the arithmetic average.

Derivative financial instruments embedded in other instruments

The Bank uses derivatives financial instruments embedded in complex financial instruments, i.e. such as including both a derivative and base agreement, which results in part of the cash flows of the combined instrument changing similarly to cash flows of an independent derivative. Derivatives embedded in other instruments cause part or all cash flows resulting from the base agreement to be modified as per a specific interest rate, price of a security, foreign exchange rate, price index or interest rate index.

Call options in some of the corporate, municipal bonds and own equity placements are derivatives embedded in balance sheet financial instruments. In this case, embedded financial instruments are closely related to the base contract and thus the embedded derivative does not need to be isolated or recognized and valuated separately.

The Bank has deposits and certificates of deposits on offer which include embedded derivatives. As the nature of such instrument is not strictly associated with the nature of the deposit agreement, the embedded instrument is separated and classified into the portfolio held-for-trading. The valuation of such instrument is recognized in the income statement. Embedded instruments include simple options (plain vanilla) and exotic options for single stocks, commodities, indices and other market indices, including interest rate indices, foreign exchange rates and their related baskets. All embedded options are immediately closed back-to-back on the interbank market.

Notes to the financial statements (cont.)

(In PLN thousand)

Currency options embedded in deposits are valued as other currency options.

Exotic options embedded in deposits as well as their close positions are valued using the Monte-Carlo simulation technique assuming Geometric Brownian Motion model of risk factors. Model parameters are determined first of all on the basis of quoted options and futures contracts and in their absence based on statistical measures of the underlying instrument dynamic.

The Bank carried out an analysis of the portfolio of credit agreements and of regular agreements in order to isolate embedded derivatives and decided that the agreements in question do not require isolation and separate treatment of embedded instruments.

Risk involved in financial derivatives

Market risk and credit risk are the basic types of risk, associated with derivatives.

At the beginning, financial derivatives usually have a small market value or no market value at all. It is a consequence of the fact that derivatives require no initial net investments, or require a very small net investment compared to other types of contracts, which display a similar reaction to changing market conditions.

Derivatives gain positive or negative value as a result of change in specific interest rates, prices of securities, prices of commodities, currency exchange rates, price index, credit standing or credit index or another market parameter. In case of such changes, the derivatives held become more or less advantageous than instruments with the same residual maturities, available at that moment on the market.

Credit risk related to derivative contracts is a potential cost of concluding a new contract on the original terms and conditions if the other party to the original contract fails to meet its obligations. In order to assess the potential cost of replacement the Bank uses the same method as for credit risk assessment. In order to control its credit risk levels the Bank performs assessments of other contract parties using the same methods as for credit decisions.

The following tables present nominal amounts of financial derivatives and fair values of such derivatives. Nominal amounts of certain financial instruments are used for comparison with balance sheet instruments but need not necessarily indicate what the future cash flow amounts will be or what the current fair value of such instruments is and therefore do not reflect the Bank's credit or price risk level.

Notes to the financial statements (cont.)

(In PLN thousand)

Fair value of trading derivatives

31.12.2016	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 517 838	1 508 186
Forward Rate Agreements (FRA)	347	155
Options	1 837	1 710
Other	426	618
Foreign currencies and in gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	91 731	162 461
Currency Forward Agreements	183 630	84 759
Currency Swaps (FX–Swap)	62 219	93 641
Options for currency and for gold	52 971	53 605
Transactions based on equity securities and stock indexes		
Options	5 403	5 422
Other	-	-
Transactions based on commodities and precious metals		
Options	2 113	1 971
Other	36 984	36 807
Total	**1 955 499**	**1 949 335**

31.12.2015	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2 867 014	2 861 412
Forward Rate Agreements (FRA)	960	906
Options	10 129	10 046
Other	3 515	3 278
Foreign currencies and in gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	75 430	99 742
Currency Forward Agreements	80 871	76 304
Currency Swaps (FX–Swap)	135 068	72 132
Options for currency and for gold	44 658	41 557
Transactions based on equity securities and stock indexes		
Options	8 366	8 366
Other	-	-
Transactions based on commodities and precious metals		
Options	12 120	12 182
Other	15 986	15 873
Total	**3 254 117**	**3 201 798**

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2016	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	2 064 679	2 846 675	11 640 203	51 600 434	12 317 504	80 469 495
Forward Rate Agreements (FRA)	275 000	750 000	300 000	-	-	1 325 000
Options	700 000	604 917	857 351	3 907 471	165 096	6 234 835
Other	458 570	-	-	-	-	458 570
Foreign currencies and in gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	413 339	763 574	3 091 361	1 375 894	5 644 168
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	427 850	755 711	3 148 727	1 375 894	5 708 182
Currency Forward Agreements – currency bought	6 765 609	2 525 196	3 177 714	1 337 691	-	13 806 210
Currency Forward Agreements – currency sold	6 791 355	2 541 317	3 101 465	1 346 657	-	13 780 794
Currency Swaps (FX-Swap) – currency bought	13 454 161	2 643 905	2 799 405	115 108	-	19 012 579
Currency Swaps (FX-Swap) – currency sold	13 443 801	2 644 057	2 797 880	110 600	-	18 996 338
Options bought	463 120	540 425	2 526 286	186 400	-	3 716 231
Options sold	465 995	545 333	2 538 592	186 400	-	3 736 320
Transactions based on equity securities and stock indexes						
Options	-	-	-	73 865	-	73 865
Other	-	-	-	-	-	-
Transactions based on commodities and precious metals						
Options	8 693	13 039	80 418	-	-	102 150
Other	61 558	78 176	218 647	272 791	-	631 172
Total	**44 952 541**	**16 574 229**	**31 557 246**	**65 377 505**	**15 234 388**	**173 695 909**

31.12.2015	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	5 430 113	7 313 716	11 740 420	71 056 336	16 986 683	112 527 268
Forward Rate Agreements (FRA)	2 710 000	1 715 000	2 600 000	-	-	7 025 000
Options	-	-	449 753	4 067 896	-	4 517 649
Other	2 151 627	-	-	-	-	2 151 627
Foreign currencies and in gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	-	290 505	2 315 667	1 065 087	3 671 259
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	-	277 129	2 345 950	1 062 149	3 685 228
Currency Forward Agreements – currency bought	5 455 618	1 556 316	2 378 828	1 490 042	-	10 880 804
Currency Forward Agreements – currency sold	5 471 784	1 564 270	2 392 129	1 489 816	-	10 917 999
Currency Swaps (FX-Swap) – currency bought	9 858 049	4 346 841	3 556 983	44 767	-	17 806 640
Currency Swaps (FX-Swap) – currency sold	9 870 606	4 295 106	3 510 929	43 527	-	17 720 168
Options bought	449 287	437 335	2 339 376	1 921 686	-	5 147 684
Options sold	448 167	437 504	2 335 255	1 921 686	-	5 142 612
Transactions based on equity securities and stock indexes						
Options	83 326	81 857	-	-	-	165 183
Other	-	-	-	-	-	-
Transactions based on commodities and precious metals						
Options	55 650	38 465	180 543	23 048	-	297 706
Other	647	3 652	143 299	20 985	-	168 583
Total	**41 984 874**	**21 790 062**	**32 195 149**	**86 741 406**	**19 113 919**	**201 825 410**

(In PLN thousand)

26. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2016	31.12.2015
Mortgage loans	53 072 200	47 698 032
Current accounts	10 840 866	11 532 665
Operating loans	16 918 463	17 772 040
Investment loans	16 997 240	17 257 694
Cash loans	10 211 931	9 087 671
Payment cards receivables	970 673	873 309
Factoring	1 858 606	1 480 236
Other loans and advances	1 162 199	1 255 462
Debt securities	12 451 372	12 376 949
Reverse repo transactions	-	4 755 472
Cash in transit	63 488	49 954
Total gross amount	**124 547 038**	**124 139 484**
Impairment allowances	(5 513 439)	(5 630 902)
Total net amount	**119 033 599**	**118 508 582**

Loans and advances to customers by customer type

	31.12.2016	31.12.2015
Corporate	56 558 364	59 414 019
Individuals	57 399 265	53 197 025
Budget entities	10 589 409	11 528 440
Total gross amount	**124 547 038**	**124 139 484**
Impairment allowances	(5 513 439)	(5 630 902)
Total net amount	**119 033 599**	**118 508 582**

Loans and advances to customers by quality

	31.12.2016	31.12.2015
Loans and advances to customers, including:		
non impaired (gross)	117 093 424	116 480 662
impaired (gross)	7 453 614	7 658 822
individual impairment allowances	(3 148 477)	(3 190 622)
collective impairment allowances (*)	(2 364 962)	(2 440 280)
Total	**119 033 599**	**118 508 582**

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

Loans and advances to customers by contractual maturity

	31.12.2016	31.12.2015
Loans and advances to customers, including:		
up to 1 month	14 781 907	19 860 297
between 1 and 3 months	2 970 439	3 869 508
between 3 months and 1 year	13 523 300	12 387 849
between 1 and 5 years	38 209 661	36 801 802
over 5 years	49 386 721	45 400 514
expired	5 675 010	5 819 514
Total gross amount	**124 547 038**	**124 139 484**
Impairment allowances	(5 513 439)	(5 630 902)
Total net amount	**119 033 599**	**118 508 582**

(In PLN thousand)

Loans and advances to customers by currency

	31.12.2016	31.12.2015
PLN	97 790 221	99 449 351
CHF	4 036 421	4 299 881
EUR	13 756 867	11 463 681
USD	3 274 083	3 193 248
Other currencies	176 007	102 421
Total	**119 033 599**	**118 508 582**

Changes in impairment allowances in 2016 and 2015 are presented in the Note 16.

27. Hedge accounting

As at 31 December 2016 the Bank applies fair value hedge accounting and cash flow hedge accounting.

In the period from 1 January to 31 December 2016 the Bank continued to apply the following hedge accounting:

- fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swap (IRS) transactions – described in point 1 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions – described in point 2 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions – described in point 3 of the table with details of hedging relationships,
- cash flow hedge accounting for variable portfolio of loans in EUR and USD hedged with FX-Swap instruments – described in point 4 of the table with details of hedging relationships.

In the period from 1 January to 31 December 2016 the Bank designated to the fair value hedge accounting fixed coupon debt securities classified as loans and receivables hedged with interest rate swaps (IRS) – described in point 5 of the table with details of hedging relationships.

The table below presents the fair values of hedging derivatives

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

31.12.2015	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	5 737	269 817
Cross-currency interest rate swaps (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	355 731	-
Cross-currency interest rate swaps (CIRS)	56 840	1 431 956
Currency Swaps (FX-Swap)	3 332	986
Total	**421 640**	**1 702 759**

Notes to the financial statements (cont.)

(In PLN thousand)

The tables below presents nominal values of hedging derivatives

31.12.2016	CONTRACTS ACCORDING TO MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Fair value hedge accounting						
Interest rate swaps (IRS)	-	553 000	-	1 627 612	2 113 964	4 294 576
Cross-currency interest rate swap (CIRS)	-	-	-	-	-	-
Cash flow hedge accounting						
Interest rate swaps (IRS)	-	25 000	150 000	3 600 000	-	3 775 000
Cross-currency interest rate swap (CIRS)	867 025	-	1 033 820	9 883 752	4 079 680	15 864 277
Currency Swaps (FX-Swap)	-	892 450	1 297 025	-	-	2 189 475
Total	**867 025**	**1 470 450**	**2 480 845**	**15 111 364**	**6 193 644**	**26 123 328**

31.12.2015	CONTRACTS ACCORDING TO MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Fair value hedge accounting						
Interest rate swaps (IRS)	-	-	-	1 511 172	1 451 033	2 962 205
Cross-currency interest rate swap (CIRS)	-	-	-	-	-	-
Cash flow hedge accounting						
Interest rate swaps (IRS)	-	-	215 000	3 775 000	-	3 990 000
Cross-currency interest rate swap (CIRS)	-	-	2 708 866	10 972 969	4 507 339	18 189 174
Currency Swaps (FX-Swap)	992 573	777 310	212 988	-	-	1 982 871
Total	**992 573**	**777 310**	**3 136 854**	**16 259 141**	**5 958 372**	**27 124 250**

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

	2016	2015
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge - gross value)	39 724	45 280
Net interest income on hedging derivatives	212 587	208 571
Ineffective portion in changes in fair value of hedging transactions recognized in income statement	(756)	795

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

	2016	2015
Opening balance	**45 280**	**138 621**
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	(5 451)	(93 277)
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from revaluation reserves and presented in net profit or loss	(105)	(64)
Closing balance	**39 724**	**45 280**

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

TYPE OF GAINS/LOSSES	2016	2015
Gains/losses from revaluation of hedging instruments to fair value	26 502	40 167
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	(25 189)	(34 620)
Result on fair value hedge accounting	**1 313**	**5 547**
Net interest income of hedging derivatives	(73 721)	(57 637)

Notes to the financial statements (cont.)

(In PLN thousand)

Detailed description of hedging relationships applied by the Bank during the period from 1 January to 31 December 2016.

DESCRIPTION OF THE HEDGING RELATIONSHIP	HEDGED ITEM	HEDGING DERIVATIVES	FINANCIAL STATEMENTS PRESENTATION	PERIOD IN WHICH THE CASH FLOWS RELATED TO THE HEDGED ITEMS ARE EXPECTED TO OCCUR
1. Fair value hedge of fixed-coupon debt securities				
The Bank hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as AFS, denominated in PLN, EUR and USD.	The hedging derivatives consist of IRS transactions in PLN, EUR and USD (short position in fixed-rate) for which the Bank receives floating-rate payments, and pays fixed-rate.	The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. The remaining portion of the change in the hedged items' fair value (resulting from spread between swap yield curve and bond yield curve) is recognized in accordance with the accounting principles applicable to AFS (i.e. in the revaluation reserve in equity). Interest accrued on AFS bonds is presented in the net interest income. Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 18 January 2036.
2. Cash flow hedge of floating-rate loans and floating-rate deposits				
The Bank hedges a portion of the interest rate risk and the foreign currency risk resulting from the volatility of cash flows from floating-rate assets and liabilities with the designated CIRS transactions (basis swap).	Hedged item consists of two separate components, which are cash flows arising from floating-rate assets portfolio and floating-rate liabilities portfolio.	Hedging derivatives consist of a portfolio of CIRS transactions (basis swap), where the Bank pays floating-rate currency cash flows, and receives floating-rate PLN/currency cash-flows. CIRS transactions are decomposed into the part hedging the assets portfolio and the part hedging the liabilities portfolio.	The effective portion of the change in fair value of hedging derivatives' is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on CIRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 15 May 2029.
3. Cash flow hedge of floating-rate loans				
The Bank hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate assets with the designated IRS transactions.	The hedged items consist of the cash flows from floating-rate assets.	The hedging derivatives consist of portfolio of IRS transactions (short position in floating rate – the Bank receives fixed payments and pays floating-rate).	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on IRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 29 April 2020.

Notes to the financial statements (cont.)

(In PLN thousand)

DESCRIPTION OF THE HEDGING RELATIONSHIP	HEDGED ITEM	HEDGING DERIVATIVES	FINANCIAL STATEMENTS PRESENTATION	PERIOD IN WHICH THE CASH FLOWS RELATED TO THE HEDGED ITEMS ARE EXPECTED TO OCCUR
4. Cash flow hedge of floating-rate currency assets hedged with FX-Swap transactions against the exchange and interest rate risk				
The Bank hedges volatility of cash flows constituting floating-rate financial assets (loans in EUR and USD) with FX-Swap transactions. The currency and interest rate risk is hedged.	Loans with variable interest rate risk, denominated in EUR and USD constitute hedged items.	FX-Swap transaction portfolio constitutes the hedging position.	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. Settled part of the swap points on the hedging instrument is transferred from the revaluation reserve in equity and recognized in interest income. Currency revaluation regarding the first capital exchange on the hedging instrument is transferred from the revaluation reserve in equity and recognized in the foreign currency exchange result.	It is expected that the cash flows related to the hedged items will occur until 18 April 2017.
5. Fair value hedge of fixed-coupon debt securities				
The Bank hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as loans and receivables, denominated in PLN.	The hedging derivatives consist of IRS transactions in PLN (short position in fixed-rate) for which the Bank receives floating-rate payments, and pays fixed-rate.	The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on bonds is presented in the net interest income. Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 22 December 2026.
6. Cash flow hedge of expected future inflows in foreign currency – relationship completed				
The Bank hedged the volatility of cash flows denominated in EUR constituting the projected inflows from expected sales with the designated FX-Forward transactions. The currency risk was being hedged. Discontinuation of the hedge accounting resulted from settlement of transactions included in the hedging relationship.	Projected inflows dependent on EUR and Polish zloty exchange rates were the hedged item	The hedging derivatives consisted of a portfolio of FX-Forward transactions (FX-Spot and series of FX-Swap), in which the Group sold EUR currency in exchange for PLN currency on 27 June 2016 at an agreed exchange rate.	The amount of the settlement of hedging transactions adjusted the settlement of the hedged item.net interest income.	-

Notes to the financial statements (cont.)

(In PLN thousand)

28. Investment (placement) securities

	31.12.2016	31.12.2015
Debt securities available for sale (AFS)	31 810 862	17 428 943
Equity securities available for sale (AFS)	127 308	270 938
Debt securities held to maturity (HTM)	2 925 861	3 290 061
Total	**34 864 031**	**20 989 942**

Debt securities available for sale (AFS)

	31.12.2016	31.12.2015
Securities issued by State Treasury	24 907 802	15 865 408
T-bills	-	-
T-bonds	24 907 802	15 865 408
Securities issued by Central Banks	5 978 629	628 454
Securities issued by business entities	249 912	251 367
Securities issued by local governments	674 519	683 714
Total	**31 810 862**	**17 428 943**
including impairment of assets	-	-

Equity securities available for sale (AFS)

	31.12.2016	31.12.2015
Shares	127 308	270 938
Total	**127 308**	**270 938**
including impairment of assets	-	(100)

In June 2016 the Bank has received information about the closing of the acquisition of Visa Europe Limited by Visa Inc. As a result of the settlement of this transaction the Bank has recognized in the financial statements for the three quarters of 2016:

- the cash received in the amount of EUR 43.6 million, equivalent to PLN 191.4 million at the average NBP exchange rate as of 21 June 2016,
- 15 818 preferred shares of Visa Inc. Series C, whose value has been estimated by the Bank at EUR 12.7 million, which is equivalent to PLN 55.8 million according to the average NBP exchange rate as of 21 June 2016. The shares have been classified to the available for sale portfolio of securities. Preferred shares of Visa Inc. Series C will be converted into ordinary shares of Visa Inc. Conversion of all preferred shares will take place no later than 2028. Until then, the transfer of shares by the Bank is subject to restrictions. The current conversion of preferred shares into ordinary shares may be decreased until 2028, which depends on the compensation paid by Visa during this period,
- receivables from deferred payments in cash in the amount of EUR 3.8 million (ie. 16.5 million at the average NBP exchange rate as of 21 June 2016). This amount will be paid on the third anniversary of the closing date, ie. in the second quarter of 2019.

On the same time the Bank derecognised the share in Visa Europe, together with its valuation. The carrying value of the share amounted to EUR 40.9 million (PLN 179.5 million as of 21 June 2016).

As a result of the settlement, the Bank has recognized the gain of PLN 263.7 million (before tax) in the Income Statement.

Notes to the financial statements (cont.)

(In PLN thousand)

Debt securities held to maturity (HTM)

	31.12.2016	31.12.2015
Securities issued by State Treasury	2 905 255	2 418 961
T-bills	-	-
T-bonds	2 905 255	2 418 961
Securities issued by Central Banks	20 606	871 100
Total	**2 925 861**	**3 290 061**
including impairment of assets	-	-

Investment debt securities according to contractual maturity

	31.12.2016	31.12.2015
Debt securities, including:		
up to 1 month	7 404 199	1 499 554
between 1 and 3 months	573 661	443 644
between 3 months and 1 year	6 036 603	2 657 047
between 1 and 5 years	11 933 357	10 523 426
over 5 years	8 788 903	5 595 333
Total	**34 736 723**	**20 719 004**

Investment debt securities according to currencies

	31.12.2016	31.12.2015
PLN	30 612 780	17 668 064
EUR	2 790 183	2 635 034
USD	1 333 760	415 906
Total	**34 736 723**	**20 719 004**

Changes in investment (placement) securities

	2016	2015
SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	**17 699 881**	**23 048 190**
Increases (purchase)	89 683 288	217 238 305
Decreases (sale and redemption)	(75 813 948)	(222 977 126)
Changes in fair value	(460 553)	(271 780)
Exchange rate differences	170 926	179 854
Accrued interest	703 200	616 697
Other changes	(44 624)	(134 259)
Closing balance	**31 938 170**	**17 699 881**
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	**3 290 061**	**1 523 940**
Increases (purchase)	6 606 880	47 198 245
Decreases (sale and redemption)	(7 028 711)	(45 490 733)
Accrued interest	25 748	17 704
Other changes	31 883	40 905
Closing balance	**2 925 861**	**3 290 061**
Total investment (placement) securities	**34 864 031**	**20 989 942**

Notes to the financial statements (cont.)

(In PLN thousand)

29. Reclassification of securities

IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' provide, under certain conditions, the possibility for reclassification of financial instruments into other categories.

In 2016 and 2015, the Bank did not reclassify any financial instruments into other categories.

On 1 October 2008, however, due to the exceptional situation related to the financial crisis, the Bank made use of the possibility for reclassification of its financial instruments.

The tables below present the information on the reclassified financial assets

	AMOUNT OF RECLASSIFICATION	31.12.2016		31.12.2015	
		CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	1 331 580	64 381	61 109	68 974	65 191
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	602 507	217 365	219 258	666 725	673 607
Total	**1 934 087**	**281 746**	**280 367**	**735 699**	**738 798**

If the Bank failed to perform the reclassification, the income and revaluation equity would have changed as follows:

31.12.2016	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	-	263
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	(5 633)	-
Total	**(5 633)**	**263**

31.12.2015	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	-	127
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	(6 713)	-
Total	**(6 713)**	**127**

Net interest income on reclassified financial assets

	2016	2015
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	1 580	1 998
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	10 625	12 770
Total	**12 205**	**14 768**

(In PLN thousand)

30. Assets held for sale and discontinued operations

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

As at 31 December 2016, non-current assets classified as held for sale included following items classified as held for sale:

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

Assets held for sale:

	31.12.2016	31.12.2015
Property, plant and equipment	25 703	22 787
Other assets	22 574	22 515
Total	**48 277**	**45 302**

The table below presents changes in the balance of non-current assets held for sale:

ASSETS HELD FOR SALE	2016	2015
Opening balance	**45 302**	**31 952**
Increases, including:	9 301	28 598
transfer from investments in subsidiaries	818	27 008
transfer from investment properties	8 295	-
transfer from investments in associates	-	1 563
other changes	188	27
Decreases, including:	(6 326)	(15 248)
transfer from property, plant and equipment	(451)	(13 460)
sale of shares in associate	-	(1 563)
disposal	(1 322)	-
other changes	(4 553)	(225)
Closing balance	**48 277**	**45 302**

The effect of disposal of property, plant and equipment and other assets is as follows:

	31.12.2016	31.12.2015
Sales revenues	2 011	-
Net carrying amount of disposed assets (including costs to sell)	(1 323)	-
Profit/loss on sale before income tax	**688**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

31. Investments in subsidiaries

Condensed information about subsidiaries as at 31 December 2016 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT /LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage services	988 304	841 063	105 020	25 287	100.00	56 332
Pekao Investment Banking S.A.	Warsaw	Brokerage services	384 493	109 943	67 154	23 513	100.00	274 334
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	1 040 653	970 289	35 379	9 678	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	51 798	81	585	337	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension funds management	44 855	2 217	13 996	1 397	65.00	64 126
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	34 577	5 010	38 743	7 466	100.00	4 500
Pekao Leasing Sp. z o.o.	Warsaw	Lease services	4 278 427	3 731 603	158 023	39 972	100.00	278 799
Centrum Kart S.A.	Warsaw	Additional financial services	43 449	11 705	216	335	100.00	17 592
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	2 193 500	1 870 376	72 973	8 721	100.00	233 823
Pekao Property S.A.	Warsaw	Real estate development services	56 684	5 863	4	(319)	100.00	31 374
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	12 931	6 010	17 632	3 405	100.00	522
Total								**1 063 050**

(*) Data available at the date of financial statements.

Notes to the financial statements (cont.)

(In PLN thousand)

Condensed information about subsidiaries as at 31 December 2015 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT /LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage services	820 642	654 574	131 701	44 210	100.00	56 332
Pekao Investment Banking S.A.	Warsaw	Brokerage services	334 828	77 600	43 373	6 822	100.00	274 334
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	1 138 119	1 077 434	34 671	9 336	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	52 869	1 296	698	193	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension funds management	47 825	2 214	14 714	2 913	65.00	64 126
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	34 531	4 383	39 705	8 033	100.00	4 500
Pekao Leasing Sp. z o.o. (**)	Warsaw	Lease services	3 814 299	3 307 447	153 433	53 904	36.49	84 658
Centrum Kart S.A.	Warsaw	Additional financial services	42 904	10 948	330	591	100.00	17 592
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	2 187 896	1 876 171	71 688	5 045	100.00	233 823
Pekao Leasing Holding S.A. (in liquidation)	Warsaw	Lease services	277 297	84	1 322	61 436	100.00	230 745
Pekao Property S.A.	Warsaw	Real estate development services	56 696	5 556	16	(179)	100.00	31 374
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	11 999	5 513	14 953	2 720	100.00	522
Total								**1 099 654**

(*) Data available at the date of financial statements.
(**)Total Bank's share in equity of Pekao Leasing Sp. z o.o. amounted to 100.00% (direct Bank's share amounted to 36.49%, indirect share through Pekao Leasing Holding S.A. amounted to 63.51%).

Changes in investment into subsidiaries

	2016	2015
Opening balance	**1 099 654**	**857 513**
Increases, including:	-	274 334
acquisition	-	274 334
Decreases, including	(36 604)	(32 193)
changes of impairment allowances	-	(24 000)
liquidation	(36 604)	(8 193)
Closing balance	**1 063 050**	**1 099 654**

The structure of investments in subsidiaries

	31.12.2016	31.12.2015
Investment in subsidiaries, including:		
banks	233 823	233 823
other financial institutions	745 951	782 555
non-financial institutions	83 276	83 276
Total	**1 063 050**	**1 099 654**

(In PLN thousand)

32. Investments in associates

Information about associates as at 31 December 2016 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Pioneer Pekao Investment Management S.A.	Warsaw	Assets Management	289 881	37 841	324 839	74 437	49.00	14 995
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediation	56 172	30 728	53 082	4 359	50.00	12 557
CPF Management	Tortola, British Virgin Islands	Advisory services– currently does not provide its services	n/a	n/a	n/a	n/a	40.00	-
Polish Banking System S.A. (in liquidation)	Warsaw	Company in liquidation	n/a	n/a	n/a	n/a	48.90	-
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Company in liquidation	n/a	n/a	n/a	n/a	36.20	-
Total								**27 552**

(*) Data available at the date of financial statements.

Information about associates as at 31 December 2015 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Pioneer Pekao Investment Management S.A.	Warsaw	Assets Management	322 848	40 354	383 019	91 284	49.00	14 995
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediation	51 359	30 274	49 490	3 930	50.00	12 557
CPF Management	Tortola, British Virgin	Advisory services– currently does not	n/a	n/a	n/a	n/a	40.00	-
Polish Banking System S.A. (in liquidation)	Warsaw	Company in liquidation	n/a	n/a	n/a	n/a	48.90	-
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Company in liquidation	n/a	n/a	n/a	n/a	36.20	-
Total								**27 552**

(*) - Data available at the date of financial statements.

Changes in investment in associates

	2016	2015
Opening balance	**27 552**	**29 427**
Decreases, including	-	(1 875)
sale	-	(1 563)
transfer to Equity securities available for sale (AFS)	-	(312)
Closing balance	**27 552**	**27 552**

The structure of investments in associates

	31.12.2016	31.12.2015
Investment in associates, including:		
banks	-	-
other financial institutions	27 552	27 552
non-financial institutions	-	-
Total	**27 552**	**27 552**

As at 31 December 2016 and 31 December 2015, the Bank did not have the investment in entities under common control.

Notes to the financial statements (cont.)

(In PLN thousand)

33. Intangible assets

	31.12.2016	31.12.2015
Intangible assets, including:	518 441	558 985
research and development expenditures	3 024	7 948
licenses and patents	438 109	430 519
other	7 688	11 183
assets under construction	69 620	109 335
Goodwill	52 635	52 635
Total	**571 076**	**611 620**

The goodwill was transferred to Bank Pekao S.A. on integration with Bank BPH S.A. It represents the goodwill recognized upon acquisition of Pierwszy Komercyjny Bank S.A. in Lublin (‘PKBL’) by Bank BPH S.A. and relates to those branches of the PKBL which were transferred to Bank Pekao S.A. as a result of integration with Bank BPH S.A. It is determined the smallest identifiable cash-generating units (‘CGU’), to which the goodwill has been allocated in the amount of PLN 51 675 thousand.

Moreover there is also goodwill recognized upon acquisition of Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Mikołaja Kopernika by Bank Pekao S.A. It is determined the smallest identifiable cash-generating units (‘CGU’), to which the goodwill has been allocated in the amount of PLN 960 thousand.

In respect to the goodwill, the impairment test is performed annually, irrespective of whether there is any indication that it may be impaired.

The impairment test is performed by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. The recoverable amount is estimated on the basis of value in use of the CGU. The value in use is the present, estimated value of the future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU is calculated based on an extrapolation of cash flows projections beyond the forecast period using the growth rate of 2.5%. The forecasts of the future cash flows are based on the assumptions included the Bank’s budget for 2017 and financial plan for 2018-2021. To discount the future cash flows, it is applied the discount rate of 8.38%, which includes the risk-free rate and the risk premium. The impairment test performed as at 31 December 2015 showed the surplus of the recoverable amount over the carrying amount of the CGU, and therefore no CGU impairment was recognized.

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in 'Intangibles assets' in the course of the reporting period

2016	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**90 173**	**2 187 909**	**51 305**	**109 335**	**2 438 722**
Increases, including:	-	164 144	312	123 565	288 021
acquisitions	-	-	-	123 565	123 565
other	-	1 176	-	-	1 176
transfer from investments outlays	-	162 968	312	-	163 280
Decreases, including:	-	(20 034)	(16 441)	(163 280)	(199 755)
liquidation	-	(19 765)	(16 441)	-	(36 206)
other	-	(269)	-	-	(269)
transfer from investments outlays	-	-	-	(163 280)	(163 280)
Closing balance	**90 173**	**2 332 019**	**35 176**	**69 620**	**2 526 988**
ACCUMULATED AMORTIZATION					
Opening balance	**82 225**	**1 757 390**	**29 161**	**-**	**1 868 776**
Amortization	4 924	156 730	3 337	-	164 991
Liquidation	-	(19 765)	(5 010)	-	(24 775)
Other	-	(445)	-	-	(445)
Closing balance	**87 149**	**1 893 910**	**27 488**	**-**	**2 008 547**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**-**	**10 961**
Closing balance	**-**	**-**	**-**	**-**	**-**
NET VALUE					
Opening balance	**7 948**	**430 519**	**11 183**	**109 335**	**558 985**
Closing balance	**3 024**	**438 109**	**7 688**	**69 620**	**518 441**

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in 'Intangibles assets' in the course of the reporting period

2015	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**89 361**	**2 042 842**	**49 642**	**110 413**	**2 292 258**
Increases, including:	812	150 781	1 678	151 554	304 825
acquisitions	-	-	-	151 554	151 554
other	-	32 935	-	-	32 935
transfer from investments outlays	812	117 846	1 678	-	120 336
Decreases, including:	-	(5 714)	(15)	(152 632)	(158 361)
liquidation	-	(5 668)	(15)	-	(5 683)
other	-	(46)	-	(32 296)	(32 342)
transfer from investments outlays	-	-	-	(120 336)	(120 336)
Closing balance	**90 173**	**2 187 909**	**51 305**	**109 335**	**2 438 722**
ACCUMULATED AMORTIZATION					
Opening balance	**78 949**	**1 625 474**	**27 836**	**-**	**1 732 259**
Amortization	3 276	137 538	1 340	-	142 154
Liquidation	-	(5 581)	(15)	-	(5 596)
Other	-	(41)	-	-	(41)
Closing balance	**82 225**	**1 757 390**	**29 161**	**-**	**1 868 776**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**-**	**10 961**
Closing balance	**-**	**-**	**10 961**	**-**	**10 961**
NET VALUE					
Opening balance	**10 412**	**417 368**	**10 845**	**110 413**	**549 038**
Closing balance	**7 948**	**430 519**	**11 183**	**109 335**	**558 985**

In the period from 1 January to 31 December 2016, the Bank acquired intangible assets in the amount of PLN 123 565 thousand (in 2015 - PLN 151 554 thousand). In the period from 1 January to 31 December 2016 and in 2015 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 31 December 2016 the contractual commitments for the acquisition of intangible assets amounted to PLN 42 723 thousand, whereas as at 31 December 2015 - PLN 47 881 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

34. Property, plant and equipment

	31.12.2016	31.12.2015
Non-current assets, including:	1 292 800	1 360 433
land and buildings	1 005 234	1 058 395
machinery and equipment	231 888	234 058
transport vehicles	19 251	27 974
other	36 427	40 006
Non-current assets under construction and prepayments	112 300	83 324
Total	**1 405 100**	**1 443 757**

Changes in 'Property, plant and equipment' in the course of the reporting period

2016	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 247 432**	**1 376 797**	**68 297**	**312 518**	**83 907**	**4 088 951**
Increases, including:	19 245	72 901	2 074	4 366	128 689	227 275
acquisitions	-	-	-	-	128 689	128 689
other	2	610	2 074	48	-	2 734
transfer from non-current assets under construction	19 243	72 291	-	4 318	-	95 852
Decreases, including:	(31 231)	(57 325)	(2 737)	(9 226)	(100 296)	(200 815)
liquidation and sale	(30 640)	(56 879)	(2 737)	(9 148)	-	(99 404)
transfer to non-current assets held for sale	(591)	(149)	-	(78)	-	(818)
other	-	(297)	-	-	(4 444)	(4 741)
transfer from non-current assets under construction	-	-	-	-	(95 852)	(95 852)
Closing balance	**2 235 446**	**1 392 373**	**67 634**	**307 658**	**112 300**	**4 115 411**
ACCUMULATED DEPRECIATION						
Opening balance	**1 185 184**	**1 138 918**	**40 323**	**272 394**	**-**	**2 636 819**
Increases, including:	65 219	74 528	10 557	7 796	-	158 100
depreciation	65 219	74 224	10 557	7 796	-	157 796
other	-	304	-	-	-	304
Decreases, including:	(24 044)	(56 747)	(2 497)	(9 077)	-	(92 365)
liquidation and sale	(23 818)	(56 310)	(2 497)	(9 000)	-	(91 625)
transfer to non-current assets held for sale	(226)	(147)	-	(77)	-	(450)
other	-	(290)	-	-	-	(290)
Closing balance	**1 226 359**	**1 156 699**	**48 383**	**271 113**	**-**	**2 702 554**
IMPAIRMENT						
Opening balance	**3 853**	**3 821**	**-**	**118**	**583**	**8 375**
Increases	-	-	-	-	-	-
Decreases	-	(35)	-	-	(583)	(618)
Closing balance	**3 853**	**3 786**	**-**	**118**	**-**	**7 757**
NET VALUE						
Opening balance	**1 058 395**	**234 058**	**27 974**	**40 006**	**83 324**	**1 443 757**
Closing balance	**1 005 234**	**231 888**	**19 251**	**36 427**	**112 300**	**1 405 100**

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in 'Property, plant and equipment' in the course of the reporting period

2015	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 264 696**	**1 421 020**	**78 427**	**329 704**	**84 381**	**4 178 228**
Increases, including:	46 315	71 771	1 506	6 971	108 477	235 040
acquisitions	8 495	8 466	408	1 262	108 034	126 665
other	-	161	1 098	15	443	1 717
transfer from non-current assets under construction	37 820	63 144	-	5 694	-	106 658
Decreases, including:	(63 579)	(115 994)	(11 636)	(24 157)	(108 951)	(324 317)
liquidation and sale	(36 623)	(115 781)	(11 636)	(24 142)	(53)	(188 235)
transfer to non-current assets held for sale	(26 956)	(52)	-	-	-	(27 008)
other	-	(161)	-	(15)	(2 240)	(2 416)
transfer from non-current assets under construction	-	-	-	-	(106 658)	(106 658)
Closing balance	**2 247 432**	**1 376 797**	**68 297**	**312 518**	**83 907**	**4 088 951**
ACCUMULATED DEPRECIATION						
Opening balance	**1 156 097**	**1 166 442**	**38 186**	**285 319**	**-**	**2 646 044**
Increases, including:	74 652	87 577	12 631	10 805	-	185 665
depreciation	67 716	78 961	12 223	9 535	-	168 435
other	6 936	8 616	408	1 270	-	17 230
Decreases, including:	(45 565)	(115 101)	(10 494)	(23 730)	-	(194 890)
liquidation and sale	(32 151)	(114 896)	(10 494)	(23 721)	-	(181 262)
transfer to non-current assets held for sale	(13 414)	(46)	-	-	-	(13 460)
other	-	(159)	-	(9)	-	(168)
Closing balance	**1 185 184**	**1 138 918**	**40 323**	**272 394**	**-**	**2 636 819**
IMPAIRMENT						
Opening balance	**2 519**	**3 931**	**-**	**141**	**-**	**6 591**
Increases	1 560	35	-	1	583	2 179
Decreases	(226)	(145)	-	(24)	-	(395)
Closing balance	**3 853**	**3 821**	**-**	**118**	**583**	**8 375**
NET VALUE						
Opening balance	**1 106 080**	**250 647**	**40 241**	**44 244**	**84 381**	**1 525 593**
Closing balance	**1 058 395**	**234 058**	**27 974**	**40 006**	**83 324**	**1 443 757**

In the period from 1 January to 31 December 2016 the Bank acquired property, plant and equipment in the amount of PLN 128 689 thousand (in 2015 - PLN 126 665 thousand), while the value of property, plant and equipment sold amounted to PLN 5 873 thousand (in 2015 - PLN 4 688 thousand).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2016 stood at PLN 3 519 thousand (PLN 1 974 thousand in 2015).

In 2016 and 2015 there have been no restrictions to legal titles to property, plant and equipment, nor pledges in place as security for liabilities.

Contractual commitments

As at 31 December 2016 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 17 344 thousand, whereas as at 31 December 2015 - PLN 56 883 thousand.

(In PLN thousand)

35. Investment property

The Bank values investment property using the historical cost model.

The rights to sell the investment property and the rights to transfer related revenues and profits are not a subject to limitations.

Changes in the 'Investment property' in the course of the reporting period

	2016	2015
GROSS VALUE		
Opening balance	**32 047**	**47 273**
Increases, including:	431	324
acquisitions	431	324
other	-	-
Decreases, including:	(11 120)	(15 550)
sale of real estate	(2 777)	(15 437)
transfer to non-current assets held for sale	(8 295)	-
other	(48)	(113)
Closing balance	**21 358**	**32 047**
ACCUMULATED DEPRECIATION		
Opening balance	**12 200**	**20 941**
Increases, including:	444	1 022
depreciation	444	1 022
other	-	-
Decreases, including:	(4 875)	(9 763)
sale of real estate	(1 134)	(9 650)
transfer to non-current assets held for sale	(3 741)	-
other	-	(113)
Closing balance	**7 769**	**12 200**
IMPAIRMENT		
Opening balance	**2 530**	**2 530**
Increases, including:	-	-
impairment charges	-	-
Decreases, including:	(1 651)	-
sale of real estate	(926)	-
transfer to non-current assets held for sale	(725)	-
Closing balance	**879**	**2 530**
NET VALUE		
Opening balance	**17 317**	**23 802**
Closing balance	**12 710**	**17 317**

The fair value of investment property as at 31 December 2016 stood at PLN 12 736 thousand (PLN 24 834 thousand as at 31 December 2015). The fair value of investment property are categorized in Level 3 of the fair value hierarchy. The fair value was measured based on valuations of the property appraisers, having appropriate professional qualifications and recent experience in the location of the properties being valued. The valuations of investment property are based on investment method or profits method, taking into account such unobservable input data as expected rental growth rate, void periods, occupancy rate, discount rate.

(In PLN thousand)

The following amounts of revenues and costs associated with investment properties have been recognized in the income statement

	2016	2015
Rental revenues from investment properties	2 785	2 741
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(551)	(623)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	-	-

36. Other assets

	31.12.2016	31.12.2015
Prepaid expenses	33 176	28 580
Perpetual usufruct rights	14 876	15 181
Accrued income	76 851	51 191
Interbank and interbranch settlements	156	1 770
Other debtors	200 812	165 869
Card settlements	479 996	1 808 150
Total	**805 867**	**2 070 741**

Prepaid expenses represent expenditures, which will be amortized against income statement in the forthcoming reporting periods.

The item ‘Other debtors’ includes assets for sale in the amount of PLN 90 thousand as at 31 December 2016 (PLN 90 thousand as at 31 December 2015). Assets for sale represent assets taken over for debts. They are presented in a debt value reduced by impairment charge, calculated as a difference between the amount of debt and fair value of taken over assets (if lower than the amount of debt). In case of surplus between the fair value of taken over asset and the amount of debt, the difference is recognized as a liability to debtor.

The Bank disposes of the assets for sale taken over for debts. The period in which the assets should be disposed is 5 years for real estate and 3 years for other assets for sale (the period starts from the date of assets’ taken over). When the period expires, the Bank reclassifies the carrying value of unsold assets for sales into appropriate category of property, plant and equipment used by the Bank.

37. Assets pledged as collateral

As at 31 December 2016 the Bank held the 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	1 774 747	1 678 677	1 775 808
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	750 499	720 000	-
Lombard and technical loan	bonds	4 808 629	4 515 159	-
Other loans	bonds	357 614	353 900	297 497
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposit	11 786	11 786	-
Derivatives	bonds	60 792	65 302	31 987

Notes to the financial statements (cont.)

(In PLN thousand)

As at 31 December 2015 the Bank held 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	3 394 183	3 152 162	3 388 421
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	703 616	680 000	-
Lombard and technical loan	bonds	4 750 392	4 504 675	-
Other loans	bonds	490 285	481 200	328 076
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposit	10 785	10 785	-
Derivatives	bonds	45 708	47 163	24 771

The freeze on securities is a consequence of:

- in case of Repo and Sell-buy-back transactions – binding money market standards for such transactions,
- in case of freeze to the benefit of BFG – binding provisions of the Law on Banking Guaranty Fund BFG,
- in case of lombard and technical credits – policy and standards, applied by the National Bank of Poland NBP,
- in case of other loans, deposits items and derivatives – terms and conditions of the agreement, entered between Bank Pekao S.A. and its clients,
- in case of freeze to the benefit of KDPW – with the status of the clearing member for brokerage transactions.

38. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2016	31.12.2015
Current accounts	931 753	1 146 012
Interbank deposits and other liabilities	309 858	582 302
Loans and advances received	1 764 184	1 832 841
Repo transactions	339 568	963 829
Cash in transit	21 762	28 130
Total	**3 367 125**	**4 553 114**

Amounts due to other banks by currency

	31.12.2016	31.12.2015
PLN	1 388 977	1 326 700
CHF	359 958	390 085
EUR	1 561 382	2 776 065
USD	48 694	50 428
Other currencies	8 114	9 836
Total	**3 367 125**	**4 553 114**

Notes to the financial statements (cont.)

(In PLN thousand)

39. Amounts due to customers

Amounts due to customers by entity and product type

	31.12.2016	31.12.2015
Amounts due to corporate, including:	59 029 038	56 164 560
current accounts	34 878 412	29 768 565
term deposits and other liabilities	24 150 626	26 395 995
Amounts due to budget entities, including:	7 809 234	5 610 567
current accounts	5 461 223	4 689 396
term deposits and other liabilities	2 348 011	921 171
Amounts due to individuals, including:	69 589 205	62 844 706
current accounts	39 237 788	33 424 045
term deposits and other liabilities	30 351 417	29 420 661
Repo transactions	1 436 241	4 468 820
Cash in transit	202 411	168 213
Total	**138 066 129**	**129 256 866**

Amounts due to customers by currency

	31.12.2016	31.12.2015
PLN	115 403 290	107 007 345
CHF	315 757	233 377
EUR	13 347 287	13 149 514
USD	7 466 751	8 010 307
Other currencies	1 533 044	856 323
Total	**138 066 129**	**129 256 866**

40. Debt securities issued

Debt securities issued by type

	31.12.2016	31.12.2015
Certificates of deposit	300 945	1 668 706
Total	**300 945**	**1 668 706**

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

Debt securities issued by currency

	31.12.2016	31.12.2015
PLN	300 945	1 668 706
EUR	-	-
USD	-	-
Total	**300 945**	**1 668 706**

Changes in debt securities issued

	2016	2015
Opening balance	**1 668 706**	**2 819 713**
Increase (issuance)	1 079 733	3 858 026
Decrease (redemption)	(2 392 807)	(4 999 636)
Decrease (partial redemption)	(38 245)	(7 903)
Foreign currency exchange differences	-	-
Purchase	-	-
Sale	-	-
Other	(16 442)	(1 494)
Closing balance	**300 945**	**1 668 706**

Notes to the financial statements (cont.)

(In PLN thousand)

41. Provisions

Changes in provisions in the reporting period

2016	PROVISIONS FOR LITIGATION AND CLAIM	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**7 870**	**265 911**	**124 583**	**24 566**	**422 930**
Provision charges/revaluation	3 283	26 198	162 088	23 189	214 758
Provision utilization	(2 797)	(12 898)	-	(11 207)	(26 902)
Provision releases	(1 812)	-	(61 341)	-	(63 153)
Foreign currency exchange differences	-	-	992	-	992
Other changes	458	11 400	-	-	11 858
Closing balance	**7 002**	**290 611**	**226 322**	**36 548**	**560 483**
Short term	2 600	47 166	71 290	14 016	135 072
Long term	4 402	243 445	155 032	22 532	425 411

2015	PROVISIONS FOR LITIGATION AND CLAIM	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**32 975**	**265 367**	**105 147**	**33 463**	**436 952**
Provision charges/revaluation	30 402	23 409	72 665	5 809	132 285
Provision utilization	(54 053)	(10 187)	-	(14 333)	(78 573)
Provision releases	(1 826)	-	(54 411)	-	(56 237)
Foreign currency exchange differences	-	-	1 182	-	1 182
Other changes	372	(12 678)	-	(373)	(12 679)
Closing balance	**7 870**	**265 911**	**124 583**	**24 566**	**422 930**
Short term	3 349	20 939	70 503	17	94 808
Long term	4 521	244 972	54 080	24 549	328 122

Litigation provisions

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 benefit plans

Detailed information in respect to provisions for defined benefit plans were presented in Note 43.

Other provisions

Other provisions include in particular provisions for long term employee benefits.

Notes to the financial statements (cont.)

(In PLN thousand)

42. Other liabilities

	31.12.2016	31.12.2015
Deferred income	113 647	119 174
Provisions for holiday leave	49 987	49 987
Provisions for other employee-related liabilities	223 887	227 721
Provisions for administrative costs	82 280	90 002
Other costs to be paid (*)	105 084	156 594
Other creditors	235 066	196 264
Interbank and interbranch settlements	1 029 899	515 533
Card settlements	304 454	192 463
Total	**2 144 304**	**1 547 738**

(*) in this as at 31 December 2016 is PLN 95 346 thousand of provision for future refunds of the part of the remuneration for sale of insurance products linked to loans (PLN 104 122 as at 31 December 2015).

43. Defined benefit plans

Based on internal regulations in respect to remuneration, the employees of the Bank or their families are entitled to defined benefits other than remuneration:

a) retirement benefits,
b) death-in-service benefits.

The present value of such obligations is measured by an independent actuary using the projected unit credit method.

The amount of the retirement benefits and death-in-service benefits is dependent on length of service and amount of remuneration. The expected amount of the benefits is discounted actuarially, taking into account the financial discount rate and the probability of an individual get to the retirement age or die while working respectively. The financial discount rate is determined by reference to market yields at the end of reporting period on government bonds. The probability of an individual get to the retirement age or die while working is determined using the multiple decrement model, taking into consideration the following risks: possibility of dismissal from service, risk of total disability to work and risk of death.

These defined benefit plans expose the Bank to actuarial risk, such as:

- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,
- remuneration risk – the increase in remuneration of the Bank’s employees would increase the defined benefit plans obligations,
- longevity risk – the increase in life expectancy of the Bank’s employees would increase the defined benefit plans obligations.

The principal actuarial assumptions as at 31 December 2016 are as follows:

- the discount rate at the level of 3.50% (2.90% as at 31 December 2015),
- the future salary growth rate at the level of 2.50% (2.50% as at 31 December 2015),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Bank,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

Reconciliation of the present value of defined benefit plans obligations

The following table presents a reconciliation from the opening balances to closing balances for the present value of defined benefit plans obligations.

	2016	2015
Opening balance	**265 911**	**265 367**
Current service cost	18 486	16 509
Interest expense	7 711	6 900
Remeasurements of the defined benefit obligations:	11 400	(12 678)
actuarial gains and losses arising from changes in demographic assumptions	33 437	-
actuarial gains and losses arising from changes in financial assumptions	(15 984)	(9 542)
actuarial gains and losses arising from experience adjustments	(6 053)	(3 136)
Contributions paid by the employer	(12 897)	(10 187)
Closing balance	**290 611**	**265 911**

Sensitivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent.

31.12.2016	DEFINED BENEFIT PLANS OBLIGATIONS	
	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(23 580)	27 509
Future salary growth rate	26 278	(23 033)

31.12.2015	DEFINED BENEFIT PLANS OBLIGATIONS	
	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(28 208)	34 057
Future salary growth rate	34 158	(28 801)

Maturity of defined benefit plans obligations

The following table presents the maturity profile of the defined benefit plans obligations.

	31.12.2016	31.12.2015
The weighted average duration of the defined benefit plans obligations (in years)	8.8	11.7

Notes to the financial statements (cont.)

(In PLN thousand)

44. Share - based payments

The UniCredit Group incentive programs

In the current and comparative reporting periods the following incentive programs granted to employees of the Bank by the UniCredit Group existed:

- The long-term UniCredit Group Incentive Program 2007 in respect to share options. The rights to exercise the option were acquired in 2011. Strike price is EUR 7.094. The option will expire in 2017,
- The long-term UniCredit Group Incentive Program 2008 in respect to share options. The rights to exercise the option were acquired in 2012. Strike price is EUR 4.185. The option will expire in 2018,
- Employee Share Ownership Plan that offers to eligible UniCredit Group employees the possibility to buy UniCredit ordinary shares with the following advantages: granting of free ordinary shares ('Discount shares' and 'Matching Shares' or rights to 'Matching Shares') measures on the basis of the shares purchased by each participant. The granting of free ordinary shares is subordinated to vesting conditions stated in the rules of the Plan.

The above mentioned share-based payments are recognized as cash-settled transactions.

The fair value of share options and shares of UniCredit S.p.A. was established based on the Hull and White model.

The tables below present changes in the number of stock options and performance shares of UniCredit S.p.A., as well as the weighted average exercise prices:

2016	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2 117 307	17.83/30.23	-	-
Granted during the year	-	-	-	-
Redeemed during the year	(24 167)	-	-	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 093 140	17.83/30.23	-	-
Executable at the period-end	2 093 140	17.83/30.23	-	-

(*)The value of PLN 17.83 relates to the stock options program 2008, whereas the value of PLN 30.23 relates to the stock options program 2007.

2015	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2 173 155	17.84/30.24	-	-
Granted during the year	-	-	-	-
Redeemed during the year	(55 848)	-	-	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 117 307	17.83/30.23	-	-
Executable at the period-end	2 117 307	17.83/30.23	-	-

(*)The value of PLN 17.83 relates to the stock options program 2008, whereas the value of PLN 30.23 relates to the stock options program 2007

Notes to the financial statements (cont.)

(In PLN thousand)

The tables below present the conditions of Employee Share Ownership Plan in 2016 and 2015.

2016	FREE SHARES
Date of Free Shares delivery to Group employees	29 July 2016
Vesting Period Start-Date	29 July 2016
Vesting Period End-Date	31 July 2017
'Free Shares' Fair Value (per unit in EUR)	2.058

2015	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	30 January 2015	31 July 2015
Vesting Period Start-Date	30 January 2015	31 July 2015
Vesting Period End-Date	31 January 2016	31 July 2016
'Free Shares' Fair Value (per unit in EUR)	5.280	6.078

The fair value of granted rights to shares under Employee Share Ownership Plan until 31 December 2016 amounted to PLN 1 180 thousand as at 31 December 2016 (PLN 1 048 thousand as at 31 December 2015).

The remuneration expenses for 2016 relating to the incentive programs granted to the emloyees of the Bank by UniCredit Group amounted to PLN 284 thousand (in 2015 - PLN 434 thousand).

System of Variable Remuneration for the Management Team

The system of variable remuneration is addressed to Employees defined in the Bank as persons in managerial positions, who are key employees for the fulfillment of the Bank's strategy, risk management and long-term increase of the Bank's income. The aim of the system is to support the execution of the Bank's operational strategy, its risk management and to limit conflict of interests.

Under the system the participant can receive the variable compensation, which is paid out based on a bonus pool approach providing for a comprehensive performance measurement at individual level, level of his/her organizational unit and results of the entire Bank as well as verification of the Participant's compliant behaviour with respect to law provisions and standards adopted by the Bank.

The compensation consists of cash payment and cash-settled share based payment realized in the form of phantom shares as cash equivalent amounting to the value of granted phantom shares.

Notes to the financial statements (cont.)

(in PLN thousand)

During the reporting period ending on 31 December 2016 the Bank had the following share-based payments transactions:

	SYSTEM 2012	SYSTEM 2013	SYSTEM 2014	SYSTEM 2015	SYSTEM 2016
Transaction type	Cash-settled share based payments				
Start date of the assessment period	1 January 2012	1 January 2013	1 January 2014	1 January 2015	1 January 2016
Program announcement date	April 2012	April 2013	June 2014	July 2015	June 2016
Program granting date	12 June 2013	12 June 2014	30 April 2015	16 June 2016	Date of General Shareholders Meeting
Number of instruments granted (pcs)	80 003	76 013	68 040	93 359	Will be defined on granting date
Maturity date	31 July 2017	31 July 2018	31 July 2020	31 July 2021	31 July 2022
Vesting date for Management Board Members and Executive Vice President	• 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date	• 40% in the year of program granting (settlement after 2 years retention period) • 40% after 2 years from program granting date (settlement after 1 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period)	• 40% in the year of program granting (settlement after 3 years retention period) • 30% after 3 years from program granting date (settlement after 1 year retention period) • 30% after 4 years from program granting date (settlement after 1 year retention period)	• 40% in the year of program granting (settlement after 2 years retention period) • 24% after 2 years from program granting date (settlement after 1 year retention period) • 12% after 3 years from program granting date (settlement after 1 year retention period) • 24% after 4 years from program granting date (settlement after 1 year retention period)	• 40% in the year of program granting (settlement after 2 years retention period) • 24% after 2 years from program granting date (settlement after year retention period) • 12% after 3 years from program granting date (settlement after 1 year retention period) • 24% after 4 years from program granting date (settlement after 1 year retention period)
Vesting date for remaining participants	• 20% after 1 year from program granting date • 40% after 2 years from program granting date • 40% after 3 years from program granting date	• 20% after 1 year from program granting date • 40% after 2 years from program granting date • 40% after 3 years from program granting date	• 60% in the year of program granting (settlement after 3 years retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) • 20% after 4 years from program granting date (settlement after 1 year retention period)	• 60% in the year of program granting (settlement after 3 years retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) • 20% after 4 years from program granting date (settlement after 1 year retention period)	• 60% in the year of program granting (settlement after 2 years retention period) • 20% after 2 years from program granting date (settlement after 1 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period)
Vesting conditions	Compliance assessment, Continuous employment, Reaching the aim based on financial results of the Bank for a given period				
Program settlement	On the vesting date, the participant will receive a cash payment amounting to the number the possessed phantom shares times the arithmetic mean of the Bank's share prices at the Warsaw Stock Exchange: • in case of the settlement made at the dates of instalment after the mandatory retention period, for a month preceding the day of General Meeting approving the financial statements for a given year, • in case of settlement made in the voluntary retention period, for 10 working days following the day of release of the financial report in a given quarter, and benefits from acquired phantom shares in the amount equivalent to dividend paid to shareholders in the retention period for shares acquired by the participant				

Notes to the financial statements (cont.)

(In PLN thousand)

For the System 2012, 2013, 2014 and 2015 the fair value of the program was estimated based upon the Bank's shares price on the WSE as of the balance sheet date and expected number of phantom shares to which the rights will be acquired.

For the System 2016, as of 31 December 2016 the Bank prepared the program valuation, presuming that the phantom shares were granted on 31 December 2016. This value will be changed at the actual date of granting the program.

The system of variable remuneration realized in the form of phantom shares is a program settled in cash, and therefore its fair value is adjusted on each balance sheet date until the the program settlement, which in case of this program coincides with the vesting date.

The carrying amount of liabilities for cash - settled phantom shares amounted to PLN 22 532 thousand as at 31 December 2016 (as at 31 December 2015 – PLN 24 534 thousand).

The total intrinsic value of liabilities for vested rights to phantom shares amounted to PLN 26 446 thousand as at 31 December 2016 (as at 31 December 2015 – PLN 27 417 thousand).

The remuneration expenses for 2016 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 9 189 thousand (in 2015 - PLN 6 312 thousand).

The table below presents changes in the number of Bank's phantom shares.

	2016	2015
Opening balance	191 060	199 452
Granted during the year	93 359	68 040
Redeemed during the year	-	-
Exercised during the year	74 196	76 432
Terminated during the year	-	-
Existing at the period-end	210 223	191 060

The table above does not present the number of shares granted in respect of System 2016. This number will be determined in 2017 after approval of the financial statements for 2016 by the General Shareholder's Meeting. The hypothetical number of shares determined on the basis of the base value of the granted bonus to each of the program participants and arithmetic mean of the Bank's share price on the WSE in December 2016 amounts to 126 547.

(In PLN thousand)

45. Operating and finance leases

Bank as a Lessor

In operating lease of buildings classified as investment properties the Bank acts as a lessor.

The amount of future minimum lease payments expected to be received under non-cancellable operating lease can be summarized as follows:

	31.12.2016	31.12.2015
Up to 1 year	6 465	6 433
Between 1 and 5 years	2 769	2 333
Over 5 years	820	392
Total	**10 054**	**9 158**

The amount of the minimum operating lease payments classified as income in 2016 amounted to PLN 21 276 thousand (PLN 22 155 thousand in 2015).

Bank as a Lessee

The Bank is a lessee of buildings' lease contracts classified as operating lease.

The amount of future minimum lease payments expected to be paid under non-cancellable operating lease can be summarized as follows:

	31.12.2016	31.12.2015
Up to 1 year	93 353	104 134
Between 1 and 5 years	195 129	223 386
Over 5 years	56 777	97 493
Total	**345 259**	**425 013**

The amount of the minimum operating lease payments recognized as an expense in 2016 amounted to PLN 162 239 thousand (expense in 2015 amounted to PLN 176 101 thousand).

The lease agreements are usually entered into for an indefinite period. In case of lease agreements concluded for an indefinite term, the minimum lease payments are determined based upon notice of termination periods ensuing from relevant contracts. The notice period is usually fixed at 3 or 6 months. Lease agreements are denominated in PLN as well as in foreign currencies. Payments are made in PLN, regardless of the contract currency.

Finance leases

In addition, the Bank as a lessee of cars concludes finance lease contracts with its subsidiary Pekao Leasing Sp. z o.o.

His contract gives the Bank opportunity to buy an asset after termination of lease contract.

The carrying amount of net assets being subject of finance lease contracts as at 31 December 2016 amounted to PLN 19 250 thousand and as at 31 December 2015 amounted to PLN 27 959 thousand.

	31.12.2016	31.12.2015
Gross liabilities on finance leases	29 312	44 130
Unrealized financial costs	(7 306)	(13 955)
Present value of minimum lease payments	**22 006**	**30 175**

The amount of future minimum lease payments under finance lease by maturity dates can be summarized as follows:

	31.12.2016	31.12.2015
Up to 1 year	13 353	18 338
Between 1 and 5 years	15 959	25 792
Total	**29 312**	**44 130**

Notes to the financial statements (cont.)

(In PLN thousand)

46. Contingent commitments

Litigation

In the entire year of 2016 the total value of the litigation subject in the ongoing court proceedings against the Bank was PLN 1 084 793 thousand (in 2015 it was PLN 1 134 267 thousand).

In 2016 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 Bank's equity.

In 2016 still going on was the court litigation against the Bank and Pekao SA Central Brokerage House, brought by private individuals for the payment of damage arising from the purchase of stocks and the financial compensation for the injury resulting from the execution process, in which the value of the litigation subject, as at 31 December 2016, was PLN 206 422 thousand (previously PLN 306 622 thousand).

In the first half of 2015 the sentence dismissing the plaint against defendants was adjudicated. The sentence is not legally binding. The plaintiffs lodged an appeal against the sentence, i.e. its part related to the amount of PLN 206 422 thousand. In the third quarter of 2016 was issued a judgment dismissing the appeal. The plaintiffs are entitled to a cassation appeal.

Moreover against the Bank 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 first quarter of 2014 as a result of the plaint brought by guarantee beneficiaries for the payment of PLN 32 750 thousand as the bank guarantee drawing,
- proceedings instigated in the 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.

As at 31 December 2016, the Bank created provisions for litigations against the Bank which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the above provisions as at 31 December 2016 is PLN 7 002 thousand (PLN 7 870 thousand as at 31 December 2015).

Financial off–balance commitments granted

Financial commitments granted by entities

	31.12.2016	31.12.2015
Financial commitments to:		
financial entities	1 757 518	1 347 078
non - financial entities	30 066 984	28 475 315
budget entities	481 482	848 356
Total	**32 305 984**	**30 670 749**

Off–balance guarantees issued

Guarantees issued by entities

	31.12.2016	31.12.2015
Liabilities to financial entities, including:	2 712 868	2 965 094
guarantees	2 712 868	2 962 444
confirmed export letters of credit	-	2 650
Liabilities to non-financial entities, including:	9 960 469	12 316 552
guarantees	6 505 040	7 510 268
securities' underwriting guarantees	3 455 429	4 806 284
Liabilities to budget entities, including:	269 239	368 176
guarantees	11 279	28 176
securities' underwriting guarantees	257 960	340 000
Total	**12 942 576**	**15 649 822**

Notes to the financial statements (cont.)

(In PLN thousand)

Securities underwriting

As at 31 December 2016, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT IT SELF	CONTRACT LIFE
Client 1	bonds	1 385 000	23.07.10 - 30.06.20
Client 2	bonds	265 000	21.06.12 - 31.12.17
Client 3	bonds	484 880	22.10.13 - 31.05.22
Client 4	bonds	35 000	27.01.14 - 28.04.17
Client 5	bonds	110 510	30.06.14 - 31.03.17
Client 6	bonds	2 200	15.09.14 - 31.03.18
Client 7	bonds	20 000	15.09.14 - 31.03.18
Client 8	bonds	150 000	24.05.16 - 31.03.18
Client 9	bonds	49 000	22.12.14 - 30.06.17
Client 10	bonds	230 000	23.02.15 - 30.06.17
Client 11	bonds	100 000	23.02.15 - 30 11.22
Client 12	bonds	84 000	27.01.15 - 31.12.17
Client 13	bonds	30 000	14.10.15 - 31.12.17
Client 14	bonds	7 500	14.10.15 - 31.12.17
Client 15	bonds	119 985	18.12.15 - 28.04.17
Client 16	bonds	20 270	28.12.15 - 31.12.17
Client 17	bonds	19 504	09.03.16 - 30.06.17
Client 18	bonds	22 810	09.03.16 - 30.06.17
Client 19	bonds	53 500	21.05.16 - 21.06.19
Client 20	bonds	3 500	21.05.16 - 21.06.19
Client 21	bonds	8 000	06.07.16 - 31.12.18
Client 22	bonds	67 200	06.07.16 - 31.12.18
Client 23	bonds	8 680	06.07.16 - 31.12.18
Client 24	bonds	8 000	06.07.16 - 31.12.18
Client 25	bonds	310 600	31.08.16 - 30.12.19
Client 26	bonds	13 000	31.08.16 - 30.12.19
Client 27	bonds	6 000	08.11.16 - 31.12.17
Client 28	bonds	4 300	23.12.16 - 31.12.18
Client 29	bonds	1 000	22.12.16 - 30.12.16
Client 30	bonds	6 650	23.12.16 - 31.12.18
Client 31	bonds	66 000	20.12.16 - 31.12.20
Client 32	bonds	15 000	28.12.16 - 31.08.17
Client 33	bonds	6 300	29.12.16 - 31.08.17

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and not subject to regulated over-the-counter trading.

Notes to the financial statements (cont.)

(In PLN thousand)

As at 31 December 2015, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE
Client 1	bonds	1 385 000	23.07.10 - 30.06.20
Client 2	bonds	458 000	21.06.12 - 31.12.17
Client 3	bonds	99 220	06.12.12 - 31.03.16
Client 4	bonds	52 400	28.12.12 - 30.03.16
Client 5	bonds	76 900	28.12.12 - 30.03.16
Client 6	bonds	164 700	01.07.11 - 20.12.17
Client 7	bonds	11 430	20.05.13 - 24.02.16
Client 8	bonds	17 200	14.04.15 - 10.06.16
Client 9	bonds	78 000	14.04.15 - 10.06.16
Client 10	bonds	484 880	22.10.13 - 14.12.16
Client 11	bonds	50 000	22.10.13 - 14.12.16
Client 12	bonds	16 250	27.01.14 - 30.09.16
Client 13	bonds	6 500	15.05.14 - 31.12.16
Client 14	bonds	700	31.05.14 - 31.12.16
Client 15	bonds	157 510	30.06.14 - 31.03.17
Client 16	bonds	61 710	22.07.14 - 31.07.16
Client 17	bonds	6 530	22.07.14 - 31.07.16
Client 18	bonds	100 000	30.07.14 - 30.06.19
Client 19	bonds	830	29.07.14 - 30.06.16
Client 20	bonds	20 450	29.07.14 - 30.09.16
Client 21	bonds	25 000	25.08.14 - 31.08.16
Client 22	bonds	45 770	29.05.14 - 30.04.16
Client 23	bonds	29 050	15.09.14 - 31.12.16
Client 24	bonds	20 000	15.09.14 - 31.12.16
Client 25	bonds	5 600	15.09.14 - 31.12.16
Client 26	bonds	33 790	31.10.14 - 31.03.16
Client 27	bonds	50 000	22.12.14 - 30.06.17
Client 28	bonds	52 135	30.12.14 - 30.06.16
Client 29	bonds	1 378	30.12.14 - 31.03.16
Client 30	bonds	198 780	30.12.14 - 09.03.16
Client 31	bonds	20 500	30.12.14 - 31.12.16
Client 32	bonds	230 000	23.02.15 - 30.06.17
Client 33	bonds	100 000	23.02.15 - 30.11.22
Client 34	bonds	350 000	20.02.15 - 30.04.16
Client 35	bonds	16 000	27.01.15 - 31.12.16
Client 36	bonds	74 000	31.12.15 - 31.12.16
Client 37	bonds	39 000	14.10.15 - 31.12.17
Client 38	bonds	12 500	14.10.15 - 31.12.17
Client 39	bonds	154 955	18.12.15 - 30.09.16
Client 40	bonds	30 000	28.12.15 - 31.12.17
Client 41	bonds	409 616	25.08.14 - 31.12.16

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and not subject to regulated over-the-counter trading.

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance commitments received

Commitments received by entities

	31.12.2016	31.12.2015
Financial commitments from:	209 731	288 808
financial entities	209 731	288 808
non - financial entities	-	-
budget entities	-	-
Guarantees from:	10 814 323	11 587 585
financial entities	1 548 141	1 074 498
non - financial entities	8 344 980	9 759 234
budget entities	921 202	753 853
Total	**11 024 054**	**11 876 393**

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

47. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	EQUITY COVERAGE	DATE OF REGISTRATION	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	Fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	Fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	Fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	Fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	Fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	Fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	603 377	603	Fully paid-up	29.08.2003	15.05.2008
H	Common bearer stock	359 840	360	Fully paid-up	12.08.2004	01.01.2004
I	Common bearer stock	94 763 559	94 764	Fully paid-up	29.11.2007	01.01.2008
Total number of Shares (pcs)		**262 470 034**				
Total share capital in PLN thousand			**262 470**			
Nominal value per share = PLN 1.00						

Change in the number of shares (pcs):

2016	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

2015	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

Notes to the financial statements (cont.)

(In PLN thousand)

48. Other capital and reserves, retained earnings and profit for the period

The table below presents the structure of the Bank's equity

	31.12.2016	31.12.2015
Reserve capital, including:	9 326 529	9 326 529
issue of shares above face value	9 137 221	9 137 221
other	189 308	189 308
Revaluation reserve, including:	(223 510)	283 222
remeasurements of the defined benefit liabilities	(98 230)	(86 829)
deferred tax	18 664	16 497
revaluation of financial assets portfolio available for sale	(217 433)	391 205
deferred tax	41 313	(74 328)
revaluation of financial hedging instruments portfolio	39 724	45 280
deferred tax	(7 548)	(8 603)
Foreign currency translation differences	-	-
General Banking Risk Fund	1 982 324	1 975 415
Other reserve capital	8 612 550	8 612 550
Bonds convertible into shares- capital component	28 819	28 819
Funds for brokerage activities	15 000	15 000
Total other capital	**19 741 712**	**20 241 535**
Profit (loss) from previous periods	-	-
Net profit for the period	2 278 375	2 290 398
Total retained earnings and profit for the period	**2 278 375**	**2 290 398**
Total	**22 020 087**	**22 531 933**

The net profit of the Bank for 2015 in the amount of PLN 2 290 398 thousand was distributed in the following way: PLN 2 283 489 thousand – to dividend, PLN 6 909 thousand – to General Banking Risk Fund.

From 1982 to 1984 and from 1988 to 1996, the Bank operated in a hyperinflationary economic environment.

IAS 29 'Financial Reporting in Hyperinflationary Economies' requires restatement of each component of owners' equity (except for retained earnings and revaluation surplus) by applying a general price index for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital and other reserves and a decrease in retained earnings in equivalent amounts. This restatement would not have any effect on the total amount of the Bank's equity.

Notes to the financial statements (cont.)

(In PLN thousand)

49. Additional information to the cash flow statement

Cash and cash equivalents

	31.12.2016	31.12.2015
Cash and amounts due from Central Bank	5 861 342	7 881 598
Loans and receivables from banks with maturity up to 3 months	2 888 669	6 686 824
Cash and Cash equivalents presented in the cash flow statement	**8 750 011**	**14 568 422**

Restricted availability cash and cash equivalents as at 31 December 2016 amounted to PLN 4 605 707 thousand (PLN 4 338 995 thousand as at 31 December 2015).

50. Related party transactions

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

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

According to the Banking Act, credit transactions with Members of the Banks 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 the financial statements (cont.)

(In PLN thousand)

Related party transactions

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	-	-	433	9 261	-	1 180
Entities of UniCredit Group excluding of Pekao S.A. Group entities	682 836	-	32 072	55	191 779	620 819	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Investment Banking S.A.	-	-	-	241	265 345	-	1 027
Pekao Leasing Sp. z o.o.	2 504 735	-	313	16 021	19 353	-	13 382
Pekao Faktoring Sp. z o.o.	929 105	-	-	2	3 987	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	167	812 350	-	71
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	-	51 799	-	36
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	93	15 256	-	-
Centrum Kart S.A.	-	-	-	224	25 698	-	5 702
Pekao Financial Services Sp. z o. o.	-	-	-	4	15 965	-	-
Pekao Bank Hipoteczny S.A.	138 051	60 700	42 894	-	29 109	6 461	34
Pekao Leasing Holding S.A. (in liquidation)	-	-	-	-	-	-	-
Pekao Property S.A.	10 362	-	-	-	2 112	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	61	3 569	-	4 844
FPB – Media Sp. z o. o.	10 265	-	-	-	501	-	-
Associates							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	45	28 682	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	137 850	-	-
Pioneer Pekao TFI S.A. (PPIM S.A subsidiary)	-	-	-	12 481	112 949	-	-
Total of Bank Pekao S.A. Group entities	**3 592 518**	**60 700**	**43 207**	**29 339**	**1 524 525**	**6 461**	**25 096**
Key management personnel of the Bank and UniCredit S.p.A.	7 948	-	-	-	28 022	-	-
Total	**4 470 659**	**60 700**	**75 279**	**29 827**	**1 753 587**	**627 280**	**26 276**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables 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 1AND 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 of Bank Pekao S.A. Group entities	597 829	85 007	-	-	-	-	682 836
Bank Pekao S.A. Group entities							
Subsidiaries	241 049	27 005	134 416	1 019 467	2 104 257	66 324	3 592 518
Associates	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	5 506	-	-	202	2 240	7 948
Total	**851 220**	**292 533**	**134 416**	**1 019 467**	**2 104 459**	**68 564**	**4 470 659**

(*) Current receivables include Nostro account and cash collaterals

Liabilities due to 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 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	9 261	-	-	-	-	-	9 261
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	65 821	125 958	-	-	-	-	191 779
Bank Pekao S.A. Group entities							
Subsidiaries	1 046 943	129 157	52 378	5 089	11 477	-	1 245 044
Associates	17 348	91 256	170 877	-	-	-	279 481
Key management personnel of the Bank and UniCredit S.p.A.	8 066	3 226	15 748	982	-	-	28 022
Total	**1 147 439**	**349 597**	**239 003**	**6 071**	**11 477**	**-**	**1 753 587**

(*) Current receivables include Loro account and cash collaterals

Notes to the 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 of Bank Pekao S.A. Group entities	561 564	113	7	99 082	22 070	682 836
Bank Pekao S.A. Group entities						
Subsidiaries	656 490	761	1 415	2 933 851	1	3 592 518
Associates	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	7 948	-	7 948
Total	**1 220 214**	**11 054**	**1 422**	**3 215 898**	**22 071**	**4 470 659**

Liabilities due to 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 of Bank Pekao S.A. Group entities	20 989	-	-	167 723	3 067	191 779
Bank Pekao S.A. Group entities						
Subsidiaries	39 361	60 047	19 943	1 121 661	4 032	1 245 044
Associates	-	-	-	279 481	-	279 481
Key management personnel of the Bank and UniCredit S.p.A.	6 818	247		20 946	11	28 022
Total	**67 711**	**60 294**	**19 943**	**1 598 529**	**7 110**	**1 753 587**

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2015

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	605 703	-	-	596	1 209	-	1 048
Entities of UniCredit Group excluding of Pekao S.A. Group entities	1 114 848	-	55 861	3 757	1 132 960	653 064	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Investment Banking S.A.	-	-	-	1	214 494	-	192
Pekao Leasing Sp. z o.o.	2 142 872	-	556	17 307	27 025	4	15 853
Pekao Faktoring Sp. z o.o.	1 032 567	-	-	1	3 348	-	-
Centralny Dom Maklerski Pekao S.A.	1	-	1	433	672 467	-	49
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	6	52 819	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	122	44 995	-	-
Centrum Kart S.A.	1	-	-	288	27 742	-	7 223
Pekao Financial Services Sp. z o. o.	-	-	-	4	14 302	-	-
Pekao Bank Hipoteczny S.A.	140 039	58 509	48 115	-	24 975	5 430	34
Pekao Leasing Holding S.A. (in liquidation)	-	-	-	-	83 151	-	-
Pekao Property S.A.	4 137	-	-	1	2 397	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	13	-	-	-	964	-	5 210
FPB – Media Sp. z o. o.	10 352	-	-	-	316	-	-
Associates							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	3	25 262	-	29
Pioneer Pekao Investment Management S.A.	-	-	-	-	162 752	-	23
Pioneer Pekao TFI S.A. (PPIM S.A subsidiary)	-	-	-	13 382	115 116	-	21
Total of Bank Pekao S.A. Group entities	**3 329 982**	**58 509**	**48 672**	**31 548**	**1 472 125**	**5 434**	**28 634**
Key management personnel of the Bank and UniCredit S.p.A.	8 568	-	-	-	22 165	-	-
Total	**5 059 101**	**58 509**	**104 533**	**35 901**	**2 628 459**	**658 498**	**29 682**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2015	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	8 497	597 206	-	-	-	-	605 703
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	616 160	94 797	482	779	402 630	-	1 114 848
Bank Pekao S.A. Group entities							
Subsidiaries	302 541	56 008	45 668	878 008	1 988 455	59 302	3 329 982
Associates	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	5 999	-	37	186	2 346	8 568
Total	**927 198**	**754 010**	**46 150**	**878 824**	**2 391 271**	**61 648**	**5 059 101**

(*) Current receivables include Nostro account and cash collaterals

Liabilities due to loans and deposits by contractual maturity

31.12.2015	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	1 209	-	-	-	-	-	1 209
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	160 673	8 458	963 829	-	-	-	1 132 960
Bank Pekao S.A. Group entities							
Subsidiaries	801 213	239 584	16 773	94 293	17 132	-	1 168 995
Associates	16 224	92 203	194 703	-	-	-	303 130
Key management personnel of the Bank and UniCredit S.p.A.	4 459	4 007	9 841	3 808	50	-	22 165
Total	**983 778**	**344 252**	**1 185 146**	**98 101**	**17 182**	**-**	**2 628 459**

(*) Current receivables include Loro account and cash collaterals

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	243 767	350 936	-	11 000	-	605 703
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	598 100	403 900	7	67 079	45 762	1 114 848
Bank Pekao S.A. Group entities						
Subsidiaries	424 691	15 055	2 390	2 887 845	1	3 329 982
Associates	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	8 568	-	8 568
Total	**1 266 558**	**769 891**	**2 397**	**2 974 492**	**45 763**	**5 059 101**

Liabilities due to loans and deposits by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	1 209	-	1 209
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1 010 843	261	-	121 856	-	1 132 960
Bank Pekao S.A. Group entities						
Subsidiaries	27 388	32 718	21 402	1 083 885	3 602	1 168 995
Associates	-	-	-	303 130	-	303 130
Key management personnel of the Bank and UniCredit S.p.A.	7 129	920	-	14 113	3	22 165
Total	**1 045 360**	**33 899**	**21 402**	**1 524 193**	**3 605**	**2 628 459**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2016 to 31 December 2016

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	(137)	(375)	1 239	(2 723)	2 901	(13 150)
Entities of UniCredit Group excluding of Pekao S.A. Group entities	13 416	(2 521)	8 602	(192)	17 372	(55 709)
Pekao S.A. Group entities						
Subsidiaries						
Pekao Investment Banking S.A.	-	(3 613)	244	(6 219)	195	(326)
Centralny Dom Maklerski Pekao S.A.	-	(3 043)	1 439	(42)	2 916	(3 034)
Pekao Leasing Sp. z o.o.	56 863	(7 456)	4 190	(7)	2 224	(82)
Pekao Faktoring Sp. z o.o.	14 334	-	1 051	-	284	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(449)	809	-	6	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(584)	6	-	31	-
Centrum Kart S.A.	-	(217)	39	-	1 025	(54 103)
Pekao Financial Services Sp. z o.o.	-	(137)	44	-	40	-
Pekao Bank Hipoteczny S.A.	2 250	(329)	827	-	787	(11 750)
Pekao Leasing Holding S.A. (in liquidation)	-	(573)	3	-	1	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	1	(3)	18	(17 621)	1 691	(36 661)
Pekao Property S.A.	141	(4)	14	-	17	-
FPB - Media Sp .z o.o.	421	(2)	2	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(1 862)	24	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(1 370)	157 183	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(323)	45	-	171	-
Total of Pekao S.A. Group entities	**74 010**	**(19 965)**	**165 938**	**(23 889)**	**9 388**	**(105 956)**
Key management personnel of the Bank and UniCredit S.p.A.	237	(318)	17	-	-	-
Total	**87 526**	**(23 179)**	**175 796**	**(26 804)**	**29 661**	**(174 815)**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2015 to 31 December 2015

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	216	(246)	1 689	(3 070)	811	(15 449)
Entities of UniCredit Group excluding of Pekao S.A. Group entities	42 043	(1 664)	6 655	(188)	40 544	(6 514)
Pekao S.A. Group entities						
Subsidiaries						
Pekao Investment Banking S.A.	1	(3 526)	648	-	656	(224)
Centralny Dom Maklerski Pekao S.A.	-	(3 949)	1 470	(16)	3 320	(3 102)
Pekao Leasing Sp. z o.o.	41 219	(8 517)	5 226	(47)	3 894	(160)
Pekao Faktoring Sp. z o.o.	12 207	(12)	363	-	218	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(878)	526	-	6	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(698)	6	-	26	-
Centrum Kart S.A.	-	(330)	30	-	1 195	(51 967)
Pekao Financial Services Sp. z o.o.	-	(162)	44	-	41	-
Pekao Bank Hipoteczny S.A.	2 263	(355)	718	-	164	(8 148)
Pekao Leasing Holding S.A. (in liquidation)	-	(556)	8	-	1	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	7	(1)	15	(14 733)	1 672	(34 292)
Pekao Property S.A.	203	(16)	18	-	17	-
FPB - Media Sp .z o.o.	414	(1)	4	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(2 761)	26	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(1 973)	189 262	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(361)	64	(11)	169	(1)
Krajowa Izba Rozliczeniowa S.A. (*)	-	(135)	57	-	-	(4 302)
Total of Pekao S.A. Group entities	**56 314**	**(24 231)**	**198 485**	**(14 807)**	**11 379**	**(102 196)**
Key management personnel of the Bank and UniCredit S.p.A.	253	(419)	17	-	-	-
Total	**98 826**	**(26 560)**	**206 846**	**(18 065)**	**52 734**	**(124 159)**

(*) until sale's date 3 125 shares

Notes to the 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	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	50 162	246 519	-	53 963
Entities of UniCredit Group excluding of Bank Pekao S.A. Group	202 191	599 604	5 192	192 481
Bank Pekao S.A. Group entities				
Subsidiaries				
Pekao Investment Banking S.A.	150	-	-	-
Pekao Leasing Sp. z o.o.	255 377	1 306 054	-	-
Pekao Faktoring Sp. z o.o.	405 208	-	-	-
Centralny Dom Maklerski Pekao S.A.	97	132	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	60	-	-	-
Centrum Kart S.A.	63	3 000	-	-
Pekao Financial Services Sp. z o. o.	45	838	-	-
Pekao Bank Hipoteczny S.A.	361 984	411 730	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	3 029	-	-	-
Pekao Property Sp. z o. o.	-	-	-	-
Associates				
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	96	-	-	-
Total of Pekao S.A. Group entities	**1 026 124**	**1 721 754**	**-**	**-**
Key management personnel of the Bank and UniCredit S.p.A.	217	-	-	-
Total	**1 278 694**	**2 567 877**	**5 192**	**246 444**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees 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. – Bank's parent entity	-	-	-	-	-	50 162	50 162
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	-	-	202 191	202 191
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	362 581	257 719	405 713	-	1 026 013
Associates	-	-	-	-	111	-	111
Key management personnel of the Bank and UniCredit S.p.A.	30	-	5	-	182	-	217
Total	**30**	**-**	**362 586**	**257 719**	**406 006**	**252 353**	**1 278 694**
GUARANTEES ISSUED							
UniCredit S.p.A. – Bank's parent entity	-	2 624	-	50 190	81 659	112 046	246 519
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	9 343	24 475	113 978	293 599	158 209	599 604
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	2 269	2 232	1 717 253	1 721 754
Total	**-**	**11 967**	**24 475**	**166 437**	**377 490**	**1 987 508**	**2 567 877**
FINANCIAL COMMITMENTS RECEIVED							
Entities of UniCredit Group excluding of 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 of 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 the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2016	EUR	USD	CHF	PLN	OHTER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – Bank's parent entity	30 164	-	-	19 998	-	50 162
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	98 535	41 716	-	61 580	360	202 191
Bank Pekao S.A. Group entities						
Subsidiaries	31 853	17 595	-	964 733	11 832	1 026 013
Associates	-	-	-	111	-	111
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	217	-	217
Total	**160 552**	**59 311**	**-**	**1 046 639**	**12 192**	**1 278 694**
GUARANTEES ISSUED						
UniCredit S.p.A. – Bank's parent entity	12 167	-	-	234 352	-	246 519
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	53 077	-	-	546 527	-	599 604
Bank Pekao S.A. Group entities						
Subsidiaries	1 306 492	-	411 730	3 532	-	1 721 754
Total	**1 371 736**	**-**	**411 730**	**784 411**	**-**	**2 567 877**
FINANCIAL COMMITMENTS RECEIVED						
Entities of UniCredit Group excluding of 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 of Bank Pekao S.A. Group entities	109 606	-	-	82 090	785	192 481
Total	**138 736**	**-**	**-**	**106 923**	**785**	**246 444**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2015

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	48 223	236 659	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group	179 072	890 343	34 490
Bank Pekao S.A. Group entities			
Subsidiaries			
Pekao Investment Banking S.A.	140	-	-
Pekao Leasing Sp. z o.o.	217 599	1 258 101	-
Pekao Faktoring Sp. z o.o.	67 591	-	-
Centralny Dom Maklerski Pekao S.A.	112	127	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	60	-	-
Centrum Kart S.A.	67	-	-
Pekao Financial Services Sp. z o. o.	45	847	-
Pekao Bank Hipoteczny S.A.	360 673	394 530	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	2 037	-	-
Pekao Property Sp. z o. o.	-	76	-
Associates			
Dom Inwestycyjny Xelion Sp. z o.o.	2 000	-	-
Pioneer Pekao Investment Management S.A.	15	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	52	-	-
Total of Pekao S.A. Group entities	**650 391**	**1 653 681**	**-**
Key management personnel of the Bank and UniCredit S.p.A.	697	-	-
Total	**878 383**	**2 780 683**	**49 078**

As at 31 December 2015, the Bank did not have off-balance sheet financial commitments received from related parties.

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2015	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – Bank's parent entity	-	-	-	28 223	-	20 000	48 223
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	179 072	-	-	179 072
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	360 624	219 674	68 026	-	648 324
Associates	-	-	-	2 007	60	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	30	515	5	18	129	-	697
Total	**30**	**515**	**360 629**	**428 994**	**68 215**	**20 000**	**878 383**
GUARANTEES ISSUED							
UniCredit S.p.A. – Bank's parent entity	-	2 631	17 719	66 440	83 818	66 051	236 659
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	16 189	98 861	90 053	322 855	362 385	890 343
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	1 513	659	1 651 509	1 653 681
Total	**-**	**18 820**	**116 580**	**158 006**	**407 332**	**2 079 945**	**2 780 683**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	11 300	3 288	-	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	553	30 406	3 531	-	34 490
Total	**-**	**-**	**553**	**41 706**	**6 819**	**-**	**49 078**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2015	EUR	USD	CHF	PLN	OHTER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – Bank's parent entity	28 223	-	-	20 000	-	48 223
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	77 772	-	-	101 300	-	179 072
Bank Pekao S.A. Group entities						
Subsidiaries	12 246	5 305	-	629 038	1 735	648 324
Associates	-	-	-	2 067	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	697	-	697
Total	**118 241**	**5 305**	**-**	**753 102**	**1 735**	**878 383**
GUARANTEES ISSUED						
UniCredit S.p.A. – Bank's parent entity	10 497	-	-	226 162	-	236 659
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	60 778	-	-	829 565	-	890 343
Bank Pekao S.A. Group entities						
Subsidiaries	1 258 543	-	393 940	1 198	-	1 653 681
Total	**1 329 818**	**-**	**393 940**	**1 056 925**	**-**	**2 780 683**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	3 288	-	-	11 300	-	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	8 147	-	-	26 343	-	34 490
Total	**11 435**	**-**	**-**	**37 643**	**-**	**49 078**

Remuneration expenses of the Bank's Management Board and Supervisory Board Members

Short-term employee benefits related to the Management Board of the Bank in 2016 amounted to PLN 19 120 thousand, compared to PLN 17 144 thousand in 2015. Short-term employee benefits included: base salary, bonuses and other benefits due in next 12 months from the balance sheet date.

Long-term benefits related to the Management Board of the Bank amounted to PLN 2 083 thousand in 2016, compared to PLN 2 453 thousand in 2015 and comprised of provisions for deferred bonus payments.

The expenses of 2016 included PLN 5 393 thousand in respect of share-based payments, compared to PLN 3 473 thousand in 2015. The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of phantom shares, granted to the Members of the Bank's Management Board.

Remuneration expenses of Supervisory Board of the Bank, comprising short-term employee benefits, amounted to PLN 1 069 thousand in 2016, compared to PLN 978 thousand in 2015.

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in 2016 and in 2015.

(In PLN thousand)

51. Repo and reverse repo transactions

The Bank increases its funds through the sale of financial instruments with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities composing the balance sheet portfolio of the Bank as well as securities with obligation of resale (reverse repo and buy-sell back transactions) may be a subject to repo and sell-buy back transactions.

Securities composing the balance sheet portfolio of the Bank and treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all benefits and risk deriving from these assets.

	31.12.2016		31.12.2015	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES
Financial assets available for sale				
up to 1 month	1 599 015	1 599 789	2 359 798	2 357 096
from 1 to 3 months	-	-	1 032 882	1 029 821
from 3 months to 1 year	-	-	1 503	1 504
Total financial assets available for sale	**1 599 015**	**1 599 789**	**3 394 183**	**3 388 421**
Financial assets held for trading				
up to 1 month	175 732	176 019	-	-
Total financial assets held for trading	**175 732**	**176 019**	**-**	**-**
Financial assets purchased under reverse repo and buy-sell back				
up to 1 month	-	-	2 050 199	2 044 228
Total financial assets purchased under reverse repo and buy-sell back	**-**	**-**	**2 050 199**	**2 044 228**
Total	**1 774 747**	**1 775 808**	**5 444 382**	**5 432 649**

The Bank purchases financial instruments with the obligations of repurchase or resale (reverse-repo and buy-sell back) at the same price increased by interest.

Securities treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all the benefits and the risk deriving from these assets.

	31.12.2016		31.12.2015	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGING ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGING ASSETS
Loans and advances from banks				
up to 1 month	703 635	700 960	1 757 063	1 757 459
Total loans and advances from banks	**703 635**	**700 960**	**1 757 063**	**1 757 459**
Loans and advances from customers				
up to 1 month	-	-	4 755 472	4 762 663
Total loans and advances from customers	**-**	**-**	**4 755 472**	**4 762 663**
Total	**703 635**	**700 960**	**6 512 535**	**6 520 122**

Financial assets which are subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Bank, which the Bank has the right to sell or pledge.

	31.12.2016	31.12.2015
Fair value of assets pledged as collaterals, in this:	700 960	6 520 122
Short sale	673 165	611 442
Reverse repo transactions/ buy-sell-back	-	2 050 199

Notes to the financial statements (cont.)

(In PLN thousand)

52. Company Social Benefits Fund ('ZFŚS')

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank has created the ZFŚS Fund and is making periodic charges to the ZFŚS Fund in amounts required by the Act. The basic aim of the ZFŚS Fund is to subsidize social assistance in benefit of the employees, former employees (pensioners and the retired) and entitled members of their families.

The liabilities of the ZFŚS Fund represent the accumulated value of charges made by the Company towards the ZFŚS Fund decreased by the amount of non-returnable expenditures of the ZFŚS Fund.

In the statement of financial position, the Bank netted the ZFŚS Fund assets against the ZFŚS Fund value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Bank. For this reason the amount pertaining to the ZFŚS Fund in the unconsolidated statement of financial position as at 31 December 2016 and 31 December 2015 was nil.

The table below presents the assets according to type and book value, the balance of the Fund and costs related to ZFŚS

	31.12.2016	31.12.2015
Loans granted to employees	38 606	43 634
Cash at ZFŚS account	3 116	7 924
ZFŚS assets	**41 722**	**51 558**
ZFŚS value	**41 722**	**51 558**
	2016	**2015**
Deductions made to ZFŚS during fiscal period	23 522	24 268

53. Subsequent events

There have been no significant subsequent events.

Signatures of all Management Board Members

Date	Name/Surname	Position/Function	Signature
09.02.2017	Luigi Lovaglio	President of the Management Board, CEO	
09.02.2017	Diego Biondo	Vice President of the Management Board	
09.02.2017	Andrzej Kopyrski	Vice President of the Management Board	
09.02.2017	Adam Niewiński	Vice President of the Management Board	
09.02.2017	Grzegorz Piwowar	Vice President of the Management Board	
09.02.2017	Stefano Santini	Vice President of the Management Board	
09.02.2017	Marian Ważyński	Vice President of the Management Board	

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.