

**Condensed Unconsolidated Interim  
Financial Statements  
of Bank Pekao S.A. for the period  
from 1 January 2017 to 30 June 2017**



**Warsaw, August 2017**

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

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# Unconsolidated income statement

(in PLN thousand)

	NOTE	II QUARTER 2017 PERIOD FROM 01.04.2017 TO 30.06.2017	I HALF 2017 PERIOD FROM 01.01.2017 TO 30.06.2017	II QUARTER 2016 PERIOD FROM 01.04.2016 TO 30.06.2016 RESTATED	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016 RESTATED
Interest income	7	1 360 425	2 702 675	1 304 279	2 621 223
Interest expense	7	(250 597)	(505 088)	(250 649)	(527 760)
<b>Net interest income</b>		<b>1 109 828</b>	<b>2 197 587</b>	<b>1 053 630</b>	<b>2 093 463</b>
Fee and commission income	8	598 665	1 176 364	630 657	1 213 816
Fee and commission expense	8	(79 565)	(148 722)	(77 345)	(153 661)
<b>Net fee and commission income</b>		<b>519 100</b>	<b>1 027 642</b>	<b>553 312</b>	<b>1 060 155</b>
<b>Dividend income</b>	9	<b>44 540</b>	<b>187 804</b>	<b>67 736</b>	<b>132 552</b>
<b>Result on financial assets and liabilities held for trading</b>	10	<b>(1 076)</b>	<b>3 677</b>	<b>9 215</b>	<b>25 395</b>
<b>Result on fair value hedge accounting</b>	25	<b>1 334</b>	<b>3 047</b>	<b>(2 533)</b>	<b>(5 401)</b>
<b>Gains (losses) on disposal of:</b>	11	<b>5 118</b>	<b>5 942</b>	<b>273 498</b>	<b>423 883</b>
loans and other financial receivables		27	93	5 796	155 720
available for sale financial assets and held to maturity investments		5 120	5 929	267 706	268 171
financial liabilities		(29)	(80)	(4)	(8)
<b>Operating income</b>		<b>1 678 844</b>	<b>3 425 699</b>	<b>1 954 858</b>	<b>3 730 047</b>
<b>Net impairment losses on financial assets and off-balance sheet commitments:</b>	15	<b>(116 477)</b>	<b>(226 085)</b>	<b>(126 412)</b>	<b>(252 548)</b>
loans and other financial receivables		(113 476)	(233 481)	(67 723)	(191 653)
off-balance sheet commitments		(3 001)	7 396	(58 689)	(60 895)
<b>Net result on financial activity</b>		<b>1 562 367</b>	<b>3 199 614</b>	<b>1 828 446</b>	<b>3 477 499</b>
<b>Administrative expenses</b>	12	<b>(813 231)</b>	<b>(1 793 799)</b>	<b>(863 033)</b>	<b>(1 684 643)</b>
personnel expenses		(431 749)	(849 989)	(425 337)	(846 288)
other administrative expenses		(381 482)	(943 810)	(437 696)	(838 355)
<b>Depreciation and amortization</b>	13	<b>(81 033)</b>	<b>(161 107)</b>	<b>(81 365)</b>	<b>(162 712)</b>
<b>Net result on other provisions</b>		<b>(6 049)</b>	<b>(11 657)</b>	<b>(2 141)</b>	<b>(2 950)</b>
<b>Net other operating income and expenses</b>	14	<b>12 047</b>	<b>45 594</b>	<b>4 077</b>	<b>9 204</b>
<b>Operating costs</b>		<b>(888 266)</b>	<b>(1 920 969)</b>	<b>(942 462)</b>	<b>(1 841 101)</b>
<b>Gains (losses) on subsidiaries and associates</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gains (losses) on disposal of property, plant and equipment, and intangible assets</b>	16	<b>(154)</b>	<b>102</b>	<b>328</b>	<b>1 753</b>
<b>Profit before income tax</b>		<b>673 947</b>	<b>1 278 747</b>	<b>886 312</b>	<b>1 638 151</b>
<b>Income tax expense</b>	17	<b>(150 963)</b>	<b>(298 544)</b>	<b>(185 391)</b>	<b>(334 249)</b>
<b>Net profit</b>		<b>522 984</b>	<b>980 203</b>	<b>700 921</b>	<b>1 303 902</b>
<b>Earnings per share (in PLN per share)</b>	18				
basic for the period		1.99	3.73	2.67	4.97
diluted for the period		1.99	3.73	2.67	4.97

Notes to the financial statements presented on pages 11 – 84 constitute an integral part of the unconsolidated financial statements.

# Unconsolidated statement of comprehensive income

(in PLN thousand)

	NOTE	II QUARTER 2017 PERIOD FROM 01.04.2017 TO 30.06.2017	I HALF 2017 PERIOD FROM 01.01.2017 TO 30.06.2017	II QUARTER 2016 PERIOD FROM 01.04.2016 TO 30.06.2016	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016
<b>Net profit</b>		<b>522 984</b>	<b>980 203</b>	<b>700 921</b>	<b>1 303 902</b>
<b>Other comprehensive income</b>					
<b>Items that are or may be reclassified subsequently to profit or loss:</b>					
Change in fair value of available-for-sale financial assets		94 417	266 497	(312 983)	(284 163)
Change in fair value of cash flow hedges	25	(27 607)	(32 098)	(6 281)	33 794
Tax on items that are or may be reclassified subsequently to profit or loss	17	(12 693)	(44 535)	60 660	47 570
<b>Items that will never be reclassified to profit or loss:</b>					
Remeasurements of the defined benefit liabilities		-	-	-	-
Tax on items that will never be reclassified to profit or loss		-	-	-	-
<b>Other comprehensive income (net of tax)</b>		<b>54 117</b>	<b>189 864</b>	<b>(258 604)</b>	<b>(202 799)</b>
<b>Total comprehensive income</b>		<b>577 101</b>	<b>1 170 067</b>	<b>442 317</b>	<b>1 101 103</b>

Notes to the financial statements presented on pages 11 – 84 constitute an integral part of the unconsolidated financial statements.

# Unconsolidated statement of financial position

(in PLN thousand)

	NOTE	30.06.2017	31.12.2016	30.06.2016
<b>ASSETS</b>				
Cash and due from Central Bank	20	6 721 636	5 861 342	5 865 162
Bill of exchange eligible for rediscounting at Central Bank		-	-	-
Loans and advances to banks	21	3 458 655	3 454 679	4 645 575
Financial assets held for trading	22	2 214 406	721 031	2 314 735
Derivative financial instruments (held for trading)	23	1 385 345	1 955 499	2 313 234
Loans and advances to customers	24	122 442 186	119 033 599	116 496 727
Hedging instruments	25	259 248	289 752	269 003
Investment (placement) securities	26	26 575 585	34 864 031	26 388 305
1. Available for sale		22 288 459	31 938 170	23 049 677
2. Held to maturity		4 287 126	2 925 861	3 338 628
Assets held for sale	27	48 222	48 277	48 112
Investments in subsidiaries		1 063 050	1 063 050	1 099 654
Investments in associates		27 552	27 552	27 552
Intangible assets	28	568 869	571 076	575 521
Property, plant and equipment	29	1 381 054	1 405 100	1 391 030
Investment properties		12 637	12 710	12 914
Income tax assets		695 951	875 287	775 610
1. Current tax assets		-	97 009	-
2. Deferred tax assets		695 951	778 278	775 610
Other assets		689 195	805 867	649 321
<b>TOTAL ASSETS</b>		<b>167 543 591</b>	<b>170 988 852</b>	<b>162 872 455</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Amounts due to Central Bank	20	6 031	6 091	6 038
Amounts due to other banks	31	3 174 069	3 367 125	3 520 358
Financial liabilities held for trading	22	289 808	673 165	786 033
Derivative financial instruments (held for trading)	23	1 499 730	1 949 335	2 282 112
Amounts due to customers	32	134 873 277	138 066 129	127 197 787
Hedging instruments	25	1 306 573	1 638 718	1 888 106
Debt securities issued	33	86 054	300 945	838 758
Income tax liabilities		29 532	-	79 256
1. Current tax liabilities		29 532	-	79 256
2. Deferred tax liabilities		-	-	-
Provisions	34	571 445	560 483	489 659
Other liabilities		4 532 688	2 144 304	4 172 331
<b>TOTAL LIABILITIES</b>		<b>146 369 207</b>	<b>148 706 295</b>	<b>141 260 438</b>
<b>Equity</b>				
Share capital		262 470	262 470	262 470
Other capital and reserves		19 931 711	19 741 712	20 045 645
Retained earnings and net profit for the period		980 203	2 278 375	1 303 902
<b>TOTAL EQUITY</b>		<b>21 174 384</b>	<b>22 282 557</b>	<b>21 612 017</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>167 543 591</b>	<b>170 988 852</b>	<b>162 872 455</b>

Notes to the financial statements presented on pages 11 – 84 constitute an integral part of the unconsolidated financial statements.

# Unconsolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2017 to 30 June 2017

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
<b>Equity as at 1.01.2017</b>	<b>262 470</b>	<b>19 741 712</b>	<b>9 137 221</b>	<b>1 982 324</b>	<b>8 612 550</b>	<b>(223 510)</b>	<b>233 127</b>	<b>2 278 375</b>	<b>22 282 557</b>	
<b>Management options</b>	-	-	-	-	-	-	-	-	-	
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	
Revaluation of management options	-	-	-	-	-	-	-	-	-	
<b>Comprehensive income</b>	-	<b>189 864</b>	-	-	-	<b>189 864</b>	-	<b>980 203</b>	<b>1 170 067</b>	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	
Revaluation of available-for-sale investments (net of tax)	-	215 863	-	-	-	215 863	-	-	215 863	
Revaluation of hedging financial instruments (net of tax)	-	(25 999)	-	-	-	(25 999)	-	-	(25 999)	
Net profit for the period	-	-	-	-	-	-	-	980 203	980 203	
<b>Appropriation of retained earnings</b>	-	<b>135</b>	-	<b>135</b>	-	-	-	<b>(2 278 375)</b>	<b>(2 278 240)</b>	
Dividend paid	-	-	-	-	-	-	-	(2 278 240)	(2 278 240)	
Profit appropriation	-	135	-	135	-	-	-	(135)	-	
<b>Equity as at 30.06.2017</b>	<b>262 470</b>	<b>19 931 711</b>	<b>9 137 221</b>	<b>1 982 459</b>	<b>8 612 550</b>	<b>(33 646)</b>	<b>233 127</b>	<b>980 203</b>	<b>21 174 384</b>	

Notes to the financial statements presented on pages 11 – 84 constitute an integral part of the unconsolidated financial statements.

## Unconsolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2016 to 31 December 2016

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

Notes to the financial statements presented on pages 11 – 84 constitute an integral part of the unconsolidated financial statements.

# Unconsolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2016 to 30 June 2016

	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER		
<b>Equity as at 1.01.2016</b>	<b>262 470</b>	<b>20 241 535</b>	<b>9 137 221</b>	<b>1 975 415</b>	<b>8 612 550</b>	<b>283 222</b>	<b>233 127</b>	<b>2 290 398</b>	<b>22 794 403</b>
<b>Management options</b>	-	-	-	-	-	-	-	-	-
Options exercised (share issue)	-	-	-	-	-	-	-	-	-
Revaluation of management options	-	-	-	-	-	-	-	-	-
<b>Comprehensive income</b>	-	<b>(202 799)</b>	-	-	-	<b>(202 799)</b>	-	<b>1 303 902</b>	<b>1 101 103</b>
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-
Revaluation of available-for-sale investments (net of tax)	-	(230 172)	-	-	-	(230 172)	-	-	(230 172)
Revaluation of hedging financial instruments (net of tax)	-	27 373	-	-	-	27 373	-	-	27 373
Net profit for the period	-	-	-	-	-	-	-	1 303 902	1 303 902
<b>Appropriation of retained earnings</b>	-	<b>6 909</b>	-	<b>6 909</b>	-	-	-	<b>(2 290 398)</b>	<b>(2 283 489)</b>
Dividend paid	-	-	-	-	-	-	-	(2 283 489)	(2 283 489)
Profit appropriation	-	6 909	-	6 909	-	-	-	(6 909)	-
<b>Equity as at 30.06.2016</b>	<b>262 470</b>	<b>20 045 645</b>	<b>9 137 221</b>	<b>1 982 324</b>	<b>8 612 550</b>	<b>80 423</b>	<b>233 127</b>	<b>1 303 902</b>	<b>21 612 017</b>

Notes to the financial statements presented on pages 11 – 84 constitute an integral part of the unconsolidated financial statements.



# Unconsolidated cash flow statement

(in PLN thousand)

	NOTE	I HALF 2017 PERIOD FROM 01.01.2017 TO 30.06.2017	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016
<b>Cash flow from operating activities – indirect method</b>			
<b>Net profit for the period</b>		<b>980 203</b>	<b>1 303 902</b>
<b>Adjustments for:</b>		<b>(8 411 153)</b>	<b>1 770 263</b>
Depreciation and amortization	13	161 107	162 712
Gains (losses) on investing activities		(5 999)	(269 625)
Net interest income	7	(2 197 587)	(2 093 463)
Dividend income	9	(187 804)	(132 552)
Interest received		2 740 798	2 559 146
Interest paid		(541 190)	(511 045)
Income tax		298 544	273 782
Income tax paid		(138 331)	(230 203)
Change in loans and advances to banks		142 509	116 923
Change in financial assets held for trading		(1 491 233)	(1 197 057)
Change in derivative financial instruments (assets)		570 154	940 883
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(3 391 148)	2 049 720
Change in investment (placement) securities		(83 659)	(587 701)
Change in other assets		(21 615)	1 583 725
Change in amounts due to banks		(193 132)	(1 026 798)
Change in financial liabilities held for trading		(383 357)	174 591
Change in derivative financial instruments (liabilities)		(449 605)	(919 686)
Change in amounts due to customers		(3 158 749)	(2 090 767)
Change in debt securities issued		583	(1 539)
Change in provisions		10 962	66 729
Change in other liabilities		(92 401)	2 902 488
<b>Net cash flows from operating activities</b>		<b>(7 430 950)</b>	<b>3 074 165</b>
<b>Cash flow from investing activities</b>			
<b>Investing activity inflows</b>		<b>20 223 524</b>	<b>63 527 673</b>
Sale of investment securities		19 681 090	63 066 146
Sale of intangible assets and property, plant and equipment		18	2 051
Dividend received	9	169 559	132 552
Other investing inflows		372 857	326 924
<b>Investing activity outflows</b>		<b>(11 570 764)</b>	<b>(68 266 667)</b>
Acquisition of investment securities		(11 465 548)	(68 192 552)
Acquisition of intangible assets and property, plant and equipment		(105 216)	(74 115)
<b>Net cash flows from investing activities</b>		<b>8 652 760</b>	<b>(4 738 994)</b>

Notes to the financial statements presented on pages 11 – 84 constitute an integral part of the unconsolidated financial statements.

# Unconsolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	I HALF 2017 PERIOD FROM 01.01.2017 TO 30.06.2017	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016
<b>Cash flows from financing activities</b>			
<b>Financing activity inflows</b>		-	<b>1 079 733</b>
Issue of debt securities	33	-	1 079 733
<b>Financing activity outflows</b>		<b>(213 459)</b>	<b>(4 177 490)</b>
Redemption of debt securities	33	(213 459)	(1 894 001)
Dividends and other payments to shareholders		-	(2 283 489)
<b>Net cash flows from financing activities</b>		<b>(213 459)</b>	<b>(3 097 757)</b>
<b>Total net cash flows</b>		<b>1 008 351</b>	<b>(4 762 586)</b>
including: effect of exchange rate fluctuations on cash and cash equivalents held		(126 798)	105 174
<b>Net change in cash and cash equivalents</b>		<b>1 008 351</b>	<b>(4 762 586)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>8 750 011</b>	<b>14 568 422</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>9 758 362</b>	<b>9 805 836</b>

Notes to the financial statements presented on pages 11 – 84 constitute an integral part of the unconsolidated financial statements.

# Notes to financial statements

(in PLN thousand)

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

## 1. General information

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

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

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

The condensed unconsolidated interim financial statements of Bank Pekao S.A. for the period from 1 January 2017 to 30 June 2017 contain financial information of all the activities performed by the Bank.

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

### **Changes in share ownership structure of the Bank**

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

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

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

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

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

## 2. Business combination

In the first half of 2017 and in 2016 there were no business combinations in the Bank.

## Notes to financial statements (cont.)

(in PLN thousand)

### 3. Statement of compliance

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

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

The unconsolidated financial statements of Bank Pekao S.A. as at and for the year ended 31 December 2016 are available at the Bank's website, [www.pekao.com.pl](http://www.pekao.com.pl)

In accordance with the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133 with further amendments) the Bank is required to publish the financial report for the six months period ended 30 June 2016, i.e. current interim period.

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

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

These condensed unconsolidated interim financial statements were authorized for issue by the Management Board on 1 August 2017.

### 4. Significant accounting policies

#### 4.1 Basis of preparation of Unconsolidated Financial Statements

##### General information

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.

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

##### Changes in presentation of financial data

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

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

## Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

	II QUARTER 2016 (BEFORE RESTATEMENT)	RESTATEMENT	II QUARTER 2016 (AFTER RESTATEMENT)
Interest income	1 304 279	-	1 304 279
Interest expense	(250 649)	-	(250 649)
<b>Net interest income</b>	<b>1 053 630</b>	<b>-</b>	<b>1 053 630</b>
Fee and commission income	517 157	113 500	630 657
Fee and commission expense	(77 345)	-	(77 345)
<b>Net fee and commission income</b>	<b>439 812</b>	<b>113 500</b>	<b>553 312</b>
<b>Dividend income</b>	<b>67 736</b>	<b>-</b>	<b>67 736</b>
<b>Result on financial assets and liabilities held for trading</b>	<b>122 715</b>	<b>(113 500)</b>	<b>9 215</b>
<b>Result on fair value hedge accounting</b>	<b>(2 533)</b>	<b>-</b>	<b>(2 533)</b>
<b>Gains (losses) on disposal of:</b>	<b>273 498</b>	<b>-</b>	<b>273 498</b>
loans and other financial receivables	5 796	-	5 796
available for sale financial assets and held to maturity investments	267 706	-	267 706
financial liabilities	(4)	-	(4)
<b>Operating income</b>	<b>1 954 858</b>	<b>-</b>	<b>1 954 858</b>
<b>Net impairment losses on financial assets and off-balance sheet commitments:</b>	<b>(126 412)</b>	<b>-</b>	<b>(126 412)</b>
loans and other financial receivables	(67 723)	-	(67 723)
off-balance sheet commitments	(58 689)	-	(58 689)
<b>Net result on financial activity</b>	<b>1 828 446</b>	<b>-</b>	<b>1 828 446</b>
<b>Administrative expenses</b>	<b>(863 033)</b>	<b>-</b>	<b>(863 033)</b>
personnel expenses	(425 337)	-	(425 337)
other administrative expenses	(437 696)	-	(437 696)
<b>Depreciation and amortization</b>	<b>(81 365)</b>	<b>-</b>	<b>(81 365)</b>
<b>Net result on other provisions</b>	<b>(2 141)</b>	<b>-</b>	<b>(2 141)</b>
<b>Net other operating income and expenses</b>	<b>4 077</b>	<b>-</b>	<b>4 077</b>
<b>Operating costs</b>	<b>(942 462)</b>	<b>-</b>	<b>(942 462)</b>
<b>Gains (losses) on subsidiaries and associates</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gains (losses) on disposal of property, plant and equipment, and intangible assets</b>	<b>328</b>	<b>-</b>	<b>328</b>
<b>Profit before income tax</b>	<b>886 312</b>	<b>-</b>	<b>886 312</b>
<b>Income tax expense</b>	<b>(185 391)</b>	<b>-</b>	<b>(185 391)</b>
<b>Net profit</b>	<b>700 921</b>	<b>-</b>	<b>700 921</b>

Earnings per share (in PLN per share)			
basic for the period	2.67		2.67
diluted for the period	2.67		2.67

## Notes to financial statements (cont.)

(in PLN thousand)

	I HALF 2016 (BEFORE RESTATEMENT)	RESTATEMENT	I HALF 2016 (AFTER RESTATEMENT)
Interest income	2 621 223	-	2 621 223
Interest expense	(527 760)	-	(527 760)
<b>Net interest income</b>	<b>2 093 463</b>	<b>-</b>	<b>2 093 463</b>
Fee and commission income	1 001 484	212 332	1 213 816
Fee and commission expense	(153 661)	-	(153 661)
<b>Net fee and commission income</b>	<b>847 823</b>	<b>212 332</b>	<b>1 060 155</b>
<b>Dividend income</b>	<b>132 552</b>	<b>-</b>	<b>132 552</b>
<b>Result on financial assets and liabilities held for trading</b>	<b>237 727</b>	<b>(212 332)</b>	<b>25 395</b>
<b>Result on fair value hedge accounting</b>	<b>(5 401)</b>	<b>-</b>	<b>(5 401)</b>
<b>Gains (losses) on disposal of:</b>	<b>423 883</b>	<b>-</b>	<b>423 883</b>
loans and other financial receivables	155 720	-	155 720
available for sale financial assets and held to maturity investments	268 171	-	268 171
financial liabilities	(8)	-	(8)
<b>Operating income</b>	<b>3 730 047</b>	<b>-</b>	<b>3 730 047</b>
<b>Net impairment losses on financial assets and off-balance sheet commitments:</b>	<b>(252 548)</b>	<b>-</b>	<b>(252 548)</b>
loans and other financial receivables	(191 653)	-	(191 653)
off-balance sheet commitments	(60 895)	-	(60 895)
<b>Net result on financial activity</b>	<b>3 477 499</b>	<b>-</b>	<b>3 477 499</b>
<b>Administrative expenses</b>	<b>(1 684 643)</b>	<b>-</b>	<b>(1 684 643)</b>
personnel expenses	(846 288)	-	(846 288)
other administrative expenses	(838 355)	-	(838 355)
<b>Depreciation and amortization</b>	<b>(162 712)</b>	<b>-</b>	<b>(162 712)</b>
<b>Net result on other provisions</b>	<b>(2 950)</b>	<b>-</b>	<b>(2 950)</b>
<b>Net other operating income and expenses</b>	<b>9 204</b>	<b>-</b>	<b>9 204</b>
<b>Operating costs</b>	<b>(1 841 101)</b>	<b>-</b>	<b>(1 841 101)</b>
<b>Gains (losses) on subsidiaries and associates</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gains (losses) on disposal of property, plant and equipment, and intangible assets</b>	<b>1 753</b>	<b>-</b>	<b>1 753</b>
<b>Profit before income tax</b>	<b>1 638 151</b>	<b>-</b>	<b>1 638 151</b>
<b>Income tax expense</b>	<b>(334 249)</b>	<b>-</b>	<b>(334 249)</b>
<b>Net profit</b>	<b>1 303 902</b>	<b>-</b>	<b>1 303 902</b>

<b>Earnings per share (in PLN per share)</b>			
basic for the period	4.97		4.97
diluted for the period	4.97		4.97

# Notes to financial statements (cont.)

(in PLN thousand)

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 2017, had no material impact on the Bank's financial statements (Note 4.2).

The financial statements does not take into consideration interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 4.3 and Note 4.4).

In the Bank's opinion, 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'.

## **IFRS 9 'Financial Instruments'**

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

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

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

### **Classification and measurement**

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

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

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

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

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

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

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

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

# Notes to financial statements (cont.)

(in PLN thousand)

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.

## **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



# Notes to financial statements (cont.)

(in PLN thousand)

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.

## **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.

# Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 'Financial Instruments'	<p>New regulations constitute a part of changes designed to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes, introduced by the new standard, are as follows:</p> <ul style="list-style-type: none"> <li>• new categorisation of financial assets,</li> <li>• new criteria of assets classification to the group of financial assets measured at amortized cost,</li> <li>• new impairment model – expected credit losses model,</li> <li>• new principles for recognition of changes in fair value measurement of capital investment in financial instruments,</li> <li>• elimination of the necessity to separate embedded derivatives from financial assets.</li> </ul> <p>The major part of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged. Date of application: the first financial year beginning on or after 1 January 2018.</p>	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'	<p>The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.</p> <p>The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer. Date of application: the first financial year beginning on or after 1 January 2018.</p>	The Bank is currently assessing the impact of the IFRS 15 application on its financial statements.

## Notes to financial statements (cont.)

(in PLN thousand)

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

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
<b>IFRS 14</b> 'Regulatory deferral accounts'	The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. Date of application: the first financial year beginning on or after 1 January 2016. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.	The Bank claims that the new standard will not have a material impact on its financial statements in the period of its first application.
<b>IFRS 16</b> '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.
<b>IFRS 17</b> 'Insurance Contracts'	The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2021.	The Bank claims that the new standard will not have a material impact on its financial statements in the period of its first application.
<b>IFRS 10 (amendment)</b> 'Consolidated Financial Statements' and <b>IAS 28 (amendment)</b> 'Investments in Associates and Joint Ventures'	The amendments concern the sale or contribution of assets between the investor and the associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Effective date has been deferred indefinitely until the research project on the equity method has been concluded.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
<b>IAS 7 (amendment)</b> 'Statement of Cash Flows' - Disclosure Initiative	The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Date of application: annual periods beginning on or after 1 January 2017. At the date of authorisation of these financial statements the amendment has not been endorsed by EU.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
<b>IAS 12 (amendment)</b> 'Income Taxes'	The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Date of application: annual periods beginning on or after 1 January 2017. At the date of authorisation of these financial statements the amendment has not been endorsed by EU.	The Bank is currently analyzing the impact of those changes on the financial statements.

## Notes to financial statements (cont.)

(in PLN thousand)

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
<b>IFRS 2 (amendment)</b> '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.
<b>IFRS 4 (amendment)</b> 'Insurance Contracts'	The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4. Date of application: annual periods beginning on or after 1 January 2018 or when IFRS 9 'Financial Instruments' is applied first time.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
<b>IFRS 15 (amendment)</b> 'Revenue from Contracts with Customers'	Clarifications to IFRS 15 Revenue from Contracts with Customers. Date of application: annual periods beginning on or after 1 January 2018.	The Bank is currently analyzing the impact of those changes on the financial statements.
<b>IAS 40 (amendment)</b> '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.
<b>Improvements to IFRS 2014-2016</b>	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. At the date of authorisation of these financial statements the amendment has not been endorsed by EU.	The Bank is currently analyzing the impact of those changes on the financial statements.
<b>IFRIC 22</b> '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.
<b>IFRIC 23</b> 'Uncertainty over Income Tax Treatments'	It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. Date of application: annual periods beginning on or after 1 January 2019.	The Bank is currently analyzing the impact of those changes on the financial statements.

## Notes to financial statements (cont.)

(in PLN thousand)

### 5. Accounting estimates

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

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

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

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

During the six months period ended 30 June 2017 the most significant estimates are as follows:

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

## Notes to financial statements (cont.)

(in PLN thousand)

## 6. Risk management

## Credit risk

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

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

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

RATING CLASS	RANGE OF PD	30.06.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.06%	11 140 197	24.2%	11 544 215	26.2%
2	0.06% <= PD < 0.19%	6 288 005	13.7%	6 794 533	15.4%
3	0.19% <= PD < 0.35%	18 811 899	40.9%	17 482 613	39.7%
4	0.35% <= PD < 0.73%	6 541 485	14.2%	5 463 689	12.4%
5	0.73% <= PD < 3.50%	1 908 291	4.1%	1 435 604	3.3%
6	3.50% <= PD < 14.00%	615 599	1.3%	638 891	1.5%
7	14.00% <= PD < 100.00%	714 987	1.6%	671 745	1.5%
<b>Total</b>		<b>46 020 463</b>	<b>100.0%</b>	<b>44 031 290</b>	<b>100.0%</b>

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

RATING CLASS	RANGE OF PD	30.06.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.34%	670 205	7.0%	687 697	7.9%
2	0.34% <= PD < 0.80%	891 403	9.3%	948 701	10.8%
3	0.80% <= PD < 1.34%	1 411 687	14.8%	1 506 160	17.2%
4	1.34% <= PD < 2.40%	2 993 834	31.4%	2 669 352	30.5%
5	2.40% <= PD < 4.75%	2 256 678	23.7%	1 815 307	20.7%
6	4.75% <= PD < 14.50%	896 424	9.4%	756 550	8.7%
7	14.50% <= PD < 31.00%	211 677	2.2%	186 915	2.1%
8	31.00% <= PD < 100.00%	208 941	2.2%	186 336	2.1%
<b>Total</b>		<b>9 540 849</b>	<b>100.0%</b>	<b>8 757 018</b>	<b>100.0%</b>

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

RATING CLASS	RANGE OF PD	30.06.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.15%	448 384	2.9%	515 756	3.5%
2	0.15% <= PD < 0.27%	1 516 982	9.8%	2 188 032	14.8%
3	0.27% <= PD < 0.45%	2 171 482	14.0%	1 984 785	13.5%
4	0.45% <= PD < 0.75%	2 371 487	15.3%	2 105 131	14.3%
5	0.75% <= PD < 1.27%	3 703 025	24.0%	2 131 155	14.5%
6	1.27% <= PD < 2.25%	2 130 821	13.8%	2 269 874	15.4%
7	2.25% <= PD < 4.00%	1 168 907	7.6%	1 266 801	8.6%
8	4.00% <= PD < 8.50%	1 793 858	11.6%	1 948 049	13.2%
9	8.50% <= PD < 100.00%	160 499	1.0%	319 268	2.2%
<b>Total</b>		<b>15 465 445</b>	<b>100.0%</b>	<b>14 728 851</b>	<b>100.0%</b>

## Notes to 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	30.06.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.0000% <= PD < 0.0011%	-	0.0%	-	0.0%
2	0.0011% <= PD < 0.0031%	-	0.0%	-	0.0%
3	0.0031% <= PD < 0.0069%	-	0.0%	-	0.0%
4	0.0069% <= PD < 0.0124%	-	0.0%	-	0.0%
5	0.0124% <= PD < 0.0223%	-	0.0%	1	0.0%
6	0.0223% <= PD < 0.0395%	-	0.0%	-	0.0%
7	0.0395% <= PD < 0.0691%	-	0.0%	5	0.0%
8	0.0691% <= PD < 0.1208%	407 969	9.3%	430 448	8.0%
9	0.1208% <= PD < 0.2091%	724 028	16.6%	1 029 404	19.1%
10	0.2091% <= PD < 0.3581%	1 198 977	27.4%	255 864	4.8%
11	0.3581% <= PD < 0.6132%	1 297 019	29.6%	2 486 615	46.2%
12	0.6132% <= PD < 1.0807%	68 095	1.6%	-	0.0%
13	1.0807% <= PD < 1.9599%	659 723	15.1%	847 569	15.7%
14	1.9599% <= PD < 3.5545%	19 266	0.4%	331 740	6.2%
15	3.5545% <= PD < 7.6705%	15	0.0%	11	0.0%
16	7.6705% <= PD < 19.6959%	-	0.0%	-	0.0%
17	19.6959% <= PD < 100.0000%	-	0.0%	-	0.0%
<b>Total</b>		<b>4 375 092</b>	<b>100.0%</b>	<b>5 381 657</b>	<b>100.0%</b>

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 CATEGORRY	30.06.2017		31.12.2016	
	CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
High	1 379 198	17.9%	3 470 755	42.6%
Good	4 841 941	62.9%	3 623 153	44.5%
Satisfactory	1 479 930	19.2%	1 010 603	12.4%
Low	-	0.0%	44 728	0.5%
<b>Total</b>	<b>7 701 069</b>	<b>100.0%</b>	<b>8 149 239</b>	<b>100.0%</b>

## Notes to financial statements (cont.)

(in PLN thousand)

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

	30.06.2017	31.12.2016
<b>Loans with no impairment:</b>	<b>120 128 254</b>	<b>116 694 165</b>
<b>Loans to individuals:</b>	<b>58 042 843</b>	<b>55 008 720</b>
Covered by internal rating model:	55 561 312	52 788 308
Mortgage loans	46 020 463	44 031 290
Consumer loans	9 540 849	8 757 018
Other, not covered by internal rating model	2 481 531	2 220 412
<b>Loans to corporates:</b>	<b>62 085 411</b>	<b>61 685 445</b>
Covered by internal rating model:	19 840 537	20 110 508
Clients with income not exceeding EUR 500 million	15 465 445	14 728 851
Clients assessed by central model with income exceeding EUR 500 million	4 375 092	5 381 657
Specialized lending exposures	7 701 069	8 149 239
Debt securities, not covered by internal rating model	11 727 737	12 352 160
Repo transactions, not covered by internal rating model	-	-
Other, not covered by internal rating model	22 816 068	21 073 538
<b>Impaired loans</b>	<b>2 313 932</b>	<b>2 339 434</b>
<b>Total loans and advances to customers</b>	<b>122 442 186</b>	<b>119 033 599</b>

**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.



## Notes to financial statements (cont.)

(in PLN thousand)

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

30.06.2017	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
<b>FINANCIAL ASSETS</b>				
Derivatives	1 393 153	(987 865)	(211 138)	194 150
<b>TOTAL</b>	<b>1 393 153</b>	<b>(987 865)</b>	<b>(211 138)</b>	<b>194 150</b>

30.06.2017	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
<b>FINANCIAL LIABILITIES</b>				
Derivatives	2 522 248	(987 865)	(1 378 838)	155 545
<b>TOTAL</b>	<b>2 522 248</b>	<b>(987 865)</b>	<b>(1 378 838)</b>	<b>155 545</b>

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	
<b>FINANCIAL ASSETS</b>				
Derivatives	1 890 313	(1 429 548)	(182 765)	278 000
<b>TOTAL</b>	<b>1 890 313</b>	<b>(1 429 548)</b>	<b>(182 765)</b>	<b>278 000</b>

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	
<b>FINANCIAL LIABILITIES</b>				
Derivatives	3 260 756	(1 429 548)	(1 651 984)	179 224
<b>TOTAL</b>	<b>3 260 756</b>	<b>(1 429 548)</b>	<b>(1 651 984)</b>	<b>179 224</b>

## Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

30.06.2017	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
<b>FINANCIAL ASSETS</b>					
Derivatives	1 285 296	Derivative financial instruments (held for trading)	1 385 345	100 049	23
	107 857	Hedging instruments	259 248	151 391	25
<b>FINANCIAL LIABILITIES</b>					
Derivatives	1 220 390	Derivative financial instruments (held for trading)	1 499 730	279 340	23
	1 301 858	Hedging instruments	1 306 573	4 715	25

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
<b>FINANCIAL ASSETS</b>					
Derivatives	1 833 754	Derivative financial instruments (held for trading)	1 955 499	121 745	23
	56 559	Hedging instruments	289 752	233 193	25
<b>FINANCIAL LIABILITIES</b>					
Derivatives	1 624 494	Derivative financial instruments (held for trading)	1 949 335	324 841	23
	1 636 262	Hedging instruments	1 638 718	2 456	25

## Notes to financial statements (cont.)

(in PLN thousand)

**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	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
<b>GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED</b>				
- not past due	-	-	736 379	633 702
- up to 1 month	-	-	26 625	91 713
- between 1 month and 3 months	-	-	19 442	16 619
- between 3 months and 1 year	-	-	150 024	196 924
- between 1 year and 5 years	7 271	8 192	2 010 641	2 476 782
- above 5 years	-	-	1 901 896	1 411 099
<b>Total gross carrying amount</b>	<b>7 271</b>	<b>8 192</b>	<b>4 845 007</b>	<b>4 826 839</b>
<b>ALLOWANCE FOR IMPAIRMENT</b>				
- not past due	-	-	(210 955)	(294 032)
- up to 1 month	-	-	(5 513)	(27 867)
- between 1 month and 3 months	-	-	(7 308)	(5 750)
- between 3 months and 1 year	-	-	(73 012)	(112 383)
- between 1 year and 5 years	(7 271)	(8 192)	(1 420 760)	(1 538 621)
- above 5 years	-	-	(1 420 623)	(1 139 166)
<b>Total allowance for impairment</b>	<b>(7 271)</b>	<b>(8 192)</b>	<b>(3 138 171)</b>	<b>(3 117 819)</b>
<b>Net carrying amount of exposure individually impaired</b>	<b>-</b>	<b>-</b>	<b>1 706 836</b>	<b>1 709 020</b>
<b>GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED</b>				
- not past due	-	-	186 758	158 064
- up to 1 month	-	-	52 894	68 614
- between 1 month and 3 months	-	-	56 716	54 001
- between 3 months and 1 year	-	-	289 152	275 341
- between 1 year and 5 years	-	-	1 118 304	1 165 552
- above 5 years	9 800	9 800	952 301	905 203
<b>Total gross carrying amount</b>	<b>9 800</b>	<b>9 800</b>	<b>2 656 125</b>	<b>2 626 775</b>
<b>ALLOWANCE FOR IMPAIRMENT</b>				
- not past due	-	-	(66 277)	(47 813)
- up to 1 month	-	-	(17 200)	(20 823)
- between 1 month and 3 months	-	-	(20 275)	(18 903)
- between 3 months and 1 year	-	-	(148 667)	(143 406)
- between 1 year and 5 years	-	-	(928 080)	(930 466)
- above 5 years	(9 800)	(9 800)	(868 530)	(834 950)
<b>Total allowance for impairment</b>	<b>(9 800)</b>	<b>(9 800)</b>	<b>(2 049 029)</b>	<b>(1 996 361)</b>
<b>Net carrying amount of exposure collectively impaired</b>	<b>-</b>	<b>-</b>	<b>607 096</b>	<b>630 414</b>

## Notes to 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	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016
<b>GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT</b>						
- not past due	3 459 234	3 455 272	62 195 549	61 768 472	56 870 208	53 518 115
- up to 30 days	-	-	88 463	94 810	937 599	1 269 909
- between 30 days and 60 days	-	-	13 463	11 356	195 243	169 422
- above 60 days	-	-	88 873	83 182	174 429	178 158
<b>Total gross carrying amount</b>	<b>3 459 234</b>	<b>3 455 272</b>	<b>62 386 348</b>	<b>61 957 820</b>	<b>58 177 479</b>	<b>55 135 604</b>
<b>IBNR PROVISION</b>						
- not past due	(579)	(593)	(293 380)	(264 727)	(94 260)	(79 646)
- up to 30 days	-	-	(4 110)	(4 999)	(23 158)	(30 590)
- between 30 days and 60 days	-	-	(2 108)	(1 322)	(10 945)	(9 530)
- above 60 days	-	-	(1 339)	(1 327)	(6 273)	(7 118)
<b>Total IBNR provision</b>	<b>(579)</b>	<b>(593)</b>	<b>(300 937)</b>	<b>(272 375)</b>	<b>(134 636)</b>	<b>(126 884)</b>
<b>Net carrying amount of exposure with no impairment</b>	<b>3 458 655</b>	<b>3 454 679</b>	<b>62 085 411</b>	<b>61 685 445</b>	<b>58 042 843</b>	<b>55 008 720</b>

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
<b>IMPAIRED EXPOSURES</b>				
Gross carrying amount	17 071	17 992	7 501 132	7 453 614
Allowance for impairment	(17 071)	(17 992)	(5 187 200)	(5 114 180)
<b>Total net carrying amount</b>	<b>-</b>	<b>-</b>	<b>2 313 932</b>	<b>2 339 434</b>
<b>EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED</b>				
Gross carrying amount, in this:	-	-	8 876	23 231
<i>Exposure with collateral value included in expected discounted cash flow, in this:</i>	-	-	8 876	23 231
- <i>Past due exposures</i>	-	-	3 425	7 338
IBNR provision	-	-	(984)	(2 380)
<b>Total net carrying amount</b>	<b>-</b>	<b>-</b>	<b>7 892</b>	<b>20 851</b>
<b>EXPOSURES WITH NO IMPAIRMENT TRIGGERS</b>				
Gross carrying amount	3 459 234	3 455 272	120 554 951	117 070 193
IBNR provision	(579)	(593)	(434 589)	(396 879)
<b>Total net carrying amount</b>	<b>3 458 655</b>	<b>3 454 679</b>	<b>120 120 362</b>	<b>116 673 314</b>

## Notes to financial statements (cont.)

(in PLN thousand)

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

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (*)	
AA+ to AA-	-	297 088	-	-	297 088
A+ to A-	2 186 419	21 153 796	4 287 126	306 940	27 934 281
no rating	27 987	663 568	-	-	691 555
<b>Total</b>	<b>2 214 406</b>	<b>22 114 452</b>	<b>4 287 126</b>	<b>306 940</b>	<b>28 922 924</b>

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

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

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (***)	
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
<b>Total</b>	<b>721 031</b>	<b>31 810 862</b>	<b>2 925 861</b>	<b>700 960</b>	<b>36 158 714</b>

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

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

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

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

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA+ to AAA-	5	-	-	-	-	-	5
AA+ to AA-	48 448	-	-	-	-	-	48 448
A+ to A-	610 952	99 814	-	56 248	-	-	767 014
BBB+ to BBB-	28 998	-	-	5 955	-	-	34 953
no rating	272 507	83 641	240 980	44 492	152 553	-	794 173
<b>Total</b>	<b>960 910</b>	<b>183 455</b>	<b>240 980</b>	<b>106 695</b>	<b>152 553</b>	<b>-</b>	<b>1 644 593</b>

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

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA+ to 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
<b>Total</b>	<b>1 381 720</b>	<b>249 177</b>	<b>324 602</b>	<b>54 550</b>	<b>235 202</b>	<b>-</b>	<b>2 245 251</b>

# Notes to financial statements (cont.)

(in PLN thousand)

## Forbearance measures

The identifying process of forbore exposures has not changed in relation to the one described in the unconsolidated financial statements of the Bank for the year ended 31 December 2016.

Share of forbore exposures in the Bank loan portfolio

	30.06.2017	31.12.2016
<b>LOANS AND ADVANCES TO CUSTOMERS</b>		
<b>Exposures with no impairment, of which:</b>	<b>120 128 254</b>	<b>116 694 165</b>
forborne exposures	452 367	521 923
<b>Impaired exposures, of which:</b>	<b>2 313 932</b>	<b>2 339 434</b>
forborne exposures	1 501 145	1 423 229
<b>Total net carrying amount, of which:</b>	<b>122 442 186</b>	<b>119 033 599</b>
forborne exposures	1 953 512	1 945 152

The quality analysis of forbore exposures

	30.06.2017	31.12.2016
<b>Exposures with no impairment</b>		
Gross carrying amount	465 067	534 259
IBNR provision	(12 700)	(12 336)
<b>Net carrying amount</b>	<b>452 367</b>	<b>521 923</b>
<b>Impaired exposures</b>		
Gross carrying amount, of which:	3 215 101	3 091 811
exposures individually impaired	2 859 481	2 765 086
exposures collectively impaired	355 620	326 725
Allowance for impairment, of which:	(1 713 956)	(1 668 582)
exposures individually impaired	(1 547 314)	(1 518 812)
exposures collectively impaired	(166 642)	(149 770)
<b>Net carrying amount</b>	<b>1 501 145</b>	<b>1 423 229</b>
<b>Total net carrying amount</b>	<b>1 953 512</b>	<b>1 945 152</b>

## 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 have been proposed recently. 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.

# Notes to financial statements (cont.)

(in PLN thousand)

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

## Structure of CHF loans to individuals

	30.06.2017	31.12.2016
<b>Gross carrying amount, of which:</b>	<b>3 644 500</b>	<b>4 103 581</b>
- denominated in CHF	3 619 611	4 072 572
- indexed to CHF	24 889	31 009
<b>Impairment allowances, of which:</b>	<b>(84 866)</b>	<b>(88 990)</b>
- denominated in CHF	(84 536)	(88 663)
- indexed to CHF	(330)	(327)
<b>Net carrying amount, of which:</b>	<b>3 559 634</b>	<b>4 014 591</b>
- denominated in CHF	3 535 075	3 983 909
- indexed to CHF	24 559	30 682

## Quality of CHF loans to individuals

	30.06.2017	31.12.2016
<b>Gross carrying amount of exposures with no impairment, of which:</b>	<b>3 489 232</b>	<b>3 940 307</b>
- not past due	3 288 344	3 629 664
- up to 30 days	148 317	254 847
- between 30 days and 60 days	37 572	42 417
- above 60 days	14 999	13 379
<b>IBNR provisions for exposures with no impairment, of which:</b>	<b>(9 897)</b>	<b>(10 208)</b>
- not past due	(4 697)	(3 812)
- up to 30 days	(2 956)	(4 341)
- between 30 days and 60 days	(1 533)	(1 465)
- above 60 days	(711)	(590)
<b>Gross carrying amount of impaired exposures, of which:</b>	<b>155 268</b>	<b>163 274</b>
- not past due	28 847	27 090
- up to 1 month	10 784	13 256
- between 1 month and 3 months	8 378	12 014
- between 3 months and 1 year	22 655	24 676
- between 1 year and 5 years	49 678	50 362
- above 5 years	34 926	35 876
<b>Allowances for impairment, of which:</b>	<b>(74 969)</b>	<b>(78 782)</b>
- not past due	(5 939)	(5 769)
- up to 1 month	(2 130)	(2 610)
- between 1 month and 3 months	(1 904)	(2 712)
- between 3 months and 1 year	(7 660)	(8 636)
- between 1 year and 5 years	(30 238)	(31 571)
- above 5 years	(27 098)	(27 484)
<b>Total net carrying amount</b>	<b>3 559 634</b>	<b>4 014 591</b>

The average LTV for CHF loans to individuals granted by the Bank amounted as of 30 June 2017 to 51.2% (55.5% as of 31 December 2016), with an average LTV for the whole portfolio of 66.0% (66.0% as of 31 December 2016).

# Notes to financial statements (cont.)

(in PLN thousand)

## Credit exposures towards Ukraine

As at 30 June 2017, the net balance sheet value of exposures towards Ukraine amounted to PLN 29 million (which constitutes 0.02% of total Bank exposures), less by PLN 82 million in comparison to the end of December 2016.

The below table presents the Bank exposure towards the Ukrainian entities

	30.06.2017	31.12.2016
<b>Balance sheet exposures</b>		
Loans and advances to customers	289 073	320 736
<b>Total gross carrying amount</b>	<b>289 073</b>	<b>320 736</b>
IBNR provision / Allowance for impairment	(260 069)	(209 687)
<b>Total net carrying amount</b>	<b>29 004</b>	<b>111 049</b>
<b>Off-balance sheet exposures</b>		
Credit lines granted	331	428
<b>Total gross carrying amount</b>	<b>331</b>	<b>428</b>
IBNR provision	(1)	-
<b>Total net carrying amount</b>	<b>330</b>	<b>428</b>

## Market risk of the trading book

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

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

	30.06.2017	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	57	13	278	1 918
interest rate risk	1 372	773	1 241	1 925
Trading portfolio	1 355	772	1 307	3 030

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



# Notes to financial statements (cont.)

(in PLN thousand)

## Interest rate risk of the banking book

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

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

SENSITIVITY IN %	30.06.2017	31.12.2016
NII	(8.03)	(8.00)
EVE	0.36	(0.89)

## Foreign currency exchange risk

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

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

CURRENCY	30.06.2017	31.12.2016
Currencies total (*)	399	183

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

## Currency exposure of the Bank

30.06.2017	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	17 658 701	17 184 151	12 299 627	12 754 706	19 471
USD	4 950 053	8 489 678	11 471 975	7 986 869	(54 519)
CHF	3 660 549	883 464	5 205 356	7 984 784	(2 343)
GBP	229 287	894 463	737 992	70 507	2 309
CZK	150 451	202 211	338 184	286 398	26
Other currencies	313 022	318 664	389 831	380 274	3 915
<b>TOTAL</b>	<b>26 962 063</b>	<b>27 972 631</b>	<b>30 442 965</b>	<b>29 463 538</b>	<b>(31 141)</b>

31.12.2016	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVATIVES		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
<b>TOTAL</b>	<b>29 481 425</b>	<b>25 580 345</b>	<b>25 243 531</b>	<b>29 182 579</b>	<b>(37 968)</b>

## Notes to financial statements (cont.)

(in PLN thousand)

**Liquidity risk**

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

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

## Adjusted liquidity gap

30.06.2017	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	35 752 861	3 907 723	27 066 040	47 899 036	52 917 931	167 543 591
Balance sheet liabilities	14 708 274	6 409 275	18 296 001	16 770 047	111 359 994	167 543 591
Off-balance sheet assets/liabilities (net)	(4 745 740)	(622 054)	106 256	1 626 312	2 588 740	(1 046 486)
<b>Periodic gap</b>	<b>16 298 847</b>	<b>(3 123 606)</b>	<b>8 876 295</b>	<b>32 755 301</b>	<b>(55 853 323)</b>	<b>(1 046 486)</b>
<b>Cumulated gap</b>	<b>-</b>	<b>13 175 241</b>	<b>22 051 536</b>	<b>54 806 837</b>	<b>(1 046 486)</b>	<b>-</b>

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)
<b>Periodic gap</b>	<b>17 281 239</b>	<b>(2 878 101)</b>	<b>8 290 441</b>	<b>30 929 636</b>	<b>(54 881 899)</b>	<b>(1 258 684)</b>
<b>Cumulated gap</b>	<b>-</b>	<b>14 403 138</b>	<b>22 693 579</b>	<b>53 623 215</b>	<b>(1 258 684)</b>	<b>-</b>

## Notes to financial statements (cont.)

(in PLN thousand)

## Structure of financial liabilities by contractual maturity (\*)

30.06.2017	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
<b>BALANCE SHEET LIABILITIES</b>						
Amounts due to banks (**)	1 555 480	7 906	24 463	398 322	1 264 377	3 250 548
Amounts due to customers	103 831 619	12 848 963	17 636 634	929 516	41 155	135 287 887
Debt securities issued	-	-	86 625	-	-	86 625
Financial liabilities held for trading	-	-	82 360	66 469	140 979	289 808
<b>Total</b>	<b>105 387 099</b>	<b>12 856 869</b>	<b>17 830 082</b>	<b>1 394 307</b>	<b>1 446 511</b>	<b>138 914 868</b>
<b>OFF-BALANCE SHEET COMMITMENTS</b>						
Financial liabilities granted	32 109 207	-	-	-	-	32 109 207
Guarantees issued	12 674 024	-	-	-	-	12 674 024
<b>Total</b>	<b>44 783 231</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44 783 231</b>

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
<b>BALANCE SHEET LIABILITIES</b>						
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
<b>Total</b>	<b>109 569 648</b>	<b>11 730 180</b>	<b>18 707 255</b>	<b>916 084</b>	<b>2 025 682</b>	<b>142 948 849</b>
<b>OFF-BALANCE SHEET COMMITMENTS</b>						
Financial liabilities granted	32 305 984	-	-	-	-	32 305 984
Guarantees issued	12 942 576	-	-	-	-	12 942 576
<b>Total</b>	<b>45 248 560</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45 248 560</b>

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

(\*\*) Including Central Bank.

# Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

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

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.06.2017	20 966	20 504	104 456	814 403	355 647	1 315 976
31.12.2016	26 757	51 901	131 714	1 224 593	440 202	1 875 167

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.06.2017						
Inflows	25 882 622	7 402 959	6 809 804	9 467 232	2 905 998	52 468 615
Outflows	26 010 650	7 445 940	6 958 017	10 038 107	3 139 670	53 592 384
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

## Operational risk

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

# Notes to financial statements (cont.)

(in PLN thousand)

## **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 30 June 2017 and 31 December 2016, the Bank classified the financial assets and liabilities measured at fair value into the following three categories based on the following hierarchy:

- Level 1: mark-to-market, applies to securities quoted on active markets,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument, applies to illiquid government, municipal, corporate and central bank debt securities, linear and non-linear derivative instruments of interest rate markets (including forward transactions on debt securities), equity instruments, commodities and foreign currency exchange, except for those cases that meet the criteria of Level 3,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors, applicable to corporate and municipal debt securities and for derivatives 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 of front-office units. The methodology of fair value measurement, including the changes of its parameterization are subject to approval of Assets and Liabilities Committee (ALCO). The adequacy of measurement methods is subject to on-going analysis and periodical reviews in the framework of model risk management. The same Risk Management Division unit performs the assessment of adequacy and significance of risk factors and assignment of valuation models to appropriate fair value level, according to established hierarchy of classification.

## Notes to financial statements (cont.)

(in PLN thousand)

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

30.06.2017	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>Assets:</b>	<b>19 590 636</b>	<b>6 465 320</b>	<b>91 502</b>	<b>26 147 458</b>
Financial assets held for trading	2 166 880	27 483	20 043	2 214 406
Derivative financial instruments, including:	-	1 385 345	-	1 385 345
- Banks	-	960 910	-	960 910
- Customers	-	424 435	-	424 435
Hedging instruments, including:	-	259 248	-	259 248
- Banks	-	106 695	-	106 695
- Customers	-	152 553	-	152 553
Securities available for sale	17 423 756	4 793 244	71 459	22 288 459
<b>Liabilities:</b>	<b>228 181</b>	<b>2 867 930</b>	<b>-</b>	<b>3 096 111</b>
Financial liabilities held for trading	228 181	61 627	-	289 808
Derivative financial instruments, including:	-	1 499 730	-	1 499 730
- Banks	-	923 733	-	923 733
- Customers	-	575 997	-	575 997
Hedging instruments, including:	-	1 306 573	-	1 306 573
- Banks	-	1 301 855	-	1 301 855
- Customers	-	4 718	-	4 718

31.12.2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>Assets:</b>	<b>20 802 716</b>	<b>13 718 142</b>	<b>383 594</b>	<b>34 904 452</b>
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
<b>Liabilities:</b>	<b>527 836</b>	<b>3 733 382</b>	<b>-</b>	<b>4 261 218</b>
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

## Notes to financial statements (cont.)

(in PLN thousand)

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

I HALF 2017	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
<b>Opening balance</b>	<b>66 113</b>	<b>-</b>	<b>317 481</b>
Increases, including:	67 706	-	14 175
Reclassification	-	-	-
Acquisition	67 000	-	-
Settlement	-	-	-
Gains on financial instruments	706	-	14 175
recognized in the income statement	706	-	3 526
recognized in revaluation reserves	-	-	10 649
Decreases, including:	(113 776)	-	(260 197)
Reclassification	-	-	-
Settlement/redemption	(680)	-	(252 697)
Sale	(113 089)	-	-
Losses on financial instruments	(7)	-	(7 500)
recognized in the income statement	(7)	-	(6 759)
recognized in revaluation reserves	-	-	(741)
<b>Closing balance</b>	<b>20 043</b>	<b>-</b>	<b>71 459</b>
<b>Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:</b>	<b>43</b>	<b>-</b>	<b>10 649</b>
Income statement:	43	-	-
net interest income	40	-	-
result on financial assets and liabilities held for trading	3	-	-
Other comprehensive income	-	-	10 649

2016	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
<b>Opening balance</b>	<b>47 389</b>	<b>943</b>	<b>432 447</b>
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)
<b>Closing balance</b>	<b>66 113</b>	<b>-</b>	<b>317 481</b>
<b>Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:</b>	<b>25</b>	<b>-</b>	<b>(1 187)</b>
Income statement:	25	-	271
net interest income	41	-	271
result on financial assets and liabilities held for trading	(16)	-	-
Other comprehensive income	-	-	(1 458)

## Notes to 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 30 June 2017 there were no 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 30 June 2017 and 31 December 2016 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 30.06.2017	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 30.06.2017	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate debt securities	20 043	Discounted cash flow	Credit spread	0.60%-2.04%	244	(449)

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

### **Financial instruments that are not measured at fair value in the 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 30 June 2017 and on 31 December 2016, the Bank classified the financial assets and liabilities not measured at fair value in the unconsolidated 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, 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 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.



## Notes to financial statements (cont.)

(in PLN thousand)

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.

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

30.06.2017	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
<b>Assets</b>					
Cash and due from Central Bank	6 777 229	6 777 229	2 760 030	4 017 199	-
Loans and advance to banks	3 458 655	3 458 472	-	1 547 403	1 911 069
Loans and advances to customers	122 442 186	120 810 296	-	6 047 111	114 763 185
Debt securities held to maturity	4 287 126	4 304 999	4 304 999	-	-
<b>Total Assets</b>	<b>136 965 196</b>	<b>135 350 996</b>	<b>7 065 029</b>	<b>11 611 713</b>	<b>116 674 254</b>
<b>Liabilities</b>					
Amounts due to Central Bank	6 031	6 064	-	-	6 064
Amounts due to other banks	3 174 069	3 210 956	-	585 675	2 625 281
Amounts due to customers	134 873 277	135 171 741	-	311 080	134 860 661
Debt securities issued	86 054	85 703	-	85 703	-
<b>Total Liabilities</b>	<b>138 139 431</b>	<b>138 474 464</b>	<b>-</b>	<b>982 458</b>	<b>137 492 006</b>

31.12.2016	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
<b>ASSETS</b>					
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	-
<b>Total assets</b>	<b>131 275 481</b>	<b>130 614 806</b>	<b>5 559 220</b>	<b>10 181 265</b>	<b>114 874 321</b>
<b>LIABILITIES</b>					
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	-
<b>Total liabilities</b>	<b>141 740 290</b>	<b>142 102 823</b>	<b>-</b>	<b>2 218 831</b>	<b>139 883 992</b>

# Notes to financial statements (cont.)

(in PLN thousand)

## 7. Interest income and expense

### Interest income

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Loans and other receivables from customers	1 130 804	2 220 954	1 054 819	2 117 128
Interbank placements	20 314	39 524	17 409	42 928
Reverse repo transactions	6 968	18 715	12 619	26 889
Investment securities	163 820	346 403	181 377	358 645
Hedging derivatives	32 338	67 043	36 254	71 772
Financial assets held for trading	6 181	10 036	1 801	3 861
<b>Total</b>	<b>1 360 425</b>	<b>2 702 675</b>	<b>1 304 279</b>	<b>2 621 223</b>

### Interest expense

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Deposits from customers	(226 194)	(455 580)	(225 894)	(479 665)
Interbank deposits	(4 419)	(9 214)	(6 757)	(10 643)
Repo transactions	(17 119)	(33 840)	(11 284)	(20 986)
Loans and advances received	(2 629)	(5 591)	(2 889)	(6 174)
Debt securities issued	(236)	(863)	(3 825)	(10 292)
<b>Total</b>	<b>(250 597)</b>	<b>(505 088)</b>	<b>(250 649)</b>	<b>(527 760)</b>

## 8. Fee and commission income and expense

### Fee and commission income

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Accounts maintenance, payment orders and cash transactions	150 443	301 611	162 980	315 564
Payment cards	144 878	282 364	148 691	289 110
Loans and advances	106 194	200 864	120 892	222 812
Margin on foreign exchange transactions with clients	109 897	216 030	113 500	212 332
Investment products sales intermediation	46 556	91 679	42 619	87 458
Securities operations	3 309	9 536	2 714	7 694
Custody activity	16 665	33 293	15 932	31 343
Guarantees, letters of credit and similar transactions	13 251	26 435	15 256	29 942
Other	7 472	14 552	8 073	17 561
<b>Total</b>	<b>598 665</b>	<b>1 176 364</b>	<b>630 657</b>	<b>1 213 816</b>

### Fee and commission expense

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Payment cards	(56 613)	(105 714)	(52 664)	(109 944)
Money orders and transfers	(5 337)	(10 468)	(5 094)	(10 226)
Securities and derivatives operations	(5 489)	(9 628)	(5 006)	(8 422)
Custody activity	(3 850)	(7 356)	(3 432)	(7 736)
Acquisition services	(6 473)	(12 334)	(9 545)	(14 643)
Accounts maintenance	(1 424)	(2 533)	(1 262)	(2 267)
Other	(379)	(689)	(342)	(423)
<b>Total</b>	<b>(79 565)</b>	<b>(148 722)</b>	<b>(77 345)</b>	<b>(153 661)</b>

# Notes to financial statements (cont.)

(in PLN thousand)

## 9. Dividend income

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Subsidiaries	25 286	168 402	-	64 816
Associates	-	-	51 342	51 342
Other entities	19 254	19 402	16 394	16 394
<b>Total</b>	<b>44 540</b>	<b>187 804</b>	<b>67 736</b>	<b>132 552</b>

## 10. Result on financial assets and liabilities held for trading

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Foreign currency exchange result	(17 408)	(25 260)	(2 443)	(3 787)
Gains (losses) on derivatives	11 351	20 869	7 752	15 692
Gains (losses) on securities	4 981	8 068	3 906	13 490
<b>Total</b>	<b>(1 076)</b>	<b>3 677</b>	<b>9 215</b>	<b>25 395</b>

## 11. Gains (losses) on disposal

### Realized gains

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Loans and other financial receivables (*)	27	93	5 796	155 720
Available for sale financial assets – debt instruments	4 944	5 753	4 934	5 527
Available for sale financial assets – equity instruments (**)	-	-	262 827	262 827
Held to maturity investments	176	176	-	-
<b>Total</b>	<b>5 147</b>	<b>6 022</b>	<b>273 557</b>	<b>424 074</b>

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

### Realized losses

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Available for sale financial assets – debt instruments	-	-	(55)	(183)
Debt securities issued	(29)	(80)	(4)	(8)
<b>Total</b>	<b>(29)</b>	<b>(80)</b>	<b>(59)</b>	<b>(191)</b>

<b>Net realized profit</b>	<b>5 118</b>	<b>5 942</b>	<b>273 498</b>	<b>423 883</b>
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# Notes to financial statements (cont.)

(in PLN thousand)

## 12. Administrative expenses

### Personnel expenses

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Wages and salaries	(360 255)	(711 176)	(356 199)	(709 994)
Insurance and other charges related to employees	(65 296)	(129 090)	(65 419)	(129 836)
Share-based payments expenses	(6 198)	(9 723)	(3 719)	(6 458)
<b>Total</b>	<b>(431 749)</b>	<b>(849 989)</b>	<b>(425 337)</b>	<b>(846 288)</b>

### Other administrative expenses

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
General expenses	(223 186)	(439 982)	(236 277)	(471 211)
Taxes and charges	(8 553)	(18 715)	(8 972)	(19 019)
Bank Guarantee Fund fee	(22 212)	(221 224)	(63 996)	(130 307)
Financial supervision authority fee (KNF)	-	(11 204)	(8 247)	(16 974)
Tax on certain financial institutions	(127 531)	(252 685)	(120 204)	(200 844)
<b>Total</b>	<b>(381 482)</b>	<b>(943 810)</b>	<b>(437 696)</b>	<b>(838 355)</b>

<b>Total administrative expenses</b>	<b>(813 231)</b>	<b>(1 793 799)</b>	<b>(863 033)</b>	<b>(1 684 643)</b>
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From 1 January 2017 new rules for making contributions to Bank Guarantee Fund (hereinafter 'BGF'), defined in the Act of 10 June 2016 on Bank Guarantee Fund, deposit guarantee schemes and resolution of banks (hereinafter 'BGF Act'), have to be applied.

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

As a result of application of the Interpretation IFRIC 21 Levies for recognition of the above obligations, the costs of quarterly contribution to deposit guarantee fund of banks in the amount of PLN 44 327 thousand and the costs of annual contribution to resolution fund of banks in the amount of 176 897 thousand are charged to the income statement of Bank Pekao for the first half of 2017.

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

## Notes to financial statements (cont.)

(in PLN thousand)

## 13. Depreciation and amortization

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Property, plant and equipment	(40 307)	(80 320)	(39 672)	(80 282)
Investment property	(85)	(170)	(127)	(272)
Intangible assets	(40 641)	(80 617)	(41 566)	(82 158)
<b>Total</b>	<b>(81 033)</b>	<b>(161 107)</b>	<b>(81 365)</b>	<b>(162 712)</b>

## 14. Net other operating income and expenses

## Other operating income

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Rental income	5 649	11 461	5 813	11 471
Miscellaneous income	2 203	4 268	2 630	4 837
Recovery of debt collection costs	3 414	6 500	3 101	6 425
Excess payments, repayments	565	971	380	1 208
Compensation, recoveries, penalty fees and fines received	6 331	37 301	1 761	2 208
Refunding of administrative expenses	1 033	2 189	1 091	2 188
Income from written off liabilities	2	9	153	162
Releases of impairment allowances for litigation and other assets	115	148	86	148
Other	1 097	1 459	884	1 341
<b>Total</b>	<b>20 409</b>	<b>64 306</b>	<b>15 899</b>	<b>29 988</b>

## Other operating expenses

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Credit insurance expenses	(2 137)	(4 647)	(2 891)	(5 687)
Sundry expenses	(1 369)	(2 567)	(1 799)	(3 566)
Reimbursement and deficiencies	(343)	(2 481)	(1 029)	(1 611)
Customers complaints expenses	(304)	(561)	(401)	(1 120)
Impairment allowance for litigations and other assets	(8)	(160)	(1 380)	(1 423)
Costs of litigation and claims	(451)	(1 531)	(322)	(700)
Compensation, penalty fees and fines paid	(85)	(172)	(53)	(122)
Other	(3 665)	(6 593)	(3 947)	(6 555)
<b>Total</b>	<b>(8 362)</b>	<b>(18 712)</b>	<b>(11 822)</b>	<b>(20 784)</b>
<b>Net other operating income and expenses</b>	<b>12 047</b>	<b>45 594</b>	<b>4 077</b>	<b>9 204</b>

## Notes to financial statements (cont.)

(in PLN thousand)

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

I HALF 2017	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
<b>Impairment of financial assets and off-balance sheet commitments</b>								
Loans and advances to banks measured at amortized cost	18 585	417	69	-	(409)	(1 012)	17 650	(8)
Loans and advances to customers measured at amortized cost	5 513 439	589 874	19 706	(52 689)	(356 401)	(91 156)	5 622 773	(233 473)
Financial assets available for sale	1 257	-	-	-	-	-	1 257	-
Off-balance sheet commitments	226 322	37 242	-	-	(44 638)	(1 110)	217 816	7 396
<b>Total financial assets and off-balance sheet commitments</b>	<b>5 759 603</b>	<b>627 533</b>	<b>19 775</b>	<b>(52 689)</b>	<b>(401 448)</b>	<b>(93 278)</b>	<b>5 859 496</b>	<b>(226 085)</b>
<b>Impairment of other assets</b>								
Investments in subsidiaries and associates	73 845	-	-	-	-	-	73 845	-
Intangible assets	-	-	-	-	-	-	-	-
Property, plant and equipment	7 758	-	-	(983)	-	-	6 775	-
Investment properties	879	-	-	-	-	-	879	-
Other	75 737	160	917	(31)	(148)	(1 765)	74 870	(12)
<b>Total impairment of other assets</b>	<b>158 219</b>	<b>160</b>	<b>917</b>	<b>(1 014)</b>	<b>(148)</b>	<b>(1 765)</b>	<b>156 369</b>	<b>(12)</b>
<b>Total</b>	<b>5 917 822</b>	<b>627 693</b>	<b>20 692</b>	<b>(53 703)</b>	<b>(401 596)</b>	<b>(95 043)</b>	<b>6 015 865</b>	<b>(226 097)</b>

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

## Notes to financial statements (cont.)

(in PLN thousand)

I HALF 2016	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT (**)
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
<b>Impairment of financial assets and off-balance sheet commitments</b>								
Loans and advances to banks measured at amortized cost	20 393	1 043	803	-	(2 949)	(711)	18 579	1 906
Loans and advances to customers measured at amortized cost	5 630 902	570 158	67 584	(123 123)	(368 817)	(42 738)	5 733 966	(201 341)
Financial assets available for sale	100	-	-	-	-	(100)	-	-
Off-balance sheet commitments	124 583	114 010	696	-	(53 115)	-	186 174	(60 895)
<b>Total financial assets and off-balance sheet commitments</b>	<b>5 775 978</b>	<b>685 211</b>	<b>69 083</b>	<b>(123 123)</b>	<b>(424 881)</b>	<b>(43 549)</b>	<b>5 938 719</b>	<b>(260 330)</b>
<b>Impairment of other assets</b>								
Investments in subsidiaries and associates	73 905	-	-	-	-	(60)	73 845	-
Intangible assets	10 961	-	-	(10 961)	-	-	-	-
Property, plant and equipment	8 375	-	-	(371)	-	-	8 004	-
Investment properties	2 530	-	-	(926)	-	(725)	879	-
Other	73 927	1 423	2 704	(672)	(148)	(654)	76 580	(1 275)
<b>Total impairment of other assets</b>	<b>169 698</b>	<b>1 423</b>	<b>2 704</b>	<b>(12 930)</b>	<b>(148)</b>	<b>(1 439)</b>	<b>159 308</b>	<b>(1 275)</b>
<b>Total</b>	<b>5 945 676</b>	<b>686 634</b>	<b>71 787</b>	<b>(136 053)</b>	<b>(425 029)</b>	<b>(44 988)</b>	<b>6 098 027</b>	<b>(261 605)</b>

(\*) 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 260 330 thousand and proceeds from recovered bad debt in the amount of PLN 7 782 thousand, the total is PLN minus 252 548 thousand.

## Notes to financial statements (cont.)

(in PLN thousand)

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

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	103	720	-	464
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	(257)	(618)	328	1 289
<b>Total gains (losses) on disposal of property, plant and equipment and intangible assets</b>	<b>(154)</b>	<b>102</b>	<b>328</b>	<b>1 753</b>

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

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
<b>INCOME STATEMENT</b>				
<b>Current tax</b>	<b>(173 148)</b>	<b>(260 753)</b>	<b>(255 415)</b>	<b>(378 666)</b>
Current tax charge in the income statement	(172 956)	(263 813)	(255 204)	(377 698)
Adjustments related to the current tax from previous years	-	3 298	-	(288)
Other taxes (e.g. withholding tax)	(192)	(238)	(211)	(680)
<b>Deferred tax</b>	<b>22 185</b>	<b>(37 791)</b>	<b>70 024</b>	<b>44 417</b>
Occurrence and reversal of temporary differences	22 185	(37 791)	70 024	44 417
<b>Tax charge in income statement</b>	<b>(150 963)</b>	<b>(298 544)</b>	<b>(185 391)</b>	<b>(334 249)</b>
<b>EQUITY</b>				
<b>Deferred tax</b>	<b>(12 693)</b>	<b>(44 535)</b>	<b>60 660</b>	<b>47 570</b>
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	5 245	6 099	1 194	(6 421)
revaluation of available for sale financial assets – debt securities	(21 631)	(40 477)	23 087	16 060
revaluation of available for sale financial assets – equity securities	3 693	(10 157)	36 379	37 931
<b>Tax charge in other comprehensive income</b>	<b>(12 693)</b>	<b>(44 535)</b>	<b>60 660</b>	<b>47 570</b>
<b>Total charge</b>	<b>(163 656)</b>	<b>(343 079)</b>	<b>(124 731)</b>	<b>(286 679)</b>



## Notes to financial statements (cont.)

(in PLN thousand)

### 18. Earnings per share

#### Basic earnings per share

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

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Net profit	522 984	980 203	700 921	1 303 902
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	1.99	3.73	2.67	4.97

#### Diluted earnings per share

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

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

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Net profit	522 984	980 203	700 921	1 303 902
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	1.99	3.73	2.67	4.97

### 19. Dividend payment

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

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

The payment of the dividend was on 6 July 2017.

## Notes to financial statements (cont.)

(in PLN thousand)

## 20. Cash and balances with Central Bank

Cash and due from Central Bank	30.06.2017	31.12.2016	30.06.2016
Cash	2 704 437	2 639 526	2 720 151
Current account at Central Bank	4 017 199	1 718 775	3 144 999
Other	-	1 503 041	12
<b>Total</b>	<b>6 721 636</b>	<b>5 861 342</b>	<b>5 865 162</b>

Amounts due to Central Bank	30.06.2017	31.12.2016	30.06.2016
Term deposits	6 031	6 091	6 038
<b>Total</b>	<b>6 031</b>	<b>6 091</b>	<b>6 038</b>

## Cash and balances with Central Bank by currency

30.06.2017	ASSETS	LIABILITIES
PLN	5 847 111	6 031
EUR	439 725	-
USD	174 668	-
CHF	59 926	-
Other currencies	200 206	-
<b>Total</b>	<b>6 721 636</b>	<b>6 031</b>

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

30.06.2016	ASSETS	LIABILITIES
PLN	4 767 590	6 038
EUR	516 091	-
USD	329 001	-
CHF	74 035	-
Other currencies	178 445	-
<b>Total</b>	<b>5 865 162</b>	<b>6 038</b>

## Notes to financial statements (cont.)

(in PLN thousand)

## 21. Loans and advances to banks

## Loans and advances to banks by product type

	30.06.2017	31.12.2016	30.06.2016
Current accounts	225 099	117 659	160 422
Interbank placements	1 013 146	267 827	658 366
Loans and advances	170 984	171 743	272 463
Cash collaterals	1 477 654	1 771 842	2 289 319
Reverse repo transactions	309 860	703 635	805 709
Debt securities	31 955	60 700	60 732
Cash in transit	247 607	379 858	417 143
<b>Total gross amount</b>	<b>3 476 305</b>	<b>3 473 264</b>	<b>4 664 154</b>
Impairment allowances	(17 650)	(18 585)	(18 579)
<b>Total net amount</b>	<b>3 458 655</b>	<b>3 454 679</b>	<b>4 645 575</b>

## Loans and advances to banks by quality

	30.06.2017	31.12.2016	30.06.2016
Loans and advances to banks, including:			
non impaired (gross)	3 459 234	3 455 272	4 646 550
impaired (gross)	17 071	17 992	17 604
individual impairment allowances	(7 271)	(8 192)	(7 804)
collective impairment allowances (*)	(10 379)	(10 393)	(10 775)
<b>Total</b>	<b>3 458 655</b>	<b>3 454 679</b>	<b>4 645 575</b>

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

## Loans and advances to banks by contractual maturities

	30.06.2017	31.12.2016	30.06.2016
Loans and advances to banks, including:			
up to 1 month	3 288 639	3 273 858	4 362 075
between 1 and 3 months	930	436	1 760
between 3 months and 1 year	129 303	110 827	127 818
between 1 and 5 years	32 043	60 656	84 171
over 5 years	50	2	60 631
past due	25 340	27 485	27 699
<b>Total gross amount</b>	<b>3 476 305</b>	<b>3 473 264</b>	<b>4 664 154</b>
Impairment allowances	(17 650)	(18 585)	(18 579)
<b>Total net amount</b>	<b>3 458 655</b>	<b>3 454 679</b>	<b>4 645 575</b>

## Loans and advances to banks by currency

	30.06.2017	31.12.2016	30.06.2016
PLN	958 127	1 037 761	919 713
CHF	26 131	19 462	11 085
EUR	1 782 661	2 181 400	2 979 192
USD	425 653	68 816	503 654
Other currencies	266 083	147 240	231 931
<b>Total</b>	<b>3 458 655</b>	<b>3 454 679</b>	<b>4 645 575</b>

Changes in impairment balances in the first half of 2017 and in the first half of 2016 are presented in the Note 15.

## Notes to financial statements (cont.)

(in PLN thousand)

## 22. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.06.2017	31.12.2016	30.06.2016
<b>FINANCIAL ASSETS</b>			
Debt securities	2 214 406	721 031	2 314 735
<b>Total financial assets</b>	<b>2 214 406</b>	<b>721 031</b>	<b>2 314 735</b>
<b>FINANCIAL LIABILITIES</b>			
Debt securities	289 808	673 165	786 033
<b>Total financial liabilities</b>	<b>289 808</b>	<b>673 165</b>	<b>786 033</b>

Debt securities held for trading

	30.06.2017	31.12.2016	30.06.2016
<b>FINANCIAL ASSETS</b>			
Debt securities issued by State Treasury	2 186 419	654 918	2 252 388
T- bills	-	-	-
T- bonds	2 186 419	654 918	2 252 388
Debt securities issued by banks	5 343	-	-
Debt securities issued by business entities	22 644	66 113	62 347
<b>Total financial assets</b>	<b>2 214 406</b>	<b>721 031</b>	<b>2 314 735</b>
<b>FINANCIAL LIABILITIES</b>			
Debt securities issued by State Treasury	289 808	673 165	786 033
T- bonds	289 808	673 165	786 033
<b>Total financial liabilities</b>	<b>289 808</b>	<b>673 165</b>	<b>786 033</b>

Debt securities held for trading by maturity

	30.06.2017	31.12.2016	30.06.2016
<b>FINANCIAL ASSETS</b>			
Debt securities, including:			
up to 1 month	17 058	-	1 415 803
between 1 and 3 months	-	239	1 689
between 3 months and 1 year	28 065	117 804	303 169
between 1 and 5 years	2 037 090	324 868	511 380
over 5 years	132 193	278 120	82 694
unspecified term	-	-	-
<b>Total financial assets</b>	<b>2 214 406</b>	<b>721 031</b>	<b>2 314 735</b>
<b>FINANCIAL LIABILITIES</b>			
Debt securities, including:			
up to 1 month	-	102 076	-
between 1 and 3 months	-	-	-
between 3 months and 1 year	82 360	131 194	301 219
between 1 and 5 years	66 469	263 435	360 633
over 5 years	140 979	176 460	124 181
<b>Total financial liabilities</b>	<b>289 808</b>	<b>673 165</b>	<b>786 033</b>

## Notes to financial statements (cont.)

(in PLN thousand)

## Debt securities held for trading by currency

	30.06.2017	31.12.2016	30.06.2016
<b>FINANCIAL ASSETS</b>			
PLN	2 197 580	700 856	2 301 992
EUR	6 468	5 629	6 578
USD	10 358	14 546	6 165
<b>Total financial assets</b>	<b>2 214 406</b>	<b>721 031</b>	<b>2 314 735</b>
<b>FINANCIAL LIABILITIES</b>			
PLN	289 808	673 165	786 033
<b>Total financial liabilities</b>	<b>289 808</b>	<b>673 165</b>	<b>786 033</b>

## 23. Derivative financial instruments (held for trading)

## Fair value of trading derivatives

30.06.2017	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 033 598	1 054 059
Forward Rate Agreements (FRA)	-	31
Options	5 067	992
Other	643	711
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	54 823	46 794
Currency Forward Agreements	113 210	161 344
Currency Swaps (FX-Swap)	105 824	163 776
Options for currency and gold	25 454	25 693
Transactions based on equity securities and stock indexes		
Options	8 381	8 392
Other	-	-
Transactions based on commodities and precious metals		
Options	4 428	4 277
Other	33 917	33 661
<b>Total</b>	<b>1 385 345</b>	<b>1 499 730</b>

## Notes to 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 currency and 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 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
<b>Total</b>	<b>1 955 499</b>	<b>1 949 335</b>

30.06.2016	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 907 822	1 916 818
Forward Rate Agreements (FRA)	412	646
Options	4 067	4 027
Other	74	88
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	92 476	126 814
Currency Forward Agreements	187 549	69 963
Currency Swaps (FX-Swap)	63 603	106 823
Options for currency and gold	40 881	40 662
Transactions based on equity securities and stock indexes		
Options	3 678	3 702
Other	-	-
Transactions based on commodities and precious metals		
Options	5 664	5 670
Other	7 008	6 899
<b>Total</b>	<b>2 313 234</b>	<b>2 282 112</b>

# Notes to financial statements (cont.)

(in PLN thousand)

## 24. Loans and advances to customers

### Loans and advances to customers by product type

	30.06.2017	31.12.2016	30.06.2016
Mortgage loans	55 750 293	53 072 200	51 019 903
Current accounts	11 549 386	10 840 866	11 902 811
Operating loans	16 558 070	16 918 463	16 864 576
Investment loans	17 135 595	16 997 240	16 193 253
Cash loans	11 264 510	10 211 931	9 564 872
Payment cards receivables	1 031 944	970 673	920 697
Factoring	1 790 575	1 858 606	1 662 853
Other loans and advances	1 134 156	1 162 199	1 204 794
Debt securities	11 818 546	12 451 372	12 662 814
Reverse repo transactions	-	-	149 037
Cash in transit	31 884	63 488	85 083
<b>Total gross amount</b>	<b>128 064 959</b>	<b>124 547 038</b>	<b>122 230 693</b>
Impairment allowances	(5 622 773)	(5 513 439)	(5 733 966)
<b>Total net amount</b>	<b>122 442 186</b>	<b>119 033 599</b>	<b>116 496 727</b>

### Loans and advances to customers by customer type

	30.06.2017	31.12.2016	30.06.2016
Corporate	57 188 075	56 558 364	56 354 453
Individuals	60 469 592	57 399 265	55 013 426
Budget entities	10 407 292	10 589 409	10 862 814
<b>Total gross amount</b>	<b>128 064 959</b>	<b>124 547 038</b>	<b>122 230 693</b>
Impairment allowances	(5 622 773)	(5 513 439)	(5 733 966)
<b>Total net amount</b>	<b>122 442 186</b>	<b>119 033 599</b>	<b>116 496 727</b>

### Loans and advances to customers by quality

	30.06.2017	31.12.2016	30.06.2016
Loans and advances to customers, including:			
non impaired (gross)	120 563 827	117 093 424	114 482 678
impaired (gross)	7 501 132	7 453 614	7 748 015
individual impairment allowances	(3 379 489)	(3 148 477)	(3 295 009)
collective impairment allowances (*)	(2 243 284)	(2 364 962)	(2 438 957)
<b>Total</b>	<b>122 442 186</b>	<b>119 033 599</b>	<b>116 496 727</b>

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

## Notes to financial statements (cont.)

(in PLN thousand)

## Loans and advances to customers by contractual maturity

	30.06.2017	31.12.2016	30.06.2016
Loans and advances to customers, including:			
up to 1 month	15 391 877	14 781 907	15 456 472
between 1 and 3 months	3 638 109	2 970 439	3 081 358
between 3 months and 1 year	13 570 698	13 523 300	12 667 175
between 1 and 5 years	39 463 415	38 209 661	37 935 099
over 5 years	50 590 709	49 386 721	46 977 764
past due	5 410 151	5 675 010	6 112 825
<b>Total gross amount</b>	<b>128 064 959</b>	<b>124 547 038</b>	<b>122 230 693</b>
Impairment allowances	(5 622 773)	(5 513 439)	(5 733 966)
<b>Total net amount</b>	<b>122 442 186</b>	<b>119 033 599</b>	<b>116 496 727</b>

## Loans and advances to customers by currency

	30.06.2017	31.12.2016	30.06.2016
PLN	102 832 606	97 790 221	96 015 437
CHF	3 574 486	4 036 421	4 209 177
EUR	12 940 936	13 756 867	12 978 668
USD	2 883 089	3 274 083	3 128 728
Other currencies	211 069	176 007	164 717
<b>Total</b>	<b>122 442 186</b>	<b>119 033 599</b>	<b>116 496 727</b>

Changes in impairment allowances in the first half of 2017 and in the first half of 2016 are presented in the Note 15.

## 25. Hedge accounting

As at 30 June 2017 the Bank applies fair value hedge accounting and cash flow hedge accounting.

In the period from 1 January to 30 June 2017 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,
- fair value hedge accounting for 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.

In the period from 1 January to 30 June 2017 the Bank:

- designated to the hedge accounting the hedging relationship – cash flow hedge accounting for highly probable cash flow denominated in EUR (short position in EUR for the Bank) hedged with foreign exchange forward transactions (a series of FX-Spot and FX-Swap transactions) – described in point 6 of the table with details of hedging relationships,
- designated to the hedge accounting the hedging relationship – cash flow hedge accounting for floating-rate deposits portfolio in PLN hedged with interest rate swap (IRS) transactions – described in point 7 of the table with details of hedging relationships.



## Notes to financial statements (cont.)

(in PLN thousand)

The table below presents the fair value of hedging derivatives

30.06.2017	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	14 550	188 176
Cross-currency interest rate swap (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	167 878	695
Cross-currency interest rate swap (CIRS)	-	1 114 649
FX-Swap	76 820	3 053
<b>Total</b>	<b>259 248</b>	<b>1 306 573</b>

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

30.06.2016	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	-	336 150
Cross-currency interest rate swap (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	266 214	-
Cross-currency interest rate swap (CIRS)	-	1 529 724
FX-Swap	2 789	22 232
<b>Total</b>	<b>269 003</b>	<b>1 888 106</b>

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

	I HALF 2017	I HALF 2016
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portions recognized as effective hedge - gross value)	7 627	79 076
Net interest income on hedging derivatives	102 062	107 388
Ineffective portions of changes in the fair value of hedging transactions recognized in the income statement	(10)	(752)

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

	I HALF 2017	I HALF 2016
<b>Opening balance</b>	<b>39 724</b>	<b>45 281</b>
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	(32 053)	33 854
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from the revaluation reserves and presented in net profit or loss	(44)	(59)
<b>Closing balance</b>	<b>7 627</b>	<b>79 076</b>

## Notes to financial statements (cont.)

(in PLN thousand)

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

TYPE OF GAINS/LOSSES	I HALF 2017	I HALF 2016
Gains/losses from revaluation of hedging instruments to fair value	38 939	(94 186)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	(35 892)	88 785
<b>Result on fair value hedge accounting</b>	<b>3 047</b>	<b>(5 401)</b>
Net interest income on hedging derivatives	(35 019)	(35 616)

Detailed description of hedging relationships applied by the Bank during the period from 1 January to 30 June 2017.

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
<b>1. Fair value hedge of fixed-coupon debt securities</b>				
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.
<b>2. Cash flow hedge of floating-rate loans and floating-rate deposits</b>				
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.
<b>3. Cash flow hedge of floating-rate loans</b>				
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 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
<b>4. Cash flow hedge of floating-rate currency assets hedged with FX-Swap transactions against the exchange and interest rate risk</b>				
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 4 January 2018.
<b>5. Fair value hedge of fixed-coupon debt securities</b>				
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.
<b>6. Cash flow hedge of expected future outflows in foreign currency</b>				
The Bank hedges the volatility of cash flows denominated in EUR constituting the projected outflows from expected purchases with the designated FX-Forward transactions. The currency risk is hedged.	Projected outflows dependent on EUR and Polish zloty exchange rates are the hedged item.	The hedging derivatives consist of a portfolio of FX-Forward transactions (FX-Spot and series of FX-Swap), in which the Bank will buy EUR currency in exchange for PLN currency at an agreed exchange 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 the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading.	Currently it is expected that the cash flows related to the hedged items will occur until 7 August 2017. If needed hedging will be extended.
<b>7. Cash flow hedge of floating-rate deposits in PLN</b>				
The Bank hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate deposits with the designated IRS transactions.	The hedged items consist of the cash flows from floating-rate deposits.	The hedging derivatives consist of portfolio of IRS transactions (short position in fixed rate – the Bank receives floating-rate payments and pays fixed-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 22 June 2032.

## Notes to financial statements (cont.)

(in PLN thousand)

## 26. Investment (placement) securities

	30.06.2017	31.12.2016	30.06.2016
Debt securities available for sale (AFS)	22 114 452	31 810 862	22 922 118
Equity securities available for sale (AFS)	174 007	127 308	127 559
Debt securities held to maturity (HTM)	4 287 126	2 925 861	3 338 628
<b>Total</b>	<b>26 575 585</b>	<b>34 864 031</b>	<b>26 388 305</b>

## Debt securities available for sale (AFS)

	30.06.2017	31.12.2016	30.06.2016
Securities issued by State Treasury	21 450 884	24 907 802	21 980 456
T-bills	498 847	-	556 985
T-bonds	20 952 037	24 907 802	21 423 471
Securities issued by Central Banks	-	5 978 629	-
Securities issued by business entities	-	249 912	250 780
Securities issued by local governments	663 568	674 519	690 882
<b>Total</b>	<b>22 114 452</b>	<b>31 810 862</b>	<b>22 922 118</b>
including impairment allowances	-	-	-

## Equity securities available for sale (AFS)

	30.06.2017	31.12.2016	30.06.2016
Shares	174 007	127 308	127 559
<b>Total</b>	<b>174 007</b>	<b>127 308</b>	<b>127 559</b>
including impairment allowances	(1 257)	(1 257)	-

## Debt securities held to maturity (HTM)

	30.06.2017	31.12.2016	30.06.2016
Securities issued by State Treasury	4 287 126	2 905 255	3 338 628
T-bills	-	-	240 228
T-bonds	4 287 126	2 905 255	3 098 400
Securities issued by Central Banks	-	20 606	-
<b>Total</b>	<b>4 287 126</b>	<b>2 925 861</b>	<b>3 338 628</b>
including impairment allowances	-	-	-

## Investment debt securities according to contractual maturities

	30.06.2017	31.12.2016	30.06.2016
Debt securities, including:			
up to 1 month	2 151 174	7 404 199	-
between 1 and 3 months	498 847	573 661	1 250 223
between 3 months and 1 year	4 606 966	6 036 603	6 845 164
between 1 and 5 years	10 492 909	11 933 357	9 808 852
over 5 years	8 651 682	8 788 903	8 356 507
<b>Total</b>	<b>26 401 578</b>	<b>34 736 723</b>	<b>26 260 746</b>

## Investment debt securities by currencies

	30.06.2017	31.12.2016	30.06.2016
PLN	22 986 016	30 612 780	22 484 491
EUR	2 102 100	2 790 183	2 775 970
USD	1 313 462	1 333 760	1 000 285
<b>Total</b>	<b>26 401 578</b>	<b>34 736 723</b>	<b>26 260 746</b>

# Notes to financial statements (cont.)

(in PLN thousand)

## 27. Assets and liabilities held for sale

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

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

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

Assets held for sale are presented below:

	30.06.2017	31.12.2016	30.06.2016
<b>ASSETS HELD FOR SALE</b>			
Property, plant and equipment	25 648	25 703	25 597
Other assets	22 574	22 574	22 515
<b>Total assets</b>	<b>48 222</b>	<b>48 277</b>	<b>48 112</b>

The effect of disposal of other assets is as follows:

	I HALF 2017	2016	I HALF 2016
Sales proceeds	911	2 011	1 478
Net carrying value of disposed assets (including sale costs)	(191)	(1 323)	(1 014)
<b>Gain/loss on sale before income tax</b>	<b>720</b>	<b>688</b>	<b>464</b>

## Notes to financial statements (cont.)

(in PLN thousand)

### 28. Intangible assets

	30.06.2017	31.12.2016	30.06.2016
Intangible assets, including:	516 234	518 441	522 886
research and development expenditures	2 027	3 024	5 483
licenses and patents	447 810	438 109	418 028
other	7 712	7 688	9 357
assets under construction	58 685	69 620	90 018
Goodwill	52 635	52 635	52 635
<b>Total</b>	<b>568 869</b>	<b>571 076</b>	<b>575 521</b>

In the period from 1 January to 30 June 2017, the Bank acquired intangible assets in the amount of PLN 76 265 thousand (in 2016 – PLN 123 565 thousand).

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

#### Contractual commitments

As at 30 June 2017 the contractual commitments for the acquisition of intangible assets amounted to PLN 50 212 thousand, whereas as at 31 December 2016 - PLN 42 723 thousand.

### 29. Property, plant and equipment

	30.06.2017	31.12.2016	30.06.2016
Non-current assets, including:	1 323 933	1 292 800	1 301 677
land and buildings	996 786	1 005 234	1 028 756
machinery and equipment	245 661	231 888	211 549
transport vehicles	45 576	19 251	24 170
other	35 910	36 427	37 202
Non-current assets under construction and prepayments	57 121	112 300	89 353
<b>Total</b>	<b>1 381 054</b>	<b>1 405 100</b>	<b>1 391 030</b>

In the period from 1 January to 30 June 2017 the Bank acquired property, plant and equipment in the amount of PLN 28 952 thousand (in 2016 - PLN 128 689 thousand), while the value of property, plant and equipment sold amounted to PLN 0 thousand (in 2016 - PLN 5 873 thousand).

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

#### Contractual commitments

As at 30 June 2017 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 21 684 thousand, whereas as at 31 December 2016 - PLN 17 344 thousand.

## Notes to financial statements (cont.)

(in PLN thousand)

## 30. Assets pledged as security for liabilities

As at 30 June 2017 the Bank held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transaction	bonds	536 598	526 844	538 949
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	753 050	770 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	15 651	16 000	13 298
Lombard and technical loan	bonds	4 695 118	4 515 456	-
Other loans	bonds	325 070	319 500	261 038
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposit	12 252	12 252	-
Derivatives	bonds	34 590	36 433	16 285

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

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	1 774 747	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

As at 30 June 2016 the Bank held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS USED TO PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Repo transaction	bonds	950 551	903 181	950 935
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	708 662	680 000	-
Lombard and technical loan	bonds	5 366 709	5 102 814	-
Other loans	bonds	512 524	500 200	355 755
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposit	11 370	11 370	-
Derivatives	bonds	34 866	36 067	24 950

## Notes to financial statements (cont.)

(in PLN thousand)

### 31. Amounts due to other banks

Amounts due to other banks by product type

	30.06.2017	31.12.2016	30.06.2016
Current accounts	726 659	931 753	1 088 449
Interbank deposits and other liabilities	585 618	309 858	190 142
Loans and advances received	1 612 494	1 764 184	1 860 178
Repo transactions	227 870	339 568	292 106
Cash in transit	21 428	21 762	89 483
<b>Total</b>	<b>3 174 069</b>	<b>3 367 125</b>	<b>3 520 358</b>

Amounts due to other banks by currencies

	30.06.2017	31.12.2016	30.06.2016
PLN	1 250 073	1 388 977	1 432 605
CHF	352 383	359 958	372 296
EUR	1 515 947	1 561 382	1 589 614
USD	49 009	48 694	97 693
Other currencies	6 657	8 114	28 150
<b>Total</b>	<b>3 174 069</b>	<b>3 367 125</b>	<b>3 520 358</b>

### 32. Amounts due to customers

Amounts due to customers by entities and product type

	30.06.2017	31.12.2016	30.06.2016
Amounts due to corporate, including:	51 856 751	59 029 038	52 379 357
current accounts	31 347 516	34 878 412	30 723 412
term deposits and other liabilities	20 509 235	24 150 626	21 655 945
Amounts due to budget entities, including:	10 150 836	7 809 234	6 768 994
current accounts	5 914 703	5 461 223	4 630 827
term deposits and other liabilities	4 236 133	2 348 011	2 138 167
Amounts due to individuals, including:	72 294 184	69 589 205	66 708 649
current accounts	41 461 847	39 237 788	37 259 412
term deposits and other liabilities	30 832 337	30 351 417	29 449 237
Repo transactions	311 079	1 436 241	704 099
Cash in transit	260 427	202 411	636 688
<b>Total</b>	<b>134 873 277</b>	<b>138 066 129</b>	<b>127 197 787</b>

Amounts due to customers by currency

	30.06.2017	31.12.2016	30.06.2016
PLN	109 569 041	115 403 290	103 986 632
CHF	529 634	315 757	260 550
EUR	15 080 951	13 347 287	14 323 524
USD	8 300 471	7 466 751	7 701 503
Other currencies	1 393 180	1 533 044	925 578
<b>Total</b>	<b>134 873 277</b>	<b>138 066 129</b>	<b>127 197 787</b>



# Notes to financial statements (cont.)

(in PLN thousand)

## 33. Debt securities issued

### Debt securities issued by type

	30.06.2017	31.12.2016	30.06.2016
Certificates of deposit	86 054	300 945	838 758
<b>Total</b>	<b>86 054</b>	<b>300 945</b>	<b>838 758</b>

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

### Debt securities issued by currencies

	30.06.2017	31.12.2016	30.06.2016
PLN	86 054	300 945	838 758
EUR	-	-	-
USD	-	-	-
<b>Total</b>	<b>86 054</b>	<b>300 945</b>	<b>838 758</b>

### Changes in debt securities issued

	I HALF 2017	2016	I HALF 2016
<b>Opening balance</b>	<b>300 945</b>	<b>1 668 706</b>	<b>1 668 706</b>
Increase (issuance)	-	1 079 733	1 079 733
Decrease (redemption)	(212 223)	(2 392 807)	(1 893 422)
Decrease (partial redemption)	(1 236)	(38 245)	(579)
Foreign currency exchange differences	-	-	-
Purchase	-	-	-
Sale	-	-	-
Other	(1 432)	(16 442)	(15 680)
<b>Closing balance</b>	<b>86 054</b>	<b>300 945</b>	<b>838 758</b>

## Notes to financial statements (cont.)

(in PLN thousand)

## 34. Provisions

Changes in provisions in the reporting period

I HALF 2017	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
<b>Opening balance</b>	<b>7 002</b>	<b>290 611</b>	<b>226 322</b>	<b>36 548</b>	<b>560 483</b>
Provision charges/revaluation	164	13 744	37 242	21 720	72 870
Provision utilization	(1 950)	(8 328)	-	(5 375)	(15 653)
Provision releases	(507)	-	(44 638)	-	(45 145)
Foreign currency exchange differences	-	-	(1 110)	-	(1 110)
Other changes	-	-	-	-	-
<b>Closing balance</b>	<b>4 709</b>	<b>296 027</b>	<b>217 816</b>	<b>52 893</b>	<b>571 445</b>
Short term	1 910	38 837	65 984	26 000	132 731
Long term	2 799	257 190	151 832	26 893	438 714

2016	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
<b>Opening balance</b>	<b>7 870</b>	<b>265 911</b>	<b>124 583</b>	<b>24 566</b>	<b>422 930</b>
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
<b>Closing balance</b>	<b>7 002</b>	<b>290 611</b>	<b>226 322</b>	<b>36 548</b>	<b>560 483</b>
Short term	2 600	47 166	71 290	14 016	135 072
Long term	4 402	243 445	155 032	22 532	425 411

I HALF 2016	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
<b>Opening balance</b>	<b>7 870</b>	<b>265 911</b>	<b>124 583</b>	<b>24 566</b>	<b>422 930</b>
Provision charges/revaluation	1 148	13 099	114 010	8 303	136 560
Provision utilization	(2 221)	(8 677)	-	(6 316)	(17 214)
Provision releases	(198)	-	(53 115)	-	(53 313)
Foreign currency exchange differences	-	-	696	-	696
Other changes	-	-	-	-	-
<b>Closing balance</b>	<b>6 599</b>	<b>270 333</b>	<b>186 174</b>	<b>26 553</b>	<b>489 659</b>
Short term	2 142	12 262	71 174	2 017	87 595
Long term	4 457	258 071	115 000	24 536	402 064

## Notes to financial statements (cont.)

(in PLN thousand)

### Provisions for litigation and claims

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

### Provisions for defined benefits plans

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

### Other provisions

Other provisions include in particular provisions for other employee benefits.

## 35. Contingent commitments

### Litigation

In the first half of 2017 the total value of the litigation subject in the ongoing court proceedings against the Bank was PLN 171 822 388 thousand (in the first half of 2016 it was PLN 1 029 599 thousand).

The significant change in the first half of 2017 the aggregate value of the object of litigation of the lawsuits against the Bank is a result of a receipt by the Bank of a lawsuit of a minority shareholder of the Bank for an ascertainment of invalidity or alternatively for repealing the resolutions no 5 and 21 of the Ordinary General Meeting of Shareholders dated 19 April 2017 for an approval of financial statements for 2016 and for granting of approval of the performance by the member of the Management Board of his duties in 2016. The value of the object of litigation indicated by the plaintiff is PLN 170 988 852 thousand. In the opinion of the Bank, the suit is groundless and the value of the object of litigation indicated by the plaintiff is incorrect (the Bank applied for a control and an ascertainment of the value of the object of litigation).

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

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

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

The 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 30 June 2017 is PLN 4 709 thousand (PLN 7 002 thousand as at 31 December 2016).

## Notes to financial statements (cont.)

(in PLN thousand)

**Financial commitments granted**

## Financial commitments granted by entities

	30.06.2017	31.12.2016	30.06.2016
Financial commitments granted to:			
financial entities	1 622 693	1 757 518	1 995 649
non - financial entities	29 421 449	30 066 984	28 113 834
budget entities	1 065 065	481 482	779 567
<b>Total</b>	<b>32 109 207</b>	<b>32 305 984</b>	<b>30 889 050</b>

**Guarantees issued**

## Guarantees issued by entities

	30.06.2017	31.12.2016	30.06.2016
Issued to financial entities:	2 594 789	2 712 868	2 726 948
guarantees	2 594 789	2 712 868	2 726 948
Issued to non-financial entities:	9 646 052	9 960 469	10 523 768
guarantees	6 605 775	6 505 040	6 887 747
securities' underwriting guarantees	3 040 277	3 455 429	3 636 021
Issued to budget entities:	433 183	269 239	301 004
guarantees	15 141	11 279	11 054
securities' underwriting guarantees	418 042	257 960	289 950
<b>Total</b>	<b>12 674 024</b>	<b>12 942 576</b>	<b>13 551 720</b>

**Off-balance commitment received**

## Off-balance commitments received by entities

	30.06.2017	31.12.2016	30.06.2016
Financial received from:	977 079	209 731	1 491 354
financial entities	976 879	209 731	1 191 354
non - financial entities	200	-	300 000
budget entities	-	-	-
Guarantees received from:	12 307 705	10 814 323	10 201 559
financial entities	2 272 600	1 548 141	1 071 024
non - financial entities	9 094 277	8 344 980	8 348 085
budget entities	940 828	921 202	782 450
<b>Total</b>	<b>13 284 784</b>	<b>11 024 054</b>	<b>11 692 913</b>

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

## Notes to financial statements (cont.)

(in PLN thousand)

### 36. Related party transactions

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

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

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

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

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

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

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

## Notes to financial statements (cont.)

(in PLN thousand)

**Related party transactions**

Related party transactions as at 30 June 2017

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank 's parent entity	5 470	-	-	700	459	5 491	1 344
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	5 620	-	8 056	-	8 542	8 118	-
<b>Bank Pekao S.A. Group entities</b>							
<b>Subsidiaries</b>							
Pekao Investment Banking S.A.	-	-	-	2	290 836	-	-
Pekao Leasing Sp. z o.o.	2 829 693	-	227	14 287	41 186	-	10 911
Pekao Faktoring Sp. z o.o.	983 934	-	-	6	3 131	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	2	719 585	-	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	-	-	3	51 946	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	-	12 168	-	-
Centrum Kart S.A.	-	-	-	1	22 465	-	-
Pekao Financial Services Sp. z o. o.	-	-	-	-	11 942	-	-
Pekao Bank Hipoteczny S.A.	138 911	37 298	26 664	-	66 038	5 392	-
Pekao Property S.A.	10 361	-	-	1 359	1 359	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	4 847	4 847	-	-
FPB – Media Sp. z o. o.	9 566	-	-	557	557	-	-
<b>Associates</b>							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	5	34 282	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	196 384	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	-	12 739	84 507	-	-
<b>Total of Bank Pekao S.A. Group entities</b>	<b>3 972 465</b>	<b>37 298</b>	<b>26 891</b>	<b>33 808</b>	<b>1 541 233</b>	<b>5 392</b>	<b>10 911</b>
Key management personnel of the Bank Pekao S.A.	2 565	-	6	-	18 258	-	-
<b>Total</b>	<b>3 986 120</b>	<b>37 298</b>	<b>34 953</b>	<b>34 508</b>	<b>1 568 492</b>	<b>19 001</b>	<b>12 255</b>

## Notes to financial statements (cont.)

(in PLN thousand)

### Receivables from loans and placements by contractual maturity

30.06.2017	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank 's parent entity	-	5 470	-	-	-	-	5 470
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	5 620	-	-	-	-	5 620
Bank Pekao S.A. Group entities							
Subsidiaries	242 528	10 001	16 159	1 426 311	2 214 431	63 035	3 972 465
Associates	-	-	-	-	-	-	-
Key management personnel of the Bank Pekao S.A.	-	-	-	-	65	2 500	2 565
<b>Total</b>	<b>242 528</b>	<b>21 091</b>	<b>16 159</b>	<b>1 426 311</b>	<b>2 214 496</b>	<b>65 535</b>	<b>3 986 120</b>

(\*) Current receivables include Nostro account and cash collaterals.

### Liabilities from loans and deposits by contractual maturity

30.06.2017	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank 's Pekao S.A. parent entity	459	-	-	-	-	-	459
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	8 182	360	-	-	-	-	8 542
Bank Pekao S.A. Group entities							
Subsidiaries	806 765	206 306	176 162	7 859	28 968	-	1 226 060
Associates	21 187	13 925	280 061	-	-	-	315 173
Key management personnel of the Bank Pekao S.A.	2 719	913	13 273	1 353	-	-	18 258
<b>Total</b>	<b>839 312</b>	<b>221 504</b>	<b>469 496</b>	<b>9 212</b>	<b>28 968</b>	<b>-</b>	<b>1 568 492</b>

(\*) Current liabilities include Loro account and cash collaterals.

## Notes to financial statements (cont.)

(in PLN thousand)

### Receivables from loans and placements by currency

30.06.2017	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank 's Pekao S.A. parent entity	-	-	-	5 470	-	5 470
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	5 620	-	5 620
Bank Pekao S.A. Group entities						
Subsidiaries	712 604	23 090	784	3 224 868	11 119	3 972 465
Associates	-	-	-	-	-	-
Key management personnel of the Bank Pekao S.A.	-	-	431	2 134	-	2 565
<b>Total</b>	<b>712 604</b>	<b>23 090</b>	<b>1 215</b>	<b>3 238 092</b>	<b>11 119</b>	<b>3 986 120</b>

### Liabilities due to loans and deposits by currency

30.06.2017	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank 's Pekao S.A. parent entity	305	-	-	154	-	459
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	2	995	7 545	-	8 542
Bank Pekao S.A. Group entities						
Subsidiaries	44 857	29 732	57 703	1 092 352	1 416	1 226 060
Associates	-	-	-	315 173	-	315 173
Key management personnel of the Bank Pekao S.A.	257	1 492	6	16 493	10	18 258
<b>Total</b>	<b>45 419</b>	<b>31 226</b>	<b>58 704</b>	<b>1 431 717</b>	<b>1 426</b>	<b>1 568 492</b>



## Notes to financial statements (cont.)

(in PLN thousand)

## Related party transactions as at 31 December 2016

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank 's Pekao S.A. parent entity	187 357	-	-	433	9 261	-	1 180
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	682 836	-	32 072	55	191 779	620 819	-
<b>Bank Pekao S.A. Group entities</b>							
<b>Subsidiaries</b>							
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 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	-	-
<b>Associates</b>							
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	-	-
<b>Total of Bank Pekao S.A. Group entities</b>	<b>3 592 518</b>	<b>60 700</b>	<b>43 207</b>	<b>29 339</b>	<b>1 524 525</b>	<b>6 461</b>	<b>25 096</b>
Key management personnel of the Bank and UniCredit S.p.A.	7 948	-	-	-	28 022	-	-
<b>Total</b>	<b>4 470 659</b>	<b>60 700</b>	<b>75 279</b>	<b>29 827</b>	<b>1 753 587</b>	<b>627 280</b>	<b>26 276</b>

## Notes to financial statements (cont.)

(in PLN thousand)

## Receivables from loans and placements by contractual maturity

31.12.2016	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank 's Pekao S.A. 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 Pekao S.A. and UniCredit S.p.A.	-	5 506	-	-	202	2 240	7 948
<b>Total</b>	<b>851 220</b>	<b>292 533</b>	<b>134 416</b>	<b>1 019 467</b>	<b>2 104 459</b>	<b>68 564</b>	<b>4 470 659</b>

(\*) Current receivables include Nostro account and cash collaterals.

## Liabilities from loans and deposits by contractual maturity

31.12.2016	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank 's Pekao S.A. parent entity	9 261	-	-	-	-	-	9 261
Entities of UniCredit Group excluding the 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 Pekao S.A. and UniCredit S.p.A.	8 066	3 226	15 748	982	-	-	28 022
<b>Total</b>	<b>1 147 439</b>	<b>349 597</b>	<b>239 003</b>	<b>6 071</b>	<b>11 477</b>	<b>-</b>	<b>1 753 587</b>

(\*) Current liabilities include Loro account and cash collaterals.

## Notes to financial statements (cont.)

(in PLN thousand)

## Receivables from loans and placements by currency

31.12.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank 's Pekao S.A. parent entity	2 160	10 180	-	175 017	-	187 357
Entities of UniCredit Group excluding the 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 Pekao S.A. and UniCredit S.p.A	-	-	-	7 948	-	7 948
<b>Total</b>	<b>1 220 214</b>	<b>11 054</b>	<b>1 422</b>	<b>3 215 898</b>	<b>22 071</b>	<b>4 470 659</b>

## Liabilities due to loans and deposits by currency

31.12.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank 's Pekao S.A. parent entity	543	-	-	8 718	-	9 261
Entities of UniCredit Group excluding the 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 Pekao S.A. and UniCredit S.p.A.	6 818	247	-	20 946	11	28 022
<b>Total</b>	<b>67 711</b>	<b>60 294</b>	<b>19 943</b>	<b>1 598 529</b>	<b>7 110</b>	<b>1 753 587</b>

## Notes to financial statements (cont.)

(in PLN thousand)

## Income and expenses from transactions with related parties for the period from 1 January to 30 June 2017

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	OTHER INCOME	OTHER EXPENSES
PZU S.A. – the Bank 's Pekao S.A. parent entity (*)	5	(38)	1 344	-	3	(13)
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities (*)	5	(10)	8	(10)	554	(13)
UniCredit S.p.A. – the Bank's Pekao S.A. parent entity (**)	154	(153)	391	(1 197)	1 510	(3 825)
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities (**)	3 275	(1 253)	3 321	(62)	14 472	(1 725)
<b>Bank Pekao S.A. Group entities</b>						
<b>Subsidiaries</b>						
Pekao Investment Banking S.A.	-	(1 480)	84	(47)	36	-
Centralny Dom Maklerski Pekao S.A.	-	(2 100)	676	(666)	1 418	(1 401)
Pekao Leasing Sp. z o.o.	31 674	(4 160)	1 438	-	606	(3)
Pekao Faktoring Sp. z o.o.	9 524	-	43	-	142	-
Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A.	-	(89)	566	-	3	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	(284)	3	-	15	-
Centrum Kart S.A.	-	(95)	489	-	512	(24 085)
Pekao Financial Services Sp. z o.o.	-	(65)	19	-	19	-
Pekao Bank Hipoteczny S.A.	622	9	427	-	547	(3 402)
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(2)	3	(10 066)	795	(18 258)
Pekao Property S.A.	55	(7)	2	-	9	-
FPB - Media Sp. z o.o.	181	(2)	1	-	-	-
<b>Associates</b>						
Dom Inwestycyjny Xelion Sp. z o.o.	-	(187)	20	-	81	-
Pioneer Pekao Investment Management S.A.	-	(829)	5	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(715)	82 532	-	-	-
<b>Total of Bank Pekao S.A. Group entities</b>	<b>42 056</b>	<b>(10 006)</b>	<b>86 308</b>	<b>(10 779)</b>	<b>4 183</b>	<b>(47 149)</b>
Key management personnel of the Bank Pekao S.A.	93	(163)	1	-	-	-
<b>Total</b>	<b>45 588</b>	<b>(11 623)</b>	<b>91 373</b>	<b>(12 048)</b>	<b>20 722</b>	<b>(52 725)</b>

(\*) data from the date of taking control by PZU S.A.

(\*\*) data until the day of loss of control by UniCredit S.p.A..

## Notes to financial statements (cont.)

(in PLN thousand)

## Income and expenses from transactions with related parties for the period from 1 January to 30 June 2016

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	OTHER INCOME	OTHER EXPENSES
UniCredit S.p.A. – the Bank 's Pekao S.A. parent entity	(361)	(240)	481	(1 290)	354	(7 234)
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	10 497	(687)	4 624	(96)	4 933	(20 123)
<b>Bank Pekao S.A. Group entities</b>						
<b>Subsidiaries</b>						
Pekao Investment Banking S.A.	-	(1 519)	80	(5 136)	161	(100)
Centralny Dom Maklerski Pekao S.A.	-	(1 469)	706	(5)	1 444	(1 410)
Pekao Leasing Sp. z o.o.	26 625	(3 862)	1 914	(43)	1 381	(72)
Pekao Faktoring Sp. z o.o.	7 010	-	350	-	142	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(275)	266	-	3	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(278)	3	-	16	-
Centrum Kart S.A.	-	(121)	14	-	513	(27 021)
Pekao Financial Services Sp. z o.o.	-	(68)	20	-	20	-
Pekao Bank Hipoteczny S.A.	1 316	(87)	383	-	261	(7 395)
Pekao Leasing Holding S.A. (in liquidation)	-	(573)	3	-	1	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(1)	15	(7 885)	830	(18 266)
Pekao Property S.A.	75	(2)	7	-	9	-
FPB - Media Sp. z o.o.	211	-	1	-	-	-
<b>Associates</b>						
Dom Inwestycyjny Xelion Sp. z o.o.	-	(58)	19	(1)	88	-
Pioneer Pekao Investment Management S.A.	-	(1 053)	13	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(805)	77 437	-	-	-
<b>Total of Bank Pekao S.A. Group entities</b>	<b>35 237</b>	<b>(10 171)</b>	<b>81 231</b>	<b>(13 070)</b>	<b>4 869</b>	<b>(54 264)</b>
Key management personnel of the Bank Pekao S.A. and UniCredit S.p.A	120	(144)	7	-	-	-
<b>Total</b>	<b>45 493</b>	<b>(11 242)</b>	<b>86 343</b>	<b>(14 456)</b>	<b>10 156</b>	<b>(81 621)</b>

## Notes to financial statements (cont.)

(in PLN thousand)

## Off-balance sheet financial commitments and guarantees as at 30 June 2017

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
PZU S.A. – the Bank 's Pekao S.A. parent entity	-	-	-	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	20	-	-	-
<b>Bank Pekao S.A. Group entities</b>				
<b>Subsidiaries</b>				
Pekao Investment Banking S.A.	132	-	-	-
Pekao Leasing Sp. z o.o.	236 770	1 251 185	-	-
Pekao Faktoring Sp. z o.o.	347 759	-	-	-
Centralny Dom Maklerski Pekao S.A.	86	3 000	-	-
Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A.	60	-	-	-
Centrum Kart S.A.	65	-	-	-
Pekao Financial Services Sp. z o. o.	45	800	-	-
Pekao Bank Hipoteczny S.A.	360 670	386 670	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	35	-	-	-
<b>Associates</b>				
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	95	-	-	-
<b>Total of Bank Pekao S.A. Group entities</b>	<b>945 732</b>	<b>1 641 655</b>	-	-
Key management personnel of the Bank Pekao S.A.	206	-	-	-
<b>Total</b>	<b>945 958</b>	<b>1 641 655</b>	-	-

## Notes to financial statements (cont.)

(in PLN thousand)

## Off-balance sheet financial commitments and guarantees granted by contractual maturity

30.06.2017	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
<b>Financial commitments granted</b>							
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	20	-	-	-	-	20
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	945 123	499	-	945 622
Associates	-	-	-	-	110	-	110
Key management personnel of the Bank Pekao S.A.	30	-	-	-	176	-	206
<b>Total</b>	<b>30</b>	<b>20</b>	<b>-</b>	<b>945 123</b>	<b>785</b>	<b>-</b>	<b>945 958</b>
<b>Guarantees issued</b>							
Bank Pekao S.A. Group entities							
Subsidiaries	-	1 024	-	4 489	2 232	1 633 910	1 641 655
<b>Total</b>	<b>-</b>	<b>1 024</b>	<b>-</b>	<b>4 489</b>	<b>2 232</b>	<b>1 633 910</b>	<b>1 641 655</b>

## Notes to financial statements (cont.)

(in PLN thousand)

## Off-balance sheet financial commitments and guarantees granted by currency

30.06.2017	EUR	USD	CHF	PLN	INNE	TOTAL
<b>Financial commitments granted</b>						
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	20	-	20
Bank Pekao S.A. Group entities						
Subsidiaries	14 793	9 747	-	916 317	4 765	945 622
Associates	-	-	-	110	-	110
Key management personnel of the Bank Pekao S.A.	-	-	-	206	-	206
<b>Total</b>	<b>14 793</b>	<b>9 747</b>	<b>-</b>	<b>916 653</b>	<b>4 765</b>	<b>945 958</b>
<b>Guarantees issued</b>						
Bank Pekao S.A. Group entities						
Subsidiaries	1 251 453	-	386 670	3 532	-	1 641 655
<b>Total</b>	<b>1 251 453</b>	<b>-</b>	<b>386 670</b>	<b>3 532</b>	<b>-</b>	<b>1 641 655</b>



## Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2016

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
UniCredit S.p.A. – the Bank 's Pekao S.A. 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
<b>Bank Pekao S.A. Group entities</b>				
<b>Subsidiaries</b>				
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.	-	-	-	-
<b>Associates</b>				
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	96	-	-	-
<b>Total of Pekao S.A. Group entities</b>	<b>1 026 124</b>	<b>1 721 754</b>	<b>-</b>	<b>-</b>
Key management personnel of the Bank Pekao S.A. and UniCredit S.p.A	217	-	-	-
<b>Total</b>	<b>1 278 694</b>	<b>2 567 877</b>	<b>5 192</b>	<b>246 444</b>

## Notes to financial statements (cont.)

(in PLN thousand)

## Off-balance sheet financial commitments and guarantees issued by contractual maturity

31.12.2016	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
<b>Financial commitments granted</b>							
UniCredit S.p.A. – the Bank 's Pekao S.A. 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 Pekao S.A. and UniCredit S.p.A	30	-	5	-	182	-	217
<b>Total</b>	<b>30</b>	<b>-</b>	<b>362 586</b>	<b>257 719</b>	<b>406 006</b>	<b>252 353</b>	<b>1 278 694</b>
<b>Guarantees issued</b>							
UniCredit S.p.A. – the Bank 's Pekao S.A. 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
<b>Total</b>	<b>-</b>	<b>11 967</b>	<b>24 475</b>	<b>166 437</b>	<b>377 490</b>	<b>1 987 508</b>	<b>2 567 877</b>
<b>Financial commitments received</b>							
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	5 192	-	-	-	-	5 192
<b>Total</b>	<b>-</b>	<b>5 192</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5 192</b>
<b>Guarantees received</b>							
UniCredit S.p.A. – the Bank 's Pekao S.A. 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
<b>Total</b>	<b>-</b>	<b>4 645</b>	<b>4 074</b>	<b>108 741</b>	<b>24 461</b>	<b>104 523</b>	<b>246 444</b>

## Notes to financial statements (cont.)

(in PLN thousand)

## Off-balance sheet financial commitments and guarantees issued by currency

31.12.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
<b>Financial commitments granted</b>						
UniCredit S.p.A. – the Bank 's Pekao S.A. 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 Pekao S.A. and UniCredit S.p.A	-	-	-	217	-	217
<b>Total</b>	<b>160 552</b>	<b>59 311</b>	<b>-</b>	<b>1 046 639</b>	<b>12 192</b>	<b>1 278 694</b>
<b>Guarantees issued</b>						
UniCredit S.p.A. – the Bank 's Pekao S.A. 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
<b>Total</b>	<b>1 371 736</b>	<b>-</b>	<b>411 730</b>	<b>784 411</b>	<b>-</b>	<b>2 567 877</b>
<b>Financial commitments received</b>						
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	-	5 192	5 192
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5 192</b>	<b>5 192</b>
<b>Guarantees received</b>						
UniCredit S.p.A. – the Bank 's Pekao S.A. 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
<b>Total</b>	<b>138 736</b>	<b>-</b>	<b>-</b>	<b>106 923</b>	<b>785</b>	<b>246 444</b>

## Notes to financial statements (cont.)

(in PLN thousand)

### Remuneration expenses of the Bank's Management Board and Supervisory Board Members

Short-term employee benefits related to the Management Board of the Bank in the first half of 2017 amounted to PLN 6 502 thousand, compared to PLN 9 146 thousand in the first half of 2016. Short-term employee benefits included: base salary, bonuses and other benefits due in next 12 months from the balance sheet date.

Long-term benefits related to the Management Board of the Bank amounted to PLN 1 438 thousand in the first half of 2017, compared to PLN 992 thousand in the first half of 2016 and comprised of provisions for deferred bonus payments.

The expenses of the first half of 2017 included PLN 5 460 thousand in respect of share-based payments, compared to PLN 3 553 thousand in the first half of 2016. The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of phantom shares, granted to the Members of the Bank's Management Board.

Remuneration expenses of Supervisory Board of the Bank, comprising short-term employee benefits, amounted to PLN 445 thousand in the first half of 2017, compared to PLN 619 thousand in the first half of 2016.

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in the period from 1 January to 30 June 2017 and in the period from 1 January to 30 June 2016.

## 37. Subsequent events

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

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

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

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

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

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

# Signatures of the Management Board Members

01.08.2017	Michał Krupiński	Vice President of the Management Board of the Bank managing the work of the Management Board	
Date	Name/Surname	Position/Function	Signature
01.08.2017	Andrzej Kopyrski	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
01.08.2017	Tomasz Kubiak	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
01.08.2017	Michał Lehmann	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
01.08.2017	Marek Luszczyn	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
01.08.2017	Adam Niewiński	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
01.08.2017	Tomasz Styczyński	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature

# Glossary

## Glossary

**IFRS** – International Financial Reporting Standards – the standards, interpretations and their structure adopted by the International Accounting Standards Board (IASB.)

**IAS** – International Accounting Standards – previous name of the standards forming part of the current IFRS.

**IFRIC** – International Financial Reporting Interpretations Committee – the committee operating under the International Accounting Standards Board publishing interpretations of IFRS.

**CIRS** – Currency Interest Rate Swap – the transaction exchange of principal amounts and interest payments in different currencies between two counterparties.

**IRS** – Interest Rate Swap – the agreement between two counterparties, under which the counterparties pay each other (at specified intervals during the contract life) interest on contractual principal of the contract, charged at a different interest rate.

**FRA** – Forward Rate Agreement – the contract under which two counterparties fix the interest rate that will apply in the future for a specified amount expressed in currency of the transaction for a predetermined period.

**CAP** – the financial agreement, which limits the risk borne by lender on a variable interest rate, exposed to the potential loss as a result of increase in interest rates. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer the compensation of the additional interest costs, that the buyer must pay if the interest rate on loan increases above the fixed interest rate.

**FLOOR** – the financial agreement, which limits the risk of incurring losses resulting from decrease in interest rates by the lender providing the loan at a variable interest rate. Floor option is a series of put options on interest rates, in which the issuer guarantees the interest to be paid on the loan if the interest rate on the loan decreases below the fixed interest rate.

**IBNR** – Incurred but Not Reported losses.

**PD** – Probability Default – the parameter used in Internal Ratings-Based Approach which determines the likelihood that the debtor will be unable to meet its obligation. PD is a financial term describing the likelihood of a default over an one year time horizon.

**LGD** – Loss Given Default – the percentage of loss over the total exposure when bank's counterparty goes to default.

**EAD** – Exposure at Default.

**EL** – Expected Loss.

**CCF** – Credit Conversion Factor.

**A-IRB** – Advanced Internal Ratings-Based Approach – advanced method where all parameters of risk (PD, LGD, EAD) are estimated by the bank using its own quantitative model for calculating the risk weighted assets (RWA).

**VaR** – Value at Risk – the risk measure by which the market value of an asset or portfolio may be reduced for a given assumptions, probability and time horizon.

**EaR** – Earnings at Risk – the maximum decrease of earnings, relative to specific goal, which might occur due to impact of market risk on specific risk factors for the given time horizon and confidence level.

**ICAAP** – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.