

**Condensed Consolidated
Interim Financial
Statements of
Bank Pekao S.A. Group
for the period from
1 January 2016
to 30 June 2016**



Warsaw, August 2016

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

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Consolidated income statement

(in PLN thousand)

	NOTE	II QUARTER 2016 PERIOD FROM 01.04.2016 TO 30.06.2016	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016	II QUARTER 2015 PERIOD FROM 01.04.2015 TO 30.06.2015	I HALF 2015 PERIOD FROM 01.01.2015 TO 30.06.2015
Interest income	9	1 338 188	2 691 404	1 323 599	2 721 895
Interest expense	9	(256 183)	(539 661)	(308 104)	(663 470)
Net interest income		1 082 005	2 151 743	1 015 495	2 058 425
Fee and commission income	10	575 789	1 113 819	616 307	1 200 212
Fee and commission expense	10	(70 648)	(145 338)	(103 057)	(206 395)
Net fee and commission income		505 141	968 481	513 250	993 817
Dividend income	11	16 410	16 411	13 336	13 337
Result on financial assets and liabilities held for trading	12	125 406	246 248	94 931	200 058
Result on fair value hedge accounting	29	(2 533)	(5 401)	3 007	5 241
Gains (losses) on disposal of	13	273 500	423 883	2 019	154 963
loans and other financial receivables		5 796	155 720	58	402
available for sale financial assets and held to maturity investments		267 707	268 171	2 089	154 715
financial liabilities		(3)	(8)	(128)	(154)
Operating income		1 999 929	3 801 365	1 642 038	3 425 841
Net impairment losses on financial assets and off-balance sheet commitments	17	(131 179)	(260 568)	(130 082)	(267 214)
loans and other financial receivables		(72 740)	(200 966)	(89 181)	(236 071)
off-balance sheet commitments		(58 439)	(59 602)	(40 901)	(31 143)
Net result on financial activity		1 868 750	3 540 797	1 511 956	3 158 627
Administrative expenses	14	(911 446)	(1 786 036)	(797 373)	(1 586 806)
personnel expenses		(472 983)	(944 163)	(480 167)	(952 089)
other administrative expenses		(438 463)	(841 873)	(317 206)	(634 717)
Depreciation and amortization	15	(85 677)	(171 470)	(83 031)	(164 769)
Net result on other provisions		(2 024)	(2 853)	(767)	(26 639)
Net other operating income and expenses	16	3 971	10 512	117 895	127 518
Operating costs		(995 176)	(1 949 847)	(763 276)	(1 650 696)
Gains (losses) on subsidiaries and associates	18	9 788	19 791	14 599	30 155
Gains (losses) on disposal of property, plant and equipment, and intangible assets	19	363	1 644	(54)	574
Profit before income tax		883 725	1 612 385	763 225	1 538 660
Income tax expense	20	(193 098)	(348 280)	(143 806)	(294 672)
Net profit for the period		690 627	1 264 105	619 419	1 243 988
1. Attributable to equity holders of the Bank		690 513	1 263 909	619 209	1 243 626
2. Attributable to non-controlling interests		114	196	210	362
Earnings per share (in PLN per share)	21				
basic for the period		2.64	4.82	2.36	4.74
diluted for the period		2.64	4.82	2.36	4.74

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

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	II QUARTER 2016 PERIOD FROM 01.04.2016 TO 30.06.2016	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016	II QUARTER 2015 PERIOD FROM 01.04.2015 TO 30.06.2015	I HALF 2015 PERIOD FROM 01.01.2015 TO 30.06.2015
Net profit for the period		690 627	1 264 105	619 419	1 243 988
1. Attributable to equity holders of the Bank		690 513	1 263 909	619 209	1 243 626
2. Attributable to non-controlling interests		114	196	210	362
Other comprehensive income					
Item that are or may be reclassified subsequently to profit or loss					
Foreign currency translation differences		-	-	(19)	(13)
Change in fair value of available-for-sale financial assets		(313 460)	(284 361)	(441 980)	(527 507)
Change in fair value of cash flow hedges	29	(6 281)	33 794	(52 662)	(108 882)
Tax on items that are or may be reclassified subsequently to profit or loss	20	60 751	47 608	93 982	120 914
Items that will never be reclassified to profit or loss					
Remeasurements of the defined benefit liabilities		-	-	-	-
Share in remeasurements of the defined benefit liabilities of associates		-	-	-	-
Tax on items that will never be reclassified to profit or loss		-	-	-	-
Other comprehensive income (net of tax)		(258 990)	(202 959)	(400 679)	(515 488)
Total comprehensive income		431 637	1 061 146	218 740	728 500
1. Attributable to equity holders of the Bank		431 523	1 060 950	218 530	728 138
2. Attributable to non-controlling interests		114	196	210	362

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

Consolidated statement of financial position

(in PLN thousand)

	NOTE	30.06.2016	31.12.2015	30.06.2015
ASSETS				
Cash and due from Central Bank	23	5 892 348	7 881 607	6 681 773
Bill of exchange eligible for rediscounting at Central Bank		-	70	185
Loans and advances to banks	24	4 350 537	7 314 724	5 156 470
Financial assets held for trading	25	2 330 557	1 126 792	1 264 309
Derivative financial instruments (held for trading)	26	2 257 147	3 206 447	3 239 969
Loans and advances to customers	27	116 436 667	118 555 199	117 585 778
Receivables from finance leases	28	3 810 443	3 503 979	3 227 781
Hedging instruments	29	269 003	421 640	352 696
Investments (placement) securities	30	26 613 030	21 181 723	27 361 832
1. Available for sale		23 208 055	17 813 299	24 012 533
2. Held to maturity		3 404 975	3 368 424	3 349 299
Assets held for sale	31	49 609	45 302	62 811
Investments in associates		117 414	148 965	130 217
Intangible assets	32	598 826	636 717	644 607
Property, plant and equipment	33	1 408 851	1 460 652	1 484 003
Investment properties		25 448	30 221	34 469
Income tax assets		1 002 082	991 804	1 065 330
1. Current tax assets		3 992	76 600	1 052
2. Deferred tax assets		998 090	915 204	1 064 278
Other assets		850 321	2 279 725	2 604 320
TOTAL ASSETS		166 012 283	168 785 567	170 896 550
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to Central Bank	23	6 038	914	906
Amounts due to other banks	35	4 981 216	5 958 449	8 866 616
Financial liabilities held for trading	25	786 033	611 442	80 870
Derivative financial instruments (held for trading)	26	2 285 059	3 204 328	3 216 619
Amounts due to customers	36	126 894 124	128 867 691	125 310 720
Hedging instruments	29	1 888 106	1 702 759	1 912 953
Debt securities issued	37	2 085 276	2 903 233	3 979 578
Income tax liabilities		84 650	6 649	80 155
1. Current tax liabilities		79 632	1 713	77 964
2. Deferred tax liabilities		5 018	4 936	2 191
Provisions	38	490 718	425 374	473 901
Other liabilities		4 310 747	1 680 535	4 856 640
TOTAL LIABILITIES		143 811 967	145 361 374	148 778 958
Equity				
Share capital		262 470	262 470	262 470
Other capital and reserves		20 684 417	20 869 976	20 612 866
Retained earnings and net profit for the period		1 238 798	2 275 783	1 226 950
Total equity attributable to equity holders of the Bank		22 185 685	23 408 229	22 102 286
Non-controlling interests		14 631	15 964	15 306
TOTAL EQUITY		22 200 316	23 424 193	22 117 592
TOTAL LIABILITIES AND EQUITY		166 012 283	168 785 567	170 896 550

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

Consolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2016 to 30 June 2016

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										NON - CONTROLLING INTERESTS	TOTAL EQUITY
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		
Equity as at 1.01.2016	262 470	20 869 976	9 137 221	1 975 415	9 092 740	283 597	-	381 003	2 275 783	23 408 229	15 964	23 424 193
Management options	-	-	-	-	-	-	-	-	-	-	-	-
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management options	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	(202 959)	-	-	-	(202 959)	-	-	1 263 909	1 060 950	196	1 061 146
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of available-for-sale investments (net of tax)	-	(230 332)	-	-	-	(230 332)	-	-	-	(230 332)	-	(230 332)
Revaluation of hedging financial instruments (net of tax)	-	27 373	-	-	-	27 373	-	-	-	27 373	-	27 373
Foreign currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	-	-	-	-	1 263 909	1 263 909	196	1 264 105
Appropriation of retained earnings	-	17 405	-	6 909	-	-	-	10 496	(2 300 894)	(2 283 489)	(1 529)	(2 285 018)
Dividend paid	-	-	-	-	-	-	-	-	(2 283 489)	(2 283 489)	(1 529)	(2 285 018)
Profit appropriation to other reserves including consolidation adjustments	-	17 405	-	6 909	-	-	-	10 496	(17 405)	-	-	-
Other	-	(5)	-	-	(5)	-	-	-	-	(5)	-	(5)
Other	-	(5)	-	-	(5)	-	-	-	-	(5)	-	(5)
Equity as at 30.06.2016	262 470	20 684 417	9 137 221	1 982 324	9 092 735	80 638	-	391 499	1 238 798	22 185 685	14 631	22 200 316

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

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2015 to 31 December 2015

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										NON - CONTROLLING INTERESTS	TOTAL EQUITY
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		
Equity as at 1.01.2015	262 470	20 990 344	9 137 221	1 937 850	9 002 629	540 806	1 169	370 669	2 764 875	24 017 689	28 043	24 045 732
Management options	-	-	-	-	-	-	-	-	-	-	-	-
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management options	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	(258 378)	-	-	-	(257 209)	(1 169)	-	2 292 459	2 034 081	1 019	2 035 100
Remeasurements of the defined benefit liabilities (net of tax)	-	10 467	-	-	-	10 467	-	-	-	10 467	-	10 467
Revaluation of available-for-sale investments (net of tax)	-	(192 070)	-	-	-	(192 070)	-	-	-	(192 070)	-	(192 070)
Revaluation of hedging financial instruments (net of tax)	-	(75 606)	-	-	-	(75 606)	-	-	-	(75 606)	-	(75 606)
Foreign currency translation differences	-	(1 169)	-	-	-	-	(1 169)	-	-	(1 169)	-	(1 169)
Net profit for the period	-	-	-	-	-	-	-	-	2 292 459	2 292 459	1 019	2 293 478
Appropriation of retained earnings	-	161 860	-	37 565	113 961	-	-	10 334	(2 781 551)	(2 619 691)	(13 098)	(2 632 789)
Dividend paid	-	-	-	-	-	-	-	-	(2 624 701)	(2 624 701)	(8 088)	(2 632 789)
Profit appropriation to other reserves including consolidation adjustments	-	161 860	-	37 565	113 961	-	-	10 334	(156 850)	5 010	(5 010)	-
Other	-	(23 850)	-	-	(23 850)	-	-	-	-	(23 850)	-	(23 850)
Acquisition of Pekao Investment Banking S.A.	-	(23 850)	-	-	(23 850)	-	-	-	-	(23 850)	-	(23 850)
Equity as at 31.12.2015	262 470	20 869 976	9 137 221	1 975 415	9 092 740	283 597	-	381 003	2 275 783	23 408 229	15 964	23 424 193

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

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2015 to 30 June 2015

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										NON - CONTROLLING INTERESTS	TOTAL EQUITY
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER				
Equity as at 1.01.2015	262 470	20 990 344	9 137 221	1 937 850	9 002 629	540 806	1 169	370 669	2 764 875	24 017 689	28 043	24 045 732
Management options	-	-	-	-	-	-	-	-	-	-	-	-
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management options	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	(515 488)	-	-	-	(515 475)	(13)	-	1 243 626	728 138	362	728 500
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of available-for-sale investments (net of tax)	-	(427 281)	-	-	-	(427 281)	-	-	-	(427 281)	-	(427 281)
Revaluation of hedging financial instruments (net of tax)	-	(88 194)	-	-	-	(88 194)	-	-	-	(88 194)	-	(88 194)
Foreign currency translation differences	-	(13)	-	-	-	-	(13)	-	-	(13)	-	(13)
Net profit for the period	-	-	-	-	-	-	-	-	1 243 626	1 243 626	362	1 243 988
Appropriation of retained earnings	-	161 860	-	37 565	113 961	-	-	10 334	(2 781 551)	(2 619 691)	(13 099)	(2 632 790)
Dividend paid	-	-	-	-	-	-	-	-	(2 624 701)	(2 624 701)	(8 089)	(2 632 790)
Profit appropriation to other reserves including consolidation adjustments	-	161 860	-	37 565	113 961	-	-	10 334	(156 850)	5 010	(5 010)	-
Other	-	(23 850)	-	-	(23 850)	-	-	-	-	(23 850)	-	(23 850)
Acquisition of Pekao Investment Banking S.A.	-	(23 850)	-	-	(23 850)	-	-	-	-	(23 850)	-	(23 850)
Equity as at 30.06.2015	262 470	20 612 866	9 137 221	1 975 415	9 092 740	25 331	1 156	381 003	1 226 950	22 102 286	15 306	22 117 592

Notes to the financial statements presented on pages 19 - 84 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016	I HALF 2015 PERIOD FROM 01.01.2015 TO 30.06.2015
Cash flow from operating activities – indirect method			
Net profit for the period		1 263 909	1 243 626
Adjustments for:		1 845 447	(49 881)
Depreciation and amortization	15	171 470	164 769
Share of profit (loss) of associates	18	(19 791)	(30 155)
(Gains) losses on investing activities		(269 507)	(155 166)
Net interest income	9	(2 151 743)	(2 058 425)
Dividend income	11	(16 411)	(13 337)
Interest received		2 635 481	2 771 354
Interest paid		(522 682)	(684 260)
Income tax		297 616	228 614
Income tax paid		(239 961)	(314 820)
Change in loans and advances to banks		118 984	313 241
Change in financial assets held for trading		(1 203 080)	(815 734)
Change in derivative financial instruments (assets)		949 300	1 208 006
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		2 156 324	(5 589 108)
Change in receivables from finance leases		(306 464)	(115 733)
Change in investment (placement) securities		(596 245)	(594 834)
Change in other assets		1 590 057	526 659
Change in amounts due to banks		(971 191)	3 521 872
Change in financial liabilities held for trading		174 591	(510 441)
Change in derivative financial instruments (liabilities)		(919 269)	(1 201 087)
Change in amounts due to customers		(2 005 829)	(272 801)
Change in debt securities issued		10 676	(7 471)
Change in provisions		65 344	31 445
Change in other liabilities		2 897 777	3 547 531
Net cash flows from operating activities		3 109 356	1 193 745
Cash flow from investing activities			
Investing activity inflows		63 490 648	136 598 375
Sale of investment securities		63 090 024	136 201 960
Sale of intangible assets and property, plant and equipment		3 915	2 773
Dividend received	11	16 411	13 337
Other investing inflows		380 298	380 305
Investing activity outflows		(68 333 625)	(139 556 602)
Acquisition of shares in subsidiary, net of cash acquired		-	(274 329)
Acquisition of investment securities		(68 249 629)	(139 144 304)
Acquisition of intangible assets and property, plant and equipment		(83 996)	(137 969)
Net cash flows from investing activities		(4 842 977)	(2 958 227)

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

Consolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016	I HALF 2015 PERIOD FROM 01.01.2015 TO 30.06.2015
Cash flows from financing activities			
Financing activity inflows		1 079 733	2 421 604
Issue of debt securities	37	1 079 733	2 421 604
Financing activity outflows		(4 177 490)	(4 921 010)
Redemption of debt securities	37	(1 894 001)	(2 296 309)
Dividends and other payments to shareholders		(2 283 489)	(2 624 701)
Net cash flows from financing activities		(3 097 757)	(2 499 406)
Total net cash flows		(4 831 378)	(4 263 888)
including: effect of exchange rate fluctuations on cash and cash equivalents held		101 940	80 045
Net change in cash and cash equivalents		(4 831 378)	(4 263 888)
Cash and cash equivalents at the beginning of the period		14 513 395	15 556 184
Cash and cash equivalents at the end of the period		9 682 017	11 292 296

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

Notes to financial statements

(in PLN thousand)

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

1. General information

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

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

Bank Pekao S.A. Capital Group ('Group' or 'Bank Pekao S.A. Group') is part of the UniCredit S.p.A. Group with its seat in Roma, Italy.

The condensed consolidated interim financial statements of Bank Pekao S.A. Group for the period from 1 January 2016 to 30 June 2016 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and the associates accounted for using equity method.

2. Group structure

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			30.06.2016	31.12.2015
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Leasing Sp. z o.o. (*)	Warsaw	Leasing services	36.49	36.49
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Leasing Holding S.A. (in liquidation), including:	Warsaw	Leasing services	100.00	100.00
<i>Pekao Leasing Sp. z o.o.</i>	<i>Warsaw</i>	<i>Leasing services</i>	<i>63.51</i>	<i>63.51</i>
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	65.00	65.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A., including:	Warsaw	Real estate development	100.00	100.00
<i>FPB - Media Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development</i>	<i>100.00</i>	<i>100.00</i>
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00

(*)The total share of the Group in Pekao Leasing Sp. z o.o. equity is 100.00% (36.49% directly and 63.51% via Pekao Leasing Holding S.A. (in liquidation)).

As at 30 June 2016, all subsidiaries of the Bank have been consolidated.

Notes to financial statements (cont.)

(in PLN thousand)

Associates

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			30.06.2016	31.12.2015
Dom Inwestycyjny Xelion Sp. z o.o. (*)	Warsaw	Financial intermediary	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	49.00	49.00
<i>Pioneer Pekao TFI S.A.</i>	<i>Warsaw</i>	<i>Asset management</i>	<i>49.00</i>	<i>49.00</i>
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00
Polish Banking System S.A. (in liquidation)	Warsaw	Deleted from the registry	-	48.90
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Deleted from the registry	-	36.20

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

As at 30 June 2016, the Group held no shares in entities under joint control.

Changes in the Group structure

The deletion of Polish Banking System S.A. (in liquidation) and PPU Budpress Sp. z o.o. (in liquidation) from the Registry

On 1 January 2016 Polish Banking System S.A. (in liquidation) and PPU Budpress Sp. z o.o. (in liquidation) were deleted from the Registry.

3. Business combinations

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

4. Statement of compliance

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

These financial statements do not include all information required for annual financial statements, and shall be read in conjunction with the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2015.

The consolidated financial statements of Bank Pekao S.A. Group as at and for the year ended 31 December 2015 are available at the Bank's website, www.pekao.com.pl

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

These condensed consolidated interim financial statements were authorized for issue by the Management Board on 2 August 2016.

5. Significant accounting policies

5.1 Basis of preparation of Consolidated Financial Statements

General information

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

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

In the first half of 2016 the Group did not amend its accounting policy in respect to valuation of assets and liabilities and profit measurement in comparison to the previous period. The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2015. Those accounting policies have been applied uniformly to all presented reporting period and by all entities of the Group.

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2016, had no material impact on the Group's financial statements (Note 5.2).

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

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

IFRS 9 'Financial Instruments'

In July 2014 the IASB has issued IFRS 9 'Financial Instruments', the new accounting standard, mandatorily effective for annual periods beginning on or after 1 January 2018, that will replace IAS 39 'Financial Instruments: Recognition and Measurement'. The endorsement by the European authorities is expected to be completed before its date of first time adoption.

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

Notes to financial statements (cont.)

(in PLN thousand)

The new classification and measurement approach for financial assets in IFRS 9 will be based upon:

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

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

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

The Bank expects that implementation of the new impairment model based on the expected credit loss (ECL) approach will have an impact on the Bank's financial results, especially with reference to loans and advances to customers and banks, loan commitments, debt securities held to collect' and 'held to collect and sale', financial guarantees and leasing financial assets in scope of the ECL approach. This new approach, designed by the IASB (as requested by the G20) allows for earlier recognition of credit losses than according to 'incurred loss' model in IAS 39, which is instead based on the existence of evidences of impairment.

According to IFRS 9 for the purpose of estimation of ECL the exposures are assigned into one of three stages. The measurement of ECL depends on its credit risk and the extent of a significant increase in credit risk since initial recognition, as follows:

- a) '12-month ECL' (Stage 1) – the approach applied to exposures which are non-impaired as of the balance sheet date as long as there is no significant increase in credit risk since initial recognition,
- b) 'Lifetime ECL' (Stage 2) – the approach applied to exposures which are non-impaired as of the balance sheet date but for which a significant increase in credit risk has occurred since initial recognition,
- c) 'Lifetime ECL' (Stage 3) – the approach applied to all exposures that are impaired as of the balance sheet date.

Assets allocated in Stage 1 and 2 for IFRS 9 are currently measured using the 'incurred but not reported approach' (IBNR). With the transition to IFRS 9, this IBNR approach used for IAS 39 will be replaced respectively for assets allocated in Stage 1 by the 12-month ECL and for assets allocated in Stage 2 by the lifetime ECL. For assets allocated in Stage 3, which are non-performing under IAS 39, no major conceptual differences exist with the ECL approach of IFRS 9, as triggers for impairment recognition and non-performing loan classification used under IAS 39 will continue to be applied.

Considering the differences in concepts described above for assets which are subject to IBNR (according to IAS 39), the ECL approach is expected to increase the credit loss allowances. The Bank expects that implementation of the new standard will require more-complex model-based calculation with greater predictive ability.

The application of a model of the expected loss also requires the use of a much wider range of data compared to the current model. Implementation of the new methodology for the calculation of impairment requires the implementation of appropriate changes in IT systems and processes functioning in the Bank.

The Bank has launched a dedicated program to implement IFRS 9, involving Finance Division, Risk Division, as well as the main Business functions, Organization and Information Communication Technology departments. After a phase of gap analysis and definition of high-level methodological guidelines, the activities are currently in the detailed design phase.

With reference to classification and measurement, the Bank is undertaking a detailed assessment of cash flow characteristics of debt instruments classified at amortized cost under IAS 39, in order to identify assets that, failing the SPPI test, will have to be potentially measured at fair value under IFRS 9. With reference to the ECL approach, the Bank is currently working on assumption to the models, data availability and system and tools design and plans to run detailed impact assessment for IFRS 9 impairment.

Quantitative impacts on financial statements at initial application are to date not available, reflecting the status of the above mentioned activities. The main impacts on the Bank are expected to come from the implementation of the new impairment model, which will result in higher credit loss allowances for loans subject to IBNR assessment. Adjustments to carrying values of financial instruments due to IFRS 9 transition will impact book value of equity as of 1 January 2018.

Notes to financial statements (cont.)

(in PLN thousand)

5.2 New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective on or after 1 January 2016

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

Notes to the financial statements (cont.)

(in PLN thousand)

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

At the date of authorisation of these financial statements no amendments to the existing standards issued by IASB and adopted by the EU were in issue but not yet effective.

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

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 'Financial Instruments'	<p>New regulations constitute a part of changes designed to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes, introduced by the new standard, are as follows:</p> <ul style="list-style-type: none"> • new categorisation of financial assets, • new criteria of assets classification to the group of financial assets measured at amortized cost, • new impairment model – expected credit losses model, • new principles for recognition of changes in fair value measurement of capital investment in financial instruments, • elimination of the necessity to separate embedded derivatives from financial assets. <p>The major part of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged. Date of application: the first financial year beginning after 1 January 2018.</p>	<p>The impact assessment of the new standard implementation on Group's financial statements is described in note 5.1 Basis of preparation of Consolidated Financial Statements.</p>
IFRS 14 'Regulatory deferral accounts'	<p>The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. Date of application: the first financial year beginning after 1 January 2016, the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.</p>	<p>The Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.</p>
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. The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer. Date of application: the first financial year beginning after 1 January 2018.</p>	<p>The Group is currently assessing the impact of the IFRS 15 application on its financial statements.</p>
IFRS 16 'Leases'	<p>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.</p>	<p>The Group is currently assessing the impact of the IFRS 15 application on its financial statements.</p>

Notes to the financial statements (cont.)

(in PLN thousand)

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 10 (amendment) 'Consolidated Financial Statements' and IAS 28 (amendment) 'Investments in Associates and Joint Ventures'	The amendments concern the sale or contribution of assets between the investor and the associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of interests in other entities' and IAS 28 'Investments in Associates and Joint Ventures'	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. Date of application: the first financial year beginning on or after 1 January 2016.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 7 (amendment) 'Statement of Cash Flows' - Disclosure Initiative	The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Date of application: annual periods beginning on or after 1 January 2017.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 12 (amendment) 'Income Taxes'	The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Date of application: annual periods beginning on or after 1 January 2017.	The Group is currently analyzing the impact of those changes on the financial statements.
IFRS 2 (amendment) 'Share-based Payment'	The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Date of application: annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.

6. Accounting estimates

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

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

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

In preparing these interim financial statements, the significant judgments made by management in applying the Group's accounting policies were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015 taking into account reasons and sources of uncertainty expected at the balance sheet day.

During the six months period ended 30 June 2016 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)

7. Risk management

Credit risk

The credit risk management process and measurement methods have not significantly changed in relation to those described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2015.

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	30.06.2016		31.12.2015	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.06%	11 158 127	26.4%	10 532 502	25.9%
2	0.06% <= PD < 0.19%	6 295 775	14.9%	5 936 116	14.6%
3	0.19% <= PD < 0.35%	16 885 141	39.9%	16 303 771	40.1%
4	0.35% <= PD < 0.73%	5 175 870	12.2%	5 213 593	12.8%
5	0.73% <= PD < 3.50%	1 439 156	3.4%	1 393 240	3.4%
6	3.50% <= PD < 14.00%	659 258	1.5%	651 234	1.6%
7	14.00% <= PD < 100.00%	706 674	1.7%	652 160	1.6%
Total		42 320 001	100.0%	40 682 616	100.0%

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

RATING CLASS	RANGE OF PD	30.06.2016		31.12.2015	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.34%	581 279	7.1%	573 469	7.4%
2	0.34% <= PD < 0.80%	816 639	10.0%	805 937	10.3%
3	0.80% <= PD < 1.34%	1 387 248	16.9%	1 390 763	17.8%
4	1.34% <= PD < 2.40%	2 544 959	31.1%	2 393 959	30.6%
5	2.40% <= PD < 4.75%	1 766 735	21.6%	1 594 636	20.4%
6	4.75% <= PD < 14.50%	687 791	8.4%	673 978	8.6%
7	14.50% <= PD < 31.00%	193 699	2.4%	187 224	2.4%
8	31.00% <= PD < 100.00%	204 703	2.5%	194 052	2.5%
Total		8 183 053	100.0%	7 814 018	100.0%

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

RATING CLASS	RANGE OF PD	30.06.2016		31.12.2015	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.15%	464 707	3.1%	357 910	2.4%
2	0.15% <= PD < 0.27%	2 293 383	15.2%	1 887 596	12.5%
3	0.27% <= PD < 0.45%	1 588 237	10.6%	2 348 388	15.6%
4	0.45% <= PD < 0.75%	2 378 879	15.8%	2 304 203	15.3%
5	0.75% <= PD < 1.27%	2 394 580	15.9%	3 136 094	20.8%
6	1.27% <= PD < 2.25%	2 384 946	15.8%	1 935 237	12.8%
7	2.25% <= PD < 4.00%	958 205	6.4%	1 043 523	6.9%
8	4.00% <= PD < 8.50%	2 296 035	15.3%	1 898 162	12.6%
9	8.50% <= PD < 100.00%	286 324	1.9%	165 709	1.1%
Total		15 045 296	100.0%	15 076 822	100.0%

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	30.06.2016		31.12.2015	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.0000% <= PD < 0.0011%	-	0.0%	-	0.0%
2	0.0011% <= PD < 0.0031%	-	0.0%	-	0.0%
3	0.0031% <= PD < 0.0069%	-	0.0%	-	0.0%
4	0.0069% <= PD < 0.0124%	-	0.0%	-	0.0%
5	0.0124% <= PD < 0.0223%	-	0.0%	-	0.0%
6	0.0223% <= PD < 0.0395%	-	0.0%	-	0.0%
7	0.0395% <= PD < 0.0691%	6	0.0%	1 243 315	24.2%
8	0.0691% <= PD < 0.1208%	396 655	7.4%	645 108	12.6%
9	0.1208% <= PD < 0.2091%	887 612	16.5%	629 490	12.3%
10	0.2091% <= PD < 0.3581%	391 449	7.3%	375 435	7.3%
11	0.3581% <= PD < 0.6132%	1 613 952	30.1%	81 377	1.6%
12	0.6132% <= PD < 1.0807%	562 800	10.5%	93 303	1.8%
13	1.0807% <= PD < 1.9599%	1 079 848	20.1%	-	0.0%
14	1.9599% <= PD < 3.5545%	410 507	7.7%	2 063 695	40.2%
15	3.5545% <= PD < 7.6705%	-	0.0%	-	0.0%
16	7.6705% <= PD < 19.6959%	22 835	0.4%	16	0.0%
17	19.6959% <= PD < 100.0000%	-	0.0%	-	0.0%
Total		5 365 664	100.0%	5 131 739	100.0%

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

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

SUPERVISORY CATHEGORY	30.06.2016		31.12.2015	
	CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
High	2 464 180	37.3%	1 647 122	25.0%
Good	3 158 649	47.8%	4 185 156	63.4%
Satisfactory	931 730	14.1%	720 513	10.9%
Low	49 868	0.8%	43 078	0.7%
Total	6 604 427	100.0%	6 595 869	100.0%

Notes to financial statements (cont.)

(in PLN thousand)

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

	30.06.2016	31.12.2015
Loans with no impairment:	117 565 915	119 349 516
Loans to individuals:	53 387 007	51 611 229
Covered by internal rating model:	50 503 054	48 496 634
Mortgage loans	42 320 001	40 682 616
Consumer loans	8 183 053	7 814 018
Other, not covered by internal rating model	2 883 953	3 114 595
Loans to corporates:	64 188 975	67 738 287
Covered by internal rating model:	20 410 960	20 208 561
Clients with income not exceeding EUR 500 million	15 045 296	15 076 822
Clients assessed by central model with income exceeding EUR 500 million	5 365 664	5 131 739
Specialized lending exposures	6 604 427	6 595 869
Debt securities, not covered by internal rating model	12 614 513	12 330 221
Repo transactions, not covered by internal rating model	149 037	4 755 472
Other, not covered by internal rating model	24 410 038	23 848 164
Impaired loans	2 669 667	2 705 410
Total loans and advances to customers (*)	120 245 649	122 054 926

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

Notes to financial statements (cont.)

(in PLN thousand)

The quality analysis of the Group's financial assets

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	667 289	564 430
- up to 1 month	-	-	24 824	37 283
- between 1 month and 3 months	-	-	103 016	22 868
- between 3 months and 1 year	-	-	119 199	158 487
- between 1 year and 5 years	7 804	9 927	2 895 675	3 079 109
- above 5 years	-	-	1 528 040	1 429 845
Total gross carrying amount	7 804	9 927	5 338 043	5 292 022
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(248 915)	(238 852)
- up to 1 month	-	-	(7 251)	(7 530)
- between 1 month and 3 months	-	-	(75 289)	(5 206)
- between 3 months and 1 year	-	-	(38 715)	(52 140)
- between 1 year and 5 years	(7 804)	(9 927)	(1 704 339)	(1 738 572)
- above 5 years	-	-	(1 273 398)	(1 198 995)
Total allowance for impairment	(7 804)	(9 927)	(3 347 907)	(3 241 295)
Net carrying amount of exposure individually impaired	-	-	1 990 136	2 050 727
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	158 969	120 069
- up to 1 month	-	-	45 192	42 559
- between 1 month and 3 months	-	-	56 357	47 688
- between 3 months and 1 year	-	-	288 253	303 072
- between 1 year and 5 years	-	-	1 368 110	1 359 720
- above 5 years	9 800	9 800	962 238	956 361
Total gross carrying amount	9 800	9 800	2 879 119	2 829 469
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(51 889)	(46 047)
- up to 1 month	-	-	(13 491)	(10 980)
- between 1 month and 3 months	-	-	(20 211)	(17 089)
- between 3 months and 1 year	-	-	(145 773)	(156 199)
- between 1 year and 5 years	-	-	(1 069 238)	(1 047 727)
- above 5 years	(9 800)	(9 800)	(898 986)	(896 744)
Total allowance for impairment	(9 800)	(9 800)	(2 199 588)	(2 174 786)
Net carrying amount of exposure collectively impaired	-	-	679 531	654 683

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

Notes to financial statements (cont.)

(in PLN thousand)

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	4 352 012	7 319 104	63 990 568	67 677 272	52 167 110	50 112 528
- up to 30 days	-	-	336 838	214 225	987 207	1 269 204
- between 30 days and 60 days	-	-	34 252	34 541	195 763	183 623
- above 60 days	-	-	91 305	89 848	179 827	194 520
Total gross carrying amount	4 352 012	7 319 104	64 452 963	68 015 886	53 529 907	51 759 875
IBNR PROVISION						
- not past due	(14)	(58)	(256 374)	(273 574)	(97 381)	(90 586)
- up to 30 days	-	-	(4 473)	(2 652)	(25 663)	(37 046)
- between 30 days and 60 days	-	-	(1 763)	(686)	(12 260)	(11 615)
- above 60 days	-	-	(1 378)	(687)	(7 596)	(9 399)
Total IBNR provision	(14)	(58)	(263 988)	(277 599)	(142 900)	(148 646)
Net carrying amount of exposure with no impairment	4 351 998	7 319 046	64 188 975	67 738 287	53 387 007	51 611 229

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

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
IMPAIRED EXPOSURES				
Gross carrying amount	17 604	19 727	8 217 162	8 121 491
Allowance for impairment	(17 604)	(19 727)	(5 547 495)	(5 416 081)
Total net carrying amount	-	-	2 669 667	2 705 410
Exposures with impairment triggers for which no impairment has been identified				
Gross carrying amount, in this:	-	-	99 286	78 166
<i>Exposure with collateral value included in expected discounted cash flow, in this:</i>	-	-	99 286	78 166
- <i>Past due exposures</i>	-	-	27 894	31 741
IBNR provision	-	-	(2 740)	(1 362)
Total net carrying amount	-	-	96 546	76 804
Exposures with no impairment triggers				
Gross carrying amount	4 352 012	7 319 104	117 883 584	119 697 595
IBNR provision	(14)	(58)	(404 148)	(424 883)
Total net carrying amount	4 351 998	7 319 046	117 479 436	119 272 712

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

Notes to financial statements (cont.)

(in PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 30 June 2016

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (*)	
A+ to A-	2 252 387	22 114 419	3 404 975	952 766	28 724 547
BBB+ to BBB-	7 637	-	-	-	7 637
no rating	62 347	941 662	-	-	1 004 009
Total	2 322 371	23 056 081	3 404 975	952 766	29 736 193

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

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

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (***)	
A+ to A-	1 003 007	15 954 349	2 497 324	6 520 122	25 974 802
BBB+ to BBB-	7 724	251 367	-	-	259 091
no rating	113 986	1 312 168 (*)	871 100 (**)	-	2 297 254
Total	1 124 717	17 517 884	3 368 424	6 520 122	28 531 147

(*) Including NBP bills in an amount of PLN 628 454 thousand.

(**) Including NBP bills in an amount of PLN 871 100 thousand.

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

Classification of exposures to derivative financial instruments according to Standard & Poor's ratings as at 30 June 2016

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	1	-	-	-	-	-	1
AA+ to AA-	90 359	-	-	830	-	-	91 189
A+ to A-	651 988	176 382	-	2 789	-	-	831 159
BBB+ to BBB-	474 483	-	-	895	-	-	475 378
BB+ to BB-	-	-	616	-	-	-	616
no rating	393 867	112 213	357 238	26 379	238 110	-	1 127 807
Total	1 610 698	288 595	357 854	30 893	238 110	-	2 526 150

Notes to financial statements (cont.)

(in PLN thousand)

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

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	90	-	-	-	-	-	90
AA+ to AA-	126 730	-	-	3 032	-	-	129 762
A+ to A-	1 044 437	272 974	-	64 698	-	749	1 382 858
BBB+ to BBB-	1 003 930	-	503	319 425	-	-	1 323 858
BB+ to BB-	-	-	1 454	-	-	-	1 454
no rating	464 159	52 220	239 950	29 798	3 938	-	790 065
Total	2 639 346	325 194	241 907	416 953	3 938	749	3 628 087

Forbearance measures

The identifying process of Forborne exposures has not changed in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2015.

Share of forborne exposures in the Group's loan portfolio

	30.06.2016	31.12.2015
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	117 575 982	119 349 516
forborne exposures	355 974	422 649
Impaired exposures, of which:	2 669 667	2 705 410
forborne exposures	1 536 352	1 537 735
Total net carrying amount, of which:	120 245 649	122 054 926
forborne exposures	1 892 326	1 960 384

The quality analysis of forborne exposures

	30.06.2016	31.12.2015
Exposures with no impairment		
Gross carrying amount	365 746	437 459
IBNR provisions	(9 772)	(14 810)
Net carrying amount	355 974	422 649
Impaired exposures		
Gross carrying amount, of which:	3 086 725	2 957 036
exposures individually impaired	2 793 027	2 745 545
exposures collectively impaired	293 698	211 491
Allowances for impairment, of which:	(1 550 373)	(1 419 301)
exposures individually impaired	(1 420 786)	(1 323 802)
exposures collectively impaired	(129 587)	(95 499)
Net carrying amount	1 536 352	1 537 735
Total net carrying amount	1 892 326	1 960 384

Notes to financial statements (cont.)

(in PLN thousand)

CHF loans to individuals

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

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

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

Structure of CHF loans to individuals

	30.06.2016	31.12.2015
Gross carrying amount, of which:	4 670 831	4 761 295
- denominated in CHF	942 074	961 415
- indexed to CHF	3 728 757	3 799 880
Impairment allowances, of which:	(84 455)	(78 963)
- denominated in CHF	(10 788)	(9 463)
- indexed to CHF	(73 667)	(69 500)
Net carrying amount, of which:	4 586 376	4 682 332
- denominated in CHF	931 286	951 952
- indexed to CHF	3 655 090	3 730 380

Notes to financial statements (cont.)

(in PLN thousand)

Quality of CHF loans to individuals

	30.06.2016	31.12.2015
Gross carrying amount of exposures with no impairment, of which:	4 489 843	4 599 473
- not past due	4 176 842	4 251 469
- up to 30 days	247 583	277 566
- between 30 days and 60 days	47 774	41 226
- above 60 days	17 644	29 212
IBNR provisions for exposures with no impairment, of which:	(12 107)	(13 479)
- not past due	(5 359)	(5 144)
- up to 30 days	(3 878)	(4 898)
- between 30 days and 60 days	(1 730)	(1 542)
- above 60 days	(1 140)	(1 895)
Gross carrying amount of impaired exposures, of which:	180 988	161 822
- not past due	30 846	25 499
- up to 1 month	11 944	12 076
- between 1 month and 3 months	13 631	9 211
- between 3 months and 1 year	34 101	30 569
- between 1 year and 5 years	56 517	53 721
- above 5 years	33 949	30 746
Allowances for impairment, of which:	(72 348)	(65 484)
- not past due	(4 825)	(4 356)
- up to 1 month	(1 849)	(1 507)
- between 1 month and 3 months	(2 295)	(1 764)
- between 3 months and 1 year	(6 237)	(6 250)
- between 1 year and 5 years	(30 848)	(27 927)
- above 5 years	(26 294)	(23 680)
Total net carrying amount	4 586 376	4 682 332

The average LTV for CHF loans to individuals granted by the Group amounted as of 30 June 2016 to 56.9% (56.5% as of 31 December 2015), with an average LTV for the whole portfolio of 66.3% (66.4% as of 31 December 2015).

Credit exposures towards Ukraine

In the first half of 2016 Bank Pekao S.A. Group exposure towards Ukraine in the form of interbank placements were repaid in full. As at 30 June 2016, the net balance sheet value of remaining exposures towards Ukraine refer mainly to two international corporate clients and amounts to PLN 166 million (which constitutes 0.1% of total Group exposures), less by PLN 836 million in comparison to the end of June 2015.

The Group is strictly monitoring evolution of the situation in the country, however the nature of our exposures do not pose any treat in the overall quality of our assets.

Notes to financial statements (cont.)

(in PLN thousand)

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

	30.06.2016	31.12.2015
Balance sheet exposures		
Loans and advances to banks	-	402 630
Loans and advances to customers	306 884	300 551
Total gross carrying amount	306 884	703 181
IBNR provision / Allowance for impairment	(140 453)	(110 605)
Total net carrying amount	166 431	592 576
Off-balance sheet exposure		
Credit lines granted	1 293	4 049
Total gross carrying amount	1 293	4 049
IBNR provision	(6)	(27)
Total net carrying amount	1 287	4 022

Market risk of the trading book

The model of market risk measurement has not changed in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2015.

The table below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk in the period from 1 January to 30 June 2016 and in 2015:

	30.06.2016	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	261	14	217	1 066
interest rate risk	1 053	804	1 092	1 504
Trading portfolio	1 066	866	1 123	1 546

	31.12.2015	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	54	15	203	1 674
interest rate risk	1 176	676	1 175	2 103
Trading portfolio	1 282	854	1 179	1 880

Interest rate risk of the banking book

In the area of interest rate risk the measurement system was expanded in relation to the situation described in the consolidated financial statement of Bank Pekao S.A. Group for the year ended 31 December 2015. Two measures of net interest income (NII) sensitivity are now applied: contractual NII sensitivity that directly captures the provisions stipulated in the contracts with clients and adjusted NII sensitivity that additionally takes into account likely reactions of the Bank and the market to changes in interest rates. Contractual sensitivity has been covered with the risk limit system, while adjusted NII sensitivity is subject to internal monitoring. For the sensitivity of economic value of capital (EVE) contractual restrictions regarding negative interest rates have been accounted for. No material changes were introduced for the remaining measures.

Notes to financial statements (cont.)

(in PLN thousand)

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 2016 and as at 31 December 2015.

SENSITIVITY IN %	30.06.2016	31.12.2015
NII	(7.19)	(5.97)
EVE	0.42	(0.77)

Foreign currency exchange risk

The foreign currency exchange risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2015.

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

CURRENCY	30.06.2016	31.12.2015
Currencies total (*)	599	1 538

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

Foreign currency position of the Group

30.06.2016	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	21 473 501	18 263 536	13 317 236	16 499 121	28 080
USD	5 276 569	8 149 331	6 426 077	3 567 396	(14 081)
CHF	4 941 538	1 007 315	4 397 991	8 337 607	(5 393)
GBP	286 513	788 961	635 476	131 829	1 199
Other currencies	316 680	190 567	159 074	281 931	3 256
TOTAL	32 294 801	28 399 710	24 935 854	28 817 884	13 061

31.12.2015	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	18 890 563	17 929 313	11 066 799	11 841 800	186 249
USD	6 294 671	8 290 240	7 077 654	5 116 063	(33 978)
CHF	4 700 851	606 176	3 221 543	7 319 753	(3 535)
GBP	318 067	708 529	622 872	232 423	(13)
Other currencies	311 716	178 039	257 018	387 372	3 323
TOTAL	30 515 868	27 712 297	22 245 886	24 897 411	152 046

Notes to financial statements (cont.)

(in PLN thousand)

Liquidity risk

The liquidity risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2015.

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

Adjusted liquidity gap

30.06.2016	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	36 298 827	6 510 300	23 167 526	50 008 760	50 026 870	166 012 283
Balance sheet liabilities	16 162 123	7 923 814	15 083 890	21 155 085	105 687 371	166 012 283
Off-balance sheet assets/liabilities (net)	(5 709 647)	(338 612)	598 745	2 699 086	1 303 111	(1 447 317)
Periodic gap	14 427 057	(1 752 126)	8 682 381	31 552 761	(54 357 390)	(1 447 317)
Cumulated gap	-	12 674 931	21 357 312	52 910 073	(1 447 317)	-

31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	39 156 141	7 110 676	24 968 630	50 455 851	47 094 269	168 785 567
Balance sheet liabilities	16 049 305	8 827 295	18 770 564	19 999 689	105 138 714	168 785 567
Off-balance sheet assets/liabilities (net)	(6 717 006)	568 926	1 240 893	2 489 137	1 254 323	(1 163 727)
Periodic gap	16 389 830	(1 147 693)	7 438 959	32 945 299	(56 790 122)	(1 163 727)
Cumulated gap	-	15 242 137	22 681 096	55 626 395	(1 163 727)	-

Structure of financial liabilities by contractual maturity

30.06.2016	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 627 463	9 879	41 099	1 515 207	1 852 885	5 046 533
Amounts due to customers	94 828 905	14 143 132	17 816 017	476 961	51 935	127 316 950
Debt securities issued	198 739	310 208	348 912	1 019 655	336 057	2 213 571
Financial liabilities held for trading	-	-	301 219	360 633	124 181	786 033
Total	96 655 107	14 463 219	18 507 247	3 372 456	2 365 058	135 363 087
OFF-BALANCE SHEET COMMITMENTS (**)						
Financial liabilities granted	30 980 947	-	-	-	-	30 980 947
Guarantees issued	11 877 503	-	-	-	-	11 877 503
Total	42 858 450	-	-	-	-	42 858 450

(*) Including Central Bank.

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

Notes to financial statements (cont.)

(in PLN thousand)

31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 606 000	1 066 155	108 638	1 204 022	2 124 172	6 108 987
Amounts due to customers	96 357 303	12 213 137	17 987 883	2 777 981	55 721	129 392 025
Debt securities issued	336 500	1 034 304	409 535	616 862	661 531	3 058 732
Financial liabilities held for trading	-	-	170 729	382 663	58 050	611 442
Total	98 299 803	14 313 596	18 676 785	4 981 528	2 899 474	139 171 186
OFF-BALANCE SHEET COMMITMENTS (**)						
Financial liabilities granted	30 935 860	-	-	-	-	30 935 860
Guarantees issued	14 072 827	-	-	-	-	14 072 827
Total	45 008 687	-	-	-	-	45 008 687

(*) Including Central Bank.

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

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

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

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

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

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

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.06.2016	8 717	31 687	120 519	1 450 049	706 466	2 317 438
31.12.2015	70 648	104 854	151 485	2 007 425	889 219	3 223 631

Notes to financial statements (cont.)

(in PLN thousand)

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
30.06.2016						
Inflows	19 635 329	7 130 900	8 267 346	7 944 147	3 139 419	46 117 141
Outflows	19 698 581	7 131 904	8 404 310	8 772 956	3 551 881	47 559 632
31.12.2015						
Inflows	16 745 976	6 290 357	7 529 685	8 415 940	2 830 603	41 812 561
Outflows	16 750 719	6 249 486	7 612 854	9 216 680	3 152 969	42 982 708

Operational risk

There have been no significant changes in the operational risk management process in relation to those presented in consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2015.

Fair value of financial assets and liabilities

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

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

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

As of 30 June 2016 and 31 December 2015, the Group classified the financial assets and liabilities measured at fair value into the following hierarchy of three categories based on the valuation method:

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

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

Notes to financial statements (cont.)

(in PLN thousand)

30.06.2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	23 399 996	4 264 118	400 648	28 064 762
Financial assets held for trading	2 259 028	10 981	60 548	2 330 557
Derivative financial instruments, including:	5	2 253 464	3 678	2 257 147
- Banks	-	1 608 244	2 454	1 610 698
- Customers	5	645 220	1 224	646 449
Hedging instruments, including:	-	269 003	-	269 003
- Banks	-	30 893	-	30 893
- Customers	-	238 110	-	238 110
Securities available for sale	21 140 963	1 730 670	336 422	23 208 055
Liabilities:	740 266	4 218 932	-	4 959 198
Financial liabilities held for trading	740 264	45 769	-	786 033
Derivative financial instruments, including:	2	2 285 057	-	2 285 059
- Banks	-	1 745 758	-	1 745 758
- Customers	2	539 299	-	539 301
Hedging instruments, including:	-	1 888 106	-	1 888 106
- Banks	-	1 888 106	-	1 888 106
- Customers	-	-	-	-

31.12.2015	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	15 929 590	6 134 087	504 501	22 568 178
Financial assets held for trading	936 763	142 640	47 389	1 126 792
Derivative financial instruments, including:	28	3 205 476	943	3 206 447
- Banks	-	2 639 346	-	2 639 346
- Customers	28	566 130	943	567 101
Hedging instruments, including:	-	421 640	-	421 640
- Banks	-	416 953	-	416 953
- Customers	-	4 687	-	4 687
Securities available for sale	14 992 799	2 364 331	456 169	17 813 299
Liabilities:	611 443	4 907 086	-	5 518 529
Financial liabilities held for trading	611 442	-	-	611 442
Derivative financial instruments, including:	1	3 204 327	-	3 204 328
- Banks	-	2 747 772	-	2 747 772
- Customers	1	456 555	-	456 556
Hedging instruments, including:	-	1 702 759	-	1 702 759
- Banks	-	1 702 759	-	1 702 759
- Customers	-	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

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

I HALF 2016	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
Opening balance	47 389	943	456 169
Increases, including:	6 671 508	3 678	60 007
Reclassification	-	-	-
Derivatives transactions made in 2016	-	2 829	-
Acquisition	6 670 795	-	56 190
Settlement	-	-	-
Gains on financial instruments	713	849	3 817
recognized in the income statement	713	849	3 817
recognized in revaluation reserves	-	-	-
Decreases, including:	(6 658 349)	(943)	(179 754)
Reclassification	-	(943)	-
Settlement/redemption	(88 182)	-	(177 922)
Sale	(6 570 154)	-	-
Losses on financial instruments	(13)	-	(1 832)
recognized in the income statement	(13)	-	-
recognized in revaluation reserves	-	-	(1 832)
Closing balance	60 548	3 678	336 422
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	25	849	(319)
Income statement:	25	849	246
net interest income	23	-	246
result on financial assets and liabilities held for trading	2	849	-
Other comprehensive income	-	-	(565)

Notes to financial statements (cont.)

(in PLN thousand)

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

2015	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
Opening balance	99 784	2 967	263 815
Increases, including:	10 663 874	1 942	200 231
Reclassification	-	1 942	313
Acquisition	10 661 018	-	-
Settlement	-	-	-
Gains on financial instruments	2 856	-	199 918
recognized in the income statement	2 856	-	11 077
recognized in revaluation reserves	-	-	188 841
Decreases, including:	(10 716 269)	(3 966)	(7 877)
Reclassification	(55 052)	(2 967)	-
Settlement / redemption	(435 186)	(891)	(7 877)
Sale	(10 225 856)	-	-
Loss on financial instruments	(175)	(108)	-
recognized in the income statement	(175)	(108)	-
Closing balance	47 389	943	456 169
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	(63)	(108)	2 674
Income statement:	108	(108)	268
net interest income	108	-	268
result on financial assets and liabilities held for trading	-	(108)	-
Other comprehensive income	(171)	-	2 406

Transfers from Level 1 to 2 are based on availability of active market quotations as at the end of the reporting period. Transfers from Level 2 to 3 takes place if observable valuation parameter is changed to an unobservable one or if a new unobservable parameter is applied, provided the change results in significant impact on the valuation of instrument. Transfer from Level 3 to Level 2 takes place if unobservable valuation parameter is changed to an observable one, or the impact of unobservable parameter becomes insignificant. The transfers between levels take place on the date and at the end of the reporting period.

In the period from 1 January to 30 June 2016 there were no transfers of financial instruments measured at fair value between Level 1 and Level 2.

In the period from 1 January to 30 June 2016 there were no transfers of financial instruments measured at fair value from Level 2 to Level 3.

In the period from 1 January to 30 June 2016 there was a transfer of one interest rate derivative instrument measured at fair value from Level 3 to Level 2.

Notes to financial statements (cont.)

(in PLN thousand)

The impact of estimated parameters on measurement of financial instruments for which the Group applies fair value valuation according to Level 3 as at 30 June 2016 and 31 December 2015 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 30.06.2016	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 30.06.2016	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate debt securities	311 328	Discounted cash flow	Credit spread	0.54%-1.12%	433	(1 152)
Equity derivatives	3 678	Black Scholes model	Correlation	0-1	304	(797)

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

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

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

As of 30 June 2016 and 31 December 2015, the Group classified the financial assets and liabilities not measured at fair value in the consolidated statement of financial position into the following three categories based on the valuation level:

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

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

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

Notes to the financial statements (cont.)

(in PLN thousand)

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

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

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.

30.06.2016	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	5 892 348	5 892 348	2 720 160	3 172 188	-
Loans and advance to banks	4 350 537	4 348 006	-	1 624 788	2 723 218
Loans and advances to customers (*)	116 436 667	114 738 197	-	5 952 323	108 785 874
Receivables from financial leases	3 810 443	3 748 762	-	-	3 748 762
Debt securities held to maturity	3 404 975	3 408 396	3 408 396	-	-
Total Assets	133 894 970	132 135 709	6 128 556	10 749 299	115 257 854
Liabilities					
Amounts due to Central Bank	6 038	6 095	-	-	6 095
Amounts due to other banks	4 981 216	5 010 784	-	478 774	4 532 010
Amounts due to customers	126 894 124	126 494 443	-	704 100	125 790 343
Debt securities issued	2 085 276	2 135 596	-	2 135 596	-
Total Liabilities	133 966 654	133 646 918	-	3 318 470	130 328 448

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

Notes to financial statements (cont.)

(in PLN thousand)

31.12.2015	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	7 881 607	7 881 607	2 951 414	4 930 193	-
Loans and advance to banks	7 314 724	7 311 058	-	5 301 176	2 009 882
Loans and advances to customers (*)	118 555 269	117 717 427	-	7 140 550	110 576 877
Receivables from financial leases	3 503 979	3 568 200	-	-	3 568 200
Debt securities held to maturity	3 368 424	3 380 400	2 509 227	871 173	-
Total Assets	140 624 003	139 858 692	5 460 641	18 243 092	116 154 959
Liabilities					
Amounts due to Central Bank	914	928	-	-	928
Amounts due to other banks	5 958 449	6 002 687	-	1 182 111	4 820 576
Amounts due to customers	128 867 691	128 479 792	-	4 468 820	124 010 972
Debt securities issued	2 903 233	2 959 349	-	2 959 349	-
Total Liabilities	137 730 287	137 442 756	-	8 610 280	128 832 476

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

8. Operating segments

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

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

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

Operating segments

The operating segments of the Group are as follows:

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

Notes to financial statements (cont.)

(in PLN thousand)

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

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	1 180 670	20 559	800 111	186 605	2 187 945
Non-interest income	745 181	15 201	456 288	425 739	1 642 409
Operating income	1 925 851	35 760	1 256 399	612 344	3 830 354
Personnel expenses	(559 215)	(12 831)	(125 026)	(247 091)	(944 163)
Other administrative expenses	(636 582)	(13 372)	(174 993)	316 322	(508 625)
Depreciation and amortisation	(89 581)	(934)	(11 412)	(69 543)	(171 470)
Operating costs	(1 285 378)	(27 137)	(311 431)	(312)	(1 624 258)
Gross operating profit	640 473	8 623	944 968	612 032	2 206 096
Net impairment losses on loans and off-balance sheet commitments	(152 489)	389	(116 159)	7 691	(260 568)
Net operating profit	487 984	9 012	828 809	619 723	1 945 528
Net result on other provisions	(32)	(100)	(152)	(2 569)	(2 853)
Guarantee funds charges	(49 357)	(316)	(77 251)	(4 166)	(131 090)
Tax on certain financial institutions	-	-	-	(200 844)	(200 844)
Net result on investment activities	(148)	-	38	1 754	1 644
Profit before tax	438 447	8 596	751 444	413 898	1 612 385
Income tax expense					(348 280)
Net profit for the period					1 264 105
Attributable to equity holders of the Bank					1 263 909
Attributable to non-controlling interests					196
Allocated assets	61 191 292	285 833	97 502 147	(2 100 650)	156 878 622
Unallocated assets					9 133 661
Total assets					166 012 283
Allocated liabilities	75 342 616	8 753 035	55 737 494	(4 657 159)	135 175 986
Unallocated liabilities					30 836 297
Total liabilities					166 012 283

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 30 June 2015

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	1 111 683	11 912	798 522	179 745	2 101 862
Non-interest income	767 810	16 336	572 743	123 288	1 480 177
Operating income	1 879 493	28 248	1 371 265	303 033	3 582 039
Personnel expenses	(562 156)	(11 207)	(132 549)	(246 177)	(952 089)
Other administrative expenses	(619 643)	(14 169)	(171 946)	310 032	(495 726)
Depreciation and amortisation	(84 466)	(766)	(12 012)	(67 525)	(164 769)
Operating costs	(1 266 265)	(26 142)	(316 507)	(3 670)	(1 612 584)
Gross operating profit	613 228	2 106	1 054 758	299 363	1 969 455
Net impairment losses on loans and off-balance sheet commitments	(35 529)	(760)	(238 959)	8 034	(267 214)
Net operating profit	577 699	1 346	815 799	307 397	1 702 241
Net result on other provisions	(161)	(388)	(29)	(26 061)	(26 639)
Guarantee funds charges	(51 557)	(398)	(85 616)	-	(137 571)
Tax on certain financial institutions	-	-	-	-	-
Net result on investment activities	(123)	-	119	633	629
Profit before tax	525 858	560	730 273	281 969	1 538 660
Income tax expense					(294 672)
Net profit for the period					1 243 988
Attributable to equity holders of the Bank					1 243 626
Attributable to non-controlling interests					362
Allocated assets	56 623 309	274 503	102 929 727	(706 502)	159 121 037
Unallocated assets					11 775 513
Total assets					170 896 550
Allocated liabilities	65 310 790	7 089 942	70 832 579	(4 076 714)	139 156 597
Unallocated liabilities					31 739 953
Total liabilities					170 896 550

Reconciliations of operating income for reportable segments

	I HALF 2016	I HALF 2015
Total operating income for reportable segments	3 830 354	3 582 039
Share in gains (losses) from associates	(19 791)	(30 100)
Net other operating income and expenses	(10 512)	(127 518)
Refunding of administrative expenses	1 314	1 420
Operating income	3 801 365	3 425 841

Geographical segment

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

Notes to financial statements (cont.)

(in PLN thousand)

9. Interest income and expense

Interest income

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Loans and other receivables from customers	1 087 721	2 185 306	1 059 105	2 189 134
Interbank placements	17 422	42 955	26 331	55 980
Reverse repo transactions	12 619	26 889	16 036	37 326
Investment securities	182 371	360 621	176 660	346 157
Hedging derivatives	36 254	71 772	41 675	88 221
Financial assets held for trading	1 801	3 861	3 792	5 077
Total	1 338 188	2 691 404	1 323 599	2 721 895

Interest expense

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Deposits from customers	(224 255)	(475 993)	(262 269)	(563 283)
Interbank deposits	(6 701)	(10 556)	(4 883)	(9 093)
Repo transactions	(11 284)	(20 986)	(11 889)	(28 058)
Loans and advances received	(2 249)	(5 969)	(3 844)	(11 852)
Debt securities issued	(11 694)	(26 157)	(25 219)	(51 184)
Total	(256 183)	(539 661)	(308 104)	(663 470)

10. Fee and commission income and expense

Fee and commission income

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Accounts maintenance, payment orders and cash transactions	163 953	317 596	164 595	326 306
Payment cards	148 688	289 101	181 508	342 955
Loans and advances	126 441	232 531	108 524	218 363
Investment products sales intermediation	60 396	122 284	77 631	152 917
Securities operations	21 846	43 214	31 768	54 961
Custody activity	15 932	31 343	17 893	31 606
Pension and investment funds service fees	12 047	24 334	13 228	25 673
Guarantees, letters of credit and similar transactions	15 149	29 746	12 085	24 247
Other	11 337	23 670	9 075	23 184
Total	575 789	1 113 819	616 307	1 200 212

Notes to financial statements (cont.)

(in PLN thousand)

Fee and commission expense

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Payment cards	(52 664)	(109 944)	(82 119)	(168 447)
Money orders and transfers	(5 095)	(10 228)	(5 953)	(11 352)
Securities and derivatives operations	(6 403)	(11 953)	(7 558)	(13 680)
Accounts maintenance	(1 270)	(2 276)	(986)	(1 658)
Custody activity	(3 432)	(7 736)	(4 227)	(6 987)
Pension funds management charges	(604)	(698)	(585)	(695)
Acquisition services	(668)	(1 722)	(775)	(1 600)
Other	(512)	(781)	(854)	(1 976)
Total	(70 648)	(145 338)	(103 057)	(206 395)

11. Dividend income

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Issuers of securities held for trading	16	17	275	276
Issuers of securities available for sale	16 394	16 394	13 061	13 061
Total	16 410	16 411	13 336	13 337

12. Result on financial assets and liabilities held for trading

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Foreign currency exchange result	111 689	210 175	75 850	176 573
Gains (losses) on derivatives	10 809	22 417	25 683	24 794
Gains (losses) on securities	2 908	13 656	(6 602)	(1 309)
Total	125 406	246 248	94 931	200 058

13. Gains (losses) on disposal

Realized gains

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Loans and other financial receivables (*)	5 796	155 720	58	402
Available for sale financial assets – debt instruments	4 935	5 527	2 130	154 756
Available for sale financial assets – equity instruments (**)	262 827	262 827	-	-
Debt securities issued	-	-	-	1
Total	273 558	424 074	2 188	155 159

(*) 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. The details of the transactions are presented in the Note 30.

Notes to financial statements (cont.)

(in PLN thousand)

Realized losses

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Available for sale financial assets – debt instruments	(55)	(183)	(41)	(41)
Debt securities issued	(3)	(8)	(128)	(155)
Total	(58)	(191)	(169)	(196)
Net realized profit	273 500	423 883	2 019	154 963

14. Administrative expenses

Personnel expenses

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Wages and salaries	(396 253)	(792 165)	(401 921)	(797 696)
Insurance and other charges related to employees	(72 951)	(145 465)	(74 187)	(147 154)
Share-based payments expenses	(3 779)	(6 533)	(4 059)	(7 239)
Total	(472 983)	(944 163)	(480 167)	(952 089)

Other administrative expenses

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
General expenses	(235 432)	(470 601)	(230 888)	(458 883)
Taxes and charges	(9 708)	(21 381)	(8 915)	(20 862)
Bank Guarantee Fund fee	(64 528)	(131 388)	(68 761)	(137 523)
Financial supervision authority fee (KNF)	(8 591)	(17 659)	(8 642)	(17 449)
Tax on certain financial institutions (*)	(120 204)	(200 844)	-	-
Total	(438 463)	(841 873)	(317 206)	(634 717)

(*) On 1 February 2016 tax on certain financial institutions was introduced under the Act on tax on certain financial institutions.

Total administrative expenses	(911 446)	(1 786 036)	(797 373)	(1 586 806)
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15. Depreciation and amortization

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Property, plant and equipment	(42 213)	(85 427)	(45 547)	(91 751)
Investment property	(312)	(642)	(413)	(827)
Intangible assets	(43 152)	(85 401)	(37 071)	(72 191)
Total	(85 677)	(171 470)	(83 031)	(164 769)

Notes to financial statements (cont.)

(in PLN thousand)

16. Net other operating income and expenses

Other operating income

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Rental income	5 209	10 580	4 963	11 006
Miscellaneous income	2 777	5 112	5 450	9 646
Recovery of debt collection costs	3 373	6 772	4 057	7 999
Revenues from sale of products, goods and services	1 050	2 709	622	4 149
Excess payments, repayments	383	1 595	2 618	3 584
Compensation, penalty fees and fines received (including received compensations from damages in relation to fixed assets)	2 182	3 093	113 883	114 616
Revenues from leasing activity	603	1 154	299	805
Refunding of administrative expenses	672	1 314	584	1 420
Income from written off liabilities	155	170	76	275
Releases of impairment allowances for litigation and other assets	215	506	140	2 642
Gains on sale of leasing assets for third person and other assets	299	456	223	290
Credit insurance income	5	5	12	215
Other	1 037	2 234	1 020	2 684
Total	17 960	35 700	133 947	159 331

Other operating expenses

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Costs related to leasing activity	(513)	(791)	(345)	(739)
Credit insurance expenses	(2 891)	(5 687)	(2 268)	(4 304)
Sundry expenses	(2 233)	(4 449)	(4 572)	(7 010)
Reimbursement and deficiencies	(1 035)	(1 632)	(1 077)	(2 514)
Costs from sale of products, goods and services	(612)	(1 082)	(513)	(1 603)
Customers complaints expenses	(401)	(1 121)	(700)	(1 250)
Impairment allowance for litigations and other assets	(1 852)	(2 534)	(2 835)	(7 298)
Costs of litigation and claims	(333)	(711)	(859)	(1 323)
Compensation, penalty fees and fines paid	(64)	(143)	(83)	(173)
Losses on disposal of leasing assets for third person and other assets	(68)	(400)	(59)	(471)
Other	(3 987)	(6 638)	(2 741)	(5 128)
Total	(13 989)	(25 188)	(16 052)	(31 813)
Net other operating income and expenses	3 971	10 512	117 895	127 518

Notes to financial statements (cont.)

(in PLN thousand)

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

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 (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks measured at amortized cost	19 774	1 043	803	-	(3 299)	(712)	17 609	2 256
Loans and advances to customers measured at amortized cost	5 678 633	582 725	67 581	(123 212)	(374 510)	(42 738)	5 788 479	(208 215)
Receivables from financial leases	163 704	10 891	-	(28)	(8 107)	(547)	165 913	(2 784)
Financial assets available for sale	122	-	-	-	-	(100)	22	-
Off-balance sheet commitments	120 771	112 718	697	-	(53 116)	-	181 070	(59 602)
Total financial assets and off-balance sheet commitments	5 983 004	707 377	69 081	(123 240)	(439 032)	(44 097)	6 153 093	(268 345)
Impairment of other assets								
Investments in associates	60	-	-	-	-	(60)	-	-
Intangible assets	10 961	-	-	(10 961)	-	-	-	-
Property, plant and equipment	8 451	-	-	(371)	-	-	8 080	-
Investment properties	8 682	-	-	(926)	-	(725)	7 031	-
Other	77 736	2 534	3 196	(822)	(506)	(756)	81 382	(2 028)
Total impairment of other assets	105 890	2 534	3 196	(13 080)	(506)	(1 541)	96 493	(2 028)
Total	6 088 894	709 911	72 277	(136 320)	(439 538)	(45 638)	6 249 586	(270 373)

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

(**) 'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 268 345 thousand and proceeds from recovered bad debt in the amount of PLN 7 777 thousand, the total is PLN minus 260 568 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

I HALF 2015	OPENING BALANCE	INCREASES			DECREASES		CLOSING BALANCE	IMPACT ON INCOME STATEMENT (**)
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks measured at amortized cost	19 360	848	979	-	(769)	(650)	19 768	(79)
Loans and advances to customers measured at amortized cost	5 582 478	786 091	70 740	(73 525)	(548 519)	(44 048)	5 773 217	(237 572)
Receivables from financial leasing	187 901	17 464	-	(10)	(14 489)	(827)	190 039	(2 975)
Financial assets available for sale	122	-	-	-	-	-	122	-
Impairment of off-balance sheet commitments	102 386	71 360	683	-	(40 217)	-	134 212	(31 143)
Total financial assets and off-balance sheet commitments	5 892 247	875 763	72 402	(73 535)	(603 994)	(45 525)	6 117 358	(271 769)
Impairment of other assets								
Investments in associates	60	-	-	-	-	-	60	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	6 667	417	1 569	(77)	-	(3)	8 573	(417)
Investment properties	8 682	-	-	-	-	-	8 682	-
Other	76 532	7 298	640	(186)	(2 642)	(1 734)	79 908	(4 656)
Total impairment of other assets	102 902	7 715	2 209	(263)	(2 642)	(1 737)	108 184	(5 073)
Total	5 995 149	883 478	74 611	(73 798)	(606 636)	(47 262)	6 225 542	(276 842)

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

(**) 'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 271 769 thousand and proceeds from recovered bad debts in the amount of PLN 4 555 thousand, the total is PLN minus 267 214 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

18. Gains (losses) on subsidiaries and associates

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Share in gains (losses) from associates				
Dom Inwestycyjny Xelion Sp. z o.o	506	934	531	919
Pioneer Pekao Investment Management S.A.	9 282	18 857	11 907	23 704
Krajowa Izba Rozliczeniowa S.A.	-	-	2 161	5 477
Total share in gains (losses) from associates	9 788	19 791	14 599	30 100
Gains on liquidation of subsidiaries	-	-	-	55
Total gains (losses) from subsidiaries and associates	9 788	19 791	14 599	30 155

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

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	-	464	-	-
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	363	1 180	(54)	574
Total gains (losses) on disposal of property, plant and equipment, and intangible assets	363	1 644	(54)	574

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

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
INCOME STATEMENT				
Current tax	(257 861)	(383 475)	(130 993)	(317 865)
Current tax charge in the income statement	(257 650)	(382 650)	(129 966)	(331 100)
Adjustments related to the current tax from previous years	-	(145)	-	14 993
Other taxes (e.g. withholding tax, income tax relating to foreign branches)	(211)	(680)	(1 027)	(1 758)
Deferred tax	64 763	35 195	(12 813)	23 193
Occurrence and reversal of temporary differences	64 763	35 195	(12 813)	23 193
Tax charge in the consolidated income statement	(193 098)	(348 280)	(143 806)	(294 672)
EQUITY				
Deferred tax	60 751	47 608	93 982	120 914
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	1 193	(6 421)	10 006	20 688
revaluation of available for sale financial assets – debt securities	23 154	16 086	86 816	103 124
revaluation of available for sale financial assets – equity securities	36 404	37 943	(2 840)	(2 898)
Tax on items that are or may be reclassified subsequently to profit or loss	60 751	47 608	93 982	120 914
Total charge	(132 347)	(300 672)	(49 824)	(173 758)

Notes to financial statements (cont.)

(in PLN thousand)

21. Earnings per share

Basic earnings per share

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

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Net profit	690 513	1 263 909	619 209	1 243 626
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	2.64	4.82	2.36	4.74

Diluted earnings per share

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

As at 30 June 2016 there were no diluting instruments in the form of convertible bonds in the Group.

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Net profit	690 513	1 263 909	619 209	1 243 626
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	2.64	4.82	2.36	4.74

22. Dividend payment

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

On 16 June 2016 the Ordinary General Meeting of Bank Pekao S.A. made the resolution regarding the dividend payment for year 2015. The dividend to the shareholders contributed an amount of PLN 2 283 489 295,80, wherein the amount of the dividend per one share was PLN 8.70. The dividend's day was fixed for 22 June 2016.

The payment of the dividend was on 6 July 2016.

Notes to financial statements (cont.)

(in PLN thousand)

23. Cash and balances with Central Bank

Cash and due from Central Bank	30.06.2016	31.12.2015	30.06.2015
Cash	2 720 160	2 951 414	2 704 314
Current account at Central Bank	3 145 000	4 930 181	3 977 447
Other	27 188	12	12
Total	5 892 348	7 881 607	6 681 773

Amounts due to Central Bank	30.06.2016	31.12.2015	30.06.2015
Term deposits	6 038	914	906
Total	6 038	914	906

Cash and balances with Central Bank by currency

30.06.2016	ASSETS	LIABILITIES
PLN	4 794 776	6 038
EUR	516 091	-
USD	329 001	-
CHF	74 035	-
Other currencies	178 445	-
Total	5 892 348	6 038

31.12.2015	ASSETS	LIABILITIES
PLN	6 900 383	914
EUR	513 012	-
USD	247 073	-
CHF	64 635	-
Other currencies	156 504	-
Total	7 881 607	914

30.06.2015	ASSETS	LIABILITIES
PLN	5 634 770	906
EUR	479 201	-
USD	276 652	-
CHF	56 808	-
Other currencies	234 342	-
Total	6 681 773	906

Notes to financial statements (cont.)

(in PLN thousand)

24. Loans and advances to banks

Loans and advances to banks by product type

	30.06.2016	31.12.2015	30.06.2015
Current accounts	161 695	89 553	229 422
Interbank placements	658 367	3 461 155	2 418 760
Loans and advances	35 913	59 224	141 021
Cash collaterals	2 289 319	1 675 589	1 904 842
Reverse repo transactions	805 709	1 757 063	369 407
Cash in transit	417 143	291 914	112 786
Total gross amount	4 368 146	7 334 498	5 176 238
Impairment allowances	(17 609)	(19 774)	(19 768)
Total net amount	4 350 537	7 314 724	5 156 470

Loans and advances to banks by quality

	30.06.2016	31.12.2015	30.06.2015
Loans and advances to banks, including:			
non impaired (gross)	4 350 542	7 314 771	5 156 777
impaired (gross)	17 604	19 727	19 461
individual impairment allowances	(7 804)	(9 927)	(9 661)
collective impairment allowances (*)	(9 805)	(9 847)	(10 107)
Total	4 350 537	7 314 724	5 156 470

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

Loans and advances to banks by contractual maturity

	30.06.2016	31.12.2015	30.06.2015
Loans and advances to banks, including:			
up to 1 month	4 210 781	6 919 511	4 548 552
between 1 and 3 months	1 760	11 481	182 697
between 3 months and 1 year	127 818	21 852	20 310
between 1 and 5 years	86	351 334	393 642
over 5 years	2	2	2
past due	27 699	30 318	31 035
Total gross amount	4 368 146	7 334 498	5 176 238
Impairment allowances	(17 609)	(19 774)	(19 768)
Total net amount	4 350 537	7 314 724	5 156 470

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to banks by currency

	30.06.2016	31.12.2015	30.06.2015
PLN	896 063	2 758 456	1 354 511
CHF	11 087	30 586	14 220
EUR	2 707 792	1 959 303	2 367 008
USD	503 655	2 214 880	1 290 838
Other currencies	231 940	351 499	129 893
Total	4 350 537	7 314 724	5 156 470

Changes in impairment allowances in the period from 1 January to 30 June 2016 and in the period from 1 January to 30 June 2015 are presented in the Note 17.

25. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.06.2016	31.12.2015	30.06.2015
FINANCIAL ASSETS			
Debt securities	2 322 371	1 124 717	1 234 897
Equity securities	8 186	2 075	29 412
Total financial assets	2 330 557	1 126 792	1 264 309
FINANCIAL LIABILITIES			
Debt securities	786 033	611 442	80 870
Total financial liabilities	786 033	611 442	80 870

Debt securities held for trading

	30.06.2016	31.12.2015	30.06.2015
FINANCIAL ASSETS			
Debt securities issued by State Treasury	2 252 387	1 003 007	962 523
T- bills	-	-	-
T- bonds	2 252 387	1 003 007	962 523
Debt securities issued by banks	7 637	45 590	108 723
Debt securities issued by business entities	62 347	76 120	163 651
Total financial assets	2 322 371	1 124 717	1 234 897
FINANCIAL LIABILITIES			
Debt securities issued by State Treasury	786 033	611 442	80 870
T- bonds	786 033	611 442	80 870
Total financial liabilities	786 033	611 442	80 870

Equity securities held for trading

	30.06.2016	31.12.2015	30.06.2015
Shares	8 186	2 075	29 412
Total	8 186	2 075	29 412

Notes to financial statements (cont.)

(in PLN thousand)

Debt securities held for trading by maturity

	30.06.2016	31.12.2015	30.06.2015
FINANCIAL ASSETS			
Debt securities, including:			
up to 1 month	1 415 802	39 222	173 743
between 1 and 3 months	1 689	23 294	8 006
between 3 months and 1 year	303 169	358 297	394 396
between 1 and 5 years	511 380	163 737	586 486
over 5 years	82 694	532 443	63 053
unspecified term	7 637	7 724	9 213
Total financial assets	2 322 371	1 124 717	1 234 897
FINANCIAL LIABILITIES			
Debt securities, including:			
up to 1 month	-	-	-
between 1 and 3 months	-	-	-
between 3 months and 1 year	301 219	170 729	-
between 1 and 5 years	360 633	382 663	27 684
over 5 years	124 181	58 050	53 186
Total financial liabilities	786 033	611 442	80 870

Debt securities held for trading by currency

	30.06.2016	31.12.2015	30.06.2015
FINANCIAL ASSETS			
PLN	2 309 628	1 110 529	1 216 185
EUR	6 578	10 072	13 825
USD	6 165	4 116	4 887
Total financial assets	2 322 371	1 124 717	1 234 897
FINANCIAL LIABILITIES			
PLN	786 033	611 442	80 870
Total financial liabilities	786 033	611 442	80 870

Notes to financial statements (cont.)

(in PLN thousand)

26. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.06.2016	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 907 368	1 912 045
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)	37 121	126 897
Currency Forward Agreements	187 518	69 963
Currency Swaps (FX-Swap)	63 351	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	5	7 637
Transactions based on commodities and precious metals		
Options	5 664	5 670
Other	7 008	6 899
Total	2 257 147	2 285 059

31.12.2015	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2 866 458	2 857 159
Forward Rate Agreements (FRA)	960	906
Options	10 129	10 046
Other	3 515	3 278
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	28 626	99 948
Currency Forward Agreements	80 894	76 309
Currency Swaps (FX-Swap)	134 707	70 979
Options for currency and for gold	44 658	41 557
Transactions based on equity securities and stock indexes		
Options	8 366	8 366
Other	28	7 725
Transactions based on commodities and precious metals		
Options	12 120	12 182
Other	15 986	15 873
Total	3 206 447	3 204 328

Notes to financial statements (cont.)

(in PLN thousand)

Fair value of trading derivatives

30.06.2015	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2 635 435	2 667 811
Forward Rate Agreements (FRA)	1 947	2 734
Options	18 484	18 153
Other	364	264
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	5 569	80 954
Currency Forward Agreements	136 018	83 164
Currency Swaps (FX-Swap)	182 808	94 422
Options for currency and gold	65 050	66 833
Transactions based on equity securities and stock indexes		
Options	8 250	8 267
Other	12	9 385
Transactions based on commodities and precious metals		
Options	4 415	4 457
Other	181 617	180 175
Total	3 239 969	3 216 619

27. Loans and advances to customers

Loans and advances to customers by product type

	30.06.2016	31.12.2015	30.06.2015
Mortgage loans	52 661 609	49 231 194	44 240 461
Current accounts	11 728 014	11 230 205	11 928 129
Operating loans	14 177 964	15 070 467	14 244 294
Investment loans	16 007 447	17 071 901	19 851 692
Cash loans	9 564 872	9 087 671	8 180 390
Payment cards receivables	920 697	873 287	812 444
Factoring	2 460 414	2 610 926	2 249 118
Other loans and advances	1 784 724	1 855 173	2 253 033
Debt securities	12 662 814	12 376 949	11 219 590
Reverse repo transactions	149 037	4 755 472	8 279 989
Cash in transit	107 554	70 587	99 855
Total gross amount	122 225 146	124 233 832	123 358 995
Impairment allowances	(5 788 479)	(5 678 633)	(5 773 217)
Total net amount	116 436 667	118 555 199	117 585 778

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by customer type

	30.06.2016	31.12.2015	30.06.2015
Corporate	55 372 630	58 541 698	59 827 730
Individuals	55 983 706	54 155 797	51 826 901
Budget entities	10 868 810	11 536 337	11 704 364
Total gross amount	122 225 146	124 233 832	123 358 995
Impairment allowances	(5 788 479)	(5 678 633)	(5 773 217)
Total net amount	116 436 667	118 555 199	117 585 778

Loans and advances to customers by quality

	30.06.2016	31.12.2015	30.06.2015
Loans and advances to customers, including:			
non impaired (gross)	114 242 350	116 339 786	115 080 025
impaired (gross)	7 982 796	7 894 046	8 278 970
individual impairment allowances	(3 357 526)	(3 248 513)	(3 147 903)
collective impairment allowances (*)	(2 430 953)	(2 430 120)	(2 625 314)
Total	116 436 667	118 555 199	117 585 778

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

Loans and advances to customers by contractual maturity

	30.06.2016	31.12.2015	30.06.2015
Loans and advances to customers, including:			
up to 1 month	15 720 384	17 494 117	21 504 770
between 1 and 3 months	3 202 961	4 172 392	2 568 251
between 3 months and 1 year	11 476 260	12 542 056	11 841 852
between 1 and 5 years	37 515 237	37 537 504	37 151 012
over 5 years	47 927 820	46 398 538	43 805 452
past due	6 382 484	6 089 225	6 487 658
Total gross amount	122 225 146	124 233 832	123 358 995
Impairment allowances	(5 788 479)	(5 678 633)	(5 773 217)
Total net amount	116 436 667	118 555 199	117 585 778

Loans and advances to customers by currency

	30.06.2016	31.12.2015	30.06.2015
PLN	94 919 877	98 406 507	97 743 245
CHF	4 854 202	4 975 796	5 358 651
EUR	13 359 993	11 871 781	11 212 871
USD	3 137 795	3 198 687	3 195 980
Other currencies	164 800	102 428	75 031
Total	116 436 667	118 555 199	117 585 778

Changes in impairment allowances in the period from 1 January to 30 June 2016 and in the period from 1 January to 30 June 2015 are presented in the Note 17.

Notes to financial statements (cont.)

(in PLN thousand)

28. Receivables from financial leases

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

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

30.06.2016	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 641 089	1 507 447
Between 1 and 5 years	2 336 726	2 176 437
Over 5 years	317 025	292 472
Total	4 294 840	3 976 356
Unearned finance income	(318 484)	
Net leasing investment	3 976 356	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	3 976 356	
Impairment allowances	(165 913)	
Balance sheet value	3 810 443	

31.12.2015	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 464 287	1 355 346
Between 1 and 5 years	2 156 562	2 037 787
Over 5 years	284 717	274 550
Total	3 905 566	3 667 683
Unearned finance income	(237 883)	
Net leasing investment	3 667 683	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	3 667 683	
Impairment allowances	(163 704)	
Balance sheet value	3 503 979	

30.06.2015	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 427 887	1 297 968
Between 1 and 5 years	2 024 158	1 874 404
Over 5 years	282 219	245 448
Total	3 734 264	3 417 820
Unearned finance income	(316 444)	
Net leasing investment	3 417 820	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	3 417 820	
Impairment allowances	(190 039)	
Balance sheet value	3 227 781	

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Receivables from financial leases from banks by quality

	30.06.2016	31.12.2015	30.06.2015
Receivables from financial leases from banks, including:			
non impaired (gross)	1 470	4 334	5 119
impaired (gross)	-	-	-
individual impairment allowances	-	-	(33)
collective impairment allowances (*)	(9)	(11)	-
Total	1 461	4 323	5 086

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

Receivables from financial leases from clients by quality

	30.06.2016	31.12.2015	30.06.2015
Receivables from financial leases from clients, including:			
non impaired (gross)	3 740 520	3 435 904	3 161 088
impaired (gross)	234 366	227 445	251 613
individual impairment allowances	(32 283)	(31 556)	(36 393)
collective impairment allowances (*)	(133 621)	(132 137)	(153 613)
Total	3 808 982	3 499 656	3 222 695

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

Receivables from financial leases by currency

	30.06.2016	31.12.2015	30.06.2015
PLN	2 384 591	2 227 320	2 099 081
CHF	1 870	2 390	3 057
EUR	1 422 056	1 270 687	1 120 771
USD	1 926	3 582	4 872
Total	3 810 443	3 503 979	3 227 781

Notes to financial statements (cont.)

(in PLN thousand)

29. Hedge accounting

As at 30 June 2016 the Group applies fair value hedge accounting and cash flow hedge accounting.

In the period from 1 January to 30 June 2016 the Group continued to apply the following hedge accounting:

- fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swap (IRS) transactions – described in point 1 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions – described in point 2 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions – described in point 3 of the table with details of hedging relationships,
- cash flow hedge accounting for variable portfolio of loans in EUR and USD hedged with FX-Swap instruments – described in point 4 of the table with details of hedging relationships,
- 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 2016 the Group designated to the hedge accounting the hedging relationship and terminated the relationship – cash flow hedge accounting for highly probable cash flow denominated in EUR (long position in EUR for the Group) 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. Termination of the relationship resulted from settlement of transactions included in the hedging relationship. Last cash flows from hedged items occurred on 27 June 2016.

The table below presents the fair value of hedging derivatives

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
Total	269 003	1 888 106

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

Notes to financial statements (cont.)

(in PLN thousand)

The table below presents the fair value of hedging derivatives

30.06.2015	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	9 248	220 756
Cross-currency interest rate swap (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	238 965	-
Cross-currency interest rate swap (CIRS)	50 392	1 656 220
FX-Swaps	54 091	35 977
Total	352 696	1 912 953

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

	I HALF 2016	I HALF 2015
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portions recognized as effective hedge - gross value)	79 076	29 740
Net interest income on hedging derivatives	107 388	115 559
Ineffective portions of changes in the fair value of hedging transactions recognized in the income statement	(752)	45

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

	I HALF 2016	I HALF 2015
Opening balance	45 281	138 622
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	33 854	(108 875)
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	(59)	(7)
Closing balance	79 076	29 740

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

TYPE OF GAINS/LOSSES	I HALF 2016	I HALF 2015
Gains/losses from revaluation of hedging instruments to fair value	(94 186)	60 297
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	88 785	(55 056)
Result on fair value hedge accounting	(5 401)	5 241
Net interest income on hedging derivatives	(35 616)	(27 338)

Notes to financial statements (cont.)

(in PLN thousand)

Detailed description of hedging relationships applied by the Group during the period from 1 January to 30 June 2016.

DESCRIPTION OF THE HEDGING RELATIONSHIP	HEDGED ITEM	HEDGING DERIVATIVES	FINANCIAL STATEMENTS PRESENTATION	PERIOD IN WHICH THE CASH FLOWS RELATED TO THE HEDGED ITEMS ARE EXPECTED TO OCCUR
1. Fair value hedge of fixed-coupon debt securities				
The Bank hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as AFS, denominated in PLN, EUR and USD.	The hedging derivatives consist of IRS transactions in PLN, EUR and USD (short position in fixed-rate) for which the Bank receives floating-rate payments, and pays fixed-rate.	The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. The remaining portion of the change in the hedged items' fair value (resulting from spread between swap yield curve and bond yield curve) is recognized in accordance with the accounting principles applicable to AFS (i.e. in the revaluation reserve in equity). Interest accrued on AFS bonds is presented in the net interest income. Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 18 January 2036.
2. Cash flow hedge of floating-rate loans and floating-rate deposits				
The Group hedges a portion of the interest rate risk and the foreign currency risk resulting from the volatility of cash flows from floating-rate assets and liabilities with the designated CIRS transactions (basis swap).	Hedged item consists of two separate components, which are cash flows arising from floating-rate assets portfolio and floating-rate liabilities portfolio.	Hedging derivatives consist of a portfolio of CIRS transactions (basis swap), where the Group pays floating-rate currency cash flows, and receives floating-rate PLN/currency cash-flows. CIRS transactions are decomposed into the part hedging the assets portfolio and the part hedging the liabilities portfolio.	The effective portion of the change in fair value of hedging derivatives' is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on CIRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 15 May 2029.
3. Cash flow hedge of floating-rate loans				
The Group hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate assets with the designated IRS transactions.	The hedged items consist of the cash flows from floating-rate assets.	The hedging derivatives consist of portfolio of IRS transactions (short position in floating rate – the Group receives fixed payments and pays floating-rate).	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on IRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 29 April 2020.
4. Cash flow hedge of floating-rate currency assets hedged with FX-Swap transactions against the exchange and interest rate risk				
The Group hedges volatility of cash flows constituting floating-rate financial assets (loans in EUR and USD) with FX-Swap transactions. The currency and interest rate risk is hedged.	Loans with variable interest rate risk, denominated in EUR and USD constitute hedged items.	FX-Swap transaction portfolio constitutes the hedging position.	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. Settled part of the swap points on the hedging instrument is transferred from the revaluation reserve in equity and recognized in interest income. Currency revaluation regarding the first capital exchange on the hedging instrument is transferred from the revaluation reserve in equity and recognized in the foreign currency exchange result.	It is expected that the cash flows related to the hedged items will occur until 27 February 2017.

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
5. Fair value hedge of fixed-coupon debt securities				
The Group hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as loans and receivables, denominated in PLN.	The hedging derivatives consist of IRS transactions in PLN (short position in fixed-rate) for which the 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 6 October 2022.
6. Cash flow hedge of expected future inflows in foreign currency – relationship completed				
The Group hedged the volatility of cash flows denominated in EUR constituting the projected inflows from expected sales with the designated FX-Forward transactions. The currency risk was being hedged. Discontinuation of the hedge accounting resulted from settlement of transactions included in the hedging relationship.	Projected inflows dependent on EUR and Polish zloty exchange rates were the hedged item	The hedging derivatives consisted of a portfolio of FX-Forward transactions (FX-Spot and series of FX-Swap), in which the Group sold EUR currency in exchange for PLN currency on 27 June 2016 at an agreed exchange rate.	The amount of the settlement of hedging transactions adjusted the settlement of the hedged item.net interest income.	-

30. Investment (placement) securities

	30.06.2016	31.12.2015	30.06.2015
Debt securities available for sale (AFS)	23 056 081	17 517 884	23 924 100
Equity securities available for sale (AFS)	151 974	295 415	88 433
Debt securities held to maturity (HTM)	3 404 975	3 368 424	3 349 299
Total	26 613 030	21 181 723	27 361 832

Debt securities available for sale (AFS)

	30.06.2016	31.12.2015	30.06.2015
Securities issued by State Treasury	22 114 419	15 954 349	18 068 297
T-bills	556 985	-	-
T-bonds	21 557 434	15 954 349	18 068 297
Securities issued by Central Banks	-	628 454	4 936 945
Securities issued by business entities	250 780	251 367	249 041
Securities issued by local governments	690 882	683 714	669 817
Total	23 056 081	17 517 884	23 924 100
including impairment of assets	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

Equity securities available for sale (AFS)

	30.06.2016	31.12.2015	30.06.2015
Shares	151 974	295 415	88 433
Total	151 974	295 415	88 433
including impairment of assets	(22)	(122)	(122)

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

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

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

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

Debt securities held to maturity (HTM)

	30.06.2016	31.12.2015	30.06.2015
Securities issued by State Treasury	3 404 975	2 497 324	2 486 958
T- bills	240 228	-	-
T- bonds	3 164 747	2 497 324	2 486 958
Securities issued by Central Banks	-	871 100	862 341
Total	3 404 975	3 368 424	3 349 299
including impairment of assets	-	-	-

Investment debt securities according to contractual maturity

	30.06.2016	31.12.2015	30.06.2015
Debt securities, including:			
up to 1 month	-	1 499 554	5 840 384
between 1 and 3 months	1 250 223	443 644	-
between 3 months and 1 year	6 889 084	2 696 342	1 017 567
between 1 and 5 years	9 965 243	10 646 471	14 089 341
over 5 years	8 356 506	5 600 297	6 326 107
Total	26 461 056	20 886 308	27 273 399

Notes to financial statements (cont.)

(in PLN thousand)

Investment debt securities by currency

	30.06.2016	31.12.2015	30.06.2015
PLN	22 684 801	17 835 368	23 651 561
EUR	2 775 970	2 635 034	2 036 095
USD	1 000 285	415 906	1 585 743
Total	26 461 056	20 886 308	27 273 399

31. Assets and liabilities held for sale

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

As at 30 June 2016 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:

	30.06.2016	31.12.2015	30.06.2015
ASSETS HELD FOR SALE			
Investments in associates	-	-	24 119
Property, plant and equipment	27 094	22 787	16 177
Other assets	22 515	22 515	22 515
Total assets	49 609	45 302	62 811

The effect of disposal of other assets is as follows:

	I HALF 2016	2015	I HALF 2015
Sales revenues	1 478	5 150	-
Net carrying amount of disposed assets (including sale costs)	(1 014)	(5 150)	-
Profit/loss on sale before income tax	464	-	-

32. Intangible assets

	30.06.2016	31.12.2015	30.06.2015
Intangible assets, including:	543 306	581 197	589 087
research and development expenditures	5 483	7 948	9 795
licenses and patents	432 239	446 987	441 575
other	9 357	11 183	10 153
assets under construction	96 227	115 079	127 564
Goodwill	55 520	55 520	55 520
Total	598 826	636 717	644 607

Notes to financial statements (cont.)

(in PLN thousand)

In the period from 1 January to 30 June 2016 the Group acquired intangible assets in the amount of PLN 45 864 thousand (in 2015 – PLN 157 763 thousand).

In the period from 1 January to 30 June 2016 and in 2015 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 30 June 2016 the contractual commitments for the acquisition of intangible assets amounted to PLN 46 817 thousand, whereas as at 31 December 2015 - PLN 49 487 thousand.

33. Property, plant and equipment

	30.06.2016	31.12.2015	30.06.2015
Non-current assets, including:	1 319 419	1 376 409	1 434 531
land and buildings	1 025 349	1 055 147	1 090 579
machinery and equipment	225 524	245 717	257 510
transport vehicles	29 844	34 170	41 951
other	38 702	41 375	44 491
Non-current assets under construction and prepayments	89 432	84 243	49 472
Total	1 408 851	1 460 652	1 484 003

In the period from 1 January to 30 June 2016 the Group acquired property, plant and equipment in the amount of PLN 38 131 thousand (in 2015 - PLN 137 843 thousand), while the value of property, plant and equipment sold amounted to PLN 2 055 thousand (in 2015 - PLN 7 717 thousand).

In the period from 1 January to 30 June 2016 and in 2015 there have been no property, plant and equipment whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 30 June 2016 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 24 301 thousand, whereas as at 31 December 2015 - PLN 57 012 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

34. Assets pledged as security for liabilities

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

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	950 551	903 181	950 935
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	708 864	680 200	-
Lombard and technical loan	bonds	5 366 709	5 102 814	-
Other loans	bonds, leases encumbrances	512 524	500 200	355 755
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 787 823	1 792 251	1 246 518
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	40 650	39 896	-
Derivatives	bonds	34 866	36 067	24 950

As at 31 December 2015 the Group held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transaction	bonds	3 394 183	3 152 162	3 388 421
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	703 818	680 200	-
Lombard and technical loan	bonds	4 750 392	4 504 675	-
Other loans	bonds, leases encumbrances	490 285	481 200	328 076
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 679 460	1 683 864	1 234 528
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposit	39 296	38 802	-
Derivatives	bonds	45 708	47 163	24 771

Notes to financial statements (cont.)

(in PLN thousand)

As at 30 June 2015 the Group held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	4 564 495	4 368 602	4 567 492
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	684 746	640 200	-
Lombard and technical loan	bonds	3 181 429	3 107 844	-
Other loans	bonds, leases encumbrances	334 282	325 000	198 062
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 662 793	1 667 222	1 155 471
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	47 414	46 492	-
Derivatives	bonds	23 771	25 561	358

35. Amounts due to other banks

Amounts due to other banks by product type

	30.06.2016	31.12.2015	30.06.2015
Current accounts	1 067 956	1 121 885	780 261
Interbank deposits and other liabilities	190 523	581 301	2 744 896
Loans and advances received	3 341 148	3 263 303	2 824 692
Repo transactions	292 106	963 830	1 892 802
Cash in transit	89 483	28 130	623 965
Total	4 981 216	5 958 449	8 866 616

Amounts due to other banks by currency

	30.06.2016	31.12.2015	30.06.2015
PLN	1 486 580	1 379 402	5 454 524
CHF	745 668	744 746	788 656
EUR	2 623 318	3 774 189	2 242 226
USD	97 500	50 277	318 402
Other currencies	28 150	9 835	62 808
Total	4 981 216	5 958 449	8 866 616

Notes to financial statements (cont.)

(in PLN thousand)

36. Amounts due to customers

Amounts due to customers by entity and product type

	30.06.2016	31.12.2015	30.06.2015
Amounts due to corporate, including:	51 483 553	55 167 425	54 500 432
current accounts	29 943 974	29 048 523	22 909 512
term deposits and other liabilities	21 539 579	26 118 902	31 590 920
Amounts due to budget entities, including:	6 769 050	5 610 623	7 075 571
current accounts	4 630 883	4 689 452	4 875 349
term deposits and other liabilities	2 138 167	921 171	2 200 222
Amounts due to individuals, including:	67 280 241	63 434 250	58 217 628
current accounts	37 675 804	33 827 209	32 326 703
term deposits and other liabilities	29 604 437	29 607 041	25 890 925
Repo transactions	704 099	4 468 820	5 219 809
Cash in transit	657 181	186 573	297 280
Total	126 894 124	128 867 691	125 310 720

Amounts due to customers by currency

	30.06.2016	31.12.2015	30.06.2015
PLN	103 618 760	106 548 096	105 047 302
CHF	260 580	234 011	230 361
EUR	14 382 710	13 215 198	12 197 704
USD	7 706 407	8 013 651	7 056 618
Other currencies	925 667	856 735	778 735
Total	126 894 124	128 867 691	125 310 720

37. Debt securities issued

Debt securities issued by type

	30.06.2016	31.12.2015	30.06.2015
Certificates of deposit	838 758	1 668 706	2 824 107
Mortgage bonds	1 246 518	1 234 527	1 155 471
Total	2 085 276	2 903 233	3 979 578

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

Debt securities issued by currency

	30.06.2016	31.12.2015	30.06.2015
PLN	1 762 856	2 592 848	3 700 573
EUR	322 420	310 385	279 005
USD	-	-	-
Total	2 085 276	2 903 233	3 979 578

Notes to financial statements (cont.)

(in PLN thousand)

Changes in debt securities issued

	I HALF 2016	2015	I HALF 2015
Opening balance	2 903 233	3 857 043	3 857 043
Increase (issuance)	1 079 733	3 966 098	2 421 604
Decrease (redemption)	(1 893 422)	(4 999 636)	(2 294 040)
Decrease (partial redemption)	(579)	(7 903)	(2 269)
Foreign currency exchange differences	11 995	(1 053)	(2 839)
Purchase	-	(33)	-
Sale	-	90 989	17 379
Other	(15 684)	(2 272)	(17 300)
Closing balance	2 085 276	2 903 233	3 979 578

38. Provisions

Changes in provisions in the reporting period

I HALF 2016	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	10 608	268 858	120 771	25 137	425 374
Provision charges/revaluation	1 285	13 124	112 718	8 330	135 457
Provision utilization	(2 222)	(8 702)	-	(6 317)	(17 241)
Provision releases	(459)	(24)	(53 115)	-	(53 598)
Foreign currency exchange differences	-	-	696	-	696
Other changes	-	-	-	30	30
Closing balance	9 212	273 256	181 070	27 180	490 718
Short term	2 661	12 477	66 550	2 202	83 890
Long term	6 551	260 779	114 520	24 978	406 828

2015	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	37 873	267 991	102 386	34 206	442 456
Provision charges/revaluation	31 147	23 655	71 614	5 814	132 230
Provision utilization	(56 417)	(10 246)	-	(14 435)	(81 098)
Provision releases	(2 310)	(84)	(54 411)	(76)	(56 881)
Foreign currency exchange differences	-	-	1 182	-	1 182
Other changes	315	(12 458)	-	(372)	(12 515)
Closing balance	10 608	268 858	120 771	25 137	425 374
Short term	4 113	21 180	67 527	145	92 965
Long term	6 495	247 678	53 244	24 992	332 409

Notes to financial statements (cont.)

(in PLN thousand)

I HALF 2015	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	37 873	267 991	102 386	34 206	442 456
Provision charges/revaluation	27 115	12 777	71 360	6 968	118 220
Provision utilization	(26 035)	(6 493)	-	(14 661)	(47 189)
Provision releases	(479)	-	(40 217)	(2)	(40 698)
Foreign currency exchange differences	-	-	683	(13)	670
Other changes	-	442	-	-	442
Closing balance	38 474	274 717	134 212	26 498	473 901
Short term	5 572	10 407	43 864	624	60 467
Long term	32 902	264 310	90 348	25 874	413 434

Provisions for litigation and claims

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

Provisions for defined benefits plans

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

Other provisions

Other provisions include in particular provisions for other employee benefits.

39. Contingent commitments

Litigation

In the first half of 2016 the total value of the litigation subject in the ongoing court proceedings against the Group was PLN 1 035 143 thousand (in the first half of 2015 it was PLN 1 122 096 thousand).

In the first half of 2016 there were no proceedings before the court or state administration bodies related to the receivables or payables of the Bank and its subsidiaries in which the pursued claim value (amount to be paid) is at least 10% of the Group's equity.

In the first half of 2016 still going on was the court litigation against the Group entities, Bank Pekao SA and Pekao SA Central Brokerage House, brought by private individuals for the payment of damage arising from the purchase of stocks and the financial compensation for the injury resulting from the execution process, in which the value of the litigation subject, as at 30 June 2016, was PLN 206 422 thousand (previously PLN 306 622 thousand). In the first half of 2015 the sentence dismissing the plaintiff against defendants was adjudicated. The sentence is not legally binding. The plaintiffs lodged an appeal against the sentence, i.e. its part related to the amount of PLN 206 422 thousand. In the opinion of the Bank appeal is unfounded.

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

- proceedings instigated in the first quarter of 2014 as a result of the plaintiff brought by guarantee beneficiaries for the payment of PLN 32 750 thousand as the bank guarantee drawing,
- proceedings instigated in the second quarter of 2014 as a result of the plaintiff 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 plaintiff brought by guarantee beneficiary for the payment of PLN 29 205 thousand as the bank guarantee drawing.

Notes to financial statements (cont.)

(in PLN thousand)

The Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the provisions as at 30 June 2016 is PLN 9 212 thousand (PLN 10 608 thousand as at 31 December 2015).

Financial commitments granted

Financial commitments granted by entity

	30.06.2016	31.12.2015	30.06.2015
Financial commitments granted to:			
financial entities	869 391	700 755	924 010
non - financial entities	29 331 989	29 386 749	26 224 941
budget entities	779 567	848 356	1 000 037
Total	30 980 947	30 935 860	28 148 988

Guarantees issued

Guarantees issued by entity

	30.06.2016	31.12.2015	30.06.2015
Issued to financial entities:	1 012 669	1 311 490	892 611
guarantees	1 012 669	1 308 840	888 899
confirmed export letters of credit	-	2 650	3 712
Issued to non - financial entities	10 563 830	12 393 161	13 116 918
guarantees	6 887 747	7 510 192	7 083 383
securities' underwriting guarantees	3 636 021	4 806 284	5 980 154
sureties	40 062	76 685	53 381
Issued to budget entities:	301 004	368 176	295 295
guarantees	11 054	28 176	5 877
securities' underwriting guarantees	289 950	340 000	289 418
Total	11 877 503	14 072 827	14 304 824

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.06.2016	31.12.2015	30.06.2015
Financial received from:	1 491 354	285 084	872 951
financial entities	1 191 354	285 084	872 951
non - financial entities	300 000	-	-
budget entities	-	-	-
Guarantees received from:	10 308 462	11 674 503	12 383 396
financial entities	1 177 927	1 161 416	1 464 211
non - financial entities	8 348 085	9 759 234	10 183 055
budget entities	782 450	753 853	736 130
Total	11 799 816	11 959 587	13 256 347

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

Notes to financial statements (cont.)

(in PLN thousand)

40. Related party transactions

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions

Related party transactions as at 30 June 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 parent entity	293 521	-	-	31	1 283	-	2 656
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	698 879	7 635	20 111	3 271	508 156	680 068	2 066
Associates of Bank Pekao S.A. Group							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	48	-	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	24	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	-	14 335	-	-	-
Total Associates of Bank Pekao S.A. Group	-	-	-	14 407	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	8 469	-	-	-	25 384	-	-
Total	1 000 869	7 635	20 111	17 709	534 823	680 068	4 722

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by contractual maturity

30.06.2016	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank 's parent entity	6 636	286 445	-	440	-	-	293 521
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	3 140	695 099	-	640	-	-	698 879
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	6 021	155	2 293	8 469
Total	9 776	981 544	-	7 101	155	2 293	1 000 869

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

Liabilities from loans and deposits by contractual maturity

30.06.2016	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank 's parent entity	1 283	-	-	-	-	-	1 283
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	73 031	10 694	6 312	1 426	416 693	-	508 156
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	5 963	4 509	12 861	2 051	-	-	25 384
Total	80 277	15 203	19 173	3 477	416 693	-	534 823

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by currency

30.06.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	290 100	2 421	-	1 000	-	293 521
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	672 209	868	7	1 000	24 795	698 879
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	8 469	-	8 469
Total	962 309	3 289	7	10 469	24 795	1 000 869

Liabilities from loans and deposits by currency

30.06.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	1 283	-	1 283
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	55 323	294	386 493	56 249	9 797	508 156
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	7 182	440	-	17 759	3	25 384
Total	62 505	734	386 493	75 291	9 800	534 823

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions as at 31 December 2015

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 parent entity	605 703	-	-	605	1 209	-	2 415
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1 114 848	7 724	55 861	4 843	1 507 266	653 064	966
Associates of Bank Pekao S.A Group							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	3	25 262	-	29
Pioneer Pekao Investment Management S.A.	-	-	-	35	162 752	-	23
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	-	16 323	115 116	-	21
Total Associates of Bank Pekao S.A. Group	-	-	-	16 361	303 130	-	73
Key management personnel of the Bank and UniCredit S.p.A.	8 568	-	-	-	22 180	-	-
Total	1 729 119	7 724	55 861	21 809	1 833 785	653 064	3 454

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by contractual maturity

31.12.2015	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	8 497	597 206	-	-	-	-	605 703
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	616 160	94 797	482	779	402 630	-	1 114 848
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	5 999	-	37	186	2 346	8 568
Total	624 657	698 002	482	816	402 816	2 346	1 729 119

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

Liabilities from loans and deposits by contractual maturity

31.12.2015	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	1 209	-	-	-	-	-	1 209
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	160 673	8 458	963 829	-	374 306	-	1 507 266
Associates of Bank Pekao S.A. Group	16 224	92 203	194 703	-	-	-	303 130
Key management personnel of the Bank and UniCredit S.p.A.	4 474	4 007	9 841	3 808	50	-	22 180
Total	182 580	104 668	1 168 373	3 808	374 356	-	1 833 785

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	243 767	350 936	-	11 000	-	605 703
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	598 100	403 900	7	67 079	45 762	1 114 848
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	8 568	-	8 568
Total	841 867	754 836	7	86 647	45 762	1 729 119

Liabilities from loans and deposits by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	1 209	-	1 209
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1 010 843	261	374 306	121 856	-	1 507 266
Associates of Bank Pekao S.A. Group	-	-	-	303 130	-	303 130
Key management personnel of the Bank and UniCredit S.p.A.	7 129	920	-	14 128	3	22 180
Total	1 017 972	1 181	374 306	440 323	3	1 833 785

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	INTEREST EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	(361)	(240)	481	(1 290)	354	(7 316)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	10 497	(1 641)	4 904	(99)	5 858	(20 218)
Associates of Bank Pekao S.A. Group						
Dom Inwestycyjny Xelion Sp. z o.o.	-	(58)	19	(118)	172	(25)
Pioneer Pekao Investment Management S.A.	-	(1 053)	130	-	10	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(805)	93 730	-	-	-
Total Associates of Bank Pekao S.A. Group	-	(1 916)	93 879	(118)	182	(25)
Key management personnel of the Bank and UniCredit S.p.A.	120	(144)	7	-	-	-
Total	10 256	(3 941)	99 271	(1 507)	6 394	(27 559)

Income and expenses from transactions with related parties for the period from 1 January to 30 June 2015

NAME OF ENTITY	INTEREST INCOME	INTEREST EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	147	(32)	178	(1 527)	688	(7 074)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	24 928	(2 474)	2 421	(1 105)	38 525	(3 262)
Associates of Bank Pekao S.A. Group						
Dom Inwestycyjny Xelion Sp. z o.o.	-	(185)	35	(16)	165	(1)
Pioneer Pekao Investment Management S.A.	-	(1 465)	196	-	14	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(1 184)	120 015	-	345	-
Krajowa Izba Rozliczeniowa S.A.	-	(135)	57	-	-	(4 303)
Total Associates of Bank Pekao S.A. Group	-	(2 969)	120 303	(16)	524	(4 304)
Key management personnel of the Bank and UniCredit S.p.A.	130	(204)	6	-	-	-
Total	25 205	(5 679)	122 908	(2 648)	39 737	(14 640)

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees as at 30 June 2016

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	49 734	279 582	24 220
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	200 271	594 516	57 006
Associates of Bank Pekao S.A Group			
Dom Inwestycyjny Xelion Sp. z o.o.	2 000	-	-
Pioneer Pekao Investment Management S.A.	15	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	52	-	-
Total Associates of Bank Pekao S.A. Group	2 067	-	-
Key management personnel of the Bank and UniCredit S.p.A.	241	-	-
Total	252 313	874 098	81 226

As at 30 June 2016, the Group did not have off-balance sheet financial commitments received from related parties.

Notes to financial statements (cont.)

(in PLN thousand)

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

30.06.2016	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	29 734	-	20 000	49 734
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	160 148	-	40 123	200 271
Associates of Bank Pekao S.A. Group	-	2 000	-	-	67	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	30	-	-	21	190	-	241
Total	30	2 000	-	189 903	257	60 123	252 313
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	-	-	2 000	135 632	29 417	112 533	279 582
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	640	99 825	335 379	158 672	594 516
Total	-	-	2 640	235 457	364 796	271 205	874 098
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	-	1 220	19 585	3 415	-	24 220
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	5 100	2	51 889	15	-	57 006
Total	-	5 100	1 222	71 474	3 430	-	81 226

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees granted by currency

30.06.2016	EUR	USD	CHF	PLN	INNE	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	29 734	-	-	20 000	-	49 734
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	98 567	39 748	-	61 580	376	200 271
Associates of Bank Pekao S.A. Group	-	-	-	2 067	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	241	-	241
Total	128 301	39 748	-	83 888	376	252 313
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	10 660	-	-	268 922	-	279 582
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	49 122	-	-	545 394	-	594 516
Total	59 782	-	-	814 316	-	874 098
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	9 920	-	-	14 300	-	24 220
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	18 322	-	-	38 684	-	57 006
Total	28 242	-	-	52 984	-	81 226

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2015

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	48 223	236 659	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	179 072	890 343	34 490
Associates of Bank Pekao S.A. Group			
Dom Inwestycyjny Xelion Sp. z o.o.	2 000	-	-
Pioneer Pekao Investment Management S.A.	15	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	52	-	-
Total Associates of Bank Pekao S.A. Group	2 067	-	-
Key management personnel of the Bank and UniCredit S.p.A.	697	-	-
Total	230 059	1 127 002	49 078

As at 31 December 2015, the Group did not have off-balance sheet financial commitments received from related parties.

Notes to financial statements (cont.)

(in PLN thousand)

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

31.12.2015	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	28 223	-	20 000	48 223
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	179 072	-	-	179 072
Associates of Bank Pekao S.A. Group	-	-	-	2 007	60	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	30	515	5	18	129	-	697
Total	30	515	5	209 320	189	20 000	230 059
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	-	2 631	17 719	66 440	83 818	66 051	236 659
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	16 189	98 861	90 053	322 855	362 385	890 343
Total	-	18 820	116 580	156 493	406 673	428 436	1 127 002
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	11 300	3 288	-	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	553	30 406	3 531	-	34 490
Total	-	-	553	41 706	6 819	-	49 078

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees issued by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	28 223	-	-	20 000	-	48 223
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	77 772	-	-	101 300	-	179 072
Associates of Bank Pekao S.A. Group	-	-	-	2 067	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	697	-	697
Total	105 995	-	-	124 064	-	230 059
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	10 497	-	-	226 162	-	236 659
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	60 778	-	-	829 565	-	890 343
Total	71 275	-	-	1 055 727	-	1 127 002
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	3 288	-	-	11 300	-	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	8 147	-	-	26 343	-	34 490
Total	11 435	-	-	37 643	-	49 078

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 2016 amounted to PLN 9 146 thousand, compared to PLN 7 350 thousand in the first half of 2015. Short-term employee benefits included: base salary, bonuses and other benefits due in next 12 months from the balance sheet date.

Long-term benefits related to the Management Board of the Bank amounted to PLN 992 thousand in the first half of 2016, compared to PLN 1 111 thousand in the first half of 2015 and comprised of provisions for deferred bonus payments.

The expenses of the first half of 2016 included PLN 3 553 thousand in respect of share-based payments, compared to PLN 3 655 thousand in the first half of 2015. The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of phantom shares, granted to the Members of the Bank's Management Board.

Remuneration expenses of Supervisory Board of the Bank, comprising short-term employee benefits, amounted to PLN 619 thousand in the first half of 2016, compared to PLN 470 thousand in the first half of 2015.

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 2016 and in the period from 1 January to 30 June 2015.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

Remuneration expenses of Management Boards of Group's subsidiaries, comprising short-term employee benefits, amounted to PLN 5 861 thousand in the first half of 2016, compared to PLN 8 302 thousand in the first half of 2015.

Remuneration expenses of Supervisory Boards of Group's subsidiaries, comprising short-term employee benefits, amounted to PLN 117 thousand in the first half of 2016, compared to PLN 50 thousand in the first half of 2015.

41. Subsequent events

On 13 July 2016 UniCredit S.p.A. announced that it has sold 26 247 003 ordinary shares in Bank Pekao S.A. to institutional investors, corresponding to 10.0% of the Bank's issued share capital, at a price of 126 PLN per ordinary share in an accelerated placement. Gross proceeds raised by UniCredit from the Placement amounted to approximately PLN 3.3 billion (equal to ca. EUR 749 million at ECB foreign exchange reference rate as of 12 July 2016 equal to 4.4171). The price represents a discount of approximately 6% to the last pre-announcement closing price of Pekao.

After the completion of the Placement, the UniCredit holds 105 250 485 shares in the Bank, constituting 40.10% of share capital of the Bank and corresponding to the same number and percentage share of votes at the General Meeting of the Bank.

In the context of the Placement, UniCredit has agreed to a 90 days lock-up period with respect to its remaining controlling shareholding in Pekao, subject to customary carve-outs.

Signatures of the Management Board Members

02.08.2016	Luigi Lovaglio	President of the Management Board CEO	
Date	Name/Surname	Position/Function	Signature
02.08.2016	Diego Biondo	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
02.08.2016	Andrzej Kopyrski	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
02.08.2016	Adam Niewiński	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
02.08.2016	Grzegorz Piwowar	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
02.08.2016	Stefano Santini	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
02.08.2016	Marian Ważyński	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.