

# **Report on the activities of Bank Pekao S.A. Group for the first half of 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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# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 1 Highlights of Bank Pekao S.A. Group

	1 HALF 2016	1 HALF 2015	2015	2014
<b>INCOME STATEMENT – SELECTED ITEMS</b> <span style="float: right;">(in PLN million)</span>				
Operating income	3,830.3	3,582.0	7,058.6	7,345.7
Operating costs	(1,624.2)	(1,612.5)	(3,219.7)	(3,285.8)
Operating profit	2,206.1	1,969.5	3,838.9	4,060.0
Profit before income tax	1,612.4	1,538.7	2,831.1	3,359.7
Net profit for the period attributable to equity holders of the Bank	1,263.9	1,243.6	2,292.5	2,714.7
Net profit excluding tax on certain financial institutions (*)	1,464.7	-	-	-
<b>PROFITABILITY RATIOS</b>				
Return on average equity (ROE)	10.7%	10.3%	9.7%	11.5%
Return on assets (ROA)	1.5%	1.5%	1.4%	1.8%
Net interest margin	2.8%	2.8%	2.8%	3.1%
Non-interest income / operating income	42.9%	41.3%	40.0%	38.3%
Cost / income	42.4%	45.0%	45.6%	44.7%
<b>STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS</b> <span style="float: right;">(in PLN million)</span>				
Total assets	166,012.3	170,896.6	168,785.6	167,625.0
Net loans and advances to customers(**)	120,096.6	112,528.7	117,299.4	109,189.0
Amounts due to customers (***)	126,190.0	120,090.9	124,398.9	120,629.6
Debt securities issued	2,085.3	3,979.6	2,903.2	3,857.0
Equity	22,200.3	22,117.6	23,424.2	24,045.7
<b>STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS</b>				
Net loans(**) / total assets	72.3%	65.8%	69.5%	65.1%
Securities / total assets	17.4%	16.8%	13.2%	15.0%
Deposits(****) / total assets	77.3%	72.6%	75.4%	74.3%
Net loans(**) / deposits(****)	93.6%	90.7%	92.1%	87.7%
Equity / total assets	13.4%	12.9%	13.9%	14.3%
Total capital ratio (Basel III)	18.1%	17.8%	17.7%	17.3%
<b>EMPLOYEES AND NETWORK</b>				
Total number of employees	18,150	18,629	18,327	18,765
Number of outlets	947	1,013	975	1,034
Number of ATMs	1,754	1,789	1,759	1,825

(\*) On February 1, 2016 tax on certain financial institutions was introduced with an impact on net profit of the Group in the amount of PLN 200.8 million in the first half of 2016.

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

(\*\*\*) Excluding repo transactions.

(\*\*\*\*) Deposits include amounts due to customers and debt securities issued and exclude repo transactions.

Note: Since 2014, the financial data include data of Spółdzielcza Kasa Oszczędnościowo Kredytowa named Mikołaj Kopernik in Ormontowice, took over by Bank Pekao S.A. following decision of The Polish Financial Supervision Authority on December 5, 2014.

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## 2 Highlights of Bank Pekao S.A.

	1 HALF 2016	1 HALF 2015	2015	2014
<b>INCOME STATEMENT – SELECTED ITEMS</b> <span style="float: right;">(in PLN million)</span>				
Operating income	3,737.0	3,552.4	6,792.0	7,034.7
Operating costs	(1,514.0)	(1,501.2)	(2,992.6)	(3,086.6)
Operating profit	2,223.0	2,051.2	3,799.4	3,948.1
Profit before income tax	1,638.2	1,626.9	2,791.6	3,270.1
Net profit	1,303.9	1,348.8	2,290.4	2,662.3
Net profit excluding tax on certain financial institutions <sup>(*)</sup>	1,504.7	-	-	-
<b>PROFITABILITY RATIOS</b>				
Return on average equity (ROE)	11.4%	11.8%	10.1%	11.6%
Return on assets (ROA)	1.6%	1.7%	1.4%	1.8%
Net interest margin	2.8%	2.8%	2.7%	3.1%
Non-interest income / operating income	40.4%	37.9%	37.4%	36.2%
Cost / income	40.5%	42.3%	44.1%	43.9%
<b>STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS</b> <span style="float: right;">(in PLN million)</span>				
Total assets	162,872.5	167,951.3	165,760.7	164,322.8
Net loans and advances to customers <sup>(**)</sup>	116,347.7	108,989.9	113,753.2	105,600.1
Amounts due to customers <sup>(***)</sup>	126,493.7	120,234.8	124,788.1	121,124.9
Debt securities issued	838.8	2,824.1	1,668.7	2,819.7
Equity	21,612.0	21,595.8	22,794.4	23,387.2
<b>STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS</b>				
Net loans <sup>(**)</sup> / total assets	71.4%	64.9%	68.6%	64.3%
Securities / total assets	17.6%	17.0%	13.3%	15.3%
Deposits <sup>(****)</sup> / total assets	78.2%	73.3%	76.3%	75.4%
Net loans <sup>(**)</sup> / deposits <sup>(****)</sup>	91.4%	88.6%	90.0%	85.2%
Equity / total assets	13.3%	12.9%	13.8%	14.2%
Total capital ratio (Basel III)	18.6%	17.4%	18.2%	17.1%
<b>EMPLOYEES AND NETWORK</b>				
Total number of employees	16,258	16,631	16,387	16,914
Number of outlets	947	1,013	975	1,034
Number of ATMs	1,754	1,789	1,759	1,825

(\*) On February 1, 2016 tax on certain financial institutions was introduced with an impact on net profit of the Bank in the amount of PLN 200.8 million in the first half of 2016.

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

(\*\*\*) Excluding repo transactions.

(\*\*\*\*) Deposits include amounts due to customers and debt securities issued and exclude repo transactions.

Note: Since 2014, the financial data include data of Spółdzielcza Kasa Oszczędnościowo Kredytowa named Mikołaj Kopernik in Omontowice, took over by Bank Pekao S.A. following decision of The Polish Financial Supervision Authority on December 5, 2014.

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## 3 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2016 amounted to PLN 1,263.9 million allowing return on average capital (ROE) at the level of 10.7% achieved with a strong capital base reflected by TCR at 18.1% (Basel III).

Net profit of Bank Pekao S.A. Group for the first half of 2016 excluding tax on certain financial institutions in the amount of PLN 200.8 million would amount to PLN 1,464.7 million, higher by PLN 221.1 million, i.e. 17.8% in comparison to the first half of 2015 with a substantial growth of loan and deposit volumes in key strategic areas and lower cost of risk.

Thanks to the effective commercial activity of the Group in the first half of 2016 a significant growth in loan volumes was reported in the area of retail loans (an increase of 7.7% year on year) and a 5.0% year on year growth in the area of corporate loans and non-quoted securities. Such increase in lending was financed by higher volumes of retail deposits growing 15.4% year on year.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 93.6% as at the end of June 2016. This, together with high equity level, enables for further sound and stable development of the Group's activities.

### Main P&L items

In the first half of 2016, the Group's operating income amounted to PLN 3,830.3 million, an increase of PLN 248.3 million, i.e. 6.9% in comparison to the first half of 2015 with the following trends:

- total net interest income, dividend income and income from equity investments in the first half of 2016 amounted to PLN 2,187.9 million and was higher by PLN 86.1 million, i.e. 4.1% compared to the first half of 2015 driven by higher volumes,
- the Group's net non-interest income in the first half of 2016 amounted to PLN 1,642.4 million, higher by PLN 162.2 million, i.e. 11.0% in comparison with the first half of 2015 thanks to higher trading result supported by gains on settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc. and by higher net other operating income supported by disposal of loans, with net fee and commission income lower by 2.5% compared to the first half of 2015 due to some pressure observed on capital market related fees.

The operating costs amounted to PLN 1,624.2 million in the first half of 2016. They were higher by PLN 11.7 million, i.e. 0.7% as compared with the first half of 2015.

Guarantee funds charges in the first half of 2016, amounted to PLN 131.0 million, a decrease of PLN 6.5 million, i.e. 4.7% in comparison with the first half of 2015.

On February 1, 2016 tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In the first half of 2016, it amounted to PLN 200.8 million.

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 260.6 million in the first half of 2016, a decrease of PLN 6.7 million, i.e. 2.5% as compared with the first half of 2015.

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## Volumes

As at the end of June 2016, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 126,027.1 million, an increase of PLN 7,172.9 million, i.e. 6.0% in comparison to the end of June 2015 with significant growth in key strategic areas.

- As at the end of June 2016, the volume of retail loans amounted to PLN 55,736.8 million, an increase of PLN 3,997.9 million, i.e. 7.7% in comparison to the end of June 2015,
- The volume of corporate loans, non-quoted securities and securities issued by non-monetary entities increased by PLN 3,175.0 million, i.e. 4.7% as compared to the end of June 2015 and amounted to PLN 70,290.3 million as at the end of June 2016.

Reverse repo transactions amounted to PLN 149.0 million as at the end of June 2016, a decrease by PLN 8,129.9 million, i.e. 98.2% in comparison to the end of June 2015.

As of June 30, 2016, the ratio of impaired receivables to total receivables excluding reverse repo transactions amounted to 6.4% as compared to 7.1% as at the end of June 2015.

As at the end of June 2016, the total amounts due to the Group's customers and debt securities issued amounted to PLN 128,275.3 million, an increase of PLN 4,204.8 million, i.e. 3.4% in comparison to the end of June 2015 with improved structure of liabilities thanks to growth of share of retail customers deposits.

- The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 68,174.4 million as at the end of June 2016, an increase of PLN 9,465.7 million, i.e. 16.1% in comparison to the end of June 2015,
- The total volume of corporate deposits, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 60,100.9 million as at the end of June 2016, a decrease of PLN 5,260.9 million, i.e. 8.0% as compared to the end of June 2015 reflecting selective pricing approach and focus on securing liquidity needs of the Group.

Repo transactions amounted to PLN 704.1 million as at the end of June 2016, a decrease by PLN 4,515.7 million, i.e. 86.5% in comparison to the end of June 2015.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 16,140.4 million as at the end of June 2016, a decrease of PLN 1,582.3 million, i.e. 8.9% in comparison to the end of June 2015, under the pressure of situation on capital markets.

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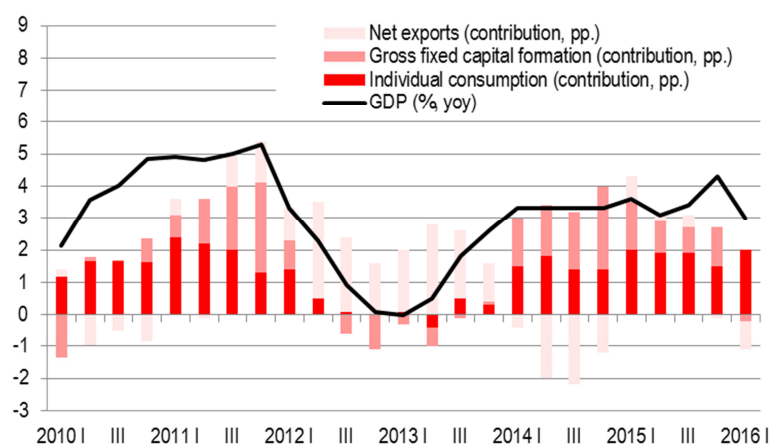
## 4 External Activity Conditions

### Economic growth

In the first quarter of 2016, Polish economic growth amounted to 3.0% year on year as compared with the GDP growth of 4.3% year on year in the fourth quarter of 2015. Seasonally adjusted data indicate that in the first quarter of 2016, the GDP decreased by 0.1% quarter on quarter after an increase of 1.3% quarter on quarter in the final quarter of last year. Domestic demand growth lost momentum. In the first quarter of 2016, domestic demand expanded by 4.1% year on year after an increase of 4.5% year on year in the fourth quarter of 2015. Such a situation stemmed from slower rise in public sector consumption and a decline in fixed investments.

Households consumption growth remained buoyant and went up by 3.2% year on year in the first quarter of 2016 vs. 3.0% year on year increase posted in the previous quarter, contributing to an increase of the yearly GDP growth pace by 2.0 p.p. Real purchasing power of households was still supported by improving labour market conditions, record-low interest rates and continued declines in consumer prices. Fixed investments decreased by 1.8% year on year in the first quarter of 2016, reducing the GDP pace of growth by -0.2 p.p. and it was the first decline in annual terms since the third quarter of 2013. The end of expenditures from the previous European Union financial perspective and delays in 2014-2020 financial framework projects execution weighted down on public investments performance. At the same time elevated uncertainty about the legal and institutional framework (many changes to the current and future economic policies) made some enterprises to postpone investment decisions. The decline in fixed investments was accompanied by an increase in inventories that contributed 1.3 p.p. to the GDP growth in the first quarter of 2016 compensating the negative influence of reduction in investments. Net exports reduced pace of the GDP growth by 0.9 p.p. in the first quarter of 2016. Exports was rising slower than imports (6.9% year on year vs. 9.3% year on year), what reduced the foreign trade surplus.

In 2016, the GDP growth is estimated at 3.5%. The main engine of economic growth is households consumption supported by further improvement on the labour market and higher social transfers (newly introduced Family 500 plus Program). Fixed investments growth is expected to be markedly slower than in 2015 amid declines in public investments and elevated uncertainty weighing down on business confidence. The main downside risks are linked to potential consequences of the United Kingdom decision to leave the European Union (Brexit) that may have severe negative impact on economic growth via trade channel (UK is the second most important exports market for Poland) and financial markets turmoil.

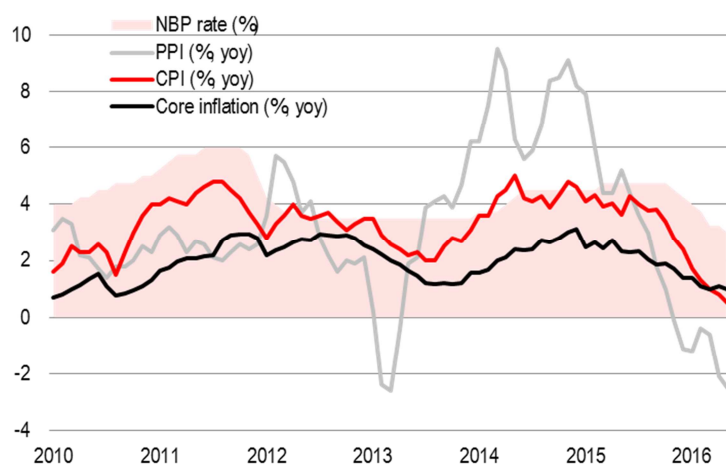


# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## Inflation and monetary policy

The CPI inflation amounted to -0.8% year on year in June 2016 and was lower than the lower limit for deviations from the inflation target of the National Bank of Poland of +1.5%. The low level of inflation in June was mainly due to the fall in transport prices (by -6.0% year on year), clothing and footwear (by -4.1% year on year), recreation and culture (by -3.0% year on year) and housing and energy (by -1.0% year on year).

In the second quarter of 2016, the Monetary Policy Council kept interest rates unchanged and as at the end of June the NBP reference rate amounted to 1.50% and the Lombard rate amounted to 2.50%. In the Council's assessment, price growth will stay negative in the coming quarters due to the earlier substantial decline in global commodity prices. At the same time, the GDP growth is expected to remain stable in the coming quarters, following a temporary deceleration early this year. Consumer demand will continue to be the main driver of economic growth, supported by rising employment, forecasted acceleration of wage growth and an increase in social benefits. Notwithstanding the above, the downside risks to the global economic conditions and the volatility of commodity prices remain the sources of uncertainty for the domestic economy and price developments. The Council maintains its assessment that – given the available data and forecasts – the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance.





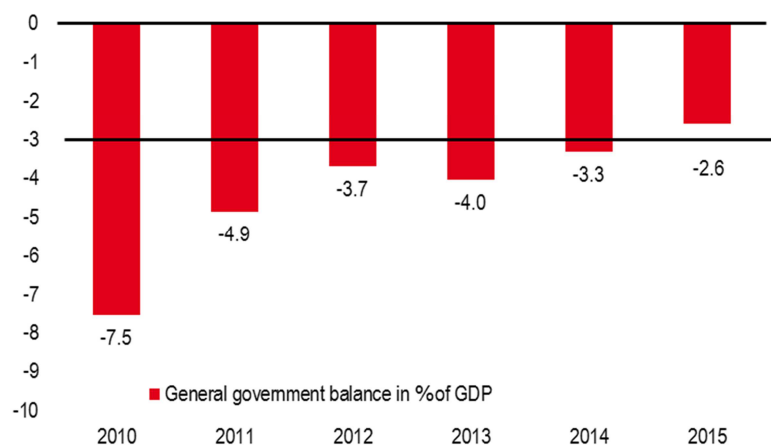
# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## Fiscal policy

In the first five months of 2016, the state budget revenues (cash basis) amounted to PLN 129.1 billion and were PLN 12.8 billion higher than in the corresponding period of 2015. An increase was to a large extent fueled by non-tax revenues (up by PLN 5.4 billion) due to windfall gains from the sales of digital frequencies (800 MHz and 2.6 GHz) that brought extra PLN 7.1 billion to the state budget. After May the tax revenues amounted to PLN 112.5 billion and were PLN 7.5 billion higher than in the first five months of 2015. In the analyzed period revenues went up in all categories of taxes; VAT collections went up by PLN 3.5 billion, excise duty increased by PLN 1.5 billion, CIT revenues increased by PLN 0.1 billion and PIT collections increased by PLN 1.5 billion. Total budget revenues after May were PLN 0.7 billion lower than envisaged in the budget execution schedule, whereas expenditures fell PLN 6.5 billion short of the plan. As a result in the first five months of 2016, the state budget deficit amounted to PLN 13.5 billion (24.6% of annual limit) as compared with PLN 19.3 billion (35.2% of the annual limit) outlined in the budget execution schedule.

The general government deficit moderated to 2.6% of the GDP in 2015 down from 3.3% of the GDP in 2014 and hence was below the threshold limit required by the Stability and Growth Pact at 3.0% of the GDP. The 2016 update of the convergence program prepared by the government foresees 2016 budget gap at 2.6% of the GDP and 2017 deficit at 2.9% of the GDP, what should allow Poland to avoid excessive deficit procedure, however several fiscal risks for 2017 budget should be noted. The baseline fiscal scenario presented in the convergence program is not taking into account costs linked to planned lowering of retirement age and penciled-in a substantial improvement in tax collections due to improved procedures.

According to the official Ministry of Finance data as at the end of the first quarter of 2016, the state public debt totaled PLN 899.3 billion (49.9% of the GDP) vs. PLN 877.3 billion (49.0% of the GDP) as at the end of 2015. Domestic debt amounted to PLN 600.1 billion (66.7% of total debt), whereas foreign debt reached PLN 299.2 billion. In the first quarter of 2016, the domestic debt increased by PLN 29.6 billion, while foreign debt moderated by PLN 7.6 billion. As at the end of the first quarter of 2016, the general government debt stood at PLN 936.8 billion (52.0% of the GDP) as compared with PLN 917.8 billion (51.3% of the GDP) as at the end of 2015.

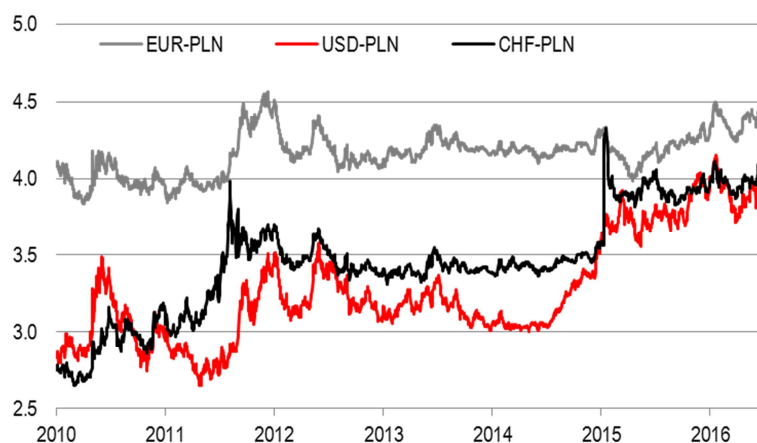


# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## Exchange rate

The USD index outperformed the basket of currencies in the second quarter of 2016, after a significant weakening during the first months of the year. The US dollar gained clearly in the period of May-June due to higher risk of Brexit, confirmed later by the UK referendum on June 23, 2016. Demand for the dollar sent the EUR-USD towards 1.10 by the end of the first half of 2016. A “flight-to-quality” due to higher global risk aversion supported “safe havens” like the Swiss franc, the Japanese yen and the dollar. In such circumstances, we cannot rule out a further decline in the EUR-USD towards 1.06-1.08 in the coming months. The tendency should be however limited by fresh calls for Fed to keep rates unchanged this year.

Appreciation tendency of the zloty, launched in mid-January 2016, expired over the second quarter of 2016. The exchange rate trimmed gains recorded in the first quarter of 2016, weakened sharply in April and hit levels above 4.40/EUR - close to this year's low. Then the zloty was moving in a wide range of 4.35-4.45/EUR awaiting signals from the main central banks and the UK referendum. Domestic factors were important as well, including issue of CHF mortgage loans. The balance of risk proved to be negative for the PLN. It lost sharply after the announcement of the results of voting in the UK. The zloty lost against the basket in parallel with other currencies. The PLN weakened against EUR (by 4.3%), USD (2.6%) and CHF (3.9%) in the first half of 2016. It remained within the 4.40-4.44/EUR in late June with the prospect of worsening due to high uncertainty due to Brexit. In this context GBP lost ground and fell sharply against a basket. As a result the zloty gained c.a. 6% vs. GBP in the last week of June. It reached the strongest level since September 2014 (5.23). It is expected that the zloty will trim part of losses and will test targets close to 4.30/EUR in the fourth quarter of 2016. Such a scenario requires lowering uncertainty in financial markets.



# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## Banking sector

According to the Financial Supervision Authority (KNF) data, in the period of January-May 2016 net profit of the banking sector amounted to PLN 5.29 billion and was lower by -17% compared to the corresponding period of 2015. Result on banking activity rose by +2.6% year on year at the same time, however, operating costs reported an even bigger growth rate of +13.5% year on year. Result on banking activity was mainly driven by net interest income (+8% year on year), additionally supported by other income, which together more than offset shrinking result on fees and commissions (-5.5% year on year). On the cost side, growth was mainly a consequence of the introduction in February of the so-called "bank levy" (which was reflected by a +23.0% rise of general and administrative expenses), although staff expenses were growing relatively significantly as well (+5.5% year on year). Risk costs (impairments on assets and other reserves), which increased by +12.7% year on year, also had negative impact on banking sector's result.

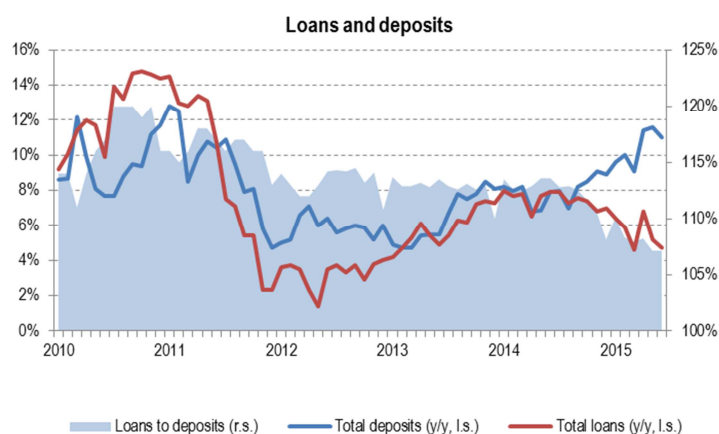
According to KNF, as at the end of May 2016, banking sector assets amounted to PLN 1,651 billion, which meant a growth of +5.2% year on year. Loans to non-financial sector increased by +6.1% year on year, while deposits of that sector increased by +11.6% year on year.

According to the NBP data, as at the end of June 2016, the nominal volume of loans to households was higher by +4.5% compared to the end of June 2015. Taking into consideration favorable macro environment (the GDP and salaries increase and lower unemployment rate) as well as low interest rates, it should be regarded as a moderate growth rate. Loans to enterprises grew in the same period by +7.0%.

The growth of households' loans is being held back primarily by mortgages. This may be related to the unfavorable regulatory environment (e.g. higher down-payment requirements in case of mortgages) and tendencies to purchase homes with own funds (i.e. cash; this is driven by low deposit rates, which makes buying a house a more attractive investment opportunity than a bank deposit from the individual investor's point of view). On the other hand, relatively high growth rate (in comparison to previous years) is reported with regard to consumer loans, which might result from higher creditworthiness of individuals thanks to favorable situation on labour market. In case of enterprises, a high growth rate is being maintained by investment loans, even though the underlying investment expenses of firms is at most moderate.

As at the end of June 2016, the volume of deposits of households increased by +11.2% year on year. Relatively high pace of growth, despite low interests on deposits, may be influenced by three factors. The first factor is favorable macroeconomic and labour situation on households' liquidity. The second factor is support of households under the government Family 500 plus Program and the third factor is limited attractiveness of alternative investment strategies (e.g. investments into shares).

The volume of corporate deposits, increased by +8.4% year on year as at the end of June 2016. This growth is being maintained mainly thanks to positive business climate, which supports financial results and liquidity surplus of enterprises. Possible influence stems also from current regulatory environment uncertainty, which might withhold new investment. Inflow of funds from abroad to foreign-owned local subsidiaries may also influence growth in corporate deposits - enterprises temporarily place such funds in local banking system before financing operating activities and/or investments.



# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 5 Internal Factors

### 5.1 Description of the Group

The Group's structure is presented in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2016 to 30 June 2016.

### 5.2 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 January 1, 2016 the following associates entities of the Bank: Polish Banking System S.A. (in liquidation) and PPU Budpress Sp. z o.o. (in liquidation) were deleted from the Registry.

### 5.3 Changes in the Statutory Bodies of the Bank

#### Supervisory Board

On June 16, 2016, the Management Board of Bank Pekao S.A. informed in the current report No. 10/2016 that, taking into account the fulfillment of suitability assessment, the Ordinary General Meeting of the Bank on June 16, 2016 appointed Mr. Dariusz Filar, Mr. Massimiliano Fossati, Ms. Katarzyna Majchrzak, Mr. Gianni Papa, Mr. Leszek Pawłowicz, Ms. Laura Penna, Ms. Wioletta Rosołowska, Ms. Doris Tomanek and Mr. Jerzy Woźnicki as Members of the Supervisory Board of the Bank for the three-year joint term of office, starting on June 17, 2016.

Composition of the Supervisory Board:

JUNE 30, 2016	DECEMBER 31, 2015
Jerzy Woźnicki Chairman of the Supervisory Board (*)	Jerzy Woźnicki Chairman of the Supervisory Board
Gianni Papa Deputy Chairman of the Supervisory Board (*)	Roberto Nicastro Deputy Chairman of the Supervisory Board
Leszek Pawłowicz Deputy Chairman of the Supervisory Board (*)	Leszek Pawłowicz Deputy Chairman of the Supervisory Board
Massimiliano Fossati Secretary of the Supervisory Board (*)	Alessandro Decio Secretary of the Supervisory Board
Dariusz Filar Member of the Supervisory Board	Dariusz Filar Member of the Supervisory Board
Katarzyna Majchrzak Member of the Supervisory Board	Katarzyna Majchrzak Member of the Supervisory Board
Laura Penna Member of the Supervisory Board	Laura Penna Member of the Supervisory Board
Wioletta Rosołowska Member of the Supervisory Board	Wioletta Rosołowska Member of the Supervisory Board
Doris Tomanek Member of the Supervisory Board	Doris Tomanek Member of the Supervisory Board

(\*) The Supervisory Board of the Bank elected at the meeting held on July 22, 2016 Mr. Jerzy Woźnicki as Chairman of the Supervisory Board, Mr. Gianni Papa as Deputy Chairman of the Supervisory Board, Mr. Leszek Pawłowicz as Deputy Chairman of the Supervisory Board and Mr. Massimiliano Fossati as Secretary of the Supervisory Board.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## Management Board of the Bank

As of June 30, 2016 the composition of the Management Board had not changed compared to December 31, 2015 and was as follows:

JUNE 30, 2016	DECEMBER 31, 2015
Luigi Lovaglio President of the Management Board, CEO	Luigi Lovaglio President of the Management Board, CEO
Diego Biondo Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Andrzej Kopyrski Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Adam Niewiński Vice President of the Management Board	Adam Niewiński Vice President of the Management Board
Grzegorz Piwowar Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Stefano Santini Vice President of the Management Board	Stefano Santini Vice President of the Management Board
Marian Ważyński Vice President of the Management Board	Marian Ważyński Vice President of the Management Board

## 5.4 The Bank's shareholding structure

As of June 30, 2016, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and it was divided into 262,470,034 shares.

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

Prior to the disposal, the UniCredit S.p.A. owned 131,497,488 shares in the Bank, constituting 50.10% of capital share of the Bank and corresponding to the same number and percentage share of votes at the General Meeting of the Bank.

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

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

The shareholders of Bank Pekao S.A. owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the General Meeting of Bank Pekao S.A. are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT		AS OF JUNE 30, 2016		AS OF DECEMBER 31, 2015	
UniCredit S.p.A.	105,250,485	40.10%	131,497,488	50.10%	131,497,488	50.10%
Other shareholders (below 5%)	157,219,549	59.90%	130,972,546	49.90%	130,972,546	49.90%
<b>Total</b>	<b>262,470,034</b>	<b>100.00%</b>	<b>262,470,034</b>	<b>100.00%</b>	<b>262,470,034</b>	<b>100.00%</b>

As at the date of submitting the report the Bank has not received any notifications regarding changes in the ownership structure in accordance with par. 69 of the Act of July 29, 2005 on Public Offerings and Conditions Governing the Introduction of Financial Instruments to an Organized System of Trading, and on Public Companies.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 5.5 Bank Pekao S.A. financial credibility ratings

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

As of June 30, 2016, Bank Pekao S.A. had assigned following financial credibility ratings:

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

<sup>(\*)</sup> Stable for liabilities in domestic currency, Negative for liabilities in foreign currencies

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

Fitch Ratings agency assigned the "A" rating to the covered bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A. It is the highest rating ever awarded to the Polish debt securities issued by a private company. The reasons underlying the Agency's decision included the high rating assigned to Pekao Bank Hipoteczny S.A. (A-), legal regulations pertaining to the covered bonds collateral register, and the excess of collateral over the volume of bonds in issue, as declared by the bank. The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 6 Activity of Bank Pekao S.A. Group

### 6.1 Achievements of Bank Pekao S.A.

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

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

	30.06.2016	30.06.2015
Total number of outlets	947	1,013
Total number of own ATMs	1,754	1,789

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

As at the end of June 2016, the Bank maintained 5,377.0 thousand PLN-denominated current accounts, 318.6 thousand mortgage loan accounts and 574.1 thousand consumer loan accounts.

	30.06.2016	30.06.2015
Total number of PLN current accounts <sup>(*)</sup>	5,377.0	5,247.7
of which packages	3,993.6	3,912.6
Number of mortgage loans accounts <sup>(**)</sup>	318.6	298.7
of which PLN mortgage loans accounts	283.4	261.3
Number of consumer loan accounts <sup>(***)</sup>	574.1	577.8

(\*) Number of accounts including accounts of pre-paid cards.

(\*\*) Retail customers accounts.

(\*\*\*) "Pożyczka Ekspresowa" (Express Loan).

### Individual clients

#### Individual clients service

In the first half of 2016, Bank Pekao S.A. consequently realized the strategy of growth in retail customer segment providing services for individual clients and small and micro enterprises.

In the first half of 2016, the total value of new key loans granted to individual clients, including cash and PLN mortgage loans amounted to nearly PLN 6.5 billion and in the second quarter of 2016, the total value of these loans amounted to nearly PLN 3.7 billion and was higher by 31.1% in comparison with the first quarter of 2016.

The value of retail deposits placed in the Bank increased by the amount of nearly PLN 9 billion during the last 12 months which resulted in an increase in the total balance of retail deposits by 15.4% in comparison with June 2015.

Bank Pekao S.A. is one of the leaders in electronic banking in Poland. Within the framework of electronic banking the Bank offers to its clients wide range of solutions such as: Internet and mobile service, mobile application on phones and tablets as well as PeoPay mobile transfers.

In the first quarter of 2016, the Bank released a new tablet application „Pekao24 na tablety” designed for individual clients using tablets. The application apart from main transactional functions known from the Pekao24 system, was equipped with a tool of financial analysis that helps clients to overview inflows and expenditure on their account and to manage household's budget.



# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

The Bank as the first bank in the world, allowed users of mobile phones with Windows 10 Mobile system to make contactless payments in HCE technology via the PeoPay application.

Thanks to the PeoPay application the Banks' clients have the opportunity to make fast transfers between the application users, non-cash payments in shops and service points cooperating with the Bank and online payments for purchases. Currently, with the use of the PeoPay application it is possible to make payments in 400 thousand of POS terminals in Poland (ca. 80% of total number of POS) and in nearly 3 million of terminals abroad.

Focusing on providing the comprehensive services for families, since April 2016 the Bank joined the government Family 500 plus Program allowing customers to submit application in a convenient and fast way. Additionally, there were prepared a dedicated offer and website for the government Family 500 plus Program where apart from information on applications the customers were provided with the Bank's products offer and packages of dedicated rebates from Partners of Galeria Rabatów Program.

## **Loans**

In the first half of 2016, the value of cash loans granted amounted to PLN 3.3 billion. In the second quarter of 2016, the value of loans granted reached the record-high volume of PLN 2 billion what translated into 12% of increase in cash loans portfolio year on year.

In the first half of 2016, the Bank continued the activities aiming at ensuring the clients transparent offer of Pożyczka Ekspresowa (Express Loan) concentrating on strengthening the relationship with customers, among others, through preparation of individual loan offers with the use of CRM tools as well as electronic channels including website dedicated to consumer loans, the Pekao24 system and mobile application.

The Bank offered also to its new clients fast and fully automated cash loan granting process "Klik Gotówka" ("Cash Click") through the Internet service and the Pekao24 mobile application. Loan disbursement is automatically processed after approval of agreement in the Pekao24 system.

The Bank conducts promotional campaign of Express Loan in the main TV channels with the largest coverage and thematic channels as well as on the Internet portals, including YouTube and Facebook.

In the first half of 2016, the Bank maintained its strong market position in the area of mortgage loans, granting the loans in the amount of almost PLN 3.2 billion what translated into 11% of increase of PLN mortgage loans volume year on year and secured 18% of the market share as at the end of June 2016. The Bank takes also a leading position in mortgage loans granting under the government program "Mieszkanie dla Młodych" ("Apartment for the Young") supporting the persons aged up to 35 in acquisition of the first new apartment. The Bank conducted also local and country-wide promotional activities of mortgage loans, including promotional campaigns on the Internet and internal channels of marketing communication as well as participated on a regular basis in real estate fairs organized all over the country.

## **Payment cards**

In the first half of 2016, the Bank focused on promotion of the latest card products introduced to its offer in 2015. Multicurrency debit card and Flexia credit card became the most popular products chosen by the Bank's customers.

Multicurrency debit card is one of the most innovative products on the market that enables execution of transactions in PLN as well as selected foreign currencies without FX rate conversion thanks to card's connection with corresponding currency accounts. The Bank's multicurrency debit card is used abroad most frequently for transactions in EUR realized in European Union countries.

Flexia card is an innovative solution, that combines the advantages of a credit card with the ability to reschedule selected payments for purchases. Growing share of Flexia cards in total number of credit cards issuance confirms that this card meets the customer's expectations in terms of financing of expenditures and cheap and easy access to additional funds.

Within the framework of payment cards promotion, there were conducted marketing campaigns mainly on the Internet and radio. The Bank's payment cards were also promoted by bloggers who used them while shopping or travelling abroad and published opinion on their websites.



# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

The ability to customize image of payment card by selecting from proposals available in the catalogue is very popular among the Bank's customers. More than half of newly issued debit cards are cards with selected image from the catalogue, which consists of 72 images.

The effectiveness of the Bank confirms the increasing number of payment cards in circulation increased by 337.6 thousand (+9.4%) as compared to the end of June 2015. The Bank's share in the payment card market as at the end of March 2016 was 10.9% and was higher by 1.0 p.p. as compared to end of March 2015.

## **Savings and investment products**

Thanks to a wide range of deposit products of the Bank, during the last 12 months deposits volume of retail customers increased by 15.4% in comparison to June 30, 2015.

In the first half of 2016, the Bank introduced to its offer new investment products. Investment funds offer was extended by sub-fund Pioneer Strategii Globalnej – konserwatywny (Pioneer Global Strategy – conservative) with a lower investment risk level (equity part of the portfolio accounts for 30% of its assets) and Pioneer Dochodu USD mixed fund of a global nature investing in different types of assets. The IKE and IKZE offer was also expanded. Program of regular savings Moja Perspektywa was also extended by new portfolios: Portfel obligacyjny Rodzina Plus and Portfel konserwatywny Rodzina Plus which is characterized by a relatively low investment risk.

Within the framework of structured products, structured deposits based on EUR/PLN currency exchange rate and certificates based on stocks of the European companies were issued.

## **Brokerage activity**

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

As at the end of June 2016, the retail brokerage entities maintained 345.0 thousand investment accounts and offered to its clients an electronic service of investment accounts allowing them to buy and sell all instruments listed on the Warsaw Stock Exchange (WSE) and on the BondSpot market via the Internet. As at the end of June 2016, the Group's brokerage entities were serving 183.2 thousand accounts with an active access to services through remote channels.

As of June 30, 2016, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 22.5 billion.

As part of continually improving the quality of service offered to customers active in derivative markets a simulator of settlements was implemented. It allows to perform dynamic calculation of profit and loss as well as deposit required for owned and simulated balances of derivatives according to KDPW\_CCP in SPAN (Standard Portfolio Analysis of Risk) methodology.

In the first half of 2016, CDM expanded its offer by pre-market orders and currently is the only provider of this service in Poland. Orders submitted during pre-market period are transferred for execution immediately and can be executed before the official opening of trading. If not executed, order remains active until execution or completion of continuous trading in a date of the order placement.

In January 2016, Dom Maklerski took the first place in the ranking of participants acting as clearing participants within the scope of cash market in 2015 prepared by Supervision Department of KDPW. The distinction confirms the accuracy and reliability of customers transactions settlements realized through Dom Maklerski.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## **Private Banking**

In the first half of 2016, the activity in the area of Private Banking covered mainly development of the offer addressed to the wealthiest clients, including the investment offer as well as the initiatives aiming at the new clients acquisition and strengthening existing relations.

Since June 2016, Private Banking clients can benefit from the offer of investment funds managed by Goldman Sachs Asset Management (GSAM), which is the part of The Goldman Sachs Group, one of the largest investment banks in the world. From this moment for a period of eighteen months, the Group of Bank Pekao S.A. will be the exclusive distributor of GSAM solutions in Poland. Private Banking clients have a choice of nine selected funds from the GSAM offer available through the CDM. The offer on the Polish market consists of 3 debt funds, one alternative fund and 5 equity funds.

In first half of 2016, subscriptions of Indeks na Zysk deposits were conducted. For three of them the interest due to the customer depends on the average exchange rate of EUR / PLN, for two of them depends on the average USD / PLN exchange rate.

Investment advisory is very popular among Private Banking clients. As at the end of June 2016, assets covered by investment advisory exceeded PLN 1.7 billion.

Within the scope of prestigious credit cards offer, special regulations of credit limits agreements and credit cards were implemented to support sales of these products.

In regulations concerning service of Private Banking customers changes arising from the provisions of the Foreign Account Tax Compliance Act – FATCA, statements on marketing consent as well as complaint procedure were introduced. The customers were provided with opportunity to open and maintain Eurokonto Walutowe account on individual terms in 9 additional currencies: Norwegian krone (NOK), Swedish krone (SEK), Danish krone (DKK), Canadian dollar (CAD), Australian dollar (AUD), Russian ruble (RUB), Japanese yen (JPY), dirham of the United Arab Emirates (AED) and Chinese yuan (CNY).

In the first quarter of 2016, a program of investment meetings aiming at presentation to the customers investment directions and trends on the financial markets by experts from the Bank and selected Investment Funds was initiated. Private Banking clients had also the opportunity to participate in events sponsored by the Bank, such as Paszporty Polityki (Passports of the Polityka magazine) awards ceremony, UEFA Champions and Europe League football matches, prestigious meeting associated with publication of a List of 100 Polish billionaires 2016 of the Forbes magazine, the Official International Showjumping Competition CSIO 5\* and gala of the Jan Wejchert award of the Polish Business Roundtable.

## **Electronic banking for Individuals**

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

Since 2016, individual clients can use a new mobile application dedicated for tablets - Pekao24 na tablety. The application, apart from main transactional functions known from the Pekao24 system was equipped with a tool of financial analysis that helps clients to overview inflows and expenditure on their account. A new, simplified form of transfer and advanced search in transactions history facilitate day-to-day usage of bank account. Pekao24 na tablety application is available on devices with Android and iOS operating systems. The functionality of the new application Pekao24 na tablety is continuously developed. In the first half of 2016, the customers were provided with ability to manage credit cards (i.e. automatic repayment, download statement).

The Pekao24 Internet banking system and mobile application additionally allow the individual clients to manage funds on brokerage accounts held by Dom Maklerski.

In the first half of 2016, the Bank allowed customers of the Pekao24 Internet banking system to submit application within the framework of the government Family 500 plus Program.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

The Bank regularly extends the scope of functions available for execution through remote access channels. In the second quarter of 2016, the possibility of fast and convenient activation of electronic banking through delivery of PIN via SMS was introduced.

In the first half of 2016, for individual clients interested in credit products, the offer of Klik Gotówka Loan became more flexible and in the Pekao24 Internet banking system and mobile application the possibility of easy purchase of credit card with an option of flexible choice of limit was implemented. This is another lending product besides Klik Gotówka Loan, automatically processed after approval of an agreement.

In the Pekao24 Internet banking system, the Bank provided the customers with opportunity to convert in the Internet service investment fund units and recurrent transfers on Indywidualne Konto Emerytalne as well as direct payments and recurrent transfers on Indywidualne Konto Zabezpieczenia Emerytalnego.

As at the end of June 2016, the number of individual users with an access to the Pekao24 system amounted to 3,018.6 thousand and was higher by 231.1 thousand as compared to the end of June 2015. In the second quarter of 2016, 1,642.1 thousand individual users logged in to the electronic banking services.

As at the end of June 2016, the number of individual users with an access to mobile banking amounted to 1,243.0 thousand and was higher by 513.8 thousand as compared to the end of June 2015. In the second quarter of 2016, 581.6 thousand of individual users logged in to the mobile service m.pekao24.pl, the Pekao24 mobile banking application (on phone or tablet) and the PeoPay application.

(in thousand)

	30.06.2016	30.06.2015
Number of individual users with an access to electronic banking Pekao24 as at the end of period	3,018.6	2,787.5
Number of individual users actively using electronic banking Pekao24 (*)	1,642.1	1,487.9
Number of individual users with an access to mobile banking as at the end of period (**)	1,243.0	729.2
Number of individual users actively using mobile banking (***)	581.6	275.9

(\*) User actively using electronic banking is a user who logged in to the system at least once during the last quarter.

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

(\*\*\*) User actively using mobile banking is a user who logged in to the mobile service m.pekao24.pl or the Pekao24 mobile banking application or the PeoPay application at least once during the last quarter.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## Small and micro enterprises (SME)

In the first half of 2016, the Bank extended offer of Pożyczka Ekspresowa Biznes (Business Express Loan) for customers with simplified form of accounting, and introduced also loan for the customers with annual sales revenue exceeding PLN 1.5 million. Entrepreneurs can be granted with a loan in the amount of up to PLN 100 thousand for the period of five years. The collateral of this loan is promissory note and power of attorney to the customer's account. Thanks to this offer the enterprises get access to an additional source of financing, which can use for any purpose associated with their business activity, among others, financing of current activity, purchase of small machines and devices without need to document expenditures.

In the first half of 2016, there were launched promotional campaigns of loans which supported granting process of Pożyczka Ekspresowa Biznes (Business Express Loan), Pożyczka Ekspresowa Agro (Agro Express Loan) and loans offered to individual farmers under the Agromania project. The Bank continued special promotional campaigns of loans „SLK - szybko dostępny limit kredytowy” (“SLK – quickly available credit limit”) addressed to the selected customers with dedicated short term loans offer and credit and charge cards limits available in simplified loans granting process.

In the first half of 2016, the Bank conducted activities aimed at increasing in number of debit, credit and charge cards issued for business customers and boosting revenues on cards transactions. A dedicated promotional campaign of new multicurrency MasterCard Business and VISA Business cards was organized.

Thanks to attractive and flexible offer of FX exchange and individual approach to business client, in the first half of 2016, trading result on FX exchange increased by 7% in comparison with the same period of 2015. This good result was also supported by campaigns addressed to importers, exporters and other customers using FX exchange offer.

In the first quarter of 2016, the Bank presented the sixth edition of report “Raport o sytuacji mikro i małych firm” (Report on the situation of SME clients) during the conference held in Warsaw. The report has been prepared based on 7 thousand interviews conducted with the enterprises' owners. The main theme of this edition was the start-up businesses. Outcomes of this report are presented at conferences organized in each voivodeships.

## Electronic banking for SME customers

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

The mobile offer for business customers using the Pekao24 dla firm system was implemented within m.pekao24.pl. service, which is adapted to browsers on mobile devices.

As at the end of June 2016, 251.5 thousand business users had an access to the electronic banking systems, of which 167.2 thousand were active users. The number of business users with an access to the electronic banking systems increased by 8.4 thousand compared to the end of June 2015.

(in thousand)

	30.06.2016	30.06.2015
Number of business users (SME) with an access to the electronic banking systems as at the end of period	251.5	243.1
Number of business users (SME) actively using electronic banking systems (*)	167.2	162.4

(\*) User actively using electronic banking is a user who logged in to the systems at least once during the last quarter.

As at the end of June 2016, 19.9 thousand business users had an access to the mobile banking application, of which 11.6 thousand were active users. The number of business users with an access to the mobile banking application increased by 4.6 thousand compared to the end of June 2015.

(in thousand)

	30.06.2016	30.06.2015
Number of business users (SME) with an access to the mobile banking as at the end of period	19.9	15.3
Number of business users (SME) actively using the mobile banking (*)	11.6	9.7

(\*) User actively using mobile banking is a user who logged in to the system at least once during the last quarter.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## Corporate customers

Bank Pekao S.A. is the largest corporate bank in Poland financing the most important, strategic projects. A wide range of products offer, innovative solutions and individual approach ensure comprehensive financial service of corporates, institutions and public sector units.

The Bank is available for the clients at every stage of the business activity, from supporting the processes of financial management of the production and sales network to automation of manual processes, financing the development of the products and services offer, as well as advisory services and the provision of funds for investments and international expansion.

“Tailor-made” solutions of Bank Pekao S.A. corporate banking are recognized both in Poland and internationally. The safety and convenience of on-line services, trading in Treasury securities, custodian business, trade finance and foreign exchange, cash management and other transactional banking services, as well as the financing of commercial property are the areas of corporate banking appreciated by clients and independent, local and international experts. The market also recognizes the solutions used by the Bank to improve the service and support relations with clients, such as the Digital Gate – Pekao General Agreement.

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

## Transactional services

In the area of transactional services, the Bank continued activities aiming at procedures and processes simplification, improving security and convenience of corporate customers.

Major achievements in the first half of 2016, in the area of transactional services of the Bank included:

- extension of the offer by Digital Gate service (the General Agreement), which makes the handling of the current account simpler, faster and more comfortable. Under one Digital Gate Agreement the client is provided with access to basic set of the most frequently used products, and may activate other products using simple applications,
- introduction of additional functionality to parametrization of corporate payments cards. The customers were provided with tools for flexible cards management, i.e. possibility to set limits for non-cash transactions for MasterCard Corporate Debit FX Pekao,
- year on year increase in the number of outgoing, incoming and SEPA transfers by 13.3%, 13.8%, 17.4% respectively as well as increase in the number of realized domestic payments by 23%.

## Electronic banking

In the first half of 2016, the most important achievements in the area of electronic banking include:

- an increasing automation and faster service of PekaoBiznes24 users. Clients more often use access management in PekaoBiznes24 by submitting applications in the electronic form and they appreciate the convenience, speed, correctness and cost savings. As a result, the ratio of applications submitted electronically and applications in a paper form stands at 60/40,
- introduction of further improvements in corporate customers settlements, i.e. order confirmation which allows automated information on payment execution and improves flow of information both inside the company and with its counterparties and notification – a tool which automatically sends to the customer information, among other, on system and transactions security,
- maintaining the top market position in terms of the number of available solutions integrating the financial systems of enterprises with the Bank and volume of transactions. The Bank as a leader of integration executed over 11 million of orders through alternative channel (Pekao Connect, PekaolnMail, web service), i.e. increase by 362% year on year.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## **Correspondent banking - cooperation with international and domestic financial institutions**

In the first half of 2016, the Bank acquired 3 new banks for co-operation and service within the scope of PLN and foreign currencies clearing.

The Bank maintains very high STP rate (Straight Through Processing) of processing customers and interbank transactions at the level of 98%.

## **Investment banking, structured finance and commercial real estates**

The Bank consistently supports development of companies and infrastructure through financing, arranging and hedging the transactions. Clients are offered a wide range of services in the area of project financing, structured finance as well as commercial real estate projects financing.

In the first half of 2016, the strong position of the Bank in the area of financing is confirmed: issuance of mid-term bonds in the total amount of PLN 2.8 billion, arrangement of the largest transaction on M&A market in the amount of PLN 1 billion and financing of housing developers in the amount of PLN 506 million.

The Bank participated, among others, in the following investment projects:

- financing of the production of the company in biofuel sector in the amount of PLN 440 million,
- financing of investment needs for a leading company in food industry in the amount of PLN 350 million,
- syndicated loan granted to a leading company in light industry in the amount of PLN 343.2 million with the Bank's share of PLN 206 million,
- financing of new industrial installation for one of the leaders in the energy sector in the amount of PLN 286 million,
- financing of housing and shopping complex located in Warsaw in the amount of PLN 166 million,
- participation in syndicated loan financing acquisition activities of a leading company in restaurant industry in the amount of PLN 140 million,
- financing of the company providing automotive logistic in the amount of PLN 100 million,
- financing of the activity of a leading company in a sector of clothing and footwear trade in the amount of PLN 100 million,
- financing of investments for a printing company in the amount of EUR 18 million.

## **Financial markets and commercial debt instruments**

In the area of organization and servicing of commercial debt securities issuance, as at June 30, 2016, Bank Pekao S.A. has a market share of nearly 20% (the second place based on the Rating & Market Bulletin published by Fitch Poland). In the segment of short-term debt securities the Bank holds the first place with over 24% market share.

In the first half of 2016, the Bank signed, among others, new agreement on bonds issuance for a postal company in the amount of PLN 700 million and two agreements on bonds issuance for entities operating in development sector in the amount of PLN 350 million and PLN 200 million.

In the area of corporate debt securities issued through the Bank, the mid-term bonds were issued for the total amount of more than PLN 2.8 billion, among which the following transactions with Bank's participation should be mentioned:

- issue of two series of 7-year bonds for the leading manufacturer of packaging in the amount of EUR 200 million,
- issue of 5-year bonds for a stock exchange listed company from the construction industry in the amount of PLN 85 million,
- issue of 3-year bonds for a bank operating in Poland in the amount of PLN 80 million,
- issue of 3-year bonds for a company rendering the non-wage employee services in the amount of PLN 70 million.

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Additionally, the Bank's clients benefit from services of specialized subsidiary Pekao Investment Banking S.A. which supports clients in acquiring of capital for investments and provides advisory in the area of capital structure and corporate strategy as well as other services related to mergers, demergers and corporates acquisition thus supplementing comprehensive offer of the Bank in the area of corporate clients financing.

## **Cooperation with international clients**

In the first half of 2016, the Bank continued cooperation within the UniCredit project "Internationalization" aimed at maximizing the potential of UniCredit Group derived from its international position in the European countries. Within the project, the Bank strengthens the relationship with existing international clients of the Group as well as acquires new customers, working closely with the Group's advisors, senior bankers and employees of international banks' outlets which are part of UniCredit Group. The Bank implemented new procedures aimed at developing of international cooperation such as intercompany guarantees, rules of cross-border lending within the UniCredit Group and documentation of the Standard Bank Account Agreement in UniCredit Group.

## **Comprehensive services for the public finance sector**

The Bank continues the strategy to maintain significant share in financing the Polish local government authorities and renders full range of services dedicated to their budgets.

In the first quarter of 2016, the Bank participated in financing of the following local government infrastructural projects:

- an agreement in consortium with Bank Gospodarstwa Krajowego on bonds issuance program with the largest railway carrier in Silesia region in the amount of PLN 279.5 million for financing purchase of a new rolling stock, the repurchase of the leased rolling stock and refinance leasing transactions for the purchase of the rolling stock,
- a pioneer project to arrange financing for revitalization of urban infrastructure,
- increased the financing for medical investments in łódzkie voivodeship up to the total amount of PLN 220 million.

The Bank signed also an agreement with the City of Gdańsk that covers servicing of the city budget and its budgetary units in the years 2016 – 2021.



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## 6.2 Achievements of subsidiaries

Bank Pekao S.A. is one of the leading providers of banking services and groups together a number of financial institutions active in the banking market, in the asset management, pension funds, brokerage services, transactional advisory, leasing and factoring markets.

Retail brokerage entities: Dom Maklerski, CDM and Xelion are specialized entities rendering brokerage services within the Group, which provide retail customers with a wide range of products and services on the capital markets. For detailed description of the brokerage activity refer to the point 6.1.

### ***Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny***

In the first half of 2016, Pekao Bank Hipoteczny, as a specialized mortgage bank, continued to pursue its strategy focused on the creation of a secure loans portfolio, strived to maintain competitive position on the market of commercial properties, as well as loans for purchase, construction, refurbishment or modernization of housing properties to individuals.

As at the end of June 2016, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 2,148.0 million, an increase by PLN 46.0 million, i.e. 2.2% in comparison to the end of June 2015. Loans granted to corporates and local governments represent 57.1% of loan portfolio and loans granted to individual clients represent 42.9%.

In the first half of 2016, the volume of new commercial real estate loans accounted for 76.1% of total new loan.

The total value of liabilities due to covered bonds as of June 30, 2016 amounted to PLN 1,307.3 million and was higher by 8.7% in comparison with June 30, 2015.

### ***Pioneer Pekao Investment Management S.A. – PPIM***

As of June 30, 2016, the net asset value of investment funds of Pioneer Pekao TFI S.A. (a company managed by Pioneer Pekao Investment Management S.A. in which the Bank holds a 49% share), amounted to PLN 16,140.4 million, a decrease of PLN 1,582.3 million, i.e. 8.9% as compared to the end of June 2015 due to difficult situation on the capital markets.

### ***Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A. - Pekao Pioneer PTE***

Pekao Pioneer PTE activity is the management of an open-end pension fund Pekao OFE, in which pension contributions are pooled and invested with the aim of their distribution to unit holders after they reach retirement age and voluntary pension fund Pekao DFE which allows collecting of additional funds with a number of advantages of this form of saving.

As at the end of June 2016, the value of the pension fund's net assets (DFE including) was PLN 1,995.6 million and was lower by 12.1% in comparison with June 2015. As at the end of June 2016, Pekao OFE held 1.45% share in the market of open-end pension funds, i.e. on the similar level in comparison to the first half of 2015.

### ***Pekao Leasing Sp. z o.o. – Pekao Leasing***

Pekao Leasing provides financial services supporting purchases and sale of fixed assets, i.e. vehicles, plant and equipment, and office properties, both in the form of operating and finance leases.

In the first half of 2016, the Company concluded 5,137 new agreements. The value of leased assets increased in comparison to the same period of 2015 by 22.7% and amounted to PLN 1,032.5 million, of which 64.1% were vehicles, 30.4% - plant and equipment and 5.4% - others.

Within the scope of the program of co-operation between Pekao Leasing and Bank Pekao S.A. the value of assets leased to the customers that were also the Bank's clients amounted to PLN 705.6 million, higher by 20.1% in comparison to the first half of 2015 and accounted for 68.3% of the Company's sales.



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## ***Pekao Faktoring Sp. z o.o. - Pekao Faktoring***

The Company, besides the full range of factoring services (recourse and non-recourse factoring), offers additional services, such as collecting information on debtors' standing, payments collection, debt recovery, settlements accounting and monitoring of payments on an ongoing basis. Additionally, the Company offers settlement of mass transactions, financial advisory and consulting services regarding selection of business financing methods, as well as extending factoring-related loans. The Company co-operates with Bank Pekao S.A. in developing new distribution channels and enhancing sales through the existing ones.

The Company is ranked the fifth on the Polish factoring market, with 9.3% of market share.

## ***Pekao Investment Banking S.A. - PIB***

Pekao Investment Banking S.A. operates as brokerage house, focusing on institutional and corporate clients service. The scope of services provided by PIB include in particular receiving and transferring buy or sell orders of financial instruments, execution of these orders on the account of orders provider, offering financial instruments, advisory for corporates in the area of capital structure, corporate strategy or other issues related to such structure or strategy. PIB offers also advisory and other services related to mergers, demergers and corporates acquisition.

PIB acts also as market maker both on equities as well as on derivative instruments market, being one of the most active animators. As at the end of June 2016, PIB was the market maker for 23 companies.

In the first half of 2016, PIB realized on behalf of a customer the tender offer for the sale of shares of the company listed on the Warsaw Stock Exchange and successfully completed several transactions of shares and bonds offering. PIB successfully provided its advisory in processes of purchase of the company for the client from retail sales sector and in processes of review of strategic options and acquisition of strategic investor for the client from financial sector.

## ***Centrum Bankowości Bezpośredniej Sp. z o.o. – CBB***

Centrum Bankowości Bezpośredniej Sp. z o.o. offers services of a financial intermediary, as well as comprehensive services through alternative channels of communication for clients from non-banking sector.

CBB supports the Bank Pekao S.A., as a major customer, in the service of online banking, cards and call center products. The company within its operations serves customers through alternative channels of communication, including phone calls and mailing. In the first half of 2016, CBB handled 6.91 million calls, i.e. 16.2% increase in comparison with the same period of 2015, among others, through the support of the Bank's marketing campaign focused on sale of cash loans (PEX) and payment cards.

The company runs with the Bank a number of projects aimed at developing communication with customers of Bank Pekao S.A. with usage mobile banking.

## ***Pekao Financial Services Sp. o.o. – PFS***

Pekao Financial Services Sp. z o.o. renders outsourcing services to financial institutions in the area of operational solutions and technology, provision of services to participants and fund members, as well as independent distribution of the units of funds. Operational and technological solutions are focused on providing customers with services of the highest quality and safety.

PFS specializes in maintaining of registers of participants and fund members.

Among the clients served by the PFS there are companies with established market position. As at the end of June 2016, the company maintained its leading position in the market of OFE funds using the services of external Transfer Agent.

## ***Centrum Kart S.A. - CK S.A.***

The Company renders comprehensive services that include, among others, maintenance of payment card management systems, authorization of transactions and card personalization.

In the first half of 2016, CK S.A. continued realization of IT projects allowing the extension of a range of products offered by Bank Pekao S.A., including personalization of payment cards in response to growing interest of the Bank's customers in cards with personalized image.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 6.3 Awards

### **Global Finance: Bank Pekao S.A. Innovator of the Year in transactional banking**

Bank Pekao S.A. was awarded the title of „Innovators 2016 – Transactions Services” in the international ranking organized by Global Finance magazine. Independent experts appreciated new solution for corporate clients – the General Agreement which allows the use of multiple financial services and products through the Internet banking system PekaoBiznes24 based on one agreement. The General Agreement offers the widest range of products and services on the market, including treasury products, integrated in one package.

### **EMEA Finance: EFRA project financed by Bank Pekao S.A. the best transaction of 2015 in Oil & Gas sector**

EFRA project was recognized as the best transaction of 2015 in Oil & Gas sector by EMEA Finance magazine. EFRA transaction is a financing for the amount of USD 432 million and PLN 300 million for LOTOS Asfalt belonging to LOTOS Group. Bank Pekao S.A. in consortium with 7 financial institutions signed credit facility agreements with LOTOS Asfalt to finance the construction of an advanced Delayed Coking Unit (DCU) with auxiliary installations on the premises of the refinery in Gdańsk.

Bank Pekao S.A. was entrusted with the role of the coordinator, arranger and agent for this strategic project. EFRA project is one of the largest Project Finance transactions in the history of the Polish market in terms of both structure and scale.

### **Bankier.pl: MasterCard Debit of Bank Pekao S.A. recognized as Financial Innovation in the competition Złoty Bankier**

Multicurrency debit card MasterCard Debit of Bank Pekao S.A. was recognized as Financial Innovation in the competition Złoty Bankier organized by the Internet portal Bankier.pl with the cooperation of „Puls Biznesu” daily. The Bank was awarded with the statuette of Złoty Bankier in this category for the third time. Bankier.pl experts and the journalists of Puls Biznesu appreciated multicurrency card of Bank Pekao S.A. which meets requirements of the product defining trends in the banking sector in the coming years.

Multicurrency debit card is one of the most advanced products on the market that enables execution of transactions in PLN as well as in selected foreign currencies without FX conversion thanks to card's connection with corresponding currency accounts.

### **Contactless Intelligence: KULKarta of Bank Pekao S.A won in the competition Contactless Intelligence 2016**

KULKarta of Bank Pekao S.A. won in the prestigious, international competition Contactless Intelligence 2016 in the category ID&Authorisation. Student card with the functionality of debit card and additionally library card is one of the first products of this type in Poland, which is in the Bank's offer is since October 2015. The card is addressed to the students of Katolicki Uniwersytet Lubelski (The Catholic University of Lublin).

During this year's 10th edition of the competition Contactless Intelligence that promotes most advanced technological solutions in the area of contactless payments, the prizes were awarded in 9 categories, which include, among others, the most innovative payment product, security of transaction, „mobile wallet”, the best loyalty product, ID and authorization. The winners were selected based on the experts jury and the results of voting conducted among the Internet users.

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## **Forum Biznesu: title Highest Quality Services QI SERVICES for Private Banking investment advisory of Bank Pekao S.A.**

Investment advisory, offered to the Pekao Private Banking Clients was honored the title of the Highest Quality Services in QI Services category by the Quality International Program 2016 organized by Forum Biznesu and held under the patronage of the Polish Agency for Entrepreneurship Development and the Polish Committee for Standardization.

## **BANK Financial Magazine: three awards for Bank Pekao S.A.**

Bank Pekao S.A. received three awards in the rankings organized by BANK Financial Magazine. In the main ranking, which takes into account assets, liabilities, volume of loans, number of outlets as well as traditional and online bank accounts, the Bank took the second position. The Bank took also the second position in the ranking of consumer banks, where absolute value of consumer loans portfolio and growth of these loans were factored and in the ranking of banks financing real estate, where current development achievements such as growth of loans portfolio, increase in sales of loans and the position of a given bank on the market were particularly factored.

## **XI Edycja Kongresu Gospodarki Elektronicznej: Bank Pekao S.A. awarded for PeoPay system**

PeoPay, the first in the world system of contactless mobile payments on Windows 10 Mobile won the top prize in the category Project of the Year 2015 in the XI Edycja Kongresu Gospodarki Elektronicznej (the XI Edition of the Congress of Electronic Economy). The Chapter of the competition appreciated innovation of the solution, among others, the ability to pay even if the phone is in offline mode, as well as to make payments up to PLN 50 without necessity to switch the application on.

The PeoPay application allows the Bank's customers to make fast payments between users (using the phone number), contactless payments execution in shops and service points cooperating with the Bank and online payments. Currently, thanks to PeoPay application it is possible to make payments in 400 thousand of POS terminals in Poland (ca. 80% of total number of POS) as well as in terminals accepting contactless payments abroad (nearly 3 million of terminals).

## **Polskie Stowarzyszenie Marketingu SMB: employees of Contact Center of Bank Pekao S.A. won in the three out five categories in the competition „Telemarketer Roku”**

Call Center employees of Bank Pekao S.A. won in the category of Customer Service, Help Desk and Other Projects in the competition „Telemarketer Roku” organized for the eighth time by Polskie Stowarzyszenie Marketingu SMB. In the competition attended nearly 180 consultants representing 30 companies, including over one third of companies from financial sector. 25 telemarketers participated in the final stage of the competition for three days presenting their skills in the field of sales and telephone service in the headquarter of Polskie Stowarzyszenie Marketingu SMB. The jury selected five winners.

The competition, apart from selection of the best telemarketers and call center employees in Poland, aims to promote the profession and to underline its influence on sales and marketing efficiency of the company.

The competition jury evaluated substantive preparation for the interview, the skill to make contact with the customer to collect the information and application of tools to control the conversation as well as correct language and voice handling. There was sought telemarketer who is able to combine sales efficiency with sensitivity towards customer and its needs.

Consultants of Centrum Bankowości Bezpośredniej Sp. z o.o – subsidiary of Bank Pekao S.A. won also three main prizes in the competition „Telemarketer Roku 2016”.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 6.4 Factors which will affect the results of the Group

Bank Pekao S.A. and its subsidiaries operate predominantly on the territory of Poland. Therefore, the Group's performance will be influenced mainly by the economic events in Poland and international outlooks that have an impact on the Polish economy.

Stable economic growth, founded on strong growth of domestic demand and further improvement of situation in the labor market will facilitate increase of the banking business, both in regard of household sector as well as in the corporate sector. One of the factors influencing on the banking sector and the situation on financial markets (including valuation of Treasury bonds in the banks' assets) will be the fiscal activities of the government and their evaluation by investors and ratings agencies. In July 2016, Fitch Ratings remained at the unchanged level both the rating for Poland and its outlook, further decisions will depend on, among others, governmental conclusions regarding lowering of retirement age and solution proposals for the issue of mortgage loans in CHF. In the coming quarters the revival in investment activity should become more visible thus increasing demand for bank credit.

On February 1, 2016 Act on tax on certain financial institutions came into force. From this month, banks (with the exception of institutions, which were specified in the Act), are obliged to pay the so-called "bank levy". KNF estimates that in 2016 the amount of the levy paid by the banks will be approx. PLN 4 billion.

Also higher minimum capital requirements will have significant impact on the operations of banks in the coming months of 2016. Some banks have to assure extra capital buffers, which are imposed individually. This will probably limit the growth in loans also in the coming months of 2016.

It cannot be ruled out that, as in 2015, there will be an ad-hoc (on the top of regular contributions) need to support the Bank Guarantee Fund in connection with the problems of one of the bank. Such a situation would lead to an increase in operating costs and have negative impact on banks' results.

Monetary policy will be an important factor influencing the banks' results in the coming months. For the time being stabilization of NBP rates seem to be the most likely scenario, however global situation may force the MPC to change the interest rate path.

There is also an ongoing debate on possible restructuring of mortgage loans in CHF. At the moment, it can be hardly estimated ultimate consequences for the banking sector, however, taking into account the relatively minor share of these loans in the total assets (almost entirely acquired as a result of the merger of the spun-off part of Bank BPH S.A. in 2007), the Bank assesses that potential agreed upon solutions should not have material impact on the financial standing of the Group.

The British referendum in June 2016, in which the majority of voters opted for leaving the European Union, is also going to have an impact on the Polish banking sector activity. This event, among other potential consequences, may result in higher financial markets and economic situation volatility, which will indirectly affect banks as well.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 6.5 Description of major sources of risk and threats relating to the remaining months of 2016

### Economic factors

Bank Pekao S.A. and its subsidiaries operate mainly on the territory of Poland. Therefore, the Group's performance will be influenced by the economic events in Poland and international events that have an impact on Poland's economy.

### Risk management

Effective risk management is a prerequisite for maintaining a high level of security of the funds entrusted to the Group, and for achieving a sustainable and balanced growth. The key risks material for the Group include credit risk, liquidity and market risks and operational risk. Moreover, business, real estate, financial investment, model, macroeconomic, reputation, compliance, leverage and bancassurance risks are also recognized.

The Group has adopted a comprehensive and consolidated approach to risk management. It extends to all units of the Bank and subsidiaries. Risks are monitored and controlled with respect to profitability and the funds necessary to cover the exposure.

The Management Board of the Bank is responsible for achieving the strategic risk management goals, while the Supervisory Board oversees whether the Group's policy of taking various risks is compliant with the overall strategy and financial plan. The Credit Committee plays an important role in the credit risk management, the Asset, Liability and Risk Committee and Liquidity and Market Risk Committee in market and liquidity risk management, and management of the operational risk falls within the scope of responsibility of the Operational Risk Committee. The rules of managing each of the risks are defined in internal procedures and are subject to the assumptions of the credit and investment policies and the Operational Risk Strategy and Policy accepted annually by the Management Board and approved by the Supervisory Board.

Credit, liquidity, market and operational risk reports analyzing details of their development are presented to the Management Board and the Supervisory Board.

The risk management process has not changed significantly in relation to that described in the Report on the activities of Bank Pekao S.A. Group for the year 2015.

### Risks related to the remaining months of 2016

In the second half of 2016, the Bank will continue its efforts and focus on keeping credit risk at adequate and safe level through prudent policy of credit portfolio development. Prudent standards in credit risk management in Bank Pekao S.A. stay unchanged with particular attention to potential threats coming from macroeconomic pillars and their effects on portfolio performance with timely actions undertaken along a strict monitoring of borrowers' risk profile. The same approach and focus is applied to the performance of the Bank's subsidiaries.

In the case of liquidity and market risks Bank Pekao S.A. does not expect substantial threats in the second half of 2016.

As regards liquidity risk, it should be underlined that the Bank is characterized by a well-diversified, stable deposits base with low concentration and manages a substantial liquidity buffer of eligible and marketable government securities. The cautious liquidity risk management policy enables to expect stable liquidity situation in the second half of 2016.

For market risk, taking into account the continuing market uncertainty as well as possible increase of the market parameters volatility, the policy of the Bank is to keep the level of its exposure strictly under control. The Bank is assessing the structural interest rate risk as moderate, which is reflecting the re-pricing mismatch embedded in the Bank's balance sheet. Taking into account external conditions and the Bank's exposure to interest rate risk, further decrease of interest rates could lead to deterioration of net interest income of the Bank. However, the risk of materialization of such a scenario is assessed as limited.

The Bank does not identify any new significant factors implying change of operational risk profile, which could occur in the second half of 2016.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 7 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 30 June, 2016 and 2015 respectively is presented in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2016 to 30 June 2016.

The Report on activities of Bank Pekao S.A. Group for the first half of 2016 includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements are discussed.

### The Bank's share in transaction of acquisition of Visa Europe Ltd. by Visa Inc.

In accordance with an agreement signed between Visa Europe and Visa Inc. on November 2, 2015, on takeover of Visa Europe by Visa Inc., in the second quarter of 2016, Bank Pekao S.A. as one of the beneficiaries of the transaction received payment resulting from the transaction settlement in the amount of EUR 43.6 million and 15,818 preferred shares series C of Visa Inc. After three years of completion of the transaction, the Bank will receive deferred payment in cash.

More detailed information on the Bank's share in transaction of acquisition of Visa Europe Ltd. by Visa Inc. is included in the Note 30 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2016 to 30 June 2016.

### 7.1 Structure of the consolidated statement of financial position – short form

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of June 2016, the total assets of Bank Pekao S.A. constitutes 98.1% of the total assets of the whole Group.

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

ASSETS	30.06.2016		30.06.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	5,892.3	3.5%	6,681.8	3.9%	(11.8%)
Loans and advances to banks <sup>(*)</sup>	4,352.0	2.6%	5,161.6	3.0%	(15.7%)
Loans and advances to customers <sup>(**)</sup>	120,096.6	72.3%	112,528.7	65.8%	6.7%
Reverse repo transactions	149.0	0.1%	8,280.0	4.8%	(98.2%)
Securities <sup>(***)</sup>	28,943.6	17.4%	28,626.1	16.8%	1.1%
Investments in associates	117.4	0.1%	130.2	0.1%	(9.8%)
Property, plant and equipment and intangible assets	2,007.7	1.2%	2,128.6	1.2%	(5.7%)
Other assets	4,453.7	2.8%	7,359.6	4.3%	(39.5%)
<b>Total assets</b>	<b>166,012.3</b>	<b>100.0%</b>	<b>170,896.6</b>	<b>100.0%</b>	<b>(2.9%)</b>

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

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

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

EQUITY AND LIABILITIES	30.06.2016		30.06.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	6.0	0.0%	0.9	0.0%	> 100%
Amounts due to other banks	4,981.2	3.0%	8,866.6	5.2%	(43.8%)
Amounts due to customers	126,190.0	76.0%	120,090.9	70.3%	5.1%
Debt securities issued	2,085.3	1.3%	3,979.6	2.3%	(47.6%)
Repo transactions	704.1	0.4%	5,219.8	3.1%	(86.5%)
Other liabilities	9,845.4	5.9%	10,621.2	6.2%	(7.3%)
Total equity, including	22,200.3	13.4%	22,117.6	12.9%	0.4%
non-controlling interests	14.6	0.0%	15.3	0.0%	(4.6%)
<b>Total equity and liabilities</b>	<b>166,012.3</b>	<b>100.0%</b>	<b>170,896.6</b>	<b>100.0%</b>	<b>(2.9%)</b>

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## Customers' Financing

### Customer structure of loans and advances

(in PLN million)

	30.06.2016	30.06.2015	CHANGE
<b>Loans and advances at nominal value<sup>(1)</sup></b>	<b>125,148.3</b>	<b>117,874.7</b>	<b>6.2%</b>
Loans <sup>(2)</sup>	112,525.0	106,696.8	5.5%
Retail	55,736.8	51,738.9	7.7%
Corporate	56,788.2	54,957.9	3.3%
Non-quoted securities	12,623.3	11,177.9	12.9%
Other <sup>(3)</sup>	611.5	514.0	19.0%
Nominal value adjustment	291.2	103.2	> 100%
<b>Impairment losses</b>	<b>(5,954.4)</b>	<b>(5,963.2)</b>	<b>(0.1%)</b>
<b>Total net receivables</b>	<b>120,096.6</b>	<b>112,528.7</b>	<b>6.7%</b>
Securities issued by non-monetary entities <sup>(4)</sup>	878.8	979.5	(10.3%)
Reverse repo transactions	149.0	8,278.9	(98.2%)
<b>Total customers' financing<sup>(5)</sup></b>	<b>126,176.1</b>	<b>127,133.1</b>	<b>(0.8%)</b>
<b>Total customers' financing excluding reverse repo transactions</b>	<b>126,027.1</b>	<b>118,854.2</b>	<b>6.0%</b>

<sup>(1)</sup> Excluding reverse repo transactions.

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

<sup>(3)</sup> Including interest and receivables in transit.

<sup>(4)</sup> Securities issued by non-monetary entities being loans equivalents.

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

As at the end of June 2016, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 126,027.1 million, an increase of PLN 7,172.9 million, i.e. 6.0% in comparison to the end of June 2015 with significant growth in key strategic areas.

As at the end of June 2016, the volume of retail loans amounted to PLN 55,736.8 million, an increase of PLN 3,997.9 million, i.e. 7.7% in comparison to the end of June 2015, with growth of consumer loans and PLN mortgage loans volumes at the level of 11.0% in this period.

The volume of corporate loans, non-quoted securities and securities issued by non-monetary entities increased by PLN 3,175.0 million, i.e. 4.7% as compared to the end of June 2015 and amounted to PLN 70,290.3 million as at the end of June 2016.

Reverse repo transactions amounted to PLN 149.0 million as at the end of June 2016, a decrease by PLN 8,129.9 million, i.e. 98.2% in comparison to the end of June 2015.

### Receivables and impairment losses

(in PLN million)

	30.06.2016	30.06.2015	CHANGE
<b>Gross receivables<sup>(1)</sup></b>	<b>125,547.1</b>	<b>118,077.8</b>	<b>6.3%</b>
Not impaired	117,517.2	109,652.5	7.2%
Impaired	8,029.9	8,425.3	(4.7%)
Impairment losses	(5,954.4)	(5,963.2)	(0.1%)
Interest	503.9	414.1	21.7%
<b>Total net receivables</b>	<b>120,096.6</b>	<b>112,528.7</b>	<b>6.7%</b>

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



# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

As of June 30, 2016, the ratio of impaired receivables to total receivables excluding reverse repo transactions amounted to 6.4% as compared to 7.1% as at the end of June 2015.

Impairment losses as at the end of June 2016 amounted to PLN 5,954.4 million.

## **Loans and advances to customers by currency<sup>(\*)</sup>**

	30.06.2016		30.06.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	102,294.5	81.2%	96,763.3	81.7%	5.7%
Denominated in foreign currencies <sup>(**)</sup>	23,756.5	18.8%	21,728.6	18.3%	9.3%
<b>Total</b>	<b>126,051.0</b>	<b>100.0%</b>	<b>118,491.9</b>	<b>100.0%</b>	<b>6.4%</b>
Impairment losses	(5,954.4)	x	(5,963.2)	x	(0.1%)
<b>Total net</b>	<b>120,096.6</b>	<b>x</b>	<b>112,528.7</b>	<b>x</b>	<b>6.7%</b>

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

(\*\*) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of June 2016, their share was 81.2%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (64.1%), CHF (20.9%) and USD (14.4%).

## **Loans and advances to customers by contractual maturities<sup>(\*)</sup>**

	30.06.2016		30.06.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	15,508.1	12.3%	13,111.2	11.1%	18.3%
1 to 3 months	3,422.1	2.7%	2,763.7	2.3%	23.8%
3 months to 1 year	12,373.1	9.8%	12,611.8	10.6%	(1.9%)
1 to 5 years	39,681.7	31.5%	39,008.3	32.9%	1.7%
Over 5 years	54,454.5	43.2%	50,482.9	42.6%	7.9%
Other	611.5	0.5%	514.0	0.4%	19.0%
<b>Total</b>	<b>126,051.0</b>	<b>100.0%</b>	<b>118,491.9</b>	<b>100.0%</b>	<b>6.4%</b>
Impairment losses	(5,954.4)	x	(5,963.2)	x	(0.1%)
<b>Total net</b>	<b>120,096.6</b>	<b>x</b>	<b>112,528.7</b>	<b>x</b>	<b>6.7%</b>

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

As at the end of June 2016, loans and advances with maturity over 5 years represents 43.2% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

## **Credit exposures towards Ukraine**

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 June 30, 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 Ukraine, however the nature of the exposures do not pose any treat to overall quality of the Group's assets.



# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## External sources of financing

(in PLN million)

	30.06.2016	30.06.2015	CHANGE
Amounts due to Central Bank	6.0	0.9	> 100%
Amounts due to other banks	4,981.2	8,866.6	(43.8%)
Amounts due to customers	126,190.0	120,090.9	5.1%
Debt securities issued	2,085.3	3,979.6	(47.6%)
Repo transactions	704.1	5,219.8	(86.5%)
<b>Total external sources of financing</b>	<b>133,966.6</b>	<b>138,157.8</b>	<b>(3.0%)</b>

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

## Total customer savings

(in PLN million)

	30.06.2016	30.06.2015	CHANGE
<b>Corporate deposits</b>	<b>58,211.0</b>	<b>61,525.7</b>	<b>(5.4%)</b>
Non-financial entities	45,359.4	46,515.5	(2.5%)
Non-banking financial entities	6,084.8	7,937.4	(23.3%)
Budget entities	6,766.8	7,072.8	(4.3%)
<b>Retail deposits</b>	<b>67,069.5</b>	<b>58,103.5</b>	<b>15.4%</b>
Other (*)	909.5	461.7	97.0%
<b>Amounts due to customers(**)</b>	<b>126,190.0</b>	<b>120,090.9</b>	<b>5.1%</b>
<b>Debt securities issued, of which</b>	<b>2,085.3</b>	<b>3,979.6</b>	<b>(47.6%)</b>
Structured Certificates of Deposit (SCD)	245.9	202.7	21.3%
Certificates of Deposit	589.1	2,594.1	(77.3%)
Pekao Bank Hipoteczny S.A. covered bonds	1,239.6	1,148.7	7.9%
Interest	10.7	34.1	(68.6%)
<b>Amounts due to customers and debt securities issued, total(**)</b>	<b>128,275.3</b>	<b>124,070.5</b>	<b>3.4%</b>
Repo transactions	704.1	5,219.8	(86.5%)
<b>Investment funds of Pioneer Pekao TFI</b>	<b>16,140.4</b>	<b>17,722.7</b>	<b>(8.9%)</b>
Bond and money market funds	11,505.0	11,575.8	(0.6%)
Balanced funds	2,520.8	3,221.8	(21.8%)
Equity funds	2,114.6	2,925.1	(27.7%)
including distributed through the Group's network	15,812.2	17,372.1	(9.0%)

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

(\*\*) Excluding repo transactions.

As at the end of June 2016, the total amounts due to the Group's customers and debt securities issued amounted to PLN 128,275.3 million, an increase of PLN 4,204.8 million, i.e. 3.4% in comparison to the end of June 2015 with improved structure of liabilities thanks to growth of share of retail customers deposits.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 68,174.4 million as at the end of June 2016, an increase of PLN 9,465.7 million, i.e. 16.1% in comparison to the end of June 2015.

The total volume of corporate deposits, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 60,100.9 million as at the end of June 2016, a decrease of PLN 5,260.9 million, i.e. 8.0% as compared to the end of June 2015 reflecting selective pricing approach and focus on securing liquidity needs of the Group.

Repo transactions amounted to PLN 704.1 million as at the end of June 2016, a decrease by PLN 4,515.7 million, i.e. 86.5% in comparison to the end of June 2015.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 16,140.4 million as at the end of June 2016, a decrease of PLN 1,582.3 million, i.e. 8.9% in comparison to the end of June 2015, under the pressure of situation on capital markets.

## **Amounts due to customers by currency<sup>(\*)</sup>**

	30.06.2016		30.06.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	102,914.6	81.6%	99,827.5	83.1%	3.1%
Denominated in foreign currencies	23,275.4	18.4%	20,263.4	16.9%	14.9%
<b>Total</b>	<b>126,190.0</b>	<b>100.0%</b>	<b>120,090.9</b>	<b>100.0%</b>	<b>5.1%</b>

<sup>(\*)</sup> Including interest and amounts due in transit and excluding repo transactions.

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of June 2016 amounted to 81.6%. The majority of amounts due to customers denominated in foreign currencies were in EUR (61.8%) and USD (33.1%).

## **Amounts due to customers by contractual maturities<sup>(\*)</sup>**

	30.06.2016		30.06.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	72,250.3	57.7%	60,111.2	50.2%	20.2%
Term deposits	53,030.2	42.3%	59,518.0	49.8%	(10.9%)
<b>Total deposits</b>	<b>125,280.5</b>	<b>100.0%</b>	<b>119,629.2</b>	<b>100.0%</b>	<b>4.7%</b>
Interest accrued	252.3	x	164.4	x	53.5%
Funds in transit	657.2	x	297.3	x	> 100%
<b>Total</b>	<b>126,190.0</b>	<b>x</b>	<b>120,090.9</b>	<b>x</b>	<b>5.1%</b>

<sup>(\*)</sup> Excluding repo transactions.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 7.2 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2016 amounted to PLN 1,263.9 million allowing return on average capital (ROE) at the level of 10.7% achieved with a strong capital base reflected by TCR at 18.1% (Basel III).

Net profit of Bank Pekao S.A. Group for the first half of 2016 excluding tax on certain financial institutions in the amount of PLN 200.8 million would amount to PLN 1,464.7 million, higher by PLN 221.1 million, i.e. 17.8% in comparison to the first half of 2015 with a substantial growth of loan and deposit volumes in key strategic areas and lower cost of risk.

Thanks to the effective commercial activity of the Group in the first half of 2016 a significant growth in loan volumes was reported in the area of retail loans (an increase of 7.7% year on year) and a 5.0% year on year growth in the area of corporate loans and non-quoted securities. Such increase in lending was financed by higher volumes of retail deposits growing 15.4% year on year.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 93.6% as at the end of June 2016. This, together with high equity level, enables for further sound and stable development of the Group's activities.

### The consolidated income statement – presentation form

(in PLN million)

	1 HALF 2016	1 HALF 2015	CHANGE
Net interest income	2,151.7	2,058.4	4.5%
Dividend income and income from equity investments	36.2	43.4	(16.6%)
<b>Total net interest income, dividend income and other income from equity investments</b>	<b>2,187.9</b>	<b>2,101.8</b>	<b>4.1%</b>
Net fee and commission income	968.5	993.8	(2.5%)
Trading result	509.0	359.9	41.4%
Net other operating income and expenses	164.9	126.5	30.4%
<b>Net non-interest income</b>	<b>1,642.4</b>	<b>1,480.2</b>	<b>11.0%</b>
<b>Operating income</b>	<b>3,830.3</b>	<b>3,582.0</b>	<b>6.9%</b>
<b>Operating costs</b>	<b>(1,624.2)</b>	<b>(1,612.5)</b>	<b>0.7%</b>
<b>Gross operating profit</b>	<b>2,206.1</b>	<b>1,969.5</b>	<b>12.0%</b>
Net impairment losses on loans and off-balance sheet commitments	(260.6)	(267.3)	(2.5%)
<b>Net operating profit</b>	<b>1,945.5</b>	<b>1,702.2</b>	<b>14.3%</b>
Net result on other provisions	(2.9)	(26.6)	(89.1%)
Guarantee funds charges	(131.0)	(137.5)	(4.7%)
Tax on certain financial institutions	(200.8)	0.0	x
Net result on investment activities	1.6	0.6	> 100%
<b>Profit before tax</b>	<b>1,612.4</b>	<b>1,538.7</b>	<b>4.8%</b>
Income tax expense	(348.3)	(294.7)	18.2%
<b>Net profit</b>	<b>1,264.1</b>	<b>1,244.0</b>	<b>1.6%</b>
<b>Attributable to equity holders of the Bank</b>	<b>1,263.9</b>	<b>1,243.6</b>	<b>1.6%</b>
Attributable to non-controlling interest	0.2	0.4	(50.0%)
<b>Net profit excluding tax on certain financial institutions</b>	<b>1,464.7</b>	<b>1,243.6</b>	<b>17.8%</b>

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## Operating income

In the first half of 2016, the Group's operating income amounted to PLN 3,830.3 million, an increase of PLN 248.3 million, i.e. 6.9% in comparison to the first half of 2015 thanks to both higher net non-interest income and higher net interest income, dividend income and income from equity investment.

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

(in PLN million)

	1 HALF 2016	1 HALF 2015	CHANGE
Interest income	2,691.4	2,721.9	(1.1%)
Interest expense	(539.7)	(663.5)	(18.7%)
<b>Net interest income</b>	<b>2,151.7</b>	<b>2,058.4</b>	<b>4.5%</b>
Dividend income	16.4	13.3	23.3%
Income from equity investments	19.8	30.1	(34.2%)
<b>Total net interest income, dividend income and income from equity investments</b>	<b>2,187.9</b>	<b>2,101.8</b>	<b>4.1%</b>

Total net interest income, dividend income and income from equity investments in the first half of 2016 amounted to PLN 2,187.9 million and was higher by PLN 86.1 million, i.e. 4.1% compared to the first half of 2015 driven by higher volumes.

## Net non-interest income

(in PLN million)

	1 HALF 2016	1 HALF 2015	CHANGE
Fee and commission income	1,113.8	1,200.2	(7.2%)
Fee and commission expense	(145.3)	(206.4)	(29.6%)
<b>Net fee and commission income</b>	<b>968.5</b>	<b>993.8</b>	<b>(2.5%)</b>
Trading result	509.0	359.9	41.4%
of which gains on disposal of AFS assets	268.2	154.7	73.4%
Net other operating income and expense	164.9	126.5	30.4%
<b>Net non-interest income</b>	<b>1,642.4</b>	<b>1,480.2</b>	<b>11.0%</b>

The Group's net non-interest income in the first half of 2016 amounted to PLN 1,642.4 million, higher by PLN 162.2 million, i.e. 11.0% in comparison with the first half of 2015 thanks to higher trading result supported by gains on settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc. and by higher net other operating income supported by disposal of loans, with net fee and commission income lower by 2.5% compared to the first half of 2015 due to some pressure observed on capital market related fees.

The Group's net fee and commission income in the first half of 2016 amounted to PLN 968.5 million and was lower by PLN 25.3 million, i.e. 2.5% in comparison with the first half of 2015 mainly due to lower net fee and commission income on mutual funds.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

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

(in PLN million)

	1 HALF 2016	1 HALF 2015	CHANGE
<b>Net fee and commission income</b>	<b>968.5</b>	<b>993.8</b>	<b>(2.5%)</b>
on loans	265.1	244.0	8.6%
on cards	179.2	174.5	2.7%
on mutual funds	122.3	158.1	(22.6%)
other	401.9	417.2	(3.7%)

## Operating costs

The operating costs amounted to PLN 1,624.2 million in the first half of 2016. They were higher by PLN 11.7 million, i.e. 0.7% as compared with the first half of 2015.

(in PLN million)

	1 HALF 2016	1 HALF 2015	CHANGE
Personnel expenses	(944.2)	(952.1)	(0.8%)
Other administrative expenses	(508.6)	(495.7)	2.6%
Depreciation and amortization	(171.4)	(164.7)	4.1%
<b>Operating costs</b>	<b>(1,624.2)</b>	<b>(1,612.5)</b>	<b>0.7%</b>

In the first half of 2016, cost / income ratio amounted to 42.4% in comparison with 45.0% in the first half of 2015.

As of June 30, 2016, the Group employed 18,150 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,629 employees as at the end of June 2015.

As of June 30, 2016, the Bank employed 16,258 employees as compared to 16,631 employees as at the end of June 2015.

## Guarantee funds charges

Guarantee funds charges in the first half of 2016, amounted to PLN 131.0 million, a decrease of PLN 6.5 million, i.e. 4.7% in comparison with the first half of 2015.

## Tax on certain financial institutions

On February 1, 2016 tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In the first half of 2016, it amounted to PLN 200.8 million.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 7.3 The structure of the net profit

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

(in PLN million)

	1 HALF 2016	1 HALF 2015	CHANGE
<b>Net profit of Bank Pekao S.A.</b>	<b>1,303.9</b>	<b>1,348.8</b>	<b>(3.3%)</b>
<b>Entities consolidated under full method</b>			
Pekao Leasing Sp. z o.o.	18.3	18.8	(2.7%)
Centralny Dom Maklerski Pekao S.A.	11.6	23.5	(50.6%)
Pekao Investment Banking S.A.	10.6	5.5	92.7%
Pekao Faktoring Sp. z o.o.	4.4	4.0	10.0%
Pekao Financial Services Sp. z o.o.	3.8	4.1	(7.3%)
Pekao Bank Hipoteczny S.A.	3.2	3.3	(3.0%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	0.8	0.9	(11.1%)
Pekao Pioneer PTE S.A.	0.6	1.0	(40.0%)
Centrum Kart S.A.	0.4	(0.3)	x
Pekao Leasing Holding S.A. w likwidacji <sup>(*)</sup>	0.4	60.9	(99.3%)
Pekao Fundusz Kapitałowy Sp. z o.o.	0.2	0.1	100.0%
FPB "Media" Sp. z o.o.	0.1	0.2	(50.0%)
Pekao Property S.A.	(0.2)	(0.1)	100.0%
<b>Entities valued under the equity method</b>			
Pioneer Pekao Investment Management S.A.	18.9	23.7	(20.3%)
Dom Inwestycyjny Xelion sp. z o.o.	0.9	0.9	0.0%
Krajowa Izba Rozliczeniowa S.A. <sup>(**)</sup>	-	5.5	x
<b>Exclusions and consolidation adjustments<sup>(***)</sup></b>	<b>(114.0)</b>	<b>(257.2)</b>	<b>(55.7%)</b>
<b>Net profit of the Group attributable to equity holders of the Bank</b>	<b>1,263.9</b>	<b>1,243.6</b>	<b>1.6%</b>

<sup>(\*)</sup> The result of Pekao Leasing Holding S.A. w likwidacji for the first half of 2015 includes mainly the dividend received from Pekao Leasing Sp. z o.o.

<sup>(\*\*)</sup> Krajowa Izba Rozliczeniowa S.A. was consolidated till June 30, 2015. On July 15, 2015 the Bank sold 3,125 shares of Krajowa Izba Rozliczeniowa S.A. As a result of the transaction, the Bank's share in the share capital and the votes in the General Meeting of the Company was reduced from 34.44% to 5.74%.

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

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## The results of Bank Pekao S.A.

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

(in PLN million)

	1 HALF 2016	1 HALF 2015	CHANGE
Net interest income	2,093.4	1,995.6	4.9%
Dividend income	132.6	210.6	(37.0%)
Total net interest income and dividend income	2,226.0	2,206.2	0.9%
Net non-interest income	1,511.0	1,346.2	12.2%
<b>Operating income</b>	<b>3,737.0</b>	<b>3,552.4</b>	<b>5.2%</b>
<b>Operating costs</b>	<b>(1,514.0)</b>	<b>(1,501.2)</b>	<b>0.9%</b>
<b>Gross operating profit</b>	<b>2,223.0</b>	<b>2,051.2</b>	<b>8.4%</b>
Net impairment losses on loans and off-balance sheet commitments	(252.5)	(264.2)	(4.4%)
<b>Net operating profit</b>	<b>1,970.5</b>	<b>1,787.0</b>	<b>10.3%</b>
Net result on other provisions	(3.0)	(26.5)	(88.7%)
Guarantee funds charges	(130.3)	(136.6)	(4.6%)
Tax on certain financial institutions	(200.8)	0.0	x
Net result on investment activities	1.8	3.0	(40.0%)
<b>Profit before tax</b>	<b>1,638.2</b>	<b>1,626.9</b>	<b>0.7%</b>
<b>Net profit</b>	<b>1,303.9</b>	<b>1,348.8</b>	<b>(3.3%)</b>
<b>Net profit excluding tax on certain financial institutions</b>	<b>1,504.7</b>	<b>1,348.8</b>	<b>11.6%</b>

In the first half of 2016, the Bank's net profit amounted to PLN 1,303.9 million, a decrease of PLN 44.9 million, i.e. 3.3% in comparison to the first half of 2015.

Net profit of Bank Pekao S.A. for the first half of 2016 excluding tax on certain financial institutions would amount to PLN 1,504.7 million, higher by PLN 155.9 million, i.e. 11.6% in comparison to the first half of 2015.

The main Bank's financial information are as follows:

	30.06.2016	30.06.2015	CHANGE
<b>STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)</b>			
Loans and advances at nominal value <sup>(*)</sup>	121,242.3	114,161.1	6.2%
Securities issued by non-monetary entities <sup>(**)</sup>	878.8	979.5	(10.3%)
Reverse repo transactions	149.0	8,278.9	(98.2%)
Amounts due to customers	126,493.7	120,234.8	5.2%
Structured Certificates of Deposit	245.9	202.7	21.3%
Certificates of Deposit	589.1	2,594.1	(77.3%)
Repo transactions	704.1	5,244.5	(86.6%)
Total assets	162,872.5	167,951.3	(3.0%)
Investment funds distributed through the Bank's network	14,932.6	16,323.4	(8.5%)
<b>SELECTED RATIOS</b>			
Impaired receivables to total receivables in % <sup>(***)</sup>	6.2%	6.9%	(0.7) p.p.
TCR (Basel III) in %	18.6%	17.4%	1.2 p.p.

(\*) Including loans and non-quoted securities.

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

(\*\*\*) Excluding reverse repo transactions.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

As at the end of June 2016, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 122,121.1 million, an increase of PLN 6,980.5 million, i.e. 6.1% in comparison to the end of June 2015. As at the end of June 2016, the volume of retail loans amounted to PLN 54,808.4 million and the volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 67,312.7 million.

As at the end of June 2016, the amounts due to the customers, Structured Certificates of Deposit and Certificates of Deposit amounted to PLN 127,328.7 million, an increase of PLN 4,297.1 million, i.e. 3.5% in comparison to the end of June 2015 with improved structure of liabilities thanks to growth of share of retail customers deposits.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. distributed through the Bank's network amounted to PLN 14,932.6 million as at the end of June 2016, a decrease of PLN 1,390.8 million, i.e. 8.5% in comparison to the end of June 2015, under the pressure of situation on capital markets.

## Results of the Bank's major related entities

### ***Pioneer Pekao Investment Management S.A. – PPIM***

In the first half of 2016, consolidated net profit of PPIM amounted to PLN 38.5 million compared with PLN 48.4 million in the first half of 2015. The Bank's share in the company's profit was **PLN 18.9 million**. The result of the first half of 2016 was influenced by the worst situation on capital markets and change of customers' preferences in terms of the level of acceptable risk.

### ***Pekao Leasing Sp. z o.o. – Pekao Leasing***

In the first half of 2016, Pekao Leasing reported a net profit of **PLN 18.3 million** and it was at a similar level to the net profit achieved in the first half of 2015.

### ***Centralny Dom Maklerski Pekao S.A. – CDM***

In the first half of 2016, net profit of CDM amounted to **PLN 11.6 million** compared with PLN 23.5 million profit earned in the first half of 2015 influenced by situation on capital markets, lower turnover on the WSE and lower revenues on mutual funds.

### ***Pekao Investment Banking S.A. – PIB***

In the first half of 2016, PIB reported net profit of **PLN 10.6 million** compared with PLN 5.5 million in the first half of 2015, mainly thanks to completion of several transactions of shares and bonds offering, realization on behalf of a customer the tender offer for the sale of shares of the company listed on the Warsaw Stock Exchange, advisory in processes of purchase of the company and acquisition of strategic investor for the client.

### ***Pekao Faktoring Sp. z o.o. – Pekao Faktoring***

In the first half of 2016, Pekao Faktoring reported a net profit of **PLN 4.4 million** compared with PLN 4.0 million in the first half of 2015.

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

PFS made a net profit in the amount of **PLN 3.8 million** in the first half of 2016, in comparison to a profit of PLN 4.1 million in the first half of 2015.

### ***Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny***

In the first half of 2016, Pekao Bank Hipoteczny reported a net profit of **PLN 3.2 million** and it was at a similar level to the net profit achieved in the first half of 2015.



# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 7.4 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
<b>Total provisions</b>	<b>490.7</b>	<b>473.9</b>	<b>489.7</b>	<b>469.0</b>
of which:				
provisions for off-balance sheet commitments	181.1	134.2	186.2	137.8
provisions for liabilities to employees	297.8	300.5	294.9	297.4
other provisions	11.8	39.2	8.6	33.8
<b>Deferred tax liabilities</b>	<b>5.0</b>	<b>2.2</b>	<b>-</b>	<b>-</b>
<b>Deferred tax assets</b>	<b>998.1</b>	<b>1,064.3</b>	<b>775.6</b>	<b>824.3</b>

## 7.5 Net impairment losses

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	1 HALF 2016	1 HALF 2015	1 HALF 2016	1 HALF 2015
Impairment losses on loans	(201.0)	(236.1)	(191.7)	(232.2)
Impairment losses on off-balance sheet commitments	(59.6)	(31.2)	(60.8)	(32.0)
<b>Total</b>	<b>(260.6)</b>	<b>(267.3)</b>	<b>(252.5)</b>	<b>(264.2)</b>

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 260.6 million in the first half of 2016, a decrease of PLN 6.7 million, i.e. 2.5% as compared with the first half of 2015.

The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 252.5 million in the first half of 2016, a decrease of PLN 11.7 million i.e. 4.4% as compared with the first half of 2015.

## 7.6 Off-balance sheet items

(in PLN million)

	30.06.2016	30.06.2015	CHANGE
Contingent liabilities granted and received	54,658.3	55,710.2	(1.9%)
Liabilities granted:	42,858.5	42,453.8	1.0%
financial	30,981.0	28,149.0	10.1%
guarantees	11,877.5	14,304.8	(17.0%)
Liabilities received:	11,799.8	13,256.4	(11.0%)
financial	1,491.3	873.0	70.8%
guarantees	10,308.5	12,383.4	(16.8%)
Derivative financial instruments	196,566.0	235,081.1	(16.4%)
interest rate transactions	93,349.0	139,116.7	(32.9%)
transactions in foreign currency and in gold	102,596.2	94,279.3	8.8%
transactions based on commodities and equity securities	620.8	1,685.1	(63.2%)
<b>Total off-balance sheet items</b>	<b>251,224.3</b>	<b>290,791.3</b>	<b>(13.6%)</b>

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 7.7 Capital adequacy

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

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

The minimum Total Capital Ratio required by law is the sum of minimal capital requirement defined by CRR Regulation (equal to 8%) and combined buffer requirement as defined in Act of August 5, 2015 on macro-prudential supervision over financial system and crisis management in financial system. According to recommendation of KNF total capital ratio must be equal to 13.25% and Tier I capital ratio 10.25%. Both levels are increased by additional capital requirement imposed by KNF<sup>1</sup>. As at the end of June 2016, for Bank Pekao S.A. Group, total capital ratio amounted to 18.1% and was almost twice the minimum value required by the law and significantly higher than the level recommended by the KNF.

The table below presents the basic data concerning Bank Pekao S.A. Group capital adequacy as of June 30, 2016, December 31, 2015 and June 30, 2015 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	30.06.2016	31.12.2015	30.06.2015
Credit risk	8,140,822	8,202,427	7,912,189
Exceeding large exposure limits	-	-	-
Market risk	43,086	63,578	66,244
Counterparty credit risk including CVA	247,735	325,240	324,600
Operational risk	504,367	564,787	677,855
<b>Total capital requirement</b>	<b>8,936,010</b>	<b>9,156,032</b>	<b>8,980,888</b>
<b>OWN FUNDS</b>			
Common Equity Tier I Capital	20,206,080	20,209,595	20,026,880
<b>Own funds for total capital ratio</b>	<b>20,206,080</b>	<b>20,209,595</b>	<b>20,026,880</b>
<b>Common Equity Tier I Capital ratio (%)</b>	<b>18.1%</b>	<b>17.7%</b>	<b>17.8%</b>
<b>Total capital ratio (%)</b>	<b>18.1%</b>	<b>17.7%</b>	<b>17.8%</b>

Total capital ratio as at the end of June 2016, compared with June 2015 increased by 0.3 p.p. Total capital requirement decreased during this period by 0.5% and own funds increased by 0.9%.

Total capital requirement decreased as at the end of June 2016 as a result of decrease of capital requirements for counterparty risk including CVA, operational risk and market risk.

Own funds increase mainly due to decrease of intangible assets and change of ratios regulating method of own funds calculation for transitional reporting defined in article 171a Banking Act, in particular change of applicable percentage of unrealized gains from available for sale portfolio (as at the end of June 2016, the Bank could include 60% of unrealized gains from AFS portfolio, whereas as at the end of June 2015, the Bank included 40% of unrealized gains from AFS portfolio).

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

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 7.8 Reconciliation of income statement – presentation form and long form

### Consolidated income statement for the first half of 2016

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF 2016	COMMENTS
Net interest income		<u>2,151,743</u>	
Dividend income and income from equity investments		<u>36,202</u>	
	Dividend income	16,411	
	Gains (losses) on subsidiaries and associates	19,791	
<b>Total net interest income, dividend income and other income from equity investments</b>		<b>2,187,945</b>	
Net fee and commission income	Net fee and commission income	968,481	
Trading result		<u>509,010</u>	
	Result on financial assets and liabilities held for trading	246,248	
	Result on fair value hedge accounting	(5,401)	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	268,171	
	(Gains) losses on disposal of financial liabilities	(8)	
Net other operating income and expenses		<u>164,918</u>	
	Net other operating income and expenses	10,512	
	less - Refunding of administrative expenses	(1,314) /1	
	Gains (losses) on disposal of loans and other financial receivables	155,720	
<b>Net non-interest income</b>		<b>1,642,409</b>	
<b>Operating income</b>		<b>3,830,354</b>	
Operating costs		<u>(1,624,258)</u>	
	Personnel expenses	(944,163)	
	Other administrative expenses	(841,873)	
	less - Guarantee funds charges	131,090	
	less - tax on certain financial institutions	200,844	
	Refunding of administrative expenses	1,314 /1	
	Depreciation and amortization	(171,470)	
<b>Gross operating profit</b>		<b>2,206,096</b>	
Net impairment losses on loans and off-balance sheet commitments		<u>(260,568)</u>	
	Net impairment losses on loans	(200,966)	
	Net impairment provision for off-balance sheet commitments	(59,602)	
<b>Net operating profit</b>		<b>1,945,528</b>	
Net result on other provisions	Net result on other provisions	<u>(2,853)</u>	
Guarantee funds charges	Guarantee funds charges	(131,090)	
Tax on certain financial institutions	Tax on certain financial institutions	(200,844)	
Net result on investment activities		<u>1,644</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	1,644	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
<b>Profit before income tax</b>		<b>1,612,385</b>	
Income tax expense	Income tax expense	<u>(348,280)</u>	
<b>Net profit for the period</b>	<b>Net profit for the period</b>	<b>1,264,105</b>	
<b>Attributable to equity holders of the Bank</b>	<b>Attributable to equity holders of the Bank</b>	<b>1,263,909</b>	
Attributable to non-controlling interest	Attributable to non-controlling interest	196	

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

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## Consolidated income statement for the first half of 2015

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF 2015	COMMENTS
Net interest income		<u>2,058,425</u>	
Dividend income and income from equity investments		<u>43,437</u>	
	Dividend income	13,337	
	Gains (losses) on subsidiaries and associates	30,100	
<b>Total net interest income, dividend income and other income from equity investments</b>		<b>2,101,862</b>	
Net fee and commission income	Net fee and commission income	<u>993,817</u>	
Trading result		<u>359,860</u>	
	Result on financial assets and liabilities held for trading	200,058	
	Result on fair value hedge accounting	5,241	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	154,715	
	(Gains) losses on disposal of financial liabilities	(154)	
Net other operating income and expenses		<u>126,500</u>	
	Net other operating income and expenses	127,518	
	less - Refunding of administrative expenses	(1,420) /1	
	Gains (losses) on disposal of loans and other financial receivables	402	
<b>Net non-interest income</b>		<b>1,480,177</b>	
<b>Operating income</b>		<b>3,582,039</b>	
Operating costs		<u>(1,612,584)</u>	
	Personnel expenses	(952,089)	
	Other administrative expenses	(634,717)	
	less –Guarantee funds charges	137,571	
	Refunding of administrative expenses	1,420 /1	
	Depreciation and amortization	(164,769)	
<b>Gross operating profit</b>		<b>1,969,455</b>	
Net impairment losses on loans and off-balance sheet commitments		<u>(267,214)</u>	
	Net impairment losses on loans	(236,071)	
	Net impairment provision for off-balance sheet commitments	(31,143)	
<b>Net operating profit</b>		<b>1,702,241</b>	
Net result on other provisions	Net result on other provisions	<u>(26,639)</u>	
Guarantee funds charges	Guarantee funds charges	(137,571)	
Net result on investment activities		<u>629</u>	
	Gains ( losses) on disposal of property, plant and equipment and intangible assets.	574	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	55	
<b>Profit before income tax</b>		<b>1,538,660</b>	
Income tax expense	Income tax expense	<u>(294,672)</u>	
<b>Net profit for the period</b>	<b>Net profit for the period</b>	<b>1,243,988</b>	
<b>Attributable to equity holders of the Bank</b>	<b>Attributable to equity holders of the Bank</b>	<b>1,243,626</b>	
Attributable to non-controlling interest	Attributable to non-controlling interest	362	

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

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 8 Quarterly Income Statement

### 8.1 Consolidated income statement – long form

Consolidated income statement for 2016 and 2015 - Provided for comparability purposes.

(in PLN thousand)

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Interest income	1,338,188	1,353,216	1,369,470	1,365,004	1,323,599	1,398,296
Interest expense	(256,183)	(283,478)	(308,959)	(317,370)	(308,104)	(355,366)
<b>Net interest income</b>	<b>1,082,005</b>	<b>1,069,738</b>	<b>1,060,511</b>	<b>1,047,634</b>	<b>1,015,495</b>	<b>1,042,930</b>
Fee and commission income	575,789	538,030	582,260	606,051	616,307	583,905
Fee and commission expense	(70,648)	(74,690)	(78,351)	(98,251)	(103,057)	(103,338)
<b>Net fee and commission income</b>	<b>505,141</b>	<b>463,340</b>	<b>503,909</b>	<b>507,800</b>	<b>513,250</b>	<b>480,567</b>
Dividend income	16,410	1	1	297	13,336	1
<b>Result on financial assets and liabilities held for trading</b>	<b>125,406</b>	<b>120,842</b>	<b>124,074</b>	<b>103,916</b>	<b>94,931</b>	<b>105,127</b>
<b>Result on fair value hedge accounting</b>	<b>(2,533)</b>	<b>(2,868)</b>	<b>529</b>	<b>(223)</b>	<b>3,007</b>	<b>2,234</b>
<b>Net result on other financial instruments at fair value through profit and loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gains (losses) on disposal of:</b>	<b>273,500</b>	<b>150,383</b>	<b>58,476</b>	<b>16,162</b>	<b>2,019</b>	<b>152,944</b>
loans and other financial receivables	5,796	149,924	132	-	58	344
available for sale financial assets and held to maturity investments	267,707	464	58,486	16,350	2,089	152,626
financial liabilities	(3)	(5)	(142)	(188)	(128)	(26)
<b>Operating income</b>	<b>1,999,929</b>	<b>1,801,436</b>	<b>1,747,500</b>	<b>1,675,586</b>	<b>1,642,038</b>	<b>1,783,803</b>
<b>Net impairment losses on financial assets and off-balance sheet commitments:</b>	<b>(131,179)</b>	<b>(129,389)</b>	<b>(120,277)</b>	<b>(130,067)</b>	<b>(130,082)</b>	<b>(137,132)</b>
loans and other financial receivables	(72,740)	(128,226)	(117,113)	(147,171)	(89,181)	(146,890)
off-balance sheet commitments	(58,439)	(1,163)	(3,164)	17,104	(40,901)	9,758
<b>Net result on financial activity</b>	<b>1,868,750</b>	<b>1,672,047</b>	<b>1,627,223</b>	<b>1,545,519</b>	<b>1,511,956</b>	<b>1,646,671</b>
<b>Administrative expenses</b>	<b>(911,446)</b>	<b>(874,590)</b>	<b>(1,043,824)</b>	<b>(795,962)</b>	<b>(797,373)</b>	<b>(789,433)</b>
personnel expenses	(472,983)	(471,180)	(471,865)	(484,565)	(480,167)	(471,922)
other administrative expenses (*)	(438,463)	(403,410)	(571,959)	(311,397)	(317,206)	(317,511)
<b>Depreciation and amortization</b>	<b>(85,677)</b>	<b>(85,793)</b>	<b>(84,808)</b>	<b>(81,888)</b>	<b>(83,031)</b>	<b>(81,738)</b>
<b>Net result on other provisions</b>	<b>(2,024)</b>	<b>(829)</b>	<b>1,587</b>	<b>(3,714)</b>	<b>(767)</b>	<b>(25,872)</b>
<b>Net other operating income and expenses</b>	<b>3,971</b>	<b>6,541</b>	<b>10,635</b>	<b>22,843</b>	<b>117,895</b>	<b>9,623</b>
<b>Operating costs</b>	<b>(995,176)</b>	<b>(954,671)</b>	<b>(1,116,410)</b>	<b>(858,721)</b>	<b>(763,276)</b>	<b>(887,420)</b>
<b>Gains (losses) on subsidiaries and associates</b>	<b>9,788</b>	<b>10,003</b>	<b>10,622</b>	<b>72,426</b>	<b>14,599</b>	<b>15,556</b>
<b>Gains (losses) on disposal of property, plant and equipment, and intangible assets</b>	<b>363</b>	<b>1,281</b>	<b>11,171</b>	<b>628</b>	<b>(54)</b>	<b>628</b>
<b>Profit before income tax</b>	<b>883,725</b>	<b>728,660</b>	<b>532,606</b>	<b>759,852</b>	<b>763,225</b>	<b>775,435</b>
Income tax expense	(193,098)	(155,182)	(93,960)	(149,008)	(143,806)	(150,866)
<b>Net profit for the period</b>	<b>690,627</b>	<b>573,478</b>	<b>438,646</b>	<b>610,844</b>	<b>619,419</b>	<b>624,569</b>
<b>Attributable to equity holders of the Bank</b>	<b>690,513</b>	<b>573,396</b>	<b>438,364</b>	<b>610,469</b>	<b>619,209</b>	<b>624,417</b>
Attributable to non-controlling interest	114	82	282	375	210	152

(\*) 2015 data include extraordinary one-off charge to the BGF in relation to bankruptcy of SBRIr in Wolomin, one-off contribution to the Borrowers Support Fund and guarantee funds charges. Data for the first and the second quarter of 2016 include tax on certain financial institutions and guarantee funds charges.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 8.2 Consolidated statement of comprehensive income

### Consolidated statement of comprehensive income for 2016 and 2015

(in PLN thousand)

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
<b>Net profit</b>	<b>690,627</b>	<b>573,478</b>	<b>438,646</b>	<b>610,844</b>	<b>619,419</b>	<b>624,569</b>
<b>Attributable to equity holders of the Bank</b>	<b>690,513</b>	<b>573,396</b>	<b>438,364</b>	<b>610,469</b>	<b>619,209</b>	<b>624,417</b>
Attributable to non-controlling interest	114	82	282	375	210	152
<b>Other comprehensive income</b>						
<i>Items that are or may be reclassified subsequently to profit or loss:</i>						
Foreign currency translation differences	-	-	(1,146)	(10)	(19)	6
Change in fair value of available-for-sale financial assets	(313,460)	29,099	98,833	191,550	(441,980)	(85,527)
Change in fair value of cash flow hedges	(6,281)	40,075	41,738	(26,197)	(52,662)	(56,220)
Income tax expense on other comprehensive income	60,751	(13,143)	(26,708)	(31,417)	93,982	26,932
<i>Items that will never be reclassified to profit or loss:</i>						
Re-measurements of the defined benefit liabilities	-	-	12,900	-	-	-
Share in re-measurements of the defined benefit liabilities of associates	-	-	18	-	-	-
Tax on items that will never be reclassified to profit or loss	-	-	(2,451)	-	-	-
<b>Other comprehensive income (net)</b>	<b>(258,990)</b>	<b>56,031</b>	<b>123,184</b>	<b>133,926</b>	<b>(400,679)</b>	<b>(114,809)</b>
<b>Total comprehensive income</b>	<b>431,637</b>	<b>629,509</b>	<b>561,830</b>	<b>744,770</b>	<b>218,740</b>	<b>509,760</b>
<b>Attributable to equity holders of the Bank</b>	<b>431,523</b>	<b>629,427</b>	<b>561,548</b>	<b>744,395</b>	<b>218,530</b>	<b>509,608</b>
Attributable to non-controlling interest	114	82	282	375	210	152

Note: Net profit for 2015 includes extraordinary one-off charge to the BGF in relation to bankruptcy of SBRIr in Wołomin and one-off contribution to the Borrowers Support Fund.

Net profit for the first and the second quarter of 2016 includes tax on certain financial institutions.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 8.3 Consolidated income statement – presentation form

### Consolidated income statement for 2016 and 2015

	(in PLN thousand)					
	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest income	1,082,005	1,069,738	1,060,511	1,047,634	1,015,495	1,042,930
Dividend income and income from equity investments	26,198	10,004	10,623	11,666	27,935	15,502
<b>Total net interest income, dividend income and other income from equity investments</b>	<b>1,108,203</b>	<b>1,079,742</b>	<b>1,071,134</b>	<b>1,059,300</b>	<b>1,043,430</b>	<b>1,058,432</b>
Net fee and commission income	505,141	463,340	503,909	507,800	513,250	480,567
Trading result	390,577	118,433	182,947	119,855	99,899	259,961
Net other operating income and expenses	9,095	155,823	9,784	21,814	117,369	9,131
<b>Net non-interest income</b>	<b>904,813</b>	<b>737,596</b>	<b>696,640</b>	<b>649,469</b>	<b>730,518</b>	<b>749,659</b>
<b>Operating income</b>	<b>2,013,016</b>	<b>1,817,338</b>	<b>1,767,774</b>	<b>1,708,769</b>	<b>1,773,948</b>	<b>1,808,091</b>
<b>Operating costs</b>	<b>(812,143)</b>	<b>(812,115)</b>	<b>(798,613)</b>	<b>(808,475)</b>	<b>(811,221)</b>	<b>(801,363)</b>
<b>Gross operating profit</b>	<b>1,200,873</b>	<b>1,005,223</b>	<b>969,161</b>	<b>900,294</b>	<b>962,727</b>	<b>1,006,728</b>
Net impairment losses on loans and off-balance sheet commitments	(131,179)	(129,389)	(120,277)	(130,067)	(130,082)	(137,132)
<b>Net operating profit</b>	<b>1,069,694</b>	<b>875,834</b>	<b>848,884</b>	<b>770,227</b>	<b>832,645</b>	<b>869,596</b>
Net result on other provisions	(2,024)	(829)	1,587	(3,714)	(767)	(25,872)
Guarantee funds charges	(64,104)	(66,986)	(68,487)	(68,346)	(68,599)	(68,972)
One-off charges related to bankruptcy of SBRIr in Wolomin and Borrowers Support Fund	-	-	(260,549)	-	-	-
Tax on certain financial institutions	(120,204)	(80,640)	-	-	-	-
Net result on investment activities	363	1,281	11,171	61,685	(54)	683
<b>Profit before income tax</b>	<b>883,725</b>	<b>728,660</b>	<b>532,606</b>	<b>759,852</b>	<b>763,225</b>	<b>775,435</b>
Income tax expense	(193,098)	(155,182)	(93,960)	(149,008)	(143,806)	(150,866)
<b>Net profit for the period</b>	<b>690,627</b>	<b>573,478</b>	<b>438,646</b>	<b>610,844</b>	<b>619,419</b>	<b>624,569</b>
<b>Attributable to equity holders of the Bank</b>	<b>690,513</b>	<b>573,396</b>	<b>438,364</b>	<b>610,469</b>	<b>619,209</b>	<b>624,417</b>
Attributable to non-controlling interest	114	82	282	375	210	152
<b>Net profit excluding tax on certain financial institutions</b>	<b>810,717</b>	<b>654,036</b>	<b>438,364</b>	<b>610,469</b>	<b>619,209</b>	<b>624,417</b>

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 9 Human Resources Management

### **Human Capital as a key asset**

The principles of the Bank's policy in the area of Human Resources (HR) development are set by its mission and values considered as a key for the Bank sustainable growth.

The Bank invests in training, professional development of employees (in line with their preferences and abilities), creation of a friendly work environment and conducts questionnaire surveys on employees opinion and satisfaction. Significant area of the Bank's personnel policy is outstanding talents spotting within the organization and investing in development of their skills.

These priorities were accompanied by a particular emphasis on promoting preferential values of corporate culture of the Bank and shared across UniCredit Group.

### **Training and professional development**

The Bank creates possibilities of education and provides access to various forms of training for its employees. Training programs include classroom training, on-the-job training, electronic training, coaching and system of Virtual Class which provides training at a distance in a form of remote seminars. In the first half of 2016, the Bank continued also structured rotation program allowing direct exchange of professional knowledge between experts.

In the first half of 2016, the main training priorities of the Bank were as follows:

- reinforcement of product and sales knowledge of the Bank's employees,
- professional skills development of the Bank's employees,
- education of middle and top managers,
- realization of mandatory training required under internal and external regulations.

### ***Reinforcement of product and sales knowledge of the Bank's employees***

The Bank realized training projects supporting personnel in proper distribution of banking products, including products from bancassurance area. Additionally, in cooperation with National Bank of Poland, the Bank implemented system of cascade training dedicated to new protection measures used in Polish banknotes. Specific training programs were also developed and implemented for the employees responsible for acquiring new customers and those responsible for service of existing customers.

### ***Professional skills development of the Bank's employees***

The Bank continued realization of training projects aimed at reinforcement of risk culture and training regarding implementing of agreed business strategies. Additionally the Bank realized training dedicated to high potential employees and personnel responsible for SME customers service.

In the first half of 2016, the Bank delivered (in form of classroom training, electronic training and Virtual Classes) ca. 200 thousand of training hours, in which attended over 15.5 thousand of employees (ca. 97% of employed) confirming the Bank's determination in efficient implementation of required regulations and customer care.

### **Development programs and initiatives**

Key priority of the Bank's development processes is identification, review, verification and development of current and future leaders of the Bank.

In the Bank, currently there are four main processes:

- Executive Development Plan (EDP) - annual appraisal process for managers which involved 613 persons,
- Talent Management Review (TMR) - annual appraisal process of potential and professional achievements aimed at managing and development of talents in the Bank and UniCredit Group which involved 137 persons,



# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

Key elements of the EDP and the TMR processes are succession plans which are crucial for ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk.

- Annual Employee Appraisal System – process of evaluation of the Bank's employees which involved 14,383 employees in the first half of 2016.

Furthermore, the Bank offers the development initiatives focused on supporting the employees in their professional career development and improvement of their skills, knowledge and competencies.

## **Internship and trainee programs**

The Bank offers students and graduates the following development programs:

- UniChallenge – a two year-long internship program, addressed to talented last-year MA students and graduates. It provides opportunities for its participants to gain work experience and professional knowledge in a certain field. The UniChallenge Program is used to spot high-potential candidates for employees,
- the apprenticeship programs addressed to students who are offered placements for the period ranging from 2 weeks to 3 months. These programs are an opportunity to gain experience in different areas of banking, in all organizational units of the Bank.

## **Compensation policy**

On July 31, 2015, the Supervisory Board of Bank Pekao S.A. approved the Compensation Policy of the Bank, reflecting the mission and values of the Bank's approach to remuneration systems, which:

- defines basics of remuneration, structure management, corporate and organizational processes,
- confirms compliance requirements of the adopted remuneration system with generally binding law,
- defines the rules for monitoring of market practices and the approach to remuneration systems, which ensure sustainability of the Bank.

## **Incentive systems**

In the Bank, there are three main incentive systems: the Executive Variable Compensation System, System based on Management by Objectives (MBO), and System based on provisions of Corporate Collective Labour Agreement, which is based on quarterly bonuses and incentive reward.

Executive Variable Compensation System is dedicated to people holding managerial positions, who have significant influence on the risk profile of the Bank. The aim of the System is to support the execution of the Bank's operational strategy and to mitigate excessive risk of conflicts of interest. Participant covered by the System may receive a variable compensation based on a bonus pool approach providing for a comprehensive performance measurement at individual level, at the level of his/her organizational unit and results of the entire Bank, as well as verification of the participant's compliant behaviour with respect to law provisions and standards adopted by the Bank.

MBO system covers employees employed under the management contract and refers in particular to the positions in the front-office and to the managerial positions, which play a significant role in achieving the Bank's commercial goals. The employees covered by the MBO system receive individual goals resulting from the strategy and activity directions of the Bank approved for a particular year; the annual bonus value is conditioned by completion level of those tasks.

A system based on the provisions of the Corporate Collective Labour Agreement (CCLA) applies to all employees who are not covered by the abovementioned systems. According to the provisions of the CCLA the basis of the system is a quarterly bonus which is discretionary and depends on evaluation of employee's performance and the level of commitment, the Bank's results in a given period and an incentive bonus, which is granted for outstanding work achievements.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## **Additional benefits for employees**

Additional benefits available to the employees vary according to the positions and responsibilities.

Employee Share Ownership Plan (ESOP) was continued, under which Bank offers to all employees the opportunity to invest in the shares of UniCredit S.p.A on favourable conditions which allow to obtain Free Shares measured on the basis of the Investment Shares purchased by each Participant.

## **Suitability Assessment Policy**

In the first half of 2016, the Bank assessed the suitability of the candidates, Members of the Supervisory Board and Members of the Management Board, before appointment for the new join term of office, including an assessment of their qualifications, reputation, and additional criteria for management according to The Policy of the Suitability Assessment of the proposed and appointed Management Board's Members, Supervisory Board's Members and Key Function Holders at Bank Pekao S.A. The suitability assessment was performed by the Supervisory Board of the Bank with the support of the Nomination and Remuneration Committee.

## **Corporate values**

In the Bank is functioning a project "System of Values" which defines the corporate values to be cherished by Bank employees in their daily relations at work. The Bank's values defined in the Integrity Charter are: respect, reciprocity, transparency, fairness, confidence, and freedom (to act). These values provide a reference system for routine work and for problem situations which are not always addressed by external and internal regulations.

The foundation of this "System of Values" is the work of Integrity Charter Ombudsmen who are independent, experienced, retired managers to whom the employees may report behaviours which clash with the corporate values. The Ombudsmen use the available tools (meetings, notices) when they undertake measures to restore respect for the corporate values in relations among employees wherever they have been disrupted. Their work directly supports the Bank's internal communication and defines certain standards of conduct and communication patterns for all the employees to follow. In the first half of 2016, the Integrity Charter Ombudsmen continued meetings with employees of the Bank in order to familiarize them with the "System of Values" and with the Ombudsmen's service. In addition, the Ombudsmen also meet with individual employees and conducted telephone conversations indicating the ability to solve problems independently.

## **Relations with Trade Union Organizations**

The cooperation between the Bank and the trade unions in the fields of consultation, negotiation, and agreements was carried out in the first half of 2016 according to the rules and procedures defined by the Labour Law and with respect to the interest of the parties and the principles of social dialogue. There were 8 meetings between the Bank and the Unions in that period.

## **Relations with the Works Council**

The Works Council of Bank Pekao S.A. Employees operates in the Bank. The Council is a representative of the workforce, authorized to get information and carry out consultation with the employees on matters defined by the Worker Information and Consultation Act of April 7, 2006. In the first half of 2016, the subject of discussion with the Employee Council were issues covered by the relevant legal regulations and the cooperation with the Works Council progressed with respect to the mutual rights of the parties involved. Summary information from meetings between the Works Council and the employer are published on the Intranet available to all employees of the Bank.

## **Workforce in number**

As of June 30, 2016, the Group employed 18,150 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,629 employees as at the end of June 2015.

As of June 30, 2016, the Bank employed 16,258 employees as compared to 16,631 employees as at the end of June 2015. The average age of the employees was 46 years, 64.3% of the employees are university graduates (63.6% in the first half of 2015), women represent 79.5% of the total workforce.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 10 Other Information

### 10.1 Management Board position regarding the possibility of achieving previously published forecasts

The Bank has not published the forecast of the financial results for 2016.

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

According to information available to the Bank at the date of submitting this report, the Members of the Bank's management and supervisory bodies held 73,535 shares of Bank Pekao S.A.

The table below presents the number of shares held by the Management Board Members:

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE FIRST HALF OF 2016	FOR THE FIRST QUARTER OF 2016	CHANGE
Luigi Lovaglio	64,035	64,035	0
Diego Biondo	9,500	9,500	0
<b>Total</b>	<b>73,535</b>	<b>73,535</b>	<b>0</b>

### 10.3 Related party transactions

In the first half of 2016, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In the first half of 2016, the Bank and its subsidiaries did not provide any sureties or guarantees in respect of loans or advances to an entity or a subsidiary of such entity, as a result of which the total value of existing sureties and guarantees would have equaled or exceeded 10% of the Bank's equity.

### 10.4 Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in the Notes the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2016 to 30 June 2016.

### 10.5 Seasonality or cyclical nature of the Bank's activity

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

### 10.6 Issuance, redemption and repayment of debt securities

#### **Structured Certificates of Deposit**

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 245.9 million (principal value) as at the end of June 2016. There are 9 issues of Structured Certificates of Deposit open in PLN with the maturity date on February 5, 2018. Those liabilities that mature in 2016, 2017 and 2018 account for 30.3%, 33.4% and 36.3% of its total value, respectively.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## **Certificates of Deposit**

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 589.1 million (principal value) as at the end of June 2016. There are 8 issues of Certificates of Deposit, and the maturity date up to 3 months accounts for 71.7%, up to 6 months accounts for 0.3% and up to 1 year accounts for 28.0% of its total value.

## **Pekao Bank Hipoteczny S.A. covered bonds**

The total value of liabilities due to covered bonds amounted to PLN 1,307.3 million as at the end of June, 2016. The liabilities under covered bonds with maturity date up to 1 year account for 6.3%, with maturity date from 1 up to 3 years account for 32.3%, with maturity date from 3 up to 5 years account for 31.7% and with maturity date from 5 up to 10 years account for 29.7% of the total nominal value.

## **10.7 Appropriation of profit achieved in 2015**

On June 16, 2016, the Ordinary General Meeting of Bank Pekao S.A. took a resolution regarding the distribution of the net profit of the Bank for 2015 in the amount of PLN 2,290,398,459.80 in the following manner:

- 99.7% of net profit of the Bank i.e. PLN 2,283,489,295.80 is allocated to dividend,
- PLN 6,909,164.00 is allocated to fund for general banking risk.

## **10.8 Information on dividend**

Pursuant to Resolution of the Ordinary General Meeting of Bank Pekao S.A. dated June 16, 2016, PLN 2,283,489,295.80 (99.7% of the net profit of the Bank for 2015) was allocated as dividend, i.e. PLN 8.70 per one share. The dividend's date was established on June 22, 2016 and the dividend's pay-out day was established on July 6, 2016. All the Bank's shares are ordinary shares.

## **10.9 Pending litigations**

In the first half of 2016, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 613 with the total value amounting to PLN 1,035.1 million. The number of legal proceedings in respect of receivables was 13,922 with the total value of PLN 1,497.6 million.

In the first half of 2016, there were no legal proceedings relating to the liabilities and/or receivables of the Group in which asserted claims accounted for at least 10% of the Bank's own funds.

In the opinion of the Bank none of the individual pending proceedings before any courts, arbitration bodies or public administration authorities during the first half of 2016, nor the proceedings in aggregate pose any threat to the Bank's financial liquidity.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 10.10 Subsequent events

### **Decrease of UniCredit S.p.A.'s share in capital of Bank Pekao S.A., resulting in the decrease of votes at the General Meeting of Shareholders of the Bank to 40.10%**

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

Prior to the disposal, the UniCredit S.p.A. owned 131,497,488 shares in the Bank, constituting 50.10% of capital share of the Bank and corresponding to the same number and percentage share of votes at the General Meeting of the Bank.

After the transaction, the UniCredit S.p.A. holds 105,250,485 shares in the Bank, constituting 40.10% of capital share 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 S.p.A. has agreed to a 90 days lock-up period with respect to its remaining controlling shareholding in the Bank, subject to customary carve-outs.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## 11 Representations of the Bank's Management Board on reliability of the presented financial statements

The Management Board of Bank Pekao S.A. declares to the best of its knowledge that:

- the Condensed Unconsolidated Interim Financial Statements of Bank Pekao S.A. for the period from 1 January 2016 to 30 June 2016 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2016 to 30 June 2016 and comparative figures have been prepared in accordance with applicable accounting policies and that they reflect in a true, fair and clear manner the Bank's and the Group's financial position and their results,
- the Report on the activities of Bank Pekao S.A. Group for the first half of 2016 provides a true picture of Bank Pekao S.A. Group's development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of the Condensed Unconsolidated Interim Financial Statements of Bank Pekao S.A. for the period from 1 January 2016 to 30 June 2016 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2016 to 30 June 2016 has been selected in pursuance of applicable provisions of law. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the review concerning condensed interim unconsolidated financial statements and condensed interim consolidated financial statements, in accordance with applicable provisions of law and professional standards.

# Report on the activities of Bank Pekao S.A. Group for the first half of 2016

## Signatures of all Members of the Bank's Management Board

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