



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



Warsaw, August 2016

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

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Unconsolidated income statement

(in PLN thousand)

	NOTE	II QUARTER 2016 PERIOD FROM 01.04.2016 TO 30.06.2016	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016	II QUARTER 2015 PERIOD FROM 01.04.2015 TO 30.06.2015	I HALF 2015 PERIOD FROM 01.01.2015 TO 30.06.2015
Interest income	7	1 304 279	2 621 223	1 286 120	2 643 199
Interest expense	7	(250 649)	(527 760)	(301 708)	(647 568)
Net interest income		1 053 630	2 093 463	984 412	1 995 631
Fee and commission income	8	517 157	1 001 484	546 234	1 074 555
Fee and commission expense	8	(77 345)	(153 661)	(101 390)	(204 738)
Net fee and commission income		439 812	847 823	444 844	869 817
Dividend income	9	67 736	132 552	71 490	210 609
Result on financial assets and liabilities held for trading	10	122 715	237 727	91 313	194 903
Result on fair value hedge accounting	26	(2 533)	(5 401)	3 007	5 241
Gains (losses) on disposal of:	11	273 498	423 883	2 019	154 963
loans and other financial receivables		5 796	155 720	58	402
available for sale financial assets and held to maturity investments		267 706	268 171	2 089	154 715
financial liabilities		(4)	(8)	(128)	(154)
Operating income		1 954 858	3 730 047	1 597 085	3 431 164
Net impairment losses on financial assets and off-balance sheet commitments:	15	(126 412)	(252 548)	(127 469)	(264 169)
loans and other financial receivables		(67 723)	(191 653)	(86 395)	(232 233)
off-balance sheet commitments		(58 689)	(60 895)	(41 074)	(31 936)
Net result on financial activity		1 828 446	3 477 499	1 469 616	3 166 995
Administrative expenses	12	(863 033)	(1 684 643)	(749 262)	(1 485 472)
personnel expenses		(425 337)	(846 288)	(432 700)	(857 158)
other administrative expenses		(437 696)	(838 355)	(316 562)	(628 314)
Depreciation and amortization	13	(81 365)	(162 712)	(78 132)	(154 873)
Net result on other provisions		(2 141)	(2 950)	(517)	(26 522)
Net other operating income and expenses	14	4 077	9 204	118 121	123 804
Operating costs		(942 462)	(1 841 101)	(709 790)	(1 543 063)
Gains (losses) on subsidiaries and associates	16	-	-	-	2 390
Gains (losses) on disposal of property, plant and equipment, and intangible assets	17	328	1 753	55	579
Profit before income tax		886 312	1 638 151	759 881	1 626 901
Income tax expense	18	(185 391)	(334 249)	(134 559)	(278 126)
Net profit for the period		700 921	1 303 902	625 322	1 348 775
Earnings per share (in PLN per share)	19				
basic for the period		2.67	4.97	2.38	5.14
diluted for the period		2.67	4.97	2.38	5.14

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of comprehensive income

(in PLN thousand)

	NOTE	II QUARTER 2016 PERIOD FROM 01.04.2016 TO 30.06.2016	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016	II QUARTER 2015 PERIOD FROM 01.04.2015 TO 30.06.2015	I HALF 2015 PERIOD FROM 01.01.2015 TO 30.06.2015
Net profit for the period		700 921	1 303 902	625 322	1 348 775
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Foreign currency translation differences		-	-	(19)	(13)
Change in fair value of available-for-sale financial assets		(312 983)	(284 163)	(441 786)	(527 557)
Change in fair value of cash flow hedges	26	(6 281)	33 794	(52 662)	(108 882)
Tax on items that are or may be reclassified subsequently to profit or loss	18	60 660	47 570	93 945	120 924
Items that will never be reclassified to profit or loss:					
Remeasurements of the defined benefit liabilities		-	-	-	-
Tax on items that will never be reclassified to profit or loss		-	-	-	-
Other comprehensive income (net of tax)		(258 604)	(202 799)	(400 522)	(515 528)
Total comprehensive income		442 317	1 101 103	224 800	833 247

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of financial position

(in PLN thousand)

	NOTE	30.06.2016	31.12.2015	30.06.2015
ASSETS				
Cash and due from Central Bank	21	5 865 162	7 881 598	6 681 767
Bill of exchange eligible for rediscounting at Central Bank		-	70	185
Loans and advances to banks	22	4 645 575	7 512 226	5 356 196
Financial assets held for trading	23	2 314 735	1 116 993	1 272 931
Derivative financial instruments (held for trading)	24	2 313 234	3 254 117	3 296 327
Loans and advances to customers	25	116 496 727	118 508 582	117 269 665
Hedging instruments	26	269 003	421 640	352 696
Investment (placement) securities	27	26 388 305	20 989 942	27 216 028
1. Available for sale		23 049 677	17 699 881	23 938 866
2. Held to maturity		3 338 628	3 290 061	3 277 162
Assets held for sale	28	48 112	45 302	33 542
Investments in subsidiaries		1 099 654	1 099 654	1 123 654
Investments in associates		27 552	27 552	27 864
Intangible assets	29	575 521	611 620	618 163
Property, plant and equipment	30	1 391 030	1 443 757	1 464 459
Investment properties		12 914	17 317	23 273
Income tax assets		775 610	759 559	824 343
1. Current tax assets		-	75 935	1
2. Deferred tax assets		775 610	683 624	824 342
Other assets		649 321	2 070 741	2 390 166
TOTAL ASSETS		162 872 455	165 760 670	167 951 259
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to Central Bank	21	6 038	914	906
Amounts due to other banks	32	3 520 358	4 553 114	7 588 419
Financial liabilities held for trading	23	786 033	611 442	80 870
Derivative financial instruments (held for trading)	24	2 282 112	3 201 798	3 210 401
Amounts due to customers	33	127 197 787	129 256 866	125 479 322
Hedging instruments	26	1 888 106	1 702 759	1 912 953
Debt securities issued	34	838 758	1 668 706	2 824 108
Income tax liabilities		79 256	-	76 784
1. Current tax liabilities		79 256	-	76 784
2. Deferred tax liabilities		-	-	-
Provisions	35	489 659	422 930	468 993
Other liabilities		4 172 331	1 547 738	4 712 713
TOTAL LIABILITIES		141 260 438	142 966 267	146 355 469
Equity				
Share capital		262 470	262 470	262 470
Other capital and reserves		20 045 645	20 241 535	19 984 545
Retained earnings and net profit for the period		1 303 902	2 290 398	1 348 775
TOTAL EQUITY		21 612 017	22 794 403	21 595 790
TOTAL LIABILITIES AND EQUITY		162 872 455	165 760 670	167 951 259

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2016 to 30 June 2016

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

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2015 to 31 December 2015

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

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2015 to 30 June 2015

	OTHER CAPITAL AND RESERVES								RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER		
Equity as at 1.01.2015	262 470	20 462 508	9 137 221	1 937 850	8 612 550	540 591	1 169	233 127	2 662 266	23 387 244
Management options	-	-	-	-	-	-	-	-	-	-
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-
Revaluation of management options	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	(515 528)	-	-	-	(515 515)	(13)	-	1 348 775	833 247
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-
Revaluation of available-for-sale investments (net of tax)	-	(427 321)	-	-	-	(427 321)	-	-	-	(427 321)
Revaluation of hedging financial instruments (net of tax)	-	(88 194)	-	-	-	(88 194)	-	-	-	(88 194)
Foreign currency translation differences	-	(13)	-	-	-	-	(13)	-	-	(13)
Net profit for the period	-	-	-	-	-	-	-	-	1 348 775	1 348 775
Appropriation of retained earnings	-	37 565	-	37 565	-	-	-	-	(2 662 266)	(2 624 701)
Dividend paid	-	-	-	-	-	-	-	-	(2 624 701)	(2 624 701)
Profit appropriation	-	37 565	-	37 565	-	-	-	-	(37 565)	-
Equity as at 30.06.2015	262 470	19 984 545	9 137 221	1 975 415	8 612 550	25 076	1 156	233 127	1 348 775	21 595 790

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement

(in PLN thousand)

	NOTE	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016	I HALF 2015 PERIOD FROM 01.01.2015 TO 30.06.2015
Cash flow from operating activities – indirect method			
Net profit for the period		1 303 902	1 348 775
Adjustments for:		1 770 263	25 719
Depreciation and amortization	13	162 712	154 873
Gains (losses) on investing activities		(269 625)	(155 263)
Net interest income	7	(2 093 463)	(1 995 631)
Dividend income	9	(132 552)	(210 609)
Interest received		2 559 146	2 744 743
Interest paid		(511 045)	(670 346)
Income tax		273 782	247 204
Income tax paid		(230 203)	(305 055)
Change in loans and advances to banks		116 923	313 015
Change in financial assets held for trading		(1 197 057)	(752 167)
Change in derivative financial instruments (assets)		940 883	1 168 567
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		2 049 720	(5 755 930)
Change in investment (placement) securities		(587 701)	(598 990)
Change in other assets		1 583 725	369 257
Change in amounts due to banks		(1 026 798)	4 457 718
Change in financial liabilities held for trading		174 591	(510 441)
Change in derivative financial instruments (liabilities)		(919 686)	(1 211 891)
Change in amounts due to customers		(2 090 767)	(872 448)
Change in debt securities issued		(1 539)	(5 941)
Change in provisions		66 729	32 041
Change in other liabilities		2 902 488	3 583 013
Net cash flows from operating activities		3 074 165	1 374 494
Cash flow from investing activities			
Investing activity inflows		63 527 673	136 717 880
Sale of investment securities		63 066 146	136 186 480
Sale of intangible assets and property, plant and equipment		2 051	1 477
Dividend received	9	132 552	210 609
Other investing inflows		326 924	319 314
Investing activity outflows		(68 266 667)	(139 528 124)
Acquisition of subsidiary		-	(274 334)
Acquisition of investment securities		(68 192 552)	(139 122 875)
Acquisition of intangible assets and property, plant and equipment		(74 115)	(130 915)
Net cash flows from investing activities		(4 738 994)	(2 810 244)

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016	I HALF 2015 PERIOD FROM 01.01.2015 TO 30.06.2015
Cash flows from financing activities			
Financing activity inflows		1 079 733	2 300 704
Issue of debt securities	34	1 079 733	2 300 704
Financing activity outflows		(4 177 490)	(4 921 010)
Redemption of debt securities	34	(1 894 001)	(2 296 309)
Dividends and other payments to shareholders		(2 283 489)	(2 624 701)
Net cash flows from financing activities		(3 097 757)	(2 620 306)
Total net cash flows		(4 762 586)	(4 056 056)
including: effect of exchange rate fluctuations on cash and cash equivalents held		105 174	76 046
Net change in cash and cash equivalents		(4 762 586)	(4 056 056)
Cash and cash equivalents at the beginning of the period		14 568 422	15 553 341
Cash and cash equivalents at the end of the period		9 805 836	11 497 285

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the unconsolidated financial statements.

Notes to financial statements

(in PLN thousand)

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

1. General information

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

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

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

The condensed unconsolidated interim financial statements of Bank Pekao S.A. for the period from 1 January 2016 to 30 June 2016 contain financial information of all the activities performed by the Bank.

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

2. Business combination

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

3. Statement of compliance

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

4. Significant accounting policies

4.1 Basis of preparation of Unconsolidated Financial Statements

General information

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

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

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

The unconsolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2016, had no material impact on the Bank's financial statements (Note 4.2).

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

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

IFRS 9 'Financial Instruments'

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Notes to the financial statements (cont.)

(in PLN thousand)

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

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

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

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 'Financial Instruments'	<p>New regulations constitute a part of changes designed to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes, introduced by the new standard, are as follows:</p> <ul style="list-style-type: none"> • new categorisation of financial assets, • new criteria of assets classification to the group of financial assets measured at amortized cost, • new impairment model – expected credit losses model, • new principles for recognition of changes in fair value measurement of capital investment in financial instruments, • elimination of the necessity to separate embedded derivatives from financial assets. <p>The major part of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged. Date of application: the first financial year beginning after 1 January 2018.</p>	The impact assessment of the new standard implementation on Bank's financial statements is described in note 4.1 Basis of preparation of Unconsolidated Financial Statements.
IFRS 14 'Regulatory deferral accounts'	<p>The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. Date of application: the first financial year beginning after 1 January 2016. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.</p>	The Bank claims that the new standard will not have a material impact on its financial statements in the period of its first application.
IFRS 15 'Revenue from Contracts with Customers'	<p>The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer. Date of application: the first financial year beginning after 1 January 2018.</p>	The Bank is currently assessing the impact of the IFRS 15 application on its financial statements.
IFRS 16 'Leases'	<p>Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. Date of application: annual periods beginning on or after 1 January 2019.</p>	The Bank is currently assessing the impact of the IFRS 15 application on its financial statements.

Notes to the financial statements (cont.)

(in PLN thousand)

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

Notes to financial statements (cont.)

(in PLN thousand)

5. Accounting estimates

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

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

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

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

During the six months period ended 30 June 2016 the most significant estimates are as follows:

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

Notes to financial statements (cont.)

(in PLN thousand)

6. Risk management

Credit risk

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

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

	30.06.2016	31.12.2015
Loans with no impairment:	114 073 427	116 049 828
Loans to individuals:	52 550 184	50 779 433
Covered by internal rating model:	50 503 054	48 496 634
Mortgage loans	42 320 001	40 682 616
Consumer loans	8 183 053	7 814 018
Other, not covered by internal rating model	2 047 130	2 282 799
Loans to corporates:	61 523 243	65 270 395
Covered by internal rating model:	20 410 960	20 208 561
Clients with income not exceeding EUR 500 million	15 045 296	15 076 822
Clients assessed by central model with income exceeding EUR 500 million	5 365 664	5 131 739
Specialized lending exposures	6 604 427	6 595 869
Debt securities, not covered by internal rating model	12 614 513	12 330 221
Repo transactions, not covered by internal rating model	149 037	4 755 472
Other, not covered by internal rating model	21 744 306	21 380 272
Impaired loans	2 423 300	2 458 823
Total loans and advances to customers (*)	116 496 727	118 508 651

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

Notes to financial statements (cont.)

(in PLN thousand)

Quality analysis of the Bank's financial assets

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	641 190	537 927
- up to 1 month	-	-	15 248	13 046
- between 1 month and 3 months	-	-	90 292	21 496
- between 3 months and 1 year	-	-	65 763	116 917
- between 1 year and 5 years	7 804	9 927	2 785 633	2 968 023
- above 5 years	-	-	1 434 567	1 334 323
Total gross carrying amount	7 804	9 927	5 032 693	4 991 732
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(244 628)	(230 039)
- up to 1 month	-	-	(5 320)	(4 933)
- between 1 month and 3 months	-	-	(72 704)	(4 819)
- between 3 months and 1 year	-	-	(29 324)	(47 727)
- between 1 year and 5 years	(7 804)	(9 927)	(1 676 390)	(1 711 053)
- above 5 years	-	-	(1 227 900)	(1 156 423)
Total allowance for impairment	(7 804)	(9 927)	(3 256 266)	(3 154 994)
Net carrying amount of exposure individually impaired	-	-	1 776 427	1 836 738
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	146 755	109 908
- up to 1 month	-	-	44 220	41 499
- between 1 month and 3 months	-	-	53 804	44 193
- between 3 months and 1 year	-	-	279 635	292 994
- between 1 year and 5 years	-	-	1 238 311	1 235 099
- above 5 years	9 800	9 800	952 597	943 397
Total gross carrying amount	9 800	9 800	2 715 322	2 667 090
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(42 110)	(37 924)
- up to 1 month	-	-	(12 712)	(10 142)
- between 1 month and 3 months	-	-	(18 166)	(14 292)
- between 3 months and 1 year	-	-	(138 859)	(148 107)
- between 1 year and 5 years	-	-	(965 333)	(948 154)
- above 5 years	(9 800)	(9 800)	(891 269)	(886 386)
Total allowance for impairment	(9 800)	(9 800)	(2 068 449)	(2 045 005)
Net carrying amount of exposure collectively impaired	-	-	646 873	622 085

Notes to financial statements (cont.)

(in PLN thousand)

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	4 646 550	7 512 892	61 450 404	65 381 533	51 386 236	49 339 959
- up to 30 days	-	-	239 058	80 827	949 444	1 227 905
- between 30 days and 60 days	-	-	19 699	13 781	181 721	170 112
- above 60 days	-	-	83 299	78 993	172 817	187 622
Total gross carrying amount	4 646 550	7 512 892	61 792 460	65 555 134	52 690 218	50 925 598
IBNR PROVISION						
- not past due	(975)	(666)	(261 734)	(280 953)	(96 310)	(89 579)
- up to 30 days	-	-	(4 372)	(2 473)	(25 190)	(36 702)
- between 30 days and 60 days	-	-	(1 747)	(645)	(11 710)	(11 227)
- above 60 days	-	-	(1 364)	(668)	(6 824)	(8 657)
Total IBNR provision	(975)	(666)	(269 217)	(284 739)	(140 034)	(146 165)
Net carrying amount of exposure with no impairment	4 645 575	7 512 226	61 523 243	65 270 395	52 550 184	50 779 433

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

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS (*)	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
IMPAIRED EXPOSURES				
Gross carrying amount	17 604	19 727	7 748 015	7 658 822
Allowance for impairment	(17 604)	(19 727)	(5 324 715)	(5 199 999)
Total net carrying amount	-	-	2 423 300	2 458 823
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	-	-	25 439	14 868
<i>Exposure with collateral value included in expected discounted cash flow, in this:</i>	-	-	25 439	14 868
- <i>Past due exposures</i>	-	-	11 154	6 957
IBNR provision	-	-	(2 480)	(1 138)
Total net carrying amount	-	-	22 959	13 730
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	4 646 550	7 512 892	114 457 239	116 465 864
IBNR provision	(975)	(666)	(406 771)	(429 766)
Total net carrying amount	4 645 575	7 512 226	114 050 468	116 036 098

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

Notes to financial statements (cont.)

(in PLN thousand)

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

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (*)	
A+ to A-	2 252 388	21 980 456	3 338 628	952 766	28 524 238
no rating	62 347	941 662	-	-	1 004 009
Total	2 314 735	22 922 118	3 338 628	952 766	29 528 247

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

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

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

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

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

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

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

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	1	-	-	-	-	-	1
AA+ to AA-	90 359	-	-	830	-	-	91 189
A+ to A-	651 988	176 382	-	2 789	-	-	831 159
BBB+ to BBB-	474 483	-	-	895	-	-	475 378
BB+ to BB-	-	-	616	-	-	-	616
no rating	449 475	112 692	357 238	26 379	238 110	-	1 183 894
Total	1 666 306	289 074	357 854	30 893	238 110	-	2 582 237

Notes to financial statements (cont.)

(in PLN thousand)

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

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	90	-	-	-	-	-	90
AA+ to AA-	126 730	-	-	3 032	-	-	129 762
A+ to A-	1 044 437	272 974	-	64 698	-	749	1 382 858
BBB+ to BBB-	1 003 930	-	503	319 425	-	-	1 323 858
BB+ to BB-	-	-	1 454	-	-	-	1 454
no rating	511 324	52 725	239 950	29 798	3 938	-	837 735
Total	2 686 511	325 699	241 907	416 953	3 938	749	3 675 577

Forbearance measures

The identifying process of forbore exposures has not changed in relation to the one described in the unconsolidated financial statements of the Bank for the year ended 31 December 2015.

Share of forbore exposures in the Bank loan portfolio

	30.06.2016	31.12.2015
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	114 073 427	116 049 828
forbore exposures	309 224	369 929
Impaired exposures, of which:	2 423 300	2 458 823
forbore exposures	1 485 766	1 497 252
Total net carrying amount, of which:	116 496 727	118 508 651
forbore exposures	1 794 990	1 867 181

The quality analysis of forbore exposures

	30.06.2016	31.12.2015
Exposures with no impairment		
Gross carrying amount	318 307	383 764
IBNR provision	(9 083)	(13 835)
Net carrying amount	309 224	369 929
Impaired exposures		
Gross carrying amount, of which:	3 031 933	2 912 211
exposures individually impaired	2 747 011	2 702 996
exposures collectively impaired	284 922	209 215
Allowance for impairment, of which:	(1 546 167)	(1 414 959)
exposures individually impaired	(1 417 678)	(1 320 652)
exposures collectively impaired	(128 489)	(94 307)
Net carrying amount	1 485 766	1 497 252
Total net carrying amount	1 794 990	1 867 181

Notes to financial statements (cont.)

(in PLN thousand)

CHF loans to individuals

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

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

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

Structure of CHF loans to individuals

	30.06.2016	31.12.2015
Gross carrying amount, of which:	4 263 523	4 345 778
- denominated in CHF	534 766	545 898
- indexed to CHF	3 728 757	3 799 880
Impairment allowances, of which:	(81 107)	(76 261)
- denominated in CHF	(7 440)	(6 761)
- indexed to CHF	(73 667)	(69 500)
Net carrying amount, of which:	4 182 416	4 269 517
- denominated in CHF	527 326	539 137
- indexed to CHF	3 655 090	3 730 380

Notes to financial statements (cont.)

(in PLN thousand)

Quality of CHF loans to individuals

	30.06.2016	31.12.2015
Gross carrying amount of exposures with no impairment, of which:	4 109 695	4 207 082
- not past due	3 834 269	3 900 096
- up to 30 days	223 409	248 348
- between 30 days and 60 days	38 415	35 794
- above 60 days	13 602	22 844
IBNR provisions for exposures with no impairment, of which:	(10 382)	(12 045)
- not past due	(4 976)	(4 764)
- up to 30 days	(3 495)	(4 629)
- between 30 days and 60 days	(1 334)	(1 373)
- above 60 days	(577)	(1 279)
Gross carrying amount of impaired exposures, of which:	153 828	138 696
- not past due	24 436	21 714
- up to 1 month	9 851	7 802
- between 1 month and 3 months	11 839	9 211
- between 3 months and 1 year	21 741	21 791
- between 1 year and 5 years	54 366	49 798
- above 5 years	31 595	28 380
Allowances for impairment, of which:	(70 725)	(64 216)
- not past due	(4 550)	(4 149)
- up to 1 month	(1 725)	(1 432)
- between 1 month and 3 months	(2 211)	(1 764)
- between 3 months and 1 year	(5 737)	(6 013)
- between 1 year and 5 years	(30 813)	(27 878)
- above 5 years	(25 689)	(22 980)
Total net carrying amount	4 182 416	4 269 517

The average LTV for CHF loans to individuals granted by the Bank amounted as of 30 June 2016 to 56.1% (55.7% as of 31 December 2015), with an average LTV for the whole portfolio of 66.3% (66.6% as of 31 December 2015).

Notes to financial statements (cont.)

(in PLN thousand)

Credit exposures towards Ukraine

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

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

The below table presents the Bank exposure towards the Ukrainian entities

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

Market risk of the trading book

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

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

	30.06.2016	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	261	14	217	1 066
interest rate risk	1 053	804	1 092	1 504
Trading portfolio	1 185	877	1 150	1 683

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

Notes to financial statements (cont.)

(in PLN thousand)

Interest rate risk of the banking book

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

The following table presents contractual NII sensitivity to the change of interest rates by 100 basis points and the EVE sensitivity to the change of interest rates by 200 basis points as at 30 June 2016 and as at 31 December 2015

SENSITIVITY IN %	30.06.2016	31.12.2015
NII	(7.17)	(5.89)
EVE	0.33	(0.9)

Foreign currency exchange risk

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

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

CURRENCY	30.06.2016	31.12.2015
Currencies total (*)	555	1 546

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

Currency exposure of the Bank

30.06.2016	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	19 883 926	16 771 724	13 493 353	16 565 372	40 183
USD	5 241 499	8 120 179	6 432 842	3 567 396	(13 234)
CHF	4 293 594	633 785	5 372 402	9 037 252	(5 041)
GBP	285 002	788 749	635 476	131 829	(100)
Other currencies	316 490	190 388	159 074	281 931	3 245
TOTAL	30 020 511	26 504 825	26 093 147	29 583 780	25 053

31.12.2015	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	17 386 670	16 571 468	11 212 116	11 841 778	185 540
USD	6 282 902	8 284 937	7 084 286	5 116 062	(33 811)
CHF	4 395 108	625 085	3 873 514	7 646 006	(2 469)
GBP	317 523	708 101	622 872	232 423	(129)
Other currencies	311 714	178 039	257 018	387 372	3 321
TOTAL	28 693 917	26 367 630	23 049 806	25 223 641	152 452

Notes to financial statements (cont.)

(in PLN thousand)

Liquidity risk

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

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

Adjusted liquidity gap

30.06.2016	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	35 337 857	6 013 394	24 626 236	47 133 862	49 761 106	162 872 455
Balance sheet liabilities	15 516 642	8 132 652	15 578 708	18 833 988	104 810 465	162 872 455
Off-balance sheet assets/liabilities (net)	(6 093 361)	(464 657)	1 129 752	2 724 665	1 330 231	(1 373 370)
Periodic gap	13 727 854	(2 583 915)	10 177 280	31 024 539	(53 719 128)	(1 373 370)
Cumulated gap	-	11 143 939	21 321 219	52 345 758	(1 373 370)	-

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

Notes to financial statements (cont.)

(in PLN thousand)

Structure of financial liabilities by contractual maturity

30.06.2016	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 647 695	8 826	8 442	50 922	1 852 885	3 568 770
Amounts due to customers	95 178 698	14 131 873	17 805 088	468 761	43 556	127 627 976
Debt securities issued	198 455	302 411	252 845	89 873	-	843 584
Financial liabilities held for trading	-	-	301 219	360 633	124 181	786 033
Total	97 024 848	14 443 110	18 367 594	970 189	2 020 622	132 826 363
OFF-BALANCE SHEET COMMITMENTS (**)						
Financial liabilities granted	30 889 050	-	-	-	-	30 889 050
Guarantees issued	13 551 720	-	-	-	-	13 551 720
Total	44 440 770	-	-	-	-	44 440 770

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

(*) Including Central Bank.

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.06.2016	8 717	31 685	120 518	1 454 823	698 831	2 314 574
31.12.2015	70 648	104 854	151 484	2 007 423	885 750	3 220 159

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.06.2016						
Inflows	19 690 548	7 130 900	8 432 103	9 127 217	3 440 429	47 821 197
Outflows	19 753 549	7 131 904	8 550 687	9 930 189	3 841 443	49 207 772
31.12.2015						
Inflows	16 897 467	6 290 357	7 630 140	8 964 518	3 157 573	42 940 055
Outflows	16 902 790	6 249 486	7 698 215	9 738 223	3 477 001	44 065 715

Operational risk

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

Notes to financial statements (cont.)

(in PLN thousand)

Fair value of financial assets and liabilities

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

30.06.2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	23 257 150	4 312 573	376 926	27 946 649
Financial assets held for trading	2 250 843	3 344	60 548	2 314 735
Derivative financial instruments, including:	-	2 309 556	3 678	2 313 234
- Banks	-	1 663 852	2 454	1 666 306
- Customers	-	645 704	1 224	646 928
Hedging instruments, including:	-	269 003	-	269 003
- Banks	-	30 893	-	30 893
- Customers	-	238 110	-	238 110
Securities available for sale	21 006 307	1 730 670	312 700	23 049 677
Liabilities:	740 264	4 215 987	-	4 956 251
Financial liabilities held for trading	740 264	45 769	-	786 033
Derivative financial instruments, including:	-	2 282 112	-	2 282 112
- Banks	-	1 742 816	-	1 742 816
- Customers	-	539 296	-	539 296
Hedging instruments, including:	-	1 888 106	-	1 888 106
- Banks	-	1 888 106	-	1 888 106
- Customers	-	-	-	-

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

Notes to financial statements (cont.)

(in PLN thousand)

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

I HALF 2016	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
Opening balance	47 389	943	432 447
Increases, including:	6 743 492	3 678	60 007
Reclassification	-	-	-
Derivatives transactions made in 2016	-	2 829	-
Acquisition	6 742 779	-	56 190
Settlement	-	-	-
Gains on financial instruments	713	849	3 817
recognized in the income statement	713	849	3 817
Decreases, including:	(6 730 333)	(943)	(179 754)
Reclassification	-	(943)	-
Settlement/redemption	(88 182)	-	(177 922)
Sale	(6 642 138)	-	-
Losses on financial instruments	(13)	-	(1 832)
recognized in the income statement	(13)	-	-
recognized in revaluation reserves	-	-	(1 832)
Closing balance	60 548	3 678	312 700
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	25	849	(319)
Income statement:	25	849	246
net interest income	23	-	246
result on financial assets and liabilities held for trading	2	849	-
Other comprehensive income	-	-	(565)

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

Notes to financial statements (cont.)

(in PLN thousand)

Transfers from Level 1 to 2 are based on availability of active market quotations as at the end of the reporting period.

Transfers from Level 2 to 3 takes place if observable valuation parameter is changed to an unobservable one or if a new unobservable parameter is applied, provided the change results in significant impact on the valuation of instrument.

Transfer from Level 3 to Level 2 takes place if unobservable valuation parameter is changed to an observable one, or the impact of unobservable parameter becomes insignificant. The transfers between levels take place on the date and at the end of the reporting period.

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

In the case of loans for which no quoted market values are available, the fair values presented are generally estimated using valuation techniques taking into consideration the assumption, that at the moment the loan is granted its fair value is equal to its carrying amount. Fair value of non-impaired loans is equal to the sum of future expected cash flows, discounted at the balance sheet date. The discount rate is defined as the appropriate market risk-free rate plus the credit risk margin and current sales margin for the given loan products group. The margin is computed on loans granted during last three months broken down by loan product groups and maturity. For the purpose of the fair value of foreign currency loans estimation, the margin on PLN loans adjusted by the cross-currency basis swap quotes is used. The fair value of impaired loans is defined as equal to the sum of expected recoveries, discounted with the use of effective interest rate, since the average expected recovery values take the element of credit risk fully into consideration. In case of loans without repayment schedule (loans in current account, overdrafts and credit cards), the fair value was assumed as equal to the carrying amount.

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

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

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

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

Notes to the financial statements (cont.)

(in PLN thousand)

30.06.2016	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	5 865 162	5 865 162	2 720 151	3 145 011	-
Loans and advance to banks	4 645 575	4 643 058	-	1 684 260	2 958 798
Loans and advances to customers (*)	116 496 727	114 880 782	-	5 952 323	108 928 459
Debt securities held to maturity	3 338 628	3 341 830	3 341 830	-	-
Total Assets	130 346 092	128 730 832	6 061 981	10 781 594	111 887 257
Liabilities					
Amounts due to Central Bank	6 038	6 095	-	-	6 095
Amounts due to other banks	3 520 358	3 543 448	-	325 911	3 217 537
Amounts due to customers	127 197 787	127 578 896	-	704 100	126 874 796
Debt securities issued	838 758	837 955	-	837 955	-
Total Liabilities	131 562 941	131 966 394	-	1 867 966	130 098 428

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

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

Notes to financial statements (cont.)

(in PLN thousand)

7. Interest income and expense

Interest income

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Loans and other receivables from customers	1 054 819	2 117 128	1 022 345	2 111 745
Interbank placements	17 409	42 928	26 332	55 981
Reverse repo transactions	12 619	26 889	16 036	37 326
Investment securities	181 377	358 645	175 840	344 436
Hedging derivatives	36 254	71 772	41 675	88 221
Financial assets held for trading	1 801	3 861	3 892	5 490
Total	1 304 279	2 621 223	1 286 120	2 643 199

Interest expense

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Deposits from customers	(225 894)	(479 665)	(263 973)	(567 221)
Interbank deposits	(6 757)	(10 643)	(4 942)	(9 328)
Repo transactions	(11 284)	(20 986)	(11 946)	(28 133)
Loans and advances received	(2 889)	(6 174)	(3 476)	(7 714)
Debt securities	(3 825)	(10 292)	(17 371)	(35 172)
Total	(250 649)	(527 760)	(301 708)	(647 568)

8. Fee and commission income and expense

Fee and commission income

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Accounts maintenance, payment orders and cash transactions	164 369	318 589	165 001	327 124
Payment cards	148 691	289 110	181 515	342 971
Loans and advances	120 892	222 812	103 631	208 717
Investment products sales intermediation	42 619	87 458	55 454	111 493
Securities operations	2 714	7 694	2 520	6 736
Custody activity	15 932	31 343	17 893	31 606
Guarantees, letters of credit and similar transactions	15 256	29 942	12 916	25 193
Other	6 684	14 536	7 304	20 715
Total	517 157	1 001 484	546 234	1 074 555

Fee and commission expense

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Payment cards	(52 664)	(109 944)	(82 119)	(168 447)
Money orders and transfers	(5 094)	(10 226)	(5 952)	(11 350)
Securities and derivatives operations	(5 006)	(8 422)	(3 956)	(7 758)
Custody activity	(3 432)	(7 736)	(4 227)	(6 987)
Acquisition services	(9 545)	(14 643)	(3 896)	(7 968)
Accounts maintenance	(1 262)	(2 267)	(980)	(1 648)
Other	(342)	(423)	(260)	(580)
Total	(77 345)	(153 661)	(101 390)	(204 738)

Notes to financial statements (cont.)

(in PLN thousand)

9. Dividend income

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Subsidiaries	-	64 816	-	139 119
Associates	51 342	51 342	58 429	58 429
Other entities	16 394	16 394	13 061	13 061
Total	67 736	132 552	71 490	210 609

10. Result on financial assets and liabilities held for trading

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Foreign currency exchange result	111 057	208 545	75 041	174 391
Gains (losses) on derivatives	7 752	15 692	19 198	20 032
Gains (losses) on securities	3 906	13 490	(2 926)	480
Total	122 715	237 727	91 313	194 903

11. Gains (losses) on disposal

Realized gains

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Loans and other financial receivables (*)	5 796	155 720	58	402
Available for sale financial assets – debt instruments	4 934	5 527	2 130	154 756
Available for sale financial assets – equity instruments (**)	262 827	262 827	-	-
Debt securities issued	-	-	-	1
Total	273 557	424 074	2 188	155 159

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

(**) In June 2016 the Bank has received information about the closing of the acquisition of Visa Europe Limited by Visa Inc. The details of the transactions are presented in the Note 27.

Realized losses

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Available for sale financial assets – debt instruments	(55)	(183)	(41)	(41)
Debt securities issued	(4)	(8)	(128)	(155)
Total	(59)	(191)	(169)	(196)

Net realized profit	273 498	423 883	2 019	154 963
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Notes to financial statements (cont.)

(in PLN thousand)

12. Administrative expenses

Personnel expenses

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Wages and salaries	(356 199)	(709 994)	(362 149)	(718 470)
Insurance and other charges related to employees	(65 419)	(129 836)	(66 575)	(131 564)
Share-based payments expenses	(3 719)	(6 458)	(3 976)	(7 124)
Total	(425 337)	(846 288)	(432 700)	(857 158)

Other administrative expenses

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
General expenses	(236 277)	(471 211)	(231 981)	(456 376)
Taxes and charges	(8 972)	(19 019)	(7 823)	(18 241)
Bank Guarantee Fund fee	(63 996)	(130 307)	(68 283)	(136 566)
Financial supervision authority fee (KNF)	(8 247)	(16 974)	(8 475)	(17 131)
Tax on certain financial institutions (*)	(120 204)	(200 844)	-	-
Total	(437 696)	(838 355)	(316 562)	(628 314)

Net realized profit	(863 033)	(1 684 643)	(749 262)	(1 485 472)
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(*) On 1 February 2016 tax on certain financial institutions was introduced under the Act on tax on certain financial institutions.

13. Depreciation and amortization

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Property, plant and equipment	(39 672)	(80 282)	(42 618)	(85 778)
Investment property	(127)	(272)	(264)	(529)
Intangible assets	(41 566)	(82 158)	(35 250)	(68 566)
Total	(81 365)	(162 712)	(78 132)	(154 873)

Notes to financial statements (cont.)

(in PLN thousand)

14. Net other operating income and expenses

Other operating income

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Rental income	5 813	11 471	5 403	12 241
Miscellaneous income	2 630	4 837	5 139	9 029
Recovery of debt collection costs	3 101	6 425	3 954	7 821
Excess payments, repayments	380	1 208	2 012	2 704
Compensation, penalty fees and fines received (including received compensations from damages in relation to fixed assets)	1 761	2 208	113 236	113 616
Refunding of administrative expenses	1 091	2 188	981	2 516
Income from written off liabilities	153	162	76	274
Releases of impairment allowances for litigation and other assets	86	148	60	226
Credit insurance income	5	5	12	215
Other	879	1 336	1 292	1 850
Total	15 899	29 988	132 165	150 492

Other operating expenses

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Credit insurance expenses	(2 891)	(5 687)	(2 268)	(4 304)
Reimbursement and deficiencies	(1 029)	(1 611)	(1 073)	(2 546)
Sundry expenses	(1 799)	(3 566)	(4 023)	(5 828)
Customers complaints expenses	(401)	(1 120)	(690)	(1 236)
Impairment allowance for litigations and other assets	(1 380)	(1 423)	(2 298)	(6 243)
Costs of litigation and claims	(322)	(700)	(858)	(1 322)
Compensation, penalty fees and fines paid	(53)	(122)	(47)	(77)
Other	(3 947)	(6 555)	(2 787)	(5 132)
Total	(11 822)	(20 784)	(14 044)	(26 688)
Net other operating income and expenses	4 077	9 204	118 121	123 804

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 260 330 thousand and proceeds from recovered bad debt in the amount of PLN 7 782 thousand, the total is PLN minus 252 548 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

I HALF 2015	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT (**)
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks measured at amortized cost	19 518	848	979	-	(192)	(651)	20 502	(656)
Loans and advances to customers measured at amortized cost	5 531 256	776 426	69 978	(72 908)	(540 434)	(44 091)	5 720 227	(235 992)
Financial assets available for sale	100	-	-	-	-	-	100	-
Off-balance sheet commitments	105 147	72 153	683	-	(40 217)	-	137 766	(31 936)
Total financial assets and off-balance sheet commitments	5 656 021	849 427	71 640	(72 908)	(580 843)	(44 742)	5 878 595	(268 584)
Impairment of other assets								
Investments in subsidiaries and associates	51 476	-	-	-	-	(1 571)	49 905	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	6 591	417	1 569	(77)	-	(3)	8 497	(417)
Investment properties	2 530	-	-	-	-	-	2 530	-
Other	70 451	6 243	-	(99)	(226)	(1 734)	74 635	(6 017)
Total impairment of other assets	142 009	6 660	1 569	(176)	(226)	(3 308)	146 528	(6 434)
Total	5 798 030	856 087	73 209	(73 084)	(581 069)	(48 050)	6 025 123	(275 018)

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

(**) 'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 268 584 thousand and proceeds from recovered bad debt in the amount of PLN 4 415 thousand, totaling PLN minus 264 169 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

16. Gains (losses) on subsidiaries and associates

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Gains on liquidation of subsidiaries	-	-	-	2 390
Impairment allowances for equity investments	-	-	-	-
Total gains (losses) from subsidiaries and associates	-	-	-	2 390

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

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	-	464	-	-
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	328	1 289	55	579
Total gains (losses) on disposal of property, plant and equipment, and intangible assets	328	1 753	55	579

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

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
INCOME STATEMENT				
Current tax	(255 415)	(378 666)	(126 578)	(309 048)
Current tax charge in the income statement	(255 204)	(377 698)	(125 551)	(322 283)
Adjustments related to the current tax from previous years	-	(288)	-	14 993
Other taxes (e.g. withholding tax, income tax relating to foreign branches)	(211)	(680)	(1 027)	(1 758)
Deferred tax	70 024	44 417	(7 981)	30 922
Occurrence and reversal of temporary differences	70 024	44 417	(7 981)	30 922
Tax charge in income statement	(185 391)	(334 249)	(134 559)	(278 126)
EQUITY				
Deferred tax	60 660	47 570	93 945	120 924
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	1 194	(6 421)	10 006	20 688
revaluation of available for sale financial assets – debt securities	23 087	16 060	86 784	103 127
revaluation of available for sale financial assets – equity securities	36 379	37 931	(2 845)	(2 891)
Tax charge in other comprehensive income	60 660	47 570	93 945	120 924
Total charge	(124 731)	(286 679)	(40 614)	(157 202)

Notes to financial statements (cont.)

(in PLN thousand)

19. Earnings per share

Basic earnings per share

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

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Net profit for the period	700 921	1 303 902	625 322	1 348 775
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	2.67	4.97	2.38	5.14

Diluted earnings per share

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

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

	II QUARTER 2016	I HALF 2016	II QUARTER 2015	I HALF 2015
Net profit for the period	700 921	1 303 902	625 322	1 348 775
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	2.67	4.97	2.38	5.14

20. Dividend payment

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

On 16 June 2016 the Ordinary General Meeting of Bank Pekao S.A. made the resolution regarding the dividend payment for year 2015. The dividend to the shareholders contributed an amount of PLN 2 283 489 295.80, wherein the amount of the dividend per one share was PLN 8.70. The dividend's day was fixed for 22 June 2016.

The payment of the dividend was on 6 July 2016.

Notes to financial statements (cont.)

(in PLN thousand)

21. Cash and balances with Central Bank

Cash and due from Central Bank	30.06.2016	31.12.2015	30.06.2015
Cash	2 720 151	2 951 405	2 704 309
Current account at Central Bank	3 144 999	4 930 181	3 977 446
Other	12	12	12
Total	5 865 162	7 881 598	6 681 767

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

Cash and balances with Central Bank by currency

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

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

30.06.2015	ASSETS	LIABILITIES
PLN	5 634 764	906
EUR	479 201	-
USD	276 652	-
CHF	56 808	-
Other currencies	234 342	-
Total	6 681 767	906

Notes to financial statements (cont.)

(in PLN thousand)

22. Loans and advances to banks

Loans and advances to banks by product type

	30.06.2016	31.12.2015	30.06.2015
Current accounts	160 422	89 548	229 100
Interbank placements	658 366	3 461 543	2 371 833
Loans and advances	272 463	198 453	388 730
Cash collaterals	2 289 319	1 675 589	1 904 842
Reverse repo transactions	805 709	1 757 063	369 407
Debt securities	60 732	58 509	-
Cash in transit	417 143	291 914	112 786
Total gross amount	4 664 154	7 532 619	5 376 698
Impairment allowances	(18 579)	(20 393)	(20 502)
Total net amount	4 645 575	7 512 226	5 356 196

Loans and advances to banks by quality

	30.06.2016	31.12.2015	30.06.2015
Loans and advances to banks, including:			
non impaired (gross)	4 646 550	7 512 892	5 357 237
impaired (gross)	17 604	19 727	19 461
individual impairment allowances	(7 804)	(9 927)	(9 661)
collective impairment allowances (*)	(10 775)	(10 466)	(10 841)
Total	4 645 575	7 512 226	5 356 196

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

Loans and advances to banks by contractual maturities

	30.06.2016	31.12.2015	30.06.2015
Loans and advances to banks, including:			
up to 1 month	4 362 075	6 939 449	4 753 722
between 1 and 3 months	1 760	47 126	183 043
between 3 months and 1 year	127 818	54 559	15 164
between 1 and 5 years	84 171	402 657	393 734
over 5 years	60 631	58 510	-
past due	27 699	30 318	31 035
Total gross amount	4 664 154	7 532 619	5 376 698
Impairment allowances	(18 579)	(20 393)	(20 502)
Total net amount	4 645 575	7 512 226	5 356 196

Loans and advances to banks by currency

	30.06.2016	31.12.2015	30.06.2015
PLN	919 713	2 808 485	1 266 301
CHF	11 085	30 586	30 341
EUR	2 979 192	2 106 776	2 638 834
USD	503 654	2 214 880	1 290 837
Other currencies	231 931	351 499	129 883
Total	4 645 575	7 512 226	5 356 196

Changes in impairment balances in the first half of 2016 and in the first half of 2015 are presented in the Note 15.

Notes to financial statements (cont.)

(in PLN thousand)

23. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.06.2016	31.12.2015	30.06.2015
FINANCIAL ASSETS			
Debt securities	2 314 735	1 116 993	1 272 931
Total financial assets	2 314 735	1 116 993	1 272 931
FINANCIAL LIABILITIES			
Debt securities	786 033	611 442	80 870
Total financial liabilities	786 033	611 442	80 870

Debt securities held for trading

	30.06.2016	31.12.2015	30.06.2015
FINANCIAL ASSETS			
Debt securities issued by State Treasury	2 252 388	1 003 007	962 524
T- bills	-	-	-
T- bonds	2 252 388	1 003 007	962 524
Debt securities issued by banks	-	37 866	146 756
Debt securities issued by business entities	62 347	76 120	163 651
Total financial assets	2 314 735	1 116 993	1 272 931
FINANCIAL LIABILITIES			
Debt securities issued by State Treasury	786 033	611 442	80 870
T- bonds	786 033	611 442	80 870
Total financial liabilities	786 033	611 442	80 870

Debt securities held for trading by maturity

	30.06.2016	31.12.2015	30.06.2015
FINANCIAL ASSETS			
Debt securities, including:			
up to 1 month	1 415 803	39 222	173 743
between 1 and 3 months	1 689	23 294	8 006
between 3 months and 1 year	303 169	358 296	394 396
between 1 and 5 years	511 380	163 738	633 732
over 5 years	82 694	532 443	63 054
unspecified term	-	-	-
Total financial assets	2 314 735	1 116 993	1 272 931
FINANCIAL LIABILITIES			
Debt securities, including:			
up to 1 month	-	-	-
between 1 and 3 months	-	-	-
between 3 months and 1 year	301 219	170 729	-
between 1 and 5 years	360 633	382 663	27 684
over 5 years	124 181	58 050	53 186
Total financial liabilities	786 033	611 442	80 870

Notes to financial statements (cont.)

(in PLN thousand)

Debt securities held for trading by currency

	30.06.2016	31.12.2015	30.06.2015
FINANCIAL ASSETS			
PLN	2 301 992	1 102 805	1 206 973
EUR	6 578	10 072	61 071
USD	6 165	4 116	4 887
Total financial assets	2 314 735	1 116 993	1 272 931
FINANCIAL LIABILITIES			
PLN	786 033	611 442	80 870
Total financial liabilities	786 033	611 442	80 870

24. Derivative financial instruments (held for trading)

Fair value of trading derivatives

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

Notes to financial statements (cont.)

(in PLN thousand)

Fair value of trading derivatives

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

30.06.2015	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2 636 043	2 670 915
Forward Rate Agreements (FRA)	1 947	2 734
Options	18 484	18 153
Other	364	264
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	60 416	80 954
Currency Forward Agreements	136 015	83 164
Currency Swaps (FX-Swap)	183 726	94 485
Options for currency and gold	65 050	66 833
Transactions based on equity securities and stock indexes		
Options	8 250	8 267
Other	-	-
Transactions based on commodities and precious metals		
Options	4 415	4 457
Other	181 617	180 175
Total	3 296 327	3 210 401

Notes to financial statements (cont.)

(in PLN thousand)

25. Loans and advances to customers

Loans and advances to customers by product type

	30.06.2016	31.12.2015	30.06.2015
Mortgage loans	51 019 903	47 698 032	42 710 668
Current accounts	11 902 811	11 532 665	12 239 976
Operating loans	16 864 576	17 772 040	16 445 781
Investment loans	16 193 253	17 257 694	20 073 712
Cash loans	9 564 872	9 087 671	8 180 390
Payment cards receivables	920 697	873 309	812 473
Factoring	1 662 853	1 480 236	1 352 436
Other loans and advances	1 204 794	1 255 462	1 609 610
Debt securities	12 662 814	12 376 949	11 219 590
Reverse repo transactions	149 037	4 755 472	8 279 989
Cash in transit	85 083	49 954	65 267
Total gross amount	122 230 693	124 139 484	122 989 892
Impairment allowances	(5 733 966)	(5 630 902)	(5 720 227)
Total net amount	116 496 727	118 508 582	117 269 665

Loans and advances to customers by customer type

	30.06.2016	31.12.2015	30.06.2015
Corporate	56 354 453	59 414 019	60 456 994
Individuals	55 013 426	53 197 025	50 834 980
Budget entities	10 862 814	11 528 440	11 697 918
Total gross amount	122 230 693	124 139 484	122 989 892
Impairment allowances	(5 733 966)	(5 630 902)	(5 720 227)
Total net amount	116 496 727	118 508 582	117 269 665

Loans and advances to customers by quality

	30.06.2016	31.12.2015	30.06.2015
Loans and advances to customers, including:			
non impaired (gross)	114 482 678	116 480 662	114 954 139
impaired (gross)	7 748 015	7 658 822	8 035 753
individual impairment allowances	(3 295 009)	(3 190 622)	(3 089 385)
collective impairment allowances (*)	(2 438 957)	(2 440 280)	(2 630 842)
Total	116 496 727	118 508 582	117 269 665

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

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by contractual maturity

	30.06.2016	31.12.2015	30.06.2015
Loans and advances to customers, including:			
up to 1 month	15 456 472	19 860 297	23 561 782
between 1 and 3 months	3 081 358	3 869 508	2 345 154
between 3 months and 1 year	12 667 175	12 387 849	11 714 360
between 1 and 5 years	37 935 099	36 801 802	36 384 296
over 5 years	46 977 764	45 400 514	42 752 134
past due	6 112 825	5 819 514	6 232 166
Total gross amount	122 230 693	124 139 484	122 989 892
Impairment allowances	(5 733 966)	(5 630 902)	(5 720 227)
Total net amount	116 496 727	118 508 582	117 269 665

Loans and advances to customers by currency

	30.06.2016	31.12.2015	30.06.2015
PLN	96 015 437	99 449 351	98 605 053
CHF	4 209 177	4 299 881	4 621 133
EUR	12 978 668	11 463 681	10 778 925
USD	3 128 728	3 193 248	3 189 522
Other currencies	164 717	102 421	75 032
Total	116 496 727	118 508 582	117 269 665

Changes in impairment allowances in the first half of 2016 and in the first half of 2015 are presented in the Note 15.

Notes to financial statements (cont.)

(in PLN thousand)

26. Hedge accounting

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

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

- fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swap (IRS) transactions – described in point 1 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions – described in point 2 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions – described in point 3 of the table with details of hedging relationships,
- cash flow hedge accounting for variable portfolio of loans in EUR and USD hedged with FX-Swap instruments – described in point 4 of the table with details of hedging relationships,
- fair value hedge accounting for fixed coupon debt securities classified as loans and receivables hedged with interest rate swaps (IRS) – described in point 5 of the table with details of hedging relationships.

In the period from 1 January to 30 June 2016 the Bank designated to the hedge accounting the hedging relationship and terminated the relationship – cash flow hedge accounting for highly probable cash flow denominated in EUR (long position in EUR for the Bank) hedged with foreign exchange forward transactions (a series of FX-Spot and FX-Swap transactions) - described in point 6 of the table with details of hedging relationships. Termination of the relationship resulted from settlement of transactions included in the hedging relationship. Last cash flows from hedged items occurred on 27 June 2016.

The table below presents the fair value of hedging derivatives

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

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

Notes to financial statements (cont.)

(in PLN thousand)

The table below presents the fair value of hedging derivatives

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

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

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

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

	I HALF 2016	I HALF 2015
Opening balance	45 281	138 622
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	33 854	(108 875)
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from the revaluation reserves and presented in net profit or loss	(59)	(7)
Closing balance	79 076	29 740

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Notes to financial statements (cont.)

(in PLN thousand)

DESCRIPTION OF THE HEDGING RELATIONSHIP	HEDGED ITEM	HEDGING DERIVATIVES	FINANCIAL STATEMENTS PRESENTATION	PERIOD IN WHICH THE CASH FLOWS RELATED TO THE HEDGED ITEMS ARE EXPECTED TO OCCUR
4. Cash flow hedge of floating-rate currency assets hedged with FX-Swap transactions against the exchange and interest rate risk				
The Bank hedges volatility of cash flows constituting floating-rate financial assets (loans in EUR and USD) with FX-Swap transactions. The currency and interest rate risk is hedged.	Loans with variable interest rate risk, denominated in EUR and USD constitute hedged items.	FX-Swap transaction portfolio constitutes the hedging position.	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. Settled part of the swap points on the hedging instrument is transferred from the revaluation reserve in equity and recognized in interest income. Currency revaluation regarding the first capital exchange on the hedging instrument is transferred from the revaluation reserve in equity and recognized in the foreign currency exchange result.	It is expected that the cash flows related to the hedged items will occur until 27 February 2017.
5. Fair value hedge of fixed-coupon debt securities				
The Bank hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as loans and receivables, denominated in PLN.	The hedging derivatives consist of IRS transactions in PLN (short position in fixed-rate) for which the Bank receives floating-rate payments, and pays fixed-rate.	The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on bonds is presented in the net interest income. Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 6 October 2022.
6. Cash flow hedge of expected future inflows in foreign currency – relationship completed				
The Bank hedged the volatility of cash flows denominated in EUR constituting the projected inflows from expected sales with the designated FX-Forward transactions. The currency risk was being hedged. Discontinuation of the hedge accounting resulted from settlement of transactions included in the hedging relationship.	Projected inflows dependent on EUR and Polish zloty exchange rates were the hedged item.	The hedging derivatives consisted of a portfolio of FX-Forward transactions (FX-Spot and series of FX-Swap), in which the Bank sold EUR currency in exchange for PLN currency on 27 June 2016 at an agreed exchange rate.	The amount of the settlement of hedging transactions adjusted the settlement of the - hedged item.	

Notes to financial statements (cont.)

(in PLN thousand)

27. Investment (placement) securities

	30.06.2016	31.12.2015	30.06.2015
Debt securities available for sale (AFS)	22 922 118	17 428 943	23 860 462
Equity securities available for sale (AFS)	127 559	270 938	78 404
Debt securities held to maturity (HTM)	3 338 628	3 290 061	3 277 162
Total	26 388 305	20 989 942	27 216 028

Debt securities available for sale (AFS)

	30.06.2016	31.12.2015	30.06.2015
Securities issued by State Treasury	21 980 456	15 865 408	18 004 659
T-bills	556 985	-	-
T-bonds	21 423 471	15 865 408	18 004 659
Securities issued by Central Banks	-	628 454	4 936 945
Securities issued by business entities	250 780	251 367	249 041
Securities issued by local governments	690 882	683 714	669 817
Total	22 922 118	17 428 943	23 860 462
including impairment allowances	-	-	-

Equity securities available for sale (AFS)

	30.06.2016	31.12.2015	30.06.2015
Shares	127 559	270 938	78 404
Total	127 559	270 938	78 404
including impairment allowances	-	(100)	(100)

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Debt securities held to maturity (HTM)

	30.06.2016	31.12.2015	30.06.2015
Securities issued by State Treasury	3 338 628	2 418 961	2 414 821
T- bills	240 228	-	-
T- bonds	3 098 400	2 418 961	2 414 821
Securities issued by Central Banks	-	871 100	862 341
Total	3 338 628	3 290 061	3 277 162
including impairment allowances	-	-	-

Investment debt securities according to contractual maturities

	30.06.2016	31.12.2015	30.06.2015
Debt securities, including:			
up to 1 month	-	1 499 554	5 840 384
between 1 and 3 months	1 250 223	443 644	-
between 3 months and 1 year	6 845 164	2 657 047	980 031
between 1 and 5 years	9 808 852	10 523 426	13 996 091
over 5 years	8 356 507	5 595 333	6 321 118
Total	26 260 746	20 719 004	27 137 624

Investment debt securities by currencies

	30.06.2016	31.12.2015	30.06.2015
PLN	22 484 491	17 668 064	23 515 786
EUR	2 775 970	2 635 034	2 036 095
USD	1 000 285	415 906	1 585 743
Total	26 260 746	20 719 004	27 137 624

28. Assets and liabilities held for sale

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

As at 30 June 2016 non-current assets classified as held for sale are as follows:

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

Assets held for sale are presented below:

	30.06.2016	31.12.2015	30.06.2015
ASSETS HELD FOR SALE			
Investments in associates	-	-	1 563
Property, plant and equipment	25 597	22 787	9 464
Other assets	22 515	22 515	22 515
Total assets	48 112	45 302	33 542

The effect of disposal of other assets is as follows:

	I HALF 2016	2015	I HALF 2015
Sales proceeds	1 478	-	-
Net carrying value of disposed assets (including sale costs)	(1 014)	-	-
Gain/loss on sale before income tax	464	-	-

Notes to financial statements (cont.)

(in PLN thousand)

29. Intangible assets

	30.06.2016	31.12.2015	30.06.2015
Intangible assets, including:	522 886	558 985	565 528
research and development expenditures	5 483	7 948	9 795
licenses and patents	418 028	430 519	422 933
other	9 357	11 183	10 153
assets under construction	90 018	109 335	122 647
Goodwill	52 635	52 635	52 635
Total	575 521	611 620	618 163

In the period from 1 January to 30 June 2016, the Bank acquired intangible assets in the amount of PLN 44 418 thousand (in 2015 – PLN 151 554 thousand).

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

Contractual commitments

As at 30 June 2016 the contractual commitments for the acquisition of intangible assets amounted to PLN 45 392 thousand, whereas as at 31 December 2015 - PLN 47 881 thousand.

30. Property, plant and equipment

	30.06.2016	31.12.2015	30.06.2015
Non-current assets, including:	1 301 677	1 360 433	1 415 029
land and buildings	1 028 756	1 058 395	1 091 668
machinery and equipment	211 549	234 058	246 655
transport vehicles	24 170	27 974	33 553
other	37 202	40 006	43 153
Non-current assets under construction and prepayments	89 353	83 324	49 430
Total	1 391 030	1 443 757	1 464 459

In the period from 1 January to 30 June 2016 the Bank acquired property, plant and equipment in the amount of PLN 29 698 thousand (in 2015 - PLN 126 665 thousand), while the value of property, plant and equipment sold amounted to PLN 238 thousand (in 2015 - PLN 4 688 thousand).

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

Contractual commitments

As at 30 June 2016 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 21 994 thousand, whereas as at 31 December 2015 - PLN 56 883 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

31. Assets pledged as security for liabilities

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

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

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

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	3 394 183	3 152 162	3 388 421
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	703 616	680 000	-
Lombard and technical loan	bonds	4 750 392	4 504 675	-
Other loans	bonds	490 285	481 200	328 076
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposit	10 785	10 785	-
Derivatives	bonds	45 708	47 163	24 771

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

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS USED TO PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Repo transaction	bonds	4 564 495	4 368 602	4 567 492
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	684 544	640 000	-
Lombard and technical loan	bonds	3 181 429	3 107 844	-
Other loans	bonds	334 282	325 000	198 062
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposits	11 961	11 961	-
Derivatives	bonds	23 771	25 561	358

Notes to financial statements (cont.)

(in PLN thousand)

32. Amounts due to other banks

Amounts due to other banks by product type

	30.06.2016	31.12.2015	30.06.2015
Current accounts	1 088 449	1 146 012	796 970
Interbank deposits and other liabilities	190 142	582 302	2 769 586
Loans and advances received	1 860 178	1 832 841	1 505 096
Repo transactions	292 106	963 829	1 892 802
Cash in transit	89 483	28 130	623 965
Total	3 520 358	4 553 114	7 588 419

Amounts due to other banks by currencies

	30.06.2016	31.12.2015	30.06.2015
PLN	1 432 605	1 326 700	5 424 974
CHF	372 296	390 085	407 055
EUR	1 589 614	2 776 065	1 375 015
USD	97 693	50 428	318 567
Other currencies	28 150	9 836	62 808
Total	3 520 358	4 553 114	7 588 419

33. Amounts due to customers

Amounts due to customers by entity and product type

	30.06.2016	31.12.2015	30.06.2015
Amounts due to corporate, including:	52 379 357	56 164 560	55 281 844
current accounts	30 723 412	29 768 565	23 560 466
term deposits and other liabilities	21 655 945	26 395 995	31 721 378
Amounts due to budget entities, including:	6 768 994	5 610 567	7 075 476
current accounts	4 630 827	4 689 396	4 875 292
term deposits and other liabilities	2 138 167	921 171	2 200 184
Amounts due to individuals, including:	66 708 649	62 844 706	57 616 612
current accounts	37 259 412	33 424 045	31 920 479
term deposits and other liabilities	29 449 237	29 420 661	25 696 133
Repo transactions	704 099	4 468 820	5 244 523
Cash in transit	636 688	168 213	260 867
Total	127 197 787	129 256 866	125 479 322

Amounts due to customers by currency

	30.06.2016	31.12.2015	30.06.2015
PLN	103 986 632	107 007 345	105 266 136
CHF	260 550	233 377	230 324
EUR	14 323 524	13 149 514	12 153 102
USD	7 701 503	8 010 307	7 051 009
Other currencies	925 578	856 323	778 751
Total	127 197 787	129 256 866	125 479 322

Notes to financial statements (cont.)

(in PLN thousand)

34. Debt securities issued

Debt securities issued by type

	30.06.2016	31.12.2015	30.06.2015
Certificates of deposit	838 758	1 668 706	2 824 108
Mortgage bonds	-	-	-
Total	838 758	1 668 706	2 824 108

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

Debt securities issued by currencies

	30.06.2016	31.12.2015	30.06.2015
PLN	838 758	1 668 706	2 824 108
EUR	-	-	-
USD	-	-	-
Total	838 758	1 668 706	2 824 108

Changes in debt securities issued

	I HALF 2016	2015	I HALF 2015
Opening balance	1 668 706	2 819 713	2 819 713
Increase (issuance)	1 079 733	3 858 026	2 300 704
Decrease (redemption)	(1 893 422)	(4 999 636)	(2 294 040)
Decrease (partial redemption)	(579)	(7 903)	(2 269)
Foreign currency exchange differences	-	-	-
Purchase	-	-	-
Sale	-	-	-
Other	(15 680)	(1 494)	-
Closing balance	838 758	1 668 706	2 824 108

Notes to financial statements (cont.)

(in PLN thousand)

35. Provisions

Changes in provisions in the reporting period

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

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

I HALF 2015	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	32 975	265 367	105 147	33 463	436 952
Provision charges/revaluation	26 581	12 722	72 153	6 963	118 419
Provision utilization	(25 681)	(6 493)	-	(14 597)	(46 771)
Provision releases	(59)	-	(40 217)	-	(40 276)
Foreign currency exchange differences	-	-	683	(14)	669
Other changes	-	-	-	-	-
Closing balance	33 816	271 596	137 766	25 815	468 993
Short term	3 143	10 288	46 906	383	60 720
Long term	30 673	261 308	90 860	25 432	408 273

Notes to financial statements (cont.)

(in PLN thousand)

Provisions for litigation and claims

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

Provisions for defined benefits plans

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

Other provisions

Other provisions include in particular provisions for other employee benefits.

36. Contingent commitments

Litigation

In the first half of 2016 the total value of the litigation subject in the ongoing court proceedings against the Bank was PLN 1 029 599 thousand (in the first half of 2015 it was PLN 1 116 916 thousand).

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

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

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

- proceedings instigated in the first quarter of 2014 as a result of the plaintiff brought by guarantee beneficiaries for the payment of PLN 32 750 thousand as the bank guarantee drawing,
- proceedings instigated in the second quarter of 2014 as a result of the plaintiff brought by a guarantee beneficiary for the payment of PLN 55 996 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2015 as a result of the plaintiff brought by guarantee beneficiary for the payment of PLN 29 205 thousand as the bank guarantee drawing.

As at 30 June 2016, the Bank created provisions for litigations against the Bank which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the above provisions as at 30 June 2016 is PLN 6 599 thousand (PLN 7 870 thousand as at 31 December 2015).

Notes to financial statements (cont.)

(in PLN thousand)

Financial commitments granted

Financial commitments granted by entity

	30.06.2016	31.12.2015	30.06.2015
Financial commitments granted to:			
financial entities	1 995 649	1 347 078	1 915 754
non - financial entities	28 113 834	28 475 315	25 000 459
budget entities	779 567	848 356	1 000 037
Total	30 889 050	30 670 749	27 916 250

Guarantees issued

Guarantees issued by entity

	30.06.2016	31.12.2015	30.06.2015
Issued to financial entities:	2 726 948	2 965 094	2 536 579
guarantees	2 726 948	2 962 444	2 532 867
confirmed export letters of credit	-	2 650	3 712
Issued to non-financial entities:	10 523 768	12 316 552	13 063 614
guarantees	6 887 747	7 510 268	7 083 460
securities' underwriting guarantees	3 636 021	4 806 284	5 980 154
Issued to budget entities:	301 004	368 176	295 295
guarantees	11 054	28 176	5 877
securities' underwriting guarantees	289 950	340 000	289 418
Total	13 551 720	15 649 822	15 895 488

Off-balance commitment received

Off-balance commitments received by entity

	30.06.2016	31.12.2015	30.06.2015
Financial received from:	1 491 354	288 808	768 091
financial entities	1 191 354	288 808	768 091
non - financial entities	300 000	-	-
budget entities	-	-	-
Guarantees received from:	10 201 559	11 587 585	12 259 734
financial entities	1 071 024	1 074 498	1 340 549
non - financial entities	8 348 085	9 759 234	10 183 055
budget entities	782 450	753 853	736 130
Total	11 692 913	11 876 393	13 027 825

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

Notes to financial statements (cont.)

(in PLN thousand)

37. Related party transactions

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions

Related party transactions as at 30 June 2016

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank 's parent entity	293 521	-	-	-	1 283	-	1 203
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	698 879	-	20 111	230	89 582	680 068	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Investment Banking S.A.	-	-	-	1	223 922	-	5 000
Pekao Leasing Sp. z o.o.	2 357 193	-	492	17 064	23 313	4	14 602
Pekao Faktoring Sp. z o.o.	675 881	-	-	2	3 046	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	179	621 384	-	93
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	-	-	3	51 595	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	79	40 990	-	-
Centrum Kart S.A.	-	-	-	453	23 730	-	6 987
Pekao Financial Services Sp. z o. o.	-	-	-	4	11 986	-	-
Pekao Bank Hipoteczny S.A.	236 549	60 732	57 301	-	20 573	5 301	34
Pekao Leasing Holding S.A. (in liquidation)	-	-	-	-	83 529	-	-
Pekao Property S.A.	4 132	-	-	-	707	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	1 759	1 615	-	6 037
FPB – Media Sp. z o. o.	10 067	-	-	-	386	-	-
Associates							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	45	-	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	-	11 662	-	-	-
Total of Bank Pekao S.A. Group entities	3 283 822	60 732	57 793	31 251	1 106 776	5 305	32 753
Key management personnel of the Bank and UniCredit S.p.A.	8 469	-	-	-	25 330	-	-
Total	4 284 691	60 732	77 904	31 481	1 222 971	685 373	33 956

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by contractual maturity

30.06.2016	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank 's parent entity	6 636	286 445	-	440	-	-	293 521
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	3 140	695 099	-	640	-	-	698 879
Bank Pekao S.A. Group entities							
Subsidiaries	174 850	26 110	22 362	1 194 361	1 805 281	60 858	3 283 822
Associates	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	6 021	155	2 293	8 469
Total	184 626	1 007 654	22 362	1 201 462	1 805 436	63 151	4 284 691

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

Liabilities from loans and deposits by contractual maturity

30.06.2016	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank 's parent entity	1 283	-	-	-	-	-	1 283
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	73 031	10 540	6 003	8	-	-	89 582
Bank Pekao S.A. Group entities							
Subsidiaries	880 730	43 084	162 535	5 823	14 604	-	1 106 776
Associates	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	5 909	4 509	12 861	2 051	-	-	25 330
Total	960 953	58 133	181 399	7 882	14 604	-	1 222 971

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by currency

30.06.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	290 100	2 421	-	1 000	-	293 521
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	672 209	868	7	1 000	24 795	698 879
Bank Pekao S.A. Group entities						
Subsidiaries	639 929	2 296	1 875	2 639 721	1	3 283 822
Associates	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	8 469	-	8 469
Total	1 602 238	5 585	1 882	2 650 190	24 796	4 284 691

Liabilities due to loans and deposits by currency

30.06.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	1 283	-	1 283
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	23 244	294	-	56 249	9 795	89 582
Bank Pekao S.A. Group entities						
Subsidiaries	40 042	38 145	13 625	1 012 555	2 409	1 106 776
Associates	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	7 182	395	-	17 750	3	25 330
Total	70 468	38 834	13 625	1 087 837	12 207	1 222 971

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions as at 31 December 2015

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by contractual maturity

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

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

Liabilities from loans and deposits by contractual maturity

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by currency

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

Liabilities due to loans and deposits by currency

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	OTHER INCOME	OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	147	(32)	178	(1 527)	688	(6 985)
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	24 928	(860)	1 911	(91)	38 516	(3 082)
Bank Pekao S.A. Group entities						
Subsidiaries						
Pekao Investment Banking S.A.	1	(1 900)	606	(54)	298	-
Centralny Dom Maklerski Pekao S.A.	-	(2 178)	753	(10)	1 711	(1 574)
Pekao Leasing Sp. z o.o.	18 788	(4 094)	2 496	(31)	2 164	(102)
Pekao Faktoring Sp. z o.o.	6 175	(11)	122	-	74	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(506)	199	-	3	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(373)	3	-	4	-
Centrum Kart S.A.	-	(173)	17	-	682	(24 193)
Pekao Financial Services Sp. z o.o.	-	(78)	20	-	21	-
Pekao Bank Hipoteczny S.A.	1 086	(302)	488	-	62	(3 355)
Pekao Leasing Holding S.A. (in liquidation)	-	-	5	-	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	4	-	12	(6 513)	825	(16 436)
Pekao Property S.A.	105	(11)	11	-	8	-
FPB - Media Sp. z o.o.	204	-	2	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(1 465)	13	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(1 184)	101 154	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(185)	35	(6)	85	(1)
Krajowa Izba Rozliczeniowa S.A.	-	(135)	57	-	-	(4 302)
Total of Bank Pekao S.A. Group entities	26 363	(12 595)	105 993	(6 614)	5 937	(49 963)
Key management personnel of the Bank and UniCredit S.p.A.	130	(204)	6	-	-	-
Total	51 568	(13 691)	108 088	(8 232)	45 141	(60 030)

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	49 734	279 582	24 220
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	200 271	594 516	57 006
Bank Pekao S.A. Group entities			
Subsidiaries			
Pekao Investment Banking S.A.	150	-	-
Pekao Leasing Sp. z o.o.	203 143	1 306 497	-
Pekao Faktoring Sp. z o.o.	658 605	-	-
Centralny Dom Maklerski Pekao S.A.	109	132	-
Pekao Pioneer Powszechno Towarzystwo Emerytalne S.A.	60	-	-
Centrum Kart S.A.	65	-	-
Pekao Financial Services Sp. z o. o.	45	879	-
Pekao Bank Hipoteczny S.A.	264 051	406 770	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	3 031	-	-
Associates			
Dom Inwestycyjny Xelion Sp. z o.o.	2 000	-	-
Pioneer Pekao Investment Management S.A.	15	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	52	-	-
Total of Bank Pekao S.A. Group entities	1 131 326	1 714 278	-
Key management personnel of the Bank and UniCredit S.p.A.	241	-	-
Total	1 381 572	2 588 376	81 226

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

Notes to financial statements (cont.)

(in PLN thousand)

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

30.06.2016	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	29 734	-	20 000	49 734
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	-	-	-	160 148	-	40 123	200 271
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	1 128 725	534	-	1 129 259
Associates	-	2 000	-	-	67	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	30	-	-	21	190	-	241
Total	30	2 000	-	1 318 628	791	60 123	1 381 572
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	-	-	2 000	135 632	29 417	112 533	279 582
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	-	-	640	99 825	335 379	158 672	594 516
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	1 011	532	1 712 735	1 714 278
Total	-	-	2 640	236 468	365 328	1 983 940	2 588 376
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	-	1 220	19 585	3 415	-	24 220
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	-	5 100	2	51 889	15	-	57 006
Total	-	5 100	1 222	71 474	3 430	-	81 226

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees granted by currency

30.06.2016	EUR	USD	CHF	PLN	INNE	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	29 734	-	-	20 000	-	49 734
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	98 567	39 748	-	61 580	376	200 271
Bank Pekao S.A. Group entities						
Subsidiaries	33 191	16 717	-	1 077 742	1 609	1 129 259
Associates	-	-	-	2 067	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	241	-	241
Total	161 492	56 465	-	1 161 630	1 985	1 381 572
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	10 660	-	-	268 922	-	279 582
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	49 122	-	-	545 394	-	594 516
Bank Pekao S.A. Group entities						
Subsidiaries	1 306 976	-	406 770	532	-	1 714 278
Total	1 366 758	-	406 770	814 848	-	2 588 376
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	9 920	-	-	14 300	-	24 220
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	18 322	-	-	38 684	-	57 006
Total	28 242	-	-	52 984	-	81 226

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	48 223	236 659	14 588
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	179 072	890 343	34 490
Bank Pekao S.A. Group entities			
Subsidiaries			
Pekao Investment Banking S.A.	140	-	-
Pekao Leasing Sp. z o.o.	217 599	1 258 101	-
Pekao Faktoring Sp. z o.o.	67 591	-	-
Centralny Dom Maklerski Pekao S.A.	112	127	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	60	-	-
Centrum Kart S.A.	67	-	-
Pekao Financial Services Sp. z o. o.	45	847	-
Pekao Bank Hipoteczny S.A.	360 673	394 530	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	2 037	-	-
Pekao Property S.A.	-	76	-
Associates			
Dom Inwestycyjny Xelion Sp. z o.o.	2 000	-	-
Pioneer Pekao Investment Management S.A.	15	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	52	-	-
Total of Bank Pekao S.A. Group entities	650 391	1 653 681	-
Key management personnel of the Bank and UniCredit S.p.A.	697	-	-
Total	878 383	2 780 683	49 078

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

Notes to financial statements (cont.)

(in PLN thousand)

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

31.12.2015	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – Bank's parent entity	-	-	-	28 223	-	20 000	48 223
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	-	-	-	179 072	-	-	179 072
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	360 624	219 674	68 026	-	648 324
Associates	-	-	-	2 007	60	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	30	515	5	18	129	-	697
Total	30	515	360 629	428 994	68 215	20 000	878 383
GUARANTEES ISSUED							
UniCredit S.p.A. – Bank's parent entity	-	2 631	17 719	66 440	83 818	66 051	236 659
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	-	16 189	98 861	90 053	322 855	362 385	890 343
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	1 513	659	1 651 509	1 653 681
Total	-	18 820	116 580	158 006	407 332	2 079 945	2 780 683
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	11 300	3 288	-	14 588
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	-	-	553	30 406	3 531	-	34 490
Total	-	-	553	41 706	6 819	-	49 078

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees issued by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – Bank's parent entity	28 223	-	-	20 000	-	48 223
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	77 772	-	-	101 300	-	179 072
Bank Pekao S.A. Group entities						
Subsidiaries	12 246	5 305	-	629 038	1 735	648 324
Associates	-	-	-	2 067	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	697	-	697
Total	118 241	5 305	-	753 102	1 735	878 383
GUARANTEES ISSUED						
UniCredit S.p.A. – Bank's parent entity	10 497	-	-	226 162	-	236 659
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	60 778	-	-	829 565	-	890 343
Bank Pekao S.A. Group entities						
Subsidiaries	1 258 543	-	393 940	1 198	-	1 653 681
Total	1 329 818	-	393 940	1 056 925	-	2 780 683
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	3 288	-	-	11 300	-	14 588
Entities of UniCredit Group excluding the Bank Pekao S.A. Group entities	8 147	-	-	26 343	-	34 490
Total	11 435	-	-	37 643	-	49 078

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in the period from 1 January to 30 June 2016 and in the period from 1 January to 30 June 2015.

38. Subsequent events

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

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

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

Signatures of the Management Board Members

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

Glossary

Glossary

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

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

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

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

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

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

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

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

IBNR – Incurred but Not Reported losses.

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

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

EAD – Exposure at Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

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

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

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

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