

**Report of
Bank Pekao S.A. Group
for the first quarter of
2017**



Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017



Warsaw, May 2017

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

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1 Highlights of Bank Pekao S.A. Group

	1 QUARTER 2017	1 QUARTER 2016	2016	2015
INCOME STATEMENT – SELECTED ITEMS <i>(in PLN million)</i>				
Operating income	1,744.4	1,817.3	7,347.2	7,058.6
Operating costs	(793.7)	(812.1)	(3,211.9)	(3,219.7)
Operating profit	950.7	1,005.2	4,135.3	3,838.9
Profit before income tax	503.8	728.7	2,896.5	2,831.1
Net profit for the period attributable to equity holders of the Bank	349.7	573.4	2,279.3	2,292.5
PROFITABILITY RATIOS				
Return on average equity (ROE)	6.1%	9.7%	9.8%	9.7%
Return on assets (ROA)	0.8%	1.4%	1.4%	1.4%
Net interest margin	2.8%	2.7%	2.8%	2.8%
Non-interest income / operating income	35.5%	40.6%	39.6%	40.0%
Cost / income	45.5%	44.7%	43.7%	45.6%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS <i>(in PLN million)</i>				
Total assets	169,160.8	159,694.5	174,214.9	168,785.6
Net loans and advances to customers ^(*)	124,503.9	117,175.6	122,663.2	117,299.4
Amounts due to customers ^(**)	131,460.2	121,127.7	136,379.7	124,398.9
Debt securities issued	1,314.1	2,354.0	1,523.0	2,903.2
Equity	23,397.7	24,052.2	22,911.9	23,424.2
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Net loans ^(*) / total assets	73.6%	73.4%	70.4%	69.5%
Securities / total assets	18.3%	17.0%	20.6%	13.2%
Deposits ^(***) / total assets	78.5%	77.3%	79.2%	75.4%
Net loans ^(*) / deposits ^(***)	93.8%	94.9%	88.9%	92.1%
Equity / total assets	13.8%	15.1%	13.2%	13.9%
Total capital ratio (Basel III)	17.8%	18.4%	17.6%	17.7%
EMPLOYEES AND NETWORK				
Total number of employees	17,626	18,315	17,757	18,327
Number of outlets	922	959	928	975
Number of ATMs	1,756	1,750	1,761	1,759

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

(**) Excluding repo transactions.

(***) Deposits include amounts due to customers and debt securities issued.

Note: Income statement data included in the table above and other notes to the Report on activities were presented according to income statement in a presentation form, which differs from the long form of the income statement presented in the Financial statements of the Group. Reconciliation of income statement in the presentation form and the long form is in the point 6.8 of the Report on activities of the Group.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

2 Highlights of Bank Pekao S.A.

	1 QUARTER 2017	1 QUARTER 2016	2016	2015
INCOME STATEMENT – SELECTED ITEMS				<i>(in PLN million)</i>
Operating income	1,779.2	1,779.2	7,036.0	6,792.0
Operating costs	(735.3)	(754.9)	(2,991.4)	(2,992.6)
Operating profit	1,043.9	1,024.3	4,044.6	3,799.4
Profit before income tax	604.8	751.8	2,863.2	2,791.6
Net profit	457.2	603.0	2,278.4	2,290.4
PROFITABILITY RATIOS				
Return on average equity (ROE)	8.1%	10.5%	10.1%	10.1%
Return on assets (ROA)	1.1%	1.5%	1.4%	1.4%
Net interest margin	2.8%	2.7%	2.8%	2.7%
Non-interest income / operating income	30.8%	37.9%	37.5%	37.4%
Cost / income	41.3%	42.4%	42.5%	44.1%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS				<i>(in PLN million)</i>
Total assets	166,127.4	156,647.0	170,988.9	165,760.7
Net loans and advances to customers ^(*)	121,013.8	113,544.6	119,033.6	113,753.2
Amounts due to customers ^(**)	131,761.5	121,475.6	136,629.9	124,788.1
Debt securities issued	86.2	1,119.4	300.9	1,668.7
Equity	22,875.5	23,453.2	22,282.6	22,794.4
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Net loans ^(*) / total assets	72.8%	72.5%	69.6%	68.6%
Securities / total assets	18.5%	17.2%	20.8%	13.3%
Deposits ^(***) / total assets	79.4%	78.3%	80.1%	76.3%
Net loans ^(*) / deposits ^(***)	91.8%	92.6%	86.9%	90.0%
Equity / total assets	13.8%	15.0%	13.0%	13.8%
Total capital ratio (Basel III)	18.3%	19.0%	18.2%	18.2%
EMPLOYEES AND NETWORK				
Total number of employees	15,775	16,403	15,882	16,387
Number of outlets	922	959	928	975
Number of ATMs	1,756	1,750	1,761	1,759

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

(**) Excluding repo transactions.

(***) Deposits include amounts due to customers and debt securities issued.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

3 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first quarter of 2017, amounted to PLN 349.7 million after tax on certain financial institutions in the amount of PLN 125.2 million and one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 178.4 million. Strong contribution to the results was brought by a substantial growth of loan and deposit volumes in key strategic areas, further progress in costs optimization and lower cost of risk.

Underlying net profit of Bank Pekao S.A. Group, i.e. excluding tax on certain financial institutions and costs of contribution to the Bank Guarantee Fund in the first quarter of 2017 would amount to PLN 675.9 million and would be higher by PLN 83.9 million, i.e. 14.2% than comparable net profit achieved in the first quarter of 2016, excluding net result on disposal of loans.

Thanks to the effective commercial activity of the Group in the first quarter of 2017, a significant growth in loan volumes was reported in the area of retail loans (an increase of 9.1% year on year) and a 3.1% year on year growth in the area of corporate volumes. Such increase in lending was financed almost fully by higher volumes of retail deposits growing 10.7% year on year.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 93.8% as at the end of March 2017. This, together with high equity level reflected by total capital ratio (Basel III) amounting to 17.8%, enables for further sound and stable development of the Group's activities.

Main P&L items

In the first quarter of 2017, the Group's operating income amounted to PLN 1,744.4 million, nominally lower by PLN 72.9 million in comparison with the first quarter of 2016, mainly due to positive one-off of PLN 149.9 million in 2016, with the following trends:

- Total net interest income, dividend income and income from equity investments in the first quarter of 2017 amounted to PLN 1,125.3 million and was higher by PLN 45.6 million, i.e. 4.2% compared to the first quarter of 2016 driven by higher volumes,
- Net non-interest income in the first quarter of 2017 amounted to PLN 619.1 million and was higher by PLN 31.4 million in comparison with the first quarter of 2016 (excluding income on disposal of loans recognized in the previous year), with net fee and commission income (including fees on margins on foreign exchange transactions with clients) higher by 2.0% compared to the first quarter of 2016.

The operating costs amounted to PLN 793.7 million in the first quarter of 2017. They were lower by PLN 18.4 million, i.e. 2.3% as compared with the first quarter of 2016.

Guarantee funds charges in the first quarter of 2017 amounted to PLN 201.2 million, an increase of PLN 134.2 million, i.e. more than 100% in comparison with the first quarter of 2016 mainly due to one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 178.4 million in the first quarter of 2017.

On February 1, 2016, tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In the first quarter of 2017, it amounted to PLN 125.2 million and was higher by PLN 44.6 million, mainly due to the shorter life of the tax regulations in the first quarter of 2016.

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 115.2 million in the first quarter of 2017, a decrease of PLN 14.2 million, i.e. 11.0% as compared with the first quarter of 2016.

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Volumes

As at the end of March 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 130,136.1 million, an increase of PLN 7,121.5 million, i.e. 5.8% in comparison to the end of March 2016 with significant growth in key strategic areas with retail loans growing by 9.1% and corporate volumes growing by 3.1% year on year.

As of March 31, 2017, the ratio of impaired receivables to total receivables excluding reverse repo transactions amounted to 5.9% as compared to 6.5% as at the end of March 2016.

As at the end of March 2017, the total amounts due to the Group's customers and debt securities issued amounted to PLN 132,774.3 million, an increase of PLN 9,292.6 million, i.e. 7.5% in comparison to the end of March 2016 with retail volumes growing by 10.3% and corporate growing by 4.3% year on year.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,033.9 million as at the end of March 2017, an increase of PLN 695.6 million, i.e. 4.3% in comparison to the end of March 2016.

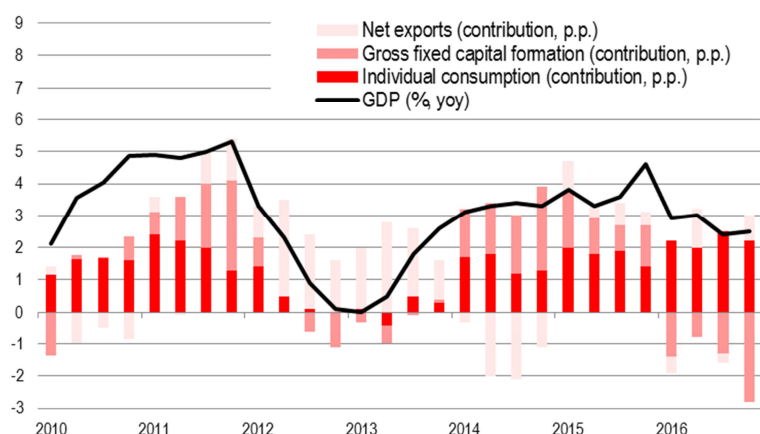
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4 External Activity Conditions

Economic growth

In the fourth quarter of 2016, economic growth amounted to 2.5% year on year as compared with the GDP growth of 2.4% year on year in the third quarter of last year. Seasonally adjusted data indicate that in the fourth quarter of 2016, the GDP growth accelerated to 1.6% quarter on quarter from 0.3% quarter on quarter in the previous quarter. The economy expanded mainly on the back of domestic demand, which rose by 1.7% year on year in the final quarter of 2016. At the same time foreign trade contributed 0.8 p.p. to the annual GDP growth in the fourth quarter of 2016. Households consumption increased by 4.5% year on year as compared with 4.1% year on year growth in the third quarter of 2016. Improving labour market conditions (rising real wage bill) were positively influencing household income along with higher social transfers (including Family 500 plus government program). Gross fixed capital formation decreased by 9.8% year on year in the fourth quarter of 2016, declining at a higher rate than 6.7% year on year drop observed in the third quarter. Exports increased by 9.3% year on year and imports increased by 8.2% year on year as compared with 7.8% year on year and 8.7% year on year respectively in the third quarter of 2016. In the final quarter of 2016, change in inventories contributed 2.3 p.p. to the GDP growth.

The positive impact of child benefits on households consumption will gradually disappear and in the second half of 2017 is expected to have neutral influence on annual growth rates. At the same time disposable income of households will still be supported by positive developments on the labour market (solid growth in wages and employment). In 2017, economic growth is expected to be markedly higher than 2.7% reported in 2016. Households consumption will remain the main engine of economic growth. It is expected that a gradual improvement in the EU funds absorption will translate into increase in gross fixed capital formation in 2017.

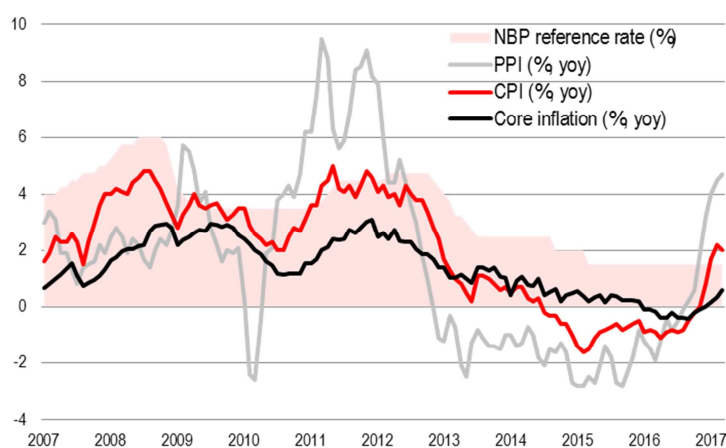


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Inflation and monetary policy

In March 2017, the CPI inflation amounted to 2.0% year on year and for a third consecutive month was within the range of acceptable deviations from the National Bank of Poland (NBP) inflation target (2.5%; +/-1.5 p.p.). Inflation stemmed mainly from higher prices of transport (9.4% year on year) and food (3.4% year on year) and that contributed 0.79 and 0.75 p.p. respectively to the annual CPI growth. In the first quarter of 2017, consumer prices increased by 3.0% year on year.

In the first quarter of 2017, the Monetary Policy Council (MPC) kept the rates unchanged. As at the end of March 2017, the reference rate of the NBP stood at 1.50% and the Lombard rate at 2.50%. In the MPC opinion, in the light of available information stabilization of the NBP rates was likely also in the following quarters. Policymakers assessed that taking into consideration current data and forecast, including projection of inflation in March, the risk of inflation running persistently above the target in the medium term is limited.



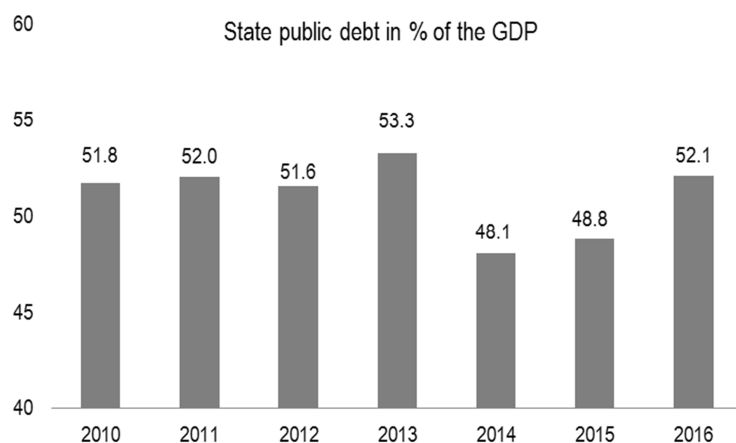
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Fiscal policy

The Ministry of Finance estimates that the 2016 state budget deficit (cash basis) amounted to ca. PLN 46.3 billion vs. PLN 54.8 billion limit set in the budget act. Budget revenues amounted to PLN 314.6 billion and were higher by PLN 0.8 billion than assumed in 2016 budget act, while expenditures reached the level of PLN 360.9 billion and were lower by PLN 7.6 billion than the level envisaged in the budget act. VAT collections amounted to PLN 126.6 billion and were merely 2.8% higher than in 2015. General government deficit amounted to PLN 44.7 billion (2.4% of the GDP) in 2016 vs. deficit at the level of PLN 46.2 billion (2.6% of the GDP) in 2015. The scale of imbalance was lower than limit at the level of 3.0% of the GDP set in the Stability and Growth Pact.

In the 2017, budget act government estimated general government deficit at 2.9% of the GDP i.e. close to the Stability and Growth Pact threshold. Expenditures will be under pressure of full annual cost of Family 500 plus government program (ca. 1.2% of the GDP) and costs linked to reduction in statutory retirement from the fourth quarter of 2017 (ca. 0.1% of the GDP). At the same time revenues should benefit from the solid GDP growth and higher than assumed in the budget act inflation, however targets for improvement in tax collection assumed in the budget act may still be difficult to achieve in practice.

As at the end of 2016, the state public debt amounted to PLN 965.2 billion and was PLN 87.9 billion higher than as at the end of 2015. Domestic debt increased by PLN 59,7 billion, while foreign debt increased by PLN 28.2 billion. In relation to the GDP the state public debt increase from 48.8% as at the end of 2015 to 52.1% as at the end of 2016. General government debt as at the end of 2016 amounted to PLN 1,006.3 billion i.e. 54.4% of the GDP.

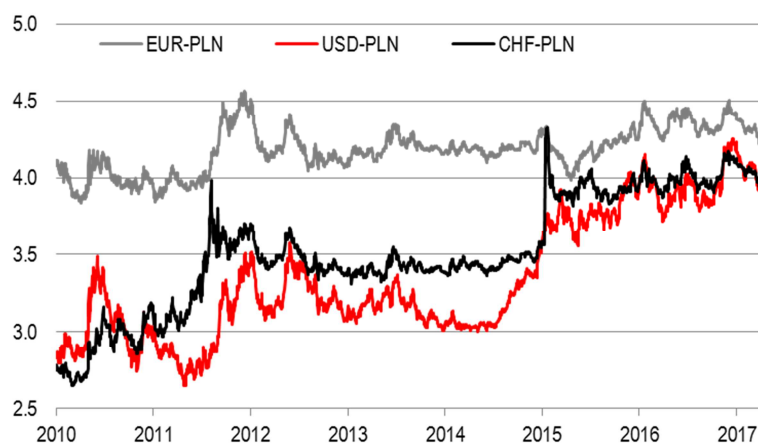


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Exchange rate

The U.S. dollar lost ground against the basket of currencies at the beginning of 2017 due to a series of verbal interventions by U.S. administration and profit taking after a solid rally since the presidential elections in November 2016. The greenback trimmed part of the losses, what sent the EUR-USD south towards a seven-week low (1.05). This performance resulted also from the single currency's weakness due to growing political risk in the euro zone before the parliamentary elections in the Netherlands (March 2017) and the presidential elections in France (April and May 2017). The EUR-USD was moving in a wide range of 1.05-1.09 in March and depend on the main central banks' decision and rhetoric. The Fed Open Market Committee continues a moderate interest rate hike cycle, while the European Central Bank holds a dovish stance in its monetary policy. The exchange rate should anchor close to upper bound of the 1.06-1.08 range in the short-term. It is predicted stronger the EUR in longer horizon with a test of targets well above 1.10. This scenario, however, requires a systematic tapering of the quantitative easing in the euro zone and still cautious stance in the Fed's monetary policy.

Polish zloty returned to an upward tendency in March, started in the second half of January, after longer consolidation in February. Favorable global investment mood supported emerging markets currencies. As a consequence, the exchange rate reached the strongest level since November 2015 (4.21/EUR) and at the same time recorded in the first quarter of 2017 the best return over last two years against the euro (above 4.5%). The Fed's cautious bias in monetary policy; return of global risk appetite and consequently a strong foreign capital inflows into Polish equities and T-bonds increased demand for the zloty. Better than expected macroeconomic data improved outlook for 2017. The GDP growth may be higher than in 2016. It is expected the zloty in the range of 4.22-4.31/EUR in the coming months and closer to 4.25/EUR at the end of the year. It is assumed that the PLN may systematically gain vs. the dollar with targets close to 3.85 in December 2017.



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Banking sector

According to the Polish Financial Supervision Authority (KNF) data, in the period of January-February 2017, net profit of the banking sector amounted to PLN 1.7 billion and was lower by -16.8% compared to the corresponding period of 2016. Negative rate of sector's profits was due to the expansion of costs, especially operating expenses, where growth was driven by tax on certain financial institutions (in January 2016 the tax was not paid) and was also related to the changes in the schedule of costs recognition for the Bank Guarantee Fund.

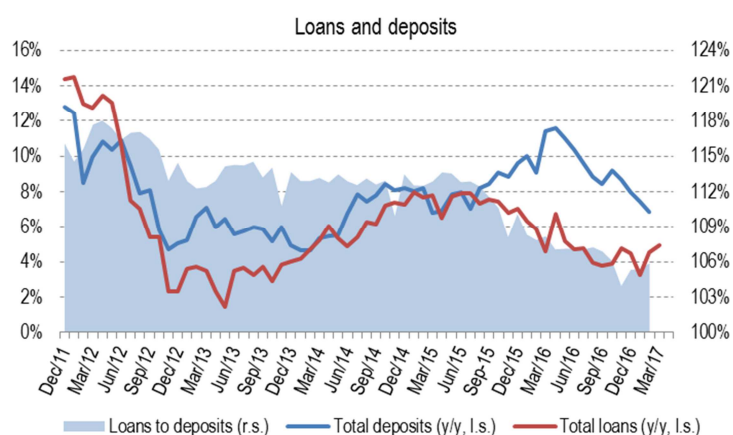
In the first two months of 2017, result on banking activity increased by +5.2% year on year. Growth was driven by +9.9% year on year increase of net interest income and 4.0% year on year increase in result on fees and commissions. Other incomes declined by -21.3% year on year. In January-February period operating costs increased by +13.2% year on year. Growing by 11.3% year on year costs of risk (impairments on assets and other reserves) had also negative impact on the banking sector result.

According to the KNF data, as at the end of February 2017, banking sector assets amounted to PLN 1,733 billion, which meant a growth of +6.0% year on year. Loans to non-financial sector increased by +4.2% year on year, while deposits of that sector increased by +8.3% year on year.

According to the NBP data, as at the end of March 2017, the nominal volume of loans to households was higher by +4.4% compared to the end of March 2016. Loans to enterprises grew in the same period by +4.6%. Taking into consideration favorable macro environment (the GDP and salaries increase and lower unemployment rate) as well as low interest rates, current growth in loans should be regarded as relatively weak. In case of corporate loans the situation is due to the muted investment activity. In case of retail loans growth is held back by the unfavorable regulatory environment (e.g. higher down-payment requirements in case of mortgages, 20% vs. 15% in 2016).

As at the end of March 2017, the volume of household deposits increased by +7.7% year on year. Relatively high pace of growth, despite low interests on deposits (in result of the NBP's monetary policy) is related to the favorable liquidity position of households, which derives from improving labour market situation as well as inflows related to the Family 500 plus government program.

Concerning corporate deposits, the volume increased by +7.0% year on year as at the end of March 2017. Solid pace of growth is being maintained mainly thanks to a combination of solid financial results and low propensity to invest.



Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

5 Internal Factors

5.1 Description of the Group

The Group's structure is presented in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 2017.

5.2 Changes in the Group' structure

As at March 31, 2017 the composition of Bank Pekao S.A. Group has not changed compared to the information disclosed as at December 31, 2016.

5.3 Changes in the Statutory Bodies of the Bank

Supervisory Board

On December 12, 2016, the Management Board of Bank Pekao S.A. informed in the current report No. 33/2016 about resignation from the position of Member of the Supervisory Board of the Bank as of December 31, 2016 by Mrs. Wioletta Rosolowska.

On January 13, 2017, the Management Board of Bank Pekao S.A. informed, in the current report No. 2/2017, on resignations of Mr. Gianni Papa, Mr. Massimiliano Fossati, Ms. Laura Stefania Penna and Ms. Doris Tomanek from the positions of Members of the Supervisory Board of the Bank subject to the condition and with effect as of the date of: (i) the indirect sale by UniCredit S.p.A. of 52,494,007 shares in the Bank to Powszechny Zakład Ubezpieczeń S.A. and (ii) the direct sale by UniCredit S.p.A. of 26,247,003 shares in the Bank to Polski Fundusz Rozwoju S.A.

On April 25, 2017, the Management Board of Bank Pekao S.A. informed in the current report No. 16/2017 that on April 24, 2017, received from Mr. Gianni Papa, Mr. Massimiliano Fossati, Mrs. Laura Stefania Penna and Mrs. Doris Tomanek the statements, that resignations performed by these persons from the positions of the Bank's Supervisory Board members, what had been reported by the Bank in the current report No. 2/2017 from January 13, 2017, will come into effect subject to the condition that and on the day of direct disposal of, in total, 86,090,172 shares in the Bank by UniCredit S.p.A. to Powszechny Zakład Ubezpieczeń S.A. and Polski Fundusz Rozwoju S.A. (Transaction). According to the statements, it is a consequence of a change in the structure of the Transaction.

Composition of the Supervisory Board:

MARCH 31, 2017	DECEMBER 31, 2016
Jerzy Woźnicki Chairman of the Supervisory Board	Jerzy Woźnicki Chairman of the Supervisory Board
Gianni Papa Deputy Chairman of the Supervisory Board	Gianni Papa Deputy Chairman of the Supervisory Board
Leszek Pawłowicz Deputy Chairman of the Supervisory Board	Leszek Pawłowicz Deputy Chairman of the Supervisory Board
Massimiliano Fossati Secretary of the Supervisory Board	Massimiliano Fossati Secretary of the Supervisory Board
Dariusz Filar Member of the Supervisory Board	Dariusz Filar Member of the Supervisory Board
Katarzyna Majchrzak Member of the Supervisory Board	Katarzyna Majchrzak Member of the Supervisory Board
Laura Penna Member of the Supervisory Board	Laura Penna Member of the Supervisory Board
Doris Tomanek Member of the Supervisory Board	Wioletta Rosolowska Member of the Supervisory Board
	Doris Tomanek Member of the Supervisory Board

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Management Board of the Bank

As of March 31, 2017, the composition of the Management Board had not changed compared to December 31, 2016 and was as follows:

MARCH 31, 2017	DECEMBER 31, 2016
Luigi Lovaglio President of the Management Board, CEO	Luigi Lovaglio President of the Management Board, CEO
Diego Biondo Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Andrzej Kopyrski Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Adam Niewiński Vice President of the Management Board	Adam Niewiński Vice President of the Management Board
Grzegorz Piwowar Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Stefano Santini Vice President of the Management Board	Stefano Santini Vice President of the Management Board
Marian Ważyński Vice President of the Management Board	Marian Ważyński Vice President of the Management Board

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

5.4 The Bank's shareholding structure

As at March 31, 2017, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034, it was divided into 262,470,034 shares and remained unchanged until the date of submitting the report.

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

Shareholders of Bank Pekao S.A., holding directly or indirectly, through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Bank, are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST QUARTER OF 2017		AS AT MARCH 31, 2017		AS AT THE DATE OF SUBMITTING THE REPORT FOR THE YEAR 2016		AS AT DECEMBER 31, 2016	
UniCredit S.p.A.	102,520,172	39.06%	102,520,172	39.06%	105,250,485	40.10%	105,250,485	40.10%
Oppenheimer Funds Inc.	-	-	14,040,662	5.35%	-	-	-	-
Other shareholders (below 5%)	159,949,862	60.94%	145,909,200	55.59%	157,219,549	59.90%	157,219,549	59.90%
Total	262,470,034	100.00%	262,470,034	100.00%	262,470,034	100.00%	262,470,034	100.00%

On March 23, 2017, in the current report No. 5/2017, the Management Board of Bank Pekao S.A. informed that the Bank received notifications from Oppenheimer Funds Inc. (OFI) and Massachusetts Mutual Life Insurance Company, the parent company of OFI, that OFI has acquired the Bank's shares exceeding 5% of the total number of votes at the General Meeting of the Bank.

Prior to the acquisition the OFI owned 12,304,639 shares in the Bank, constituting 4.69% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

At the close of 13 February 2017 OFI held 14,040,662 shares of the Bank, i.e. 5.35% of the total number of shares of the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

Moreover, on April 26, 2017, in the current report No. 19/2017, the Management Board of Bank Pekao S.A. informed that the Bank received notifications from OFI about reducing below 5% of the total number of votes at the General Meeting of the Bank, as a result of the sale of shares in stock exchange transaction on April 24, 2017.

Prior to the disposal, the OFI owned 13,739,973 shares in the Bank, constituting 5.23% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

As of the end of the day April 24, 2017, the OFI held 12,790,047 shares in Bank, i.e. 4.87% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

On April 11, 2017, in the current report No. 6/2017, the Management Board of Bank Pekao S.A. informed that the Bank received the notification from UniCredit S.p.A. about reducing to 39.06% of the total number of votes at the General Meeting of the Bank. The aforementioned decrease of the held stake is the result of the disposal of 2,373,911 shares of Bank to holders of "equity-linked certificates" as the results of early settlement "equity-linked certificates" and disposal of 356,402 shares of the Bank, retained by UniCredit S.p.A. pursuant to terms of issue of "equity-linked certificates".

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Prior to the disposal, UniCredit S.p.A. owned 105,250,485 shares in the Bank, constituting 40.1% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

As of the day March 13, 2017, UniCredit S.p.A. holds 102,520,172 shares in Bank, i.e. 39.06% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

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

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

On March 27, 2017, in the current report No. 9/2017, the Management Board of Bank Pekao S.A. informed that on 27 March, 2017 PZU announced by current report No 27/2017 that the Antimonopoly Committee of Ukraine granted an unconditional consent to the concentration in the form of acquisition of a block of shares in Bank Pekao S.A.

On April 7, 2017, in the current report No. 12/2017, the Management Board of Bank Pekao S.A. informed that on April 7, 2017, PZU published the current report No 29/2017 that the Management Board of PZU SA obtained information that on April 6, 2017, the President of the Competition and Consumer Protection Office granted an unconditional consent to the concentration in the form of acquisition of a block of shares in Bank Pekao S.A.

On May 4, 2017, in the current report No. 22/2017, the Management Board of Bank Pekao S.A. informed that on May 4, 2017 PZU published the current report No 39/2017 that the Management Board of PZU SA obtained information that on May 4, 2017 the Polish Financial Supervision Authority issued unanimously a decision that there are no grounds for an objection to the intention of PZU SA and Polski Fundusz Rozwoju S.A., as the entities acting in concert in order to acquire a block of shares in Bank Pekao S.A.

The granting of the above-mentioned consents means that all of the conditions precedent for the acquisition of a significant block of shares in the Bank by PZU SA acting in a consortium with PFR from UniCredit S.p.A. (the Transaction) specified in the current report No. 30/2016 has been fulfilled.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

5.5 Financial credibility ratings

5.5.1 Bank Pekao S.A. financial credibility ratings

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

As of March 31, 2017, Bank Pekao S.A. had assigned following financial credibility ratings:

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

(*) Stable for liabilities in domestic currency, Negative for liabilities in foreign currencies

(**) Negative for Polish economy, Stable for Polish banking sector

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

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

Fitch Ratings agency assigned the "A" rating to the covered bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A. The reasons underlying the Agency's decision included the high rating assigned to Pekao Bank Hipoteczny S.A. (A-), legal regulations pertaining to the covered bonds collateral register and the excess of collateral over the volume of bonds in issue, as declared by the bank.

The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity. During the latest revision on December 20, 2016, outlook was change from Negative to Evolving. The national long-term rating of Pekao Bank Hipoteczny S.A. is at the level AA+(pol) with a Stable outlook.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

5.6 Achievements of Bank Pekao S.A.

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

Distribution channels

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

	31.03.2017	31.03.2016
Total number of outlets	922	959
Total number of own ATMs	1,756	1,750

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

As at the end of March 2017, the Bank maintained 5,498.2 thousand PLN-denominated current accounts, 336.7 thousand mortgage loan accounts and 586.2 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

(in thousand)

	31.03.2017	31.03.2016
Total number of PLN current accounts ^(*)	5,498.2	5,337.8
of which packages	4,077.1	3,970.4
Number of mortgage loans accounts ^(**)	336.7	314.3
of which PLN mortgage loans accounts	302.6	278.6
Number of "Pożyczka Ekspresowa" loan accounts ^(***)	586.2	572.6

(*) Number of accounts including accounts of prepaid cards.

(**) Retail customers accounts.

(***) "Pożyczka Ekspresowa", Pożyczka Ekspresowa Biznes.

Individual clients

Individual clients service

In the first quarter of 2017, Bank Pekao S.A. consequently realized the strategy of growth in retail customer segment providing services for individual clients and small and micro enterprises.

The total value of new key loans granted for individual customers, including cash and PLN mortgage loans in the first quarter of 2017 exceeded PLN 4.4 billion and was higher by 58% in comparison to the first quarter of 2016.

The Bank constantly promotes its offer of accounts, cards and innovative services such as the Pekao24 electronic banking on mobile phones and tablets as well as the PeoPay application. Realizing the strategy of young customers acquisition, the Bank focused on long-term cooperation with the largest universities in Poland and various educational initiatives all over the country.

Lending products

Bank Pekao S.A. offers to its individual clients a wide range of lending products, including first of all PLN mortgage loans and consumer loans Express Loan (Pożyczka Ekspresowa). In the first quarter of 2017, the Bank consequently realized the strategy of strengthening its position on housing and consumer goods financing market.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Mortgage loans

In the first quarter of 2017, the Bank achieved record-high level in the area of mortgage loans, granting the loans in the amount of almost PLN 2.5 billion what translated into 10.4% of increase of PLN mortgage loans volume year on year and secured the market share at the level of ca. 18% as at the end of March 2017.

The Bank actively participated in mortgage loans granting under the government program "Mieszkanie dla Młodych" ("Apartment for the Young") supporting the persons aged up to 35 in acquisition of the first new apartment. In the first quarter of 2017, the Bank's market share in the sale of these loans amounted to 40%. The Bank conducted also local and country-wide promotional activities of mortgage loans, including promotional campaigns on the internal channels of marketing communication as well as participated in real estate fairs organized all over the country.

Consumer lending

In the first quarter of 2017, the value of cash loans granted amounted to PLN 2.0 billion, an increase by 51% in comparison to the first quarter of 2016. Cash loans portfolio for individual clients increased by 18.2% year on year.

Increase was achieved thanks to competitive offer of Pożyczka Ekspresowa (Express Loan), fast and transparent granting procedure, preparation of individual loan offers with the use of CRM tools as well as active use of electronic channels including website dedicated to consumer loans, the Pekao24 system and mobile application.

Within the framework of loan granting process „na klik” ("by click"), the Bank offered also fast and fully automated cash loan granting process in the Internet service and mobile applications on smartphones and tablets. In the offer "Klik Gotówka" ("Cash Click"), loan disbursement is automatically processed after approval of agreement in the Pekao24 system.

In the first quarter of 2017, the Bank conducted promotional campaign of Express Loan on TV and also local promotional actions.

Payment cards

In the field of active promotion of credit cards, in the first quarter of 2017, the Bank organized competition „Żyjemy aktywnie – Trzysta powodów, by płacić kartą” ("We live actively – Three hundred reasons to pay by card") in which customers can win attractive prizes. Moreover, there were conducted promotional and educational activities for seniors aiming at demonstrating benefits of owing and using payment cards issued to the accounts. The Bank conducts also the activities supporting non-cash payments through the constant development of offer the Discount Program Galeria Rabatów under which the customers may receive special rebates while paying by cards of Bank Pekao S.A.

In a wide offer of payment cards of the Bank particularly is distinguished an innovative product - Elektroniczna Legitymacja Studencka (Electronic Student Card), which combines functionality of student and payment card with the opportunity to combine another services such as library card or public transport ticket. Currently, the students of eight Polish universities may use the Electronic Student Cards.

Savings and investment products

Thanks to a wide range of deposit products of the Bank, in the first quarter of 2017, individual customers deposits increased by PLN 1.9 billion as compared to the end of December 2016. In comparison to the first quarter of 2016, deposits volume of individual customers increased by 10.7%, mainly thanks to funds deposited on individual accounts. The most popular among the customers were also the Internet deposits (e-lokata) placed through the Pekao24 Internet banking.

In the first quarter of 2017, the Bank introduced to its offer new investment fund Pioneer Strategii Globalnej – dynamiczny, an equity fund investing on the global markets. At the same time IKE, IKZE and PAK offer was expanded by this new investment fund.

Within the Program Super Basket offer, there were implemented 3 new portfolios: Portfel Konserwatywny Strategii Alternatywnych, Portfel Strategii Alternatywnych and Portfel Strategii Alternatywnych i Dłużnych based on global strategies with a different level of investment risk.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Brokerage activity

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

As at the end of March 2017, the retail brokerage entities of the Group maintained 338.8 thousand investment accounts. The Group's brokerage entities were serving 181.8 thousand accounts with an active access to services through remote channels, including in particular the Internet and mobile applications. As at the end of March 2017, direct service of individual customers was conducted through nationwide network composing of 447 Points of Brokerage Services located all over the country.

As of March 31, 2017, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 25.2 billion and was higher by PLN 2.5 billion year on year.

In the first quarter of 2017, activities of the Group's brokerage entities focused on clients service on the secondary market, acquisition of new customers under public offers as well as developing tools and the range of remote services.

In the first quarter of 2017, the brokerage entities of the Group participated in consortia serving three IPO's.

Private Banking

In the first quarter of 2017, the activity in the area of Private Banking focused on new clients acquisition and strengthening existing relations. It were also conducted initiatives aimed at maintaining high level of service through offering solutions tailored to the customers' needs.

Within the scope of Investment Advisory another agreements were signed and as at the end of March 2017, value of assets covered by this service exceeded PLN 2.6 billion.

Products offer available for the Private Banking customers through CDM was extended by new funds offered by Union Investment and 8 funds of JP Morgan offered by Skarbiec TFI. The customers were also offered two issuance of structured products in the form of UCAG certificates based on share prices of Total and BMW.

Private Banking customers also had the opportunity to participate in events sponsored by the Bank, such as Paszporty Polityki (Passports of the Polityka magazine) awards ceremony, the Champions League and prestigious meeting associated with publication of a List of 100 Polish billionaires 2017 of the Forbes magazine. In addition, the Private Banking representatives participated in workshops Kompetencje Przyszłości (Competencies for the Future) organized by Fundacja Firm Rodzinnych (Family Businesses Foundation). Workshops consists of four thematic blocks: strategies and management, including new technologies used in business efficiency growth, new media – how to effectively use mobile marketing, empathy in business and its impact on customer service and cyber security – how to use electronic banking safely. These meetings are a great opportunity to make relationships with new clients and to strengthen existing relations.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Electronic banking

Bank Pekao S.A. is one of the leaders of electronic banking in Poland. Within the framework of electronic banking the Bank provides customers with full range of solutions such as: the Internet and mobile service, mobile application on mobile phones and tablets as well as the PeoPay mobile payments.

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

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

The Pekao24 electronic banking system and mobile application for the individual clients also offers access to brokerage accounts held by Dom Maklerski.

Individual clients may also use innovative mobile application dedicated for tablets – Pekao24 na tablety. The application, apart from main transactional functions known from the Pekao24 Internet system was equipped with a tool of financial analysis that helps clients to overview income and expenditure on their accounts. A new, simplified form of transfer and advanced search transactions history facilitate day-to-day usage of bank account. The Pekao24 na tablety application is available on devices with Android and iOS operating systems.

The functionality of the new application Pekao24 na tablety is systematically developed. In the first quarter of 2017, the application users were provided with ability to display debit cards operations. Within the process "na klik" ("by click") the Bank provided also functionality that allows to order a debit card to the account and remotely sign foreign currency account agreement.

The Bank regularly expands the scope of functions available for execution through remote access channels. In the first quarter of 2017, the activating process of the Pekao24 system for new customers in the Bank's outlet was shortened through implementation of fast selection of all settings and activation of electronic banking in the "na klik" ('by click') process. At the same time the possibility of personalized instruction for customer was introduced which allows for fast and convenient access to electronic banking.

The Bank offers to its clients convenient and secure system of mobile payments PeoPay that allows, among others, payments execution in terminals accepting contactless payments in Poland and abroad, payments for online purchases, immediate transfers for system users on telephone number and cash withdrawal from the Bank's ATMs without payment card. Thanks to the PeoPay application it is possible to make payments in over 465 thousand of POS terminals in Poland (ca. 90% of total number of POS), in nearly 4 million terminals abroad as well as in majority of on-line shops in Poland and 300 thousand on-line shops with Masterpass logo abroad.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

As at the end of March 2017, the number of individual users with an access to the Pekao24 system amounted to 3,233.5 thousand and was higher by 278.9 thousand as compared to the end of March 2016. In the first quarter of 2017, 1,740.6 thousand individual users logged in to the Pekao24 electronic banking services.

As at the end of March 2017, the number of individual users with an access to mobile banking amounted to 1,616.7 thousand and was higher by 499.3 thousand as compared to the end of March 2016. In the first quarter of 2017, 705.6 thousand of individual users logged in to the mobile service m.pekao24.pl, the Pekao24 mobile banking application (on phone or tablet) and the PeoPay application.

	(in thousand)	
	31.03.2017	31.03.2016
Number of individual users with an access to electronic banking Pekao24 as at the end of period	3,233.5	2,954.6
Number of individual users actively using electronic banking Pekao24 (*)	1,740.6	1,601.9
Number of individual users with an access to mobile banking as at the end of period (**)	1,616.7	1,117.4
Number of individual users actively using mobile banking (***)	705.6	533.9

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

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

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

Small and micro enterprises (SME)

In the first quarter of 2017, the Bank launched a new strategic business initiative related to cooperation development as well as to support the development of small and micro enterprises. As part of its implementation, the Bank changes products and processes tailoring them to the needs and specificity of these customer groups, using its experience and knowledge gathered in other business projects in the past.

The Bank undertakes initiatives aimed at simplifying, facilitating and accelerating processes related to financing tailored to the needs of the company as well as improving flexibility in communication with the Bank.

Within the framework of these activities, among others, the range of products related to customers financing was extended, a number of simplifications in trade finance (including exports) were implemented, local business competencies were significantly increased in order to strengthen the Bank's relationships with the customers and more quickly respond to the customer's needs.

In the first quarter of 2017, the Bank continued promotional campaigns of loans „SLK - szybko dostępny limit kredytowy” (“SLK – quickly available credit limit”) addressed to the selected customers with dedicated short term loans offer and credit and charge cards limits available in simplified loans granting process.

In the first quarter of 2017, the Bank presented the seventh edition of report “Raport o sytuacji mikro i małych firm” (Report on the situation of SME clients) during dedicated conference held in Warsaw. The report has been prepared based on 7 thousand interviews conducted with the enterprises' owners employing up to 49 persons. The main theme of this edition are investments. Outcomes of this report were also presented at conferences organized in each voivodeships.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Corporate customers

Bank Pekao S.A. is the largest corporate bank in Poland financing major strategic projects. A wide range of products, innovative solutions and an individual approach provide comprehensive financial services to enterprises, institutions and budgetary units.

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

"Tailor-made" solutions of Bank Pekao S.A. for corporate banking are recognized both in Poland and internationally. Specialized knowledge and experience in the organization and financing of investments, trading in Treasury securities, custodian business, trade finance and cash management are areas of corporate banking appreciated by clients and a group of independent, national and international, experts.

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

Transactional services

The Bank holds a leading market position in the comprehensive range of services and transactional products and the prizes awarded by independent institutions confirm the high quality of services offered.

Key achievements in the area of transaction banking in the first quarter of 2017 include:

- processing within the framework of Pekao Collect service (mass payments identification) ca. 36.7 million transactions with total volume of over PLN 39 billion, i.e. increase by 5.7% and 22.8% respectively in comparison to the first quarter of 2016 which is the best quarterly result in the Bank's history,
- an increase in the number of outgoing and incoming foreign payments by 38% and by 16% respectively in comparison to the first quarter of 2016,
- improvement in the offer of housing account for developers (developer accounts) by implementation: a new model of customer service for purchasers and a new IT system for developer accounts service. These changes simplify cooperation between developer and the Bank within the scope of documents workflow and ensure simple register of all investment settlements for developer,
- introduction of changes in the offer of escrow and custodial accounts by implementing standard agreements on escrow and custodial accounts linked with the service through the PekaoBiznes24 Internet banking system. Thanks to this, the customers were provided with possibility to manage the account and to process withdrawals without assistance of the Bank's employee at any time, fast realization of online withdrawals without necessity of verification and manual execution of paper transfers in the Bank's outlet and fully electronic paper workflow,
- installation another 2 oplatomat in Bydgoszcz and Zakopane. These devices allow to make payments to Municipal Offices in cash or by card.

Cooperation with international clients

In the first quarter of 2017, the Bank strengthen relations with existing international clients and attracted new customers also thanks to cooperation with the Group advisors, senior bankers and employees of international outlets of the banks, being members of the Unicredit Group.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Investment banking, structured finance and commercial real estates

The Bank consistently supports the development of enterprises and infrastructure through financing, organizing and securing the transactions. It offers to clients a wide range of services in the field of project financing, structured financing and commercial real estate project financing.

The value of new transactions (including also refinancing) in the first quarter of 2017, exceeded PLN 1.5 billion.

The Bank participated, among others, in the following investment projects realized for the institutional clients:

- financing of the acquisition of an enterprise in the food sector in the amount of PLN 135 million,
- participation in the largest private equity transaction in CEE since 2013,
- financing of development of a leader in the food processing industry in the amount of PLN 101 million,
- financing a leading pharmaceutical company in the amount of PLN 100 million.

Within the scope of commercial real estate financing, the Bank participated in the following transactions:

- financing of office-shopping-residential complex located in post-industrial areas in Warsaw in the amount of PLN 508 million,
- financing of a leading developer of warehouses in Poland in the amount of over PLN 300 million,
- financing construction of office building in Warsaw in the amount of PLN 143 million.

Financial market and commercial debt instruments

In the area of organization and management of commercial debt securities, Bank Pekao S.A. has over 18% market share (2nd place), as at 28 February 2017 (data based on the Rating&Market bulletin published by Fitch Polska), including in particular:

- 1st place on corporate bonds market and corporate revenue bonds market (with maturities over 365 days) with a share of nearly 24%,
- 2nd place on municipal bonds market (with maturities over 365 days) with a share of over 27%.

In the first quarter of 2017, the Bank signed, among others, a new agreement on bonds issuance program for enterprise operating in developers sector for the amount of EUR 50 million and realized, among others, the following issuances of debt securities:

- the issue of two series of 7-year bonds for a leading manufacturer of packaging for the amount of EUR 90 million,
- the issue of 5-year bonds for a company operating in developers sector for the amount of PLN 148 million,
- the issue of 5-year bonds for domestic exchange of financial instruments for the amount of PLN 120 million.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Comprehensive services for the public finance sector

The Bank continues the strategy for maintaining a substantial share in the financing of Polish local government authorities and provides a full range of services designed to support their budgets.

In the first quarter of 2017, the Bank granted overdraft facility in the amount of PLN 100 million for one of the largest voivodeships in Poland, and acquired for a current cooperation one of the municipal transport companies in west of Poland with granting overdraft facility.

Additionally, in the first quarter of 2017, the Bank participated, among others, in the following projects:

- granting an investment loan for a purchase of fixed asset to one of the waste utilization companies in north-eastern Poland,
- signing an agreement on bonds issuance with Miejskie Przedsiębiorstwo Komunikacyjne – Łódź Sp. z o.o. for financing of purchase of a new tram fleet up to the amount of PLN 60.8 million,
- overdraft facility granted for a large city in central Poland for the amount of PLN 90.0 million.

Cooperation with international and domestic financial institutions

Bank Pekao S.A. maintains correspondent relations with 1.6 thousand Polish and foreign banks (according to the number of swift keys).

As at the end of the first quarter of 2017, the Bank maintains 71 nostro accounts in 48 banks in 26 countries; it runs 224 loro accounts for 208 foreign clients (banks and other financial institutions) from 48 countries and 42 current accounts for 40 foreign financial institutions.

The Bank also intermediates in the execution of transactions on behalf of clients of other domestic banks, running 33 loro accounts for 12 Polish banks and keeping 6 nostro accounts in one Polish bank, used for settlement of securities transactions and other custodian operations.

The Bank renders also services for Polish banks and branches of foreign banks in Poland in terms of purchase and sale of foreign and domestic currency.

Electronic banking

The Bank provides corporate clients with easy and quick access to financial products and services through electronic channels. Electronic banking is constantly developing in terms of user convenience and improvements in the settlements.

In the first quarter of 2017, in Dealing Module PekaoBiznes24 a new functionality Oferty FX was implemented. It includes the ability to order and cancel transactions in the offers mode. For a customer it is a possibility to realize transaction by himself, without necessity of contact with a dealer. Offers may be placed on the following currency pairs: EUR/PLN, USD/PLN, CHF/PLN, GBP/PLN and EUR/USD and are available to customers with an active pre-settlement limit.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

5.7 Awards

Bank Pekao S.A. the best bank in M&A in the CEE

Bank Pekao S.A. was honored with a prestigious title of Bank of the Year in CEE M&A Awards competition. In the opinion of international experts, the Bank in 2016 provided the best solutions in the area of M&A financing in the CEE region.

Independent experts from Venture Capitals managing Private Equity funds, M&A specialists appreciated a leading role of the Bank in organizing of financing for the key transactions that were finalized in the previous year, and 2016 was a record-high in terms of the number of M&A projects.

Bank Pekao S.A. the best investment financing bank in Poland

Global Finance magazine for the eighteenth time selected winners of competition for the best investment bank in the world. Bank Pekao S.A. was awarded the title "The Best Investment Bank in Poland for 2017".

International group of experts appreciated in particular transactions realized with the Bank's participation in 2016 (including number and volume, scope of advisory service and possibilities in the area of structured of transactions). Another criteria taking into consideration were market share, distribution channel, price terms and market reputation.

Bank Pekao S.A. for the consecutive time Best Trade Finance Provider in Poland

For the third consecutive time, Bank Pekao S.A. was awarded with the title of the "Best Trade Finance Provider in Poland 2017" according to the survey organized by prestigious Euromoney magazine.

Award is granted base on a survey in which the customers selected the best trade finance solutions in three banks where they use trade finance products. Bank Pekao S.A. again received the most votes among banks operating in Poland.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

5.8 Factors which will affect the results of the Group

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

2017 will be the first full year in which some financial institutions will pay tax on certain financial institutions. The tax applies to most banks operating in Poland. According to estimates, in 2017 the burden of the tax on the banking sector will be at the level of ca. PLN 3.5 billion.

The capital and liquidity requirements will continue to have a significant impact on banks' operations in the course of the year. The situation of individual banks with regard to their capital and liquidity position will determine their risk appetite and at the sector level the intensity of competition in particular credit and deposit sub-markets.

In 2017, there are some changes in the functioning of the system ensuring stable and secure operation of the banking sector in Poland as well as the protection of insured deposits. As a result of the changes the overall level of the sector's burdens should not change materially, but individual contributions may differ as the burden should be now more closely linked to the particular bank risk profile. The changes will also have an impact on the schedule of contributions over the year. It cannot be ruled out that, as in 2015 and 2016, there will be an ad-hoc (on the top of regular contributions) need to support the Bank Guarantee Fund. Such situation would lead to an increase in operating costs and have negative impact on banks' results.

Monetary policy is constantly an important factor influencing the banks' results. Currently, stabilization of the NBP rates seem to be the most likely scenario, however a significant rebound in inflation may force the MPC to revise the interest rate path. Potential hikes of interest rates could have positive impact on net interest income of the banks.

Works are being held in the Parliament concerning the project of law on returns for some of the loans agreements. It assumes, that in case of FX loans banks will have to return to the clients the difference between acceptable spread (the difference between the rate of buying and selling of the currency set by the law) and the one actually charged. Estimates point out, that if the law is passed the cost for the banking sector may amount to couple of billions of the zloty. The new law also provided space for introducing supervisory actions that are meant to induce banks to propose to their clients a conversion of FX loans on conditions beneficial to customers. Currently works are being held over specific actions in this case and eventual solutions may have strong, negative impact on banks' financial results in 2017. However, taking into account the relatively minor share of these loans in the total assets of the Bank (almost entirely acquired as a result of the merger of the spun-off part of Bank BPH S.A. in 2007), Bank Pekao S.A. assesses that potentially taken solutions should not materially affect the financial standing of the Group.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

6 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 31 March, 2017 and 2016 respectively is presented in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 2017.

The Report on activities of Bank Pekao S.A. Group for the first quarter of 2017 includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements are discussed.

6.1 Structure of the consolidated statement of financial position – short form

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of March 2017, the total assets of Bank Pekao S.A. constitutes 98.2% of the total assets of the whole Group.

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

ASSETS	31.03.2017		31.03.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	4,056.1	2.4%	5,881.5	3.7%	(31.0%)
Loans and advances to banks ^(*)	3,353.1	2.0%	2,680.8	1.7%	25.1%
Loans and advances to customers ^(**)	124,503.9	73.6%	117,175.6	73.4%	6.3%
Reverse repo transactions	-	x	57.2	0.0%	x
Securities ^(***)	30,913.1	18.3%	27,123.9	17.0%	14.0%
Investments in associates	146.3	0.1%	159.0	0.1%	(8.0%)
Property, plant and equipment and intangible assets	2,016.4	1.2%	2,044.1	1.3%	(1.4%)
Other assets	4,171.9	2.4%	4,572.4	2.8%	(8.8%)
Total assets	169,160.8	100.0%	159,694.5	100.0%	5.9%

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

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

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

EQUITY AND LIABILITIES	31.03.2017		31.03.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	6.0	0.0%	6.0	0.0%	0.0%
Amounts due to other banks	5,267.7	3.1%	4,636.3	2.9%	13.6%
Amounts due to customers	131,460.2	77.7%	121,127.7	75.8%	8.5%
Debt securities issued	1,314.1	0.8%	2,354.0	1.5%	(44.2%)
Repo transactions	1,101.0	0.7%	690.9	0.4%	59.4%
Other liabilities	6,614.1	3.9%	6,827.4	4.3%	(3.1%)
Total equity, including	23,397.7	13.8%	24,052.2	15.1%	(2.7%)
non-controlling interests	15.0	0.0%	14.5	0.0%	3.4%
Total equity and liabilities	169,160.8	100.0%	159,694.5	100.0%	5.9%

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	31.03.2017	31.03.2016	CHANGE
Loans and advances at nominal value⁽¹⁾	129,283.0	122,145.8	5.8%
Loans ⁽²⁾	117,118.6	109,634.7	6.8%
Retail	59,464.0	54,490.9	9.1%
Corporate	57,654.6	55,143.8	4.6%
Non-quoted securities	12,164.4	12,511.1	(2.8%)
Other ⁽³⁾	684.6	627.7	9.1%
Nominal value adjustment	323.3	281.5	14.8%
Impairment losses	(5,787.0)	(5,879.4)	(1.6%)
Total net receivables	124,503.9	117,175.6	6.3%
Securities issued by non-monetary entities ⁽⁴⁾	853.1	868.8	(1.8%)
Reverse repo transactions	-	57.1	x
Total customers' financing⁽⁵⁾	130,136.1	123,071.7	5.7%
Total customers' financing excluding reverse repo transactions	130,136.1	123,014.6	5.8%

⁽¹⁾ Excluding reverse repo transactions.

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

⁽³⁾ Including interest and receivables in transit.

⁽⁴⁾ Securities issued by non-monetary entities being loans equivalents.

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

As at the end of March 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 130,136.1 million, an increase of PLN 7,121.5 million, i.e. 5.8% in comparison to the end of March 2016 with significant growth in key strategic areas.

As at the end of March 2017, the volume of retail loans amounted to PLN 59,464.0 million, an increase of PLN 4,973.1 million, i.e. 9.1% in comparison to the end of March 2016.

The volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 70,672.1 million as at the end of March 2017, an increase of PLN 2,148.4 million, i.e. 3.1% as compared to the end of March 2016.

As at the end of March 2017, there were no reverse repo transactions. As of March 31, 2016, reverse repo transactions amounted to PLN 57.1 million.

Receivables and impairment losses

(in PLN million)

	31.03.2017	31.03.2016	CHANGE
Gross receivables⁽¹⁾	129,684.0	122,501.4	5.9%
Not impaired	121,973.3	114,537.9	6.5%
Impaired	7,710.7	7,963.5	(3.2%)
Impairment losses	(5,787.0)	(5,879.4)	(1.6%)
Interest	606.9	553.6	9.6%
Total net receivables	124,503.9	117,175.6	6.3%

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

As of March 31, 2017, the ratio of impaired receivables to total receivables excluding reverse repo transactions amounted to 5.9% as compared to 6.5% as at the end of March 2016.

Impairment losses as at the end of March 2017 amounted to PLN 5,787.0 million.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Loans and advances to customers by currency^(*)

	31.03.2017		31.03.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	107,279.0	82.3%	100,845.9	82.0%	6.4%
Denominated in foreign currencies ^(**)	23,011.9	17.7%	22,209.1	18.0%	3.6%
Total	130,290.9	100.0%	123,055.0	100.0%	5.9%
Impairment losses	(5,787.0)	x	(5,879.4)	x	(1.6%)
Total net	124,503.9	x	117,175.6	x	6.3%

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

(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of March 2017, their share was 82.3%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (64.5%), CHF (19.2%) and USD (15.4%).

Loans and advances to customers by contractual maturities^(*)

	31.03.2017		31.03.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	15,355.6	11.8%	15,249.6	12.4%	0.7%
1 to 3 months	4,068.1	3.1%	4,689.5	3.8%	(13.3%)
3 months to 1 year	13,226.9	10.2%	11,554.5	9.4%	14.5%
1 to 5 years	40,250.5	30.9%	38,256.2	31.1%	5.2%
Over 5 years	56,705.2	43.5%	52,677.4	42.8%	7.6%
Other	684.6	0.5%	627.7	0.5%	9.1%
Total	130,290.9	100.0%	123,055.0	100.0%	5.9%
Impairment losses	(5,787.0)	x	(5,879.4)	x	(1.6%)
Total net	124,503.9	x	117,175.6	x	6.3%

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

As at the end of March 2017, loans and advances with maturity over 5 years represents 43.5% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Credit exposures towards Ukraine

As of March 31, 2017, the net balance sheet value of remaining exposures towards Ukraine amounted to PLN 106 million (which constitutes 0.1% of the total Group exposures), less by PLN 5 million in comparison to the end of December 2016.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

External sources of financing

(in PLN million)

	31.03.2017	31.03.2016	CHANGE
Amounts due to Central Bank	6.0	6.0	0.0%
Amounts due to other banks	5,267.7	4,636.3	13.6%
Amounts due to customers	131,460.2	121,127.7	8.5%
Debt securities issued	1,314.1	2,354.0	(44.2%)
Repo transactions	1,101.0	690.9	59.4%
Total external sources of financing	139,149.0	128,814.9	8.0%

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

Total customer savings

(in PLN million)

	31.03.2017	31.03.2016	CHANGE
Corporate deposits	58,801.1	55,422.7	6.1%
Non-financial entities	41,085.9	42,427.1	(3.2%)
Non-banking financial entities	8,382.4	6,759.9	24.0%
Budget entities	9,332.8	6,235.7	49.7%
Retail deposits	72,164.2	65,183.0	10.7%
Other (*)	494.9	522.0	(5.2%)
Amounts due to customers(**)	131,460.2	121,127.7	8.5%
Debt securities issued, of which	1,314.1	2,354.0	(44.2%)
Structured Certificates of Deposit (SCD)	86.2	245.7	(64.9%)
Certificates of Deposit	-	868.9	x
Pekao Bank Hipoteczny S.A. covered bonds	1,222.1	1,228.0	(0.5%)
Interest	5.8	11.4	(49.1%)
Amounts due to customers and debt securities issued, total(**)	132,774.3	123,481.7	7.5%
Repo transactions	1,101.0	690.9	59.4%
Investment funds of Pioneer Pekao TFI	17,033.9	16,338.3	4.3%
Bond and money market funds	12,106.3	11,342.4	6.7%
Balanced funds	2,544.5	2,607.5	(2.4%)
Equity funds	2,383.1	2,388.4	(0.2%)
including distributed through the Group's network	16,698.8	16,001.5	4.4%

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

(**) Excluding repo transactions.

As at the end of March 2017, the total amounts due to the Group's customers and debt securities issued amounted to PLN 132,774.3 million, an increase of PLN 9,292.6 million, i.e. 7.5% in comparison to the end of March 2016.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 72,697.9 million as at the end of March 2017, an increase of PLN 6,802.4 million, i.e. 10.3% in comparison to the end of March 2016.

The total volume of corporate deposits, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 60,076.4 million as at the end of March 2017, an increase of PLN 2,490.2 million, i.e. 4.3% as compared to the end of March 2016.

Repo transactions amounted to PLN 1,101.0 million as at the end of March 2017, an increase by PLN 410.1 million, i.e. 59.4% in comparison to the end of March 2016.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,033.9 million as at the end of March 2017, an increase of PLN 695.6 million, i.e. 4.3% in comparison to the end of March 2016.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Amounts due to customers by currency^(*)

	31.03.2017		31.03.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	107,139.3	81.5%	99,850.4	82.4%	7.3%
Denominated in foreign currencies	24,320.9	18.5%	21,277.3	17.6%	14.3%
Total	131,460.2	100.0%	121,127.7	100.0%	8.5%

^(*) Including interest and amounts due in transit and excluding repo transactions.

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of March 2017 amounted to 81.5%. The majority of amounts due to customers denominated in foreign currencies were in EUR (59.9%) and USD (33.3%).

Amounts due to customers by contractual maturities^(*)

	31.03.2017		31.03.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	77,861.7	59.5%	72,063.5	59.8%	8.0%
Term deposits	53,103.6	40.5%	48,542.2	40.2%	9.4%
Total deposits	130,965.3	100.0%	120,605.7	100.0%	8.6%
Interest accrued	180.9	x	234.5	x	(22.9%)
Funds in transit	314.0	x	287.5	x	9.2%
Total	131,460.2	x	121,127.7	x	8.5%

^(*) Excluding repo transactions.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

6.2 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first quarter of 2017, amounted to PLN 349.7 million after tax on certain financial institutions in the amount of PLN 125.2 million and one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 178.4 million. Strong contribution to the results was brought by a substantial growth of loan and deposit volumes in key strategic areas, further progress in costs optimization and lower cost of risk.

Underlying net profit of Bank Pekao S.A. Group, i.e. excluding tax on certain financial institutions and costs of contribution to the Bank Guarantee Fund in the first quarter of 2017 would amount to PLN 675.9 million and would be higher by PLN 83.9 million, i.e. 14.2% than comparable net profit achieved in the first quarter of 2016, excluding net result on disposal of loans.

Thanks to the effective commercial activity of the Group in the first quarter of 2017, a significant growth in loan volumes was reported in the area of retail loans (an increase of 9.1% year on year) and a 3.1% year on year growth in the area of corporate volumes. Such increase in lending was financed almost fully by higher volumes of retail deposits growing 10.7% year on year.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 93.8% as at the end of March 2017. This, together with high equity level reflected by total capital ratio (Basel III) amounting to 17.8%, enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

(in PLN million)

	1 QUARTER OF 2017	1 QUARTER OF 2016	CHANGE
Net interest income	1,115.0	1,069.7	4.2%
Dividend income and income from equity investments	10.3	10.0	3.0%
Total net interest income, dividend income and other income from equity investments	1,125.3	1,079.7	4.2%
Net fee and commission income	573.5	562.2	2.0%
Trading result	10.5	19.5	(46.2%)
Net other operating income and expenses	35.1	155.9	(77.5%)
Net non-interest income	619.1	737.6	(16.1%)
Operating income	1,744.4	1,817.3	(4.0%)
Operating costs	(793.7)	(812.1)	(2.3%)
Gross operating profit	950.7	1,005.2	(5.4%)
Net impairment losses on loans and off-balance sheet commitments	(115.2)	(129.4)	(11.0%)
Net operating profit	835.5	875.8	(4.6%)
Net result on other provisions	(5.4)	(0.8)	> 100%
Guarantee funds charges	(201.2)	(67.0)	> 100%
Tax on certain financial institutions	(125.2)	(80.6)	55.3%
Net result on investment activities	0.1	1.3	(92.3%)
Profit before tax	503.8	728.7	(30.9%)
Income tax expense	(154.0)	(155.2)	(0.8%)
Net profit	349.8	573.5	(39.0%)
Attributable to equity holders of the Bank	349.7	573.4	(39.0%)
Attributable to non-controlling interest	0.1	0.1	0.0%

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Operating income

In the first quarter of 2017, the Group's operating income amounted to PLN 1,744.4 million, nominally lower by PLN 72.9 million in comparison with the first quarter of 2016, mainly due to positive one-off of PLN 149.9 million in 2016.

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

(in PLN million)

	1 QUARTER OF 2017	1 QUARTER OF 2016	CHANGE
Interest income	1,374.9	1,353.2	1.6%
Interest expense	(259.9)	(283.5)	(8.3%)
Net interest income	1,115.0	1,069.7	4.2%
Dividend income	0.1	0.0	100.0%
Income from equity investments	10.2	10.0	2.0%
Total net interest income, dividend income and income from equity investments	1,125.3	1,079.7	4.2%

Total net interest income, dividend income and income from equity investments in the first quarter of 2017 amounted to PLN 1,125.3 million and was higher by PLN 45.6 million, i.e. 4.2% compared to the first quarter of 2016 driven by higher volumes.

Net non-interest income

(in PLN million)

	1 QUARTER OF 2017	1 QUARTER OF 2016	CHANGE
Fee and commission income	642.0	636.9	0.8%
Fee and commission expense	(68.5)	(74.7)	(8.3%)
Net fee and commission income	573.5	562.2	2.0%
Trading result	10.5	19.5	(46.2%)
of which gains on disposal of AFS assets	0.8	0.5	60.0%
Net other operating income and expense	35.1	155.9	(77.5%)
Net non-interest income	619.1	737.6	(16.1%)

Net non-interest income in the first quarter of 2017 amounted to PLN 619.1 million and was higher by PLN 31.4 million in comparison with the first quarter of 2016 (excluding income on disposal of loans recognized in the previous year), with net fee and commission income (including fees on margins on foreign exchange transactions with clients) higher by 2.0% compared to the first quarter of 2016.

In the first quarter of 2017, the Group introduced changes in presentation in the income statement of the margins on foreign exchange transactions with the Group's clients. Before the change such margins were presented in the item Trading result, after the change are presented in the item Fee and commission income. In order to ensure comparability, data for the first quarter of 2016 in the Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017 were restated in comparison to those previously published. Changes in presentation of financial data are described in detail in the Note 5 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 2017.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

The Group's net fee and commission income in the first quarter of 2017 amounted to PLN 573.5 million and was higher by PLN 11.3 million, i.e. 2.0% in comparison with the first quarter of 2016 with growth in all categories except for net fee and commission income on loans.

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

(in PLN million)

	1 QUARTER OF 2017	1 QUARTER OF 2016	CHANGE
Net fee and commission income	573.5	562.2	2.0%
on loans	114.7	121.7	(5.8%)
on cards	88.4	83.1	6.4%
on margins on foreign exchange transactions with clients	106.1	98.8	7.4%
on mutual funds	66.0	60.7	8.7%
other	198.3	197.9	0.2%

Operating costs

The operating costs amounted to PLN 793.7 million in the first quarter of 2017. They were lower by PLN 18.4 million, i.e. 2.3% as compared with the first quarter of 2016.

(in PLN million)

	1 QUARTER OF 2017	1 QUARTER OF 2016	CHANGE
Personnel expenses	(470.0)	(471.2)	(0.3%)
Other administrative expenses	(239.4)	(255.1)	(6.2%)
Depreciation and amortization	(84.3)	(85.8)	(1.7%)
Operating costs	(793.7)	(812.1)	(2.3%)

In the first quarter of 2017, cost / income ratio amounted to 45.5% in comparison with 44.7% in the first quarter of 2016.

As of March 31, 2017, the Group employed 17,626 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,315 employees as at the end of March 2016.

As of March 31, 2017, the Bank employed 15,775 employees as compared to 16,403 employees as at the end of March 2016.

Guarantee funds charges

Guarantee funds charges in the first quarter of 2017 amounted to PLN 201.2 million, an increase of PLN 134.2 million, i.e. more than 100% in comparison with the first quarter of 2016 mainly due to one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 178.4 million in the first quarter of 2017.

Tax on certain financial institutions

On February 1, 2016, tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In the first quarter of 2017, it amounted to PLN 125.2 million and was higher by PLN 44.6 million, mainly due to the shorter life of the tax regulations in the first quarter of 2016.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

6.3 The structure of the net profit

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

(in PLN million)

	1 QUARTER OF 2017	1 QUARTER OF 2016	CHANGE
Net profit of Bank Pekao S.A.	457.2	603.0	(24.2%)
Entities consolidated under full method			
Centralny Dom Maklerski Pekao S.A.	11.0	5.3	> 100%
Pekao Leasing Sp. z o.o.	8.8	9.5	(7.4%)
Pekao Faktoring Sp. z o.o.	2.4	1.7	41.2%
Pekao Financial Services Sp. z o.o.	1.4	2.2	(36.4%)
Pekao Investment Banking S.A.	1.4	1.5	(6.7%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	1.2	0.2	> 100%
Pekao Bank Hipoteczny S.A.	0.4	2.0	(80.0%)
FPB "Media" Sp. z o.o.	0.3	0.1	> 100%
Pekao Pioneer PTE S.A.	0.2	0.2	0.0%
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji (*)	0.1	0.1	0.0%
Pekao Property S.A.	0.1	(0.1)	x
Centrum Kart S.A.	0.0	0.0	0.0%
Pekao Leasing Holding S.A. w likwidacji(**)	-	0.3	x
Entities valued under the equity method			
Pioneer Pekao Investment Management S.A.	9.5	9.6	(1.0%)
Dom Inwestycyjny Xelion Sp. z o.o.	0.6	0.4	50.0%
Exclusions and consolidation adjustments(**)	(144.9)	(62.6)	> 100%
Net profit of the Group attributable to equity holders of the Bank	349.7	573.4	(39.0%)

(*) On July 21, 2016 the Extraordinary Shareholders Meeting of Pekao Fundusz Kapitałowy Sp. z o. o. took the resolution on starting liquidation procedure of the Company.

(**) On September 20, 2016 Pekao Leasing Holding S.A. w likwidacji was removed from the National Court Register.

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

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

The results of Bank Pekao S.A.

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

(in PLN million)

	1 QUARTER OF 2017	1 QUARTER OF 2016	CHANGE
Net interest income	1,087.8	1,039.8	4.6%
Dividend income	143.2	64.8	> 100%
Total net interest income and dividend income	1,231.0	1,104.6	11.4%
Net non-interest income	548.2	674.6	(18.7%)
Operating income	1,779.2	1,779.2	0.0%
Operating costs	(735.3)	(754.9)	(2.6%)
Gross operating profit	1,043.9	1,024.3	1.9%
Net impairment losses on loans and off-balance sheet commitments	(109.6)	(126.1)	(13.1%)
Net operating profit	934.3	898.2	4.0%
Net result on other provisions	(5.6)	(0.9)	> 100%
Guarantee funds charges	(199.0)	(66.3)	> 100%
Tax on certain financial institutions	(125.2)	(80.6)	55.3%
Net result on investment activities	0.3	1.4	(78.6%)
Profit before tax	604.8	751.8	(19.6%)
Net profit	457.2	603.0	(24.2%)

In the first quarter of 2017, the Bank's net profit amounted to PLN 457.2 million after tax on certain financial institutions in the amount of PLN 125.2 million and one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 176.9 million, a decrease of PLN 145.8 million, i.e. 24.2% in comparison to the first quarter of 2016.

Underlying net profit of Bank Pekao S.A., i.e. excluding tax on certain financial institutions and costs of contribution to the Bank Guarantee Fund in the first quarter of 2017 would amount to PLN 781.4 million and would be higher by PLN 160.4 million, i.e. 25.8% than comparable net profit achieved in the first quarter of 2016 (excluding net result on disposal of loans) mainly thanks to higher dividend income.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

The main Bank's financial information are as follows:

	31.03.2017	31.03.2016	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	125,665.1	118,371.3	6.2%
Securities issued by non-monetary entities ^(**)	853.1	868.8	(1.8%)
Reverse repo transactions	-	57.1	x
Amounts due to customers	131,761.5	121,475.6	8.5%
Structured Certificates of Deposit	86.2	245.7	(64.9%)
Certificates of Deposit	-	868.9	x
Repo transactions	1,101.0	690.9	59.4%
Total assets	166,127.4	156,647.0	6.1%
Investment funds distributed through the Bank's network	15,807.5	15,073.7	4.9%
SELECTED RATIOS			
Impaired receivables to total receivables in % ^(***)	5.8%	6.3%	(0.5) p.p.
TCR (Basel III) in %	18.3%	19.0%	(0.7) p.p.

(*) Including loans and non-quoted securities.

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

(***) Excluding reverse repo transactions.

As at the end of March 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 126,518.2 million, an increase of PLN 7,278.1 million, i.e. 6.1% in comparison to the end of March 2016. As at the end of March 2017, the volume of retail loans amounted to PLN 58,546.0 million and the volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 67,972.2 million.

As at the end of March 2017, the amounts due to the customers, Structured Certificates of Deposit and Certificates of Deposit amounted to PLN 131,847.7 million, an increase of PLN 9,257.5 million, i.e. 7.6% in comparison to the end of March 2016.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. distributed through the Bank's network amounted to PLN 15,807.5 million as at the end of March 2017, an increase of PLN 733.8 million, i.e. 4.9% in comparison to the end of March 2016.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Results of the Bank's major related entities

Pioneer Pekao Investment Management S.A. – PPIM

In the first quarter of 2017, consolidated net profit of PPIM amounted to PLN 19.4 million and was at the similar level to the profit achieved in comparable period of 2016. The Bank's share in the company's profit was **PLN 9.5 million**.

Pekao Leasing Sp. z o.o. – Pekao Leasing

In the first quarter of 2017, Pekao Leasing reported a net profit of **PLN 8.8 million** compared with PLN 9.5 million in the first quarter of 2016.

Centralny Dom Maklerski Pekao S.A. – CDM

In the first quarter of 2017, net profit of CDM amounted to **PLN 11.0 million** compared with PLN 5.3 million profit earned in the first quarter of 2016, influenced by positive situation on capital markets, higher turnover on the WSE and higher revenues on mutual funds.

Pekao Investment Banking S.A. – PIB

In the first quarter of 2017, PIB reported net profit of **PLN 1.4 million** and it was similar to the net profit achieved in comparable period of 2016.

Pekao Faktoring Sp. z o.o. – Pekao Faktoring

In the first quarter of 2017, Pekao Faktoring reported a net profit of **PLN 2.4 million** compared with PLN 1.7 million in the first quarter of 2016 influenced by positive situation on factoring market and increased factoring commitment also in a result of services rendering to new customers.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In the first quarter of 2017, Pekao Bank Hipoteczny reported a net profit of **PLN 0.4 million** compared with PLN 2.0 million in the first quarter of 2016, influenced by one-off recognition of costs of annual contribution to the resolution fund of banks related to the BFG.

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

In the first quarter of 2017, PFS reported a net profit in the amount of **PLN 1.4 million** compared with PLN 2.2 million in the first quarter of 2016.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

6.4 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
Total provisions	558.6	427.1	557.7	425.7
of which:				
provisions for off-balance sheet commitments	210.7	121.7	215.0	126.5
provisions for liabilities to employees	321.4	295.9	317.8	293.0
other provisions	26.5	9.5	24.9	6.2
Deferred tax liabilities	4.0	4.7	-	-
Deferred tax assets	909.8	872.3	686.5	644.9

6.5 Net impairment losses

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	1 QUARTER OF 2017	1 QUARTER OF 2016	1 QUARTER OF 2017	1 QUARTER OF 2016
Impairment losses on loans	(124.5)	(128.2)	(120.0)	(123.9)
Impairment losses on off-balance sheet commitments	9.3	(1.2)	10.4	(2.2)
Total	(115.2)	(129.4)	(109.6)	(126.1)

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 115.2 million in the first quarter of 2017, a decrease of PLN 14.2 million, i.e. 11.0% as compared with the first quarter of 2016.

The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 109.6 million in the first quarter of 2017, a decrease of PLN 16.5 million i.e. 13.1% as compared with the first quarter of 2016.

6.6 Off-balance sheet items

(in PLN million)

	31.03.2017	31.03.2016	CHANGE
Contingent liabilities granted and received	56,335.3	56,287.5	0.1%
Liabilities granted:	42,407.7	44,836.1	(5.4%)
financial	31,374.0	32,057.7	(2.1%)
guarantees	11,033.7	12,778.4	(13.7%)
Liabilities received:	13,927.6	11,451.4	21.6%
financial	206.8	270.3	(23.5%)
guarantees	13,720.8	11,181.1	22.7%
Derivative financial instruments	192,079.2	197,886.8	(2.9%)
interest rate transactions	90,459.4	93,326.6	(3.1%)
transactions in foreign currency and in gold	100,683.9	103,980.9	(3.2%)
transactions based on commodities and equity securities	935.9	579.3	61.6%
Total off-balance sheet items	248,414.5	254,174.3	(2.3%)

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

6.7 Capital adequacy

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

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

The minimum value of capital ratios required by law is the sum of minimal capital requirement defined by CRR Regulation (equal to 8.0% for TCR and 6.0% for T1) and combined buffer requirement as defined in Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management.

According to recommendation of KNF total capital ratio of the Group, including combined buffer requirement (Capital conservation buffer of 1.25% and, Other Systemically Important Institution buffer of 0.75%) must be not less than 14.00% and Tier I capital ratio not less than 11.00%. Both levels are increased by additional capital requirement imposed by KNF¹.

At the end of March 2017 for Bank Pekao S.A. Group, total capital ratio amounted to 17.75% and was significantly higher than the minimum level required by the law and level recommended by the KNF.

The table below presents the basic data concerning Bank Pekao S.A. Group capital adequacy as of March 31, 2017, December 31, 2016, and March 31, 2016 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	31.03.2017	31.12.2016	31.03.2016
Credit risk	8,335,033	8,323,345	7,985,605
Exceeding large exposure limits	-	-	-
Market risk	47,748	44,022	47,402
Counterparty credit risk including CVA	175,381	187,820	250,673
Operational risk	500,605	493,557	540,314
Total capital requirement	9,058,767	9,048,744	8,823,994
OWN FUNDS			
Common Equity Tier I Capital	20,097,548	19,954,579	20,347,046
Own funds for total capital ratio	20,097,548	19,954,579	20,347,046
Common Equity Tier I Capital ratio (%)	17.75%	17.64%	18.45%
Total capital ratio (%)	17.75%	17.64%	18.45%

Total capital ratio as at the end of March 2017 compared with the end of March 2016 decreased by 0.70 p.p. due to increase in total capital requirements by 2.7% and decrease in own funds by 1.2%.

The increase in total capital requirement as of March 31, 2017 was significantly influenced by higher capital requirements for credit risk despite lower capital requirements for: counterparty risk including CVA and operational risk.

The decrease in own funds of the Bank was mainly due to change of AFS portfolio valuation.

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

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

6.8 Reconciliation of income statement – presentation form and long form

Consolidated income statement for the first quarter of 2017

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 QUARTER OF 2017	COMMENTS
Net interest income		1,115,027	
Dividend income and income from equity investments		10,259	
	Dividend income	149	
	Gains (losses) on subsidiaries and associates	10,110	
Total net interest income, dividend income and other income from equity investments		1,125,286	
Net fee and commission income	Net fee and commission income	573,482	
Trading result		10,486	
	Result on financial assets and liabilities held for trading	8,015	
	Result on fair value hedge accounting	1,713	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	809	
	(Gains) losses on disposal of financial liabilities	(51)	
Net other operating income and expenses		35,125	
	Net other operating income and expenses	35,739	
	less - Refunding of administrative expenses	(680) /1	
	Gains (losses) on disposal of loans and other financial receivables	66	
Net non-interest income		619,093	
Operating income		1,744,379	
Operating costs		(793,716)	
	Personnel expenses	(469,969)	
	Other administrative expenses	(566,391)	
	less -Guarantee funds charges	201,152	
	less – tax on certain financial institutions	125,154	
	Refunding of administrative expenses	680 /1	
	Depreciation and amortization	(84,342)	
Gross operating profit		950,663	
Net impairment losses on loans and off-balance sheet commitments		(115,126)	
	Net impairment losses on loans	(124,470)	
	Net impairment provision for off-balance sheet commitments	9,344	
Net operating profit		835,537	
Net result on other provisions	Net result on other provisions	(5,535)	
Guarantee funds charges	Guarantee funds charges	(201,152)	
Tax on certain financial institutions	Tax on certain financial institutions	(125,154)	
Net result on investment activities		125	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	125	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
Profit before income tax		503,821	
Income tax expense	Income tax expense	(154,029)	
Net profit for the period	Net profit for the period	349,792	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	349,709	
Attributable to non-controlling interest	Attributable to non-controlling interest	83	

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

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Consolidated income statement for the first quarter of 2016

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 QUARTER OF 2016	COMMENTS
Net interest income		<u>1,069,738</u>	
Dividend income and income from equity investments		<u>10,004</u>	
	Dividend income	1	
	Gains (losses) on subsidiaries and associates	10,003	
Total net interest income, dividend income and other income from equity investments		1,079,742	
Net fee and commission income	Net fee and commission income	<u>562,172</u>	
Trading result		<u>19,601</u>	
	Result on financial assets and liabilities held for trading	22,010	
	Result on fair value hedge accounting	(2,868)	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	464	
	(Gains) losses on disposal of financial liabilities	(5)	
Net other operating income and expenses		<u>155,823</u>	
	Net other operating income and expenses	6,541	
	less - Refunding of administrative expenses	(642) /1	
	Gains (losses) on disposal of loans and other financial receivables	149,924	
Net non-interest income		737,596	
Operating income		1,817,338	
Operating costs		<u>(812,115)</u>	
	Personnel expenses	(471,180)	
	Other administrative expenses	(403,410)	
	less –Guarantee funds charges	66,986	
	less – One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	-	
	less – tax on certain financial institution	80,640	
	Refunding of administrative expenses	642 /1	
	Depreciation and amortization	(85,793)	
Gross operating profit		1,005,223	
Net impairment losses on loans and off-balance sheet commitments		<u>(129,389)</u>	
	Net impairment losses on loans	(128,226)	
	Net impairment provision for off-balance sheet commitments	(1,163)	
Net operating profit		875,834	
Net result on other provisions	Net result on other provisions	<u>(829)</u>	
Guarantee funds charges	Guarantee funds charges	(66,986)	
One-off charges related to bankruptcy of SBRI in Wolomin and contribution to Borrowers Support Fund	less – One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	-	
Tax on certain financial institution	Tax on certain financial institution	(80,640)	
Net result on investment activities		<u>1,281</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	1,281	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
Profit before income tax		728,660	
Income tax expense	Income tax expense	<u>(155,182)</u>	
Net profit for the period	Net profit for the period	573,478	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	573,396	
Attributable to non-controlling interest	Attributable to non-controlling interest	82	

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

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

7 Quarterly Income Statement

7.1 Consolidated income statement – long form

Consolidated income statement for the first quarter of 2017 and four quarters of 2016 - Provided for comparability purposes.

(in PLN thousand)

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Interest income	1,374,967	1,374,829	1,382,257	1,338,188	1,353,216
Interest expense	(259,940)	(262,018)	(264,806)	(256,183)	(283,478)
Net interest income	1,115,027	1,112,811	1,117,451	1,082,005	1,069,738
Fee and commission income	641,974	690,629	666,331	689,289	636,862
Fee and commission expense	(68,492)	(78,191)	(69,592)	(70,648)	(74,690)
Net fee and commission income	573,482	612,438	596,739	618,641	562,172
Dividend income	149	236	151	16,410	1
Result on financial assets and liabilities held for trading	8,015	9,957	10,510	11,906	22,010
Result on fair value hedge accounting	1,713	5,265	1,449	(2,533)	(2,868)
Net result on other financial instruments at fair value through profit and loss	-	-	-	-	-
Gains (losses) on disposal of:	824	4,209	7,811	273,500	150,383
loans and other financial receivables	66	3,773	-	5,796	149,924
available for sale financial assets and held to maturity investments	809	460	7,862	267,707	464
financial liabilities	(51)	(24)	(51)	(3)	(5)
Operating income	1,699,210	1,744,916	1,734,111	1,999,929	1,801,436
Net impairment losses on financial assets and off-balance sheet commitments:	(115,126)	(106,179)	(133,882)	(131,179)	(129,389)
loans and other financial receivables	(124,470)	(68,911)	(131,532)	(72,740)	(128,226)
off-balance sheet commitments	9,344	(37,268)	(2,350)	(58,439)	(1,163)
Net result on financial activity	1,584,084	1,638,737	1,600,229	1,868,750	1,672,047
Administrative expenses	(1,036,360)	(920,340)	(895,948)	(911,446)	(874,590)
personnel expenses	(469,969)	(482,836)	(469,837)	(472,983)	(471,180)
other administrative expenses ⁽¹⁾	(566,391)	(437,504)	(426,111)	(438,463)	(403,410)
Depreciation and amortization	(84,342)	(84,359)	(85,037)	(85,677)	(85,793)
Net result on other provisions	(5,535)	(4,994)	(6,628)	(2,024)	(829)
Net other operating income and expenses	35,739	8,006	12,010	3,971	6,541
Operating costs	(1,090,498)	(1,001,687)	(975,603)	(995,176)	(954,671)
Gains (losses) on subsidiaries and associates	10,110	8,908	9,862	9,788	10,003
Gains (losses) on disposal of property, plant and equipment, and intangible assets	125	98	3,617	363	1,281
Profit before income tax	503,821	646,056	638,105	883,725	728,660
Income tax expense	(154,029)	(151,172)	(117,330)	(193,098)	(155,182)
Net profit for the period	349,792	494,884	520,775	690,627	573,478
Attributable to equity holders of the Bank	349,709	494,712	520,654	690,513	573,396
Attributable to non-controlling interest	83	172	121	114	82

⁽¹⁾ Other administrative expenses includes tax on certain financial institutions and guarantee funds charges. In the fourth quarter of 2016, the item includes also one-off charge to the Bank Guarantee Fund in relation to bankruptcy of Bank Spółdzielczy in Nadarzyn.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

7.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for the first quarter of 2017 and four quarters of 2016

(in PLN thousand)

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net profit	349,792	494,884	520,775	690,627	573,478
Attributable to equity holders of the Bank	349,709	494,712	520,654	690,513	573,396
Attributable to non-controlling interest	83	172	121	114	82
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation differences	-	-	-	-	-
Change in fair value of available-for-sale financial assets	172,399	(342,128)	17,670	(313,460)	29,099
Change in fair value of cash flow hedges	(4,491)	(44,063)	4,712	(6,281)	40,075
Income tax expense on other comprehensive income	(31,903)	73,376	(4,253)	60,751	(13,143)
<i>Items that will never be reclassified to profit or loss:</i>					
Re-measurements of the defined benefit liabilities	-	(11,560)	-	-	-
Share in re-measurements of the defined benefit liabilities of associates	-	18	-	-	-
Tax on items that will never be reclassified to profit or loss	-	2,196	-	-	-
Other comprehensive income (net)	136,005	(322,161)	18,129	(258,990)	56,031
Total comprehensive income	485,797	172,723	538,904	431,637	629,509
Attributable to equity holders of the Bank	485,714	172,551	538,783	431,523	629,427
Attributable to non-controlling interest	83	172	121	114	82

Note: The fourth quarter of 2016 net profit includes one-off charge to the Bank Guarantee Fund in relation to bankruptcy of Bank Spółdzielczy in Nadarzyn.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

7.3 Consolidated income statement – presentation form

Consolidated income statement for the first quarter of 2017 and four quarters of 2016

	(in PLN thousand)				
	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	1,115,027	1,112,811	1,117,451	1,082,005	1,069,738
Dividend income and income from equity investments	10,259	9,143	10,033	26,198	10,004
Total net interest income, dividend income and other income from equity investments	1,125,286	1,121,954	1,127,484	1,108,203	1,079,742
Net fee and commission income	573,482	612,438	596,739	618,641	562,172
Trading result	10,486	15,658	19,770	277,077	19,601
Net other operating income and expenses	35,125	11,470	11,351	9,095	155,823
Net non-interest income	619,093	639,566	627,860	904,813	737,596
Operating income	1,744,379	1,761,520	1,755,344	2,013,016	1,817,338
Operating costs	(793,716)	(793,808)	(793,841)	(812,143)	(812,115)
Gross operating profit	950,663	967,712	961,503	1,200,873	1,005,223
Net impairment losses on loans and off-balance sheet commitments	(115,126)	(106,179)	(133,882)	(131,179)	(129,389)
Net operating profit	835,537	861,533	827,621	1,069,694	875,834
Net result on other provisions	(5,535)	(4,994)	(6,628)	(2,024)	(829)
Guarantee funds charges	(201,152)	(66,016)	(65,758)	(64,104)	(66,986)
One-off charge in favour of the Bank Guarantee Fund related to bankruptcy of Bank Spółdzielczy in Nadarzyn	-	(16,604)	-	-	-
Tax on certain financial institutions	(125,154)	(127,962)	(120,727)	(120,204)	(80,640)
Net result on investment activities	125	99	3,597	363	1,281
Profit before income tax	503,821	646,056	638,105	883,725	728,660
Income tax expense	(154,029)	(151,172)	(117,330)	(193,098)	(155,182)
Net profit	349,792	494,884	520,775	690,627	573,478
Attributable to equity holders of the Bank	349,709	494,712	520,654	690,513	573,396
Attributable to non-controlling interest	83	172	121	114	82

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

8 Other Information

8.1 Management Board position regarding the possibility of achieving previously published forecasts

The Bank has not published the forecast of the financial results for 2017.

8.2 Shares in the Bank and related entities held by the Bank's Directors

According to information available to the Bank as at March 31, 2017, the Members of the Bank's management and supervisory bodies held 73,535 shares of Bank Pekao S.A. with face value of PLN 73,535. The number of the Bank's shares held by the Members of the Bank's management and supervisory bodies and its face value remained unchanged as the date of submitting of this report.

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

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE FIRST QUARTER OF 2017	FOR THE YEAR 2016	CHANGE
Luigi Lovaglio	64,035	64,035	0
Diego Biondo	9,500	9,500	0
Total	73,535	73,535	0

8.3 Related party transactions

In the first quarter of 2017, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In the first quarter of 2017, the Bank and its subsidiaries did not provide any sureties in respect of loans or advances or did not provide any guarantees for repayment of loans or advances to an entity or a subsidiary of such entity, as a result of which the total value of sureties and guarantees at the balance sheet date would have equaled or exceeded 10% of the Bank's equity.

Detailed information on related party transactions is included in Note 40 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 2017.

8.4 Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in Note 5 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 2017.

8.5 Seasonality or cyclical nature of the Bank's activity

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

8.6 Issuance, redemption and repayment of debt securities

Structured Certificates of Deposit

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 86.2 million (principal value) as at the end of March 2017. There is 1 issue of Structured Certificates of Deposit open in PLN with the maturity date on February 5, 2018.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

Pekao Bank Hipoteczny S.A. covered bonds

The total value of liabilities due to covered bonds amounted to PLN 1,263.8 million as at the end of March, 2017. The liabilities under covered bonds with maturity date up to 1 year account for 15.6%, with maturity date from 1 up to 3 years account for 17.4%, with maturity date from 3 up to 5 years account for 63.1% and with maturity date from 5 up to 10 years account for 3.9% of the total nominal value.

8.7 Information on dividend

The Management Board of Bank Pekao S.A. informed in the current report No.13/2017, that on April 19, 2017, the Ordinary General Meeting of the Bank made the Resolution on the distribution of net profit of Bank Pekao S.A. for the year 2016.

According to the Resolution:

- the amount of dividend is PLN 2,278,239,895.12, which represents the 99.99% of the Bank's net profit,
- the dividend value per the one Bank's share amounts PLN 8.68,
- the date of dividend's day was fixed on June 21, 2017, and the dividend's pay-out day was fixed on July 6, 2017.

8.8 Pending litigations

In the first quarter of 2017, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 595 with the total value amounting to PLN 839.0 million. The number of legal proceedings in respect of receivables was 13,084 with the total value of PLN 1,186.6 million.

In the first quarter of 2017, there were no legal proceedings relating to the liabilities and/or receivables of the Group in which asserted claims accounted for at least 10% of the Bank's own funds.

In the opinion of the Bank none of the individual pending proceedings before any courts, arbitration bodies or public administration authorities during the first quarter of 2017, nor the proceedings in aggregate pose any threat to the Bank's financial liquidity.

8.9 Subsequent events

On April 25, 2017, the Management Board of Bank Pekao S.A. informed in the current report No. 16/2017 that on April 24, 2017, received from Mr. Gianni Papa, Mr. Massimiliano Fossati, Mrs. Laura Stefania Penna and Mrs. Doris Tomanek the statements, that resignations performed by these persons from the positions of the Bank's Supervisory Board members, what had been reported by the Bank in the current report No. 2/2017 from January 13, 2017, will come into effect subject to the condition that and on the day of direct disposal of, in total, 86,090,172 shares in the Bank by UniCredit S.p.A. to Powszechny Zakład Ubezpieczeń S.A. and Polski Fundusz Rozwoju S.A. (Transaction). According to the statements, it is a consequence of a change in the structure of the Transaction.

On March 27, 2017, in the current report No. 9/2017, the Management Board of Bank Pekao S.A. informed that on 27 March, 2017 PZU announced by current report No 27/2017 that the Antimonopoly Committee of Ukraine granted an unconditional consent to the concentration in the form of acquisition of a block of shares in Bank Pekao S.A.

On April 7, 2017, in the current report No. 12/2017, the Management Board of Bank Pekao S.A. informed that on April 7, 2017, PZU published the current report No 29/2017 that the Management Board of PZU SA obtained information that on April 6, 2017, the President of the Competition and Consumer Protection Office granted an unconditional consent to the concentration in the form of acquisition of a block of shares in Bank Pekao S.A.

On May 4, 2017, in the current report No. 22/2017, the Management Board of Bank Pekao S.A. informed that on May 4, 2017 PZU published the current report No 39/2017 that the Management Board of PZU SA obtained information that on May 4, 2017 the Polish Financial Supervision Authority issued unanimously a decision that there are no grounds for an objection to the intention of PZU SA and Polski Fundusz Rozwoju S.A., as the entities acting in concert in order to acquire a block of shares in Bank Pekao S.A.

Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017

On April 26, 2017, the Management Board of Bank Pekao S.A. informed in the current report No. 19/2017 that on April 26, 2017, the Bank received notification from OFI about reducing below 5% of the total number of votes at the General Meeting of the Bank, as a result of the sale of shares in stock exchange transaction on April 24, 2017. Prior to the disposal, the OFI owned 13,739,973 shares in the Bank, constituting 5.23% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank. As of the end of the day April 24, 2017, the OFI held 12,790,047 shares in Bank, i.e. 4.87% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.



Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 2017



Warsaw, May 2017

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

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Consolidated income statement

(in PLN thousand)

	NOTE	I QUARTER 2017 PERIOD FROM 01.01.2017 TO 31.03.2017	I QUARTER 2016 PERIOD FROM 01.01.2016 TO 31.03.2016 RESTATED
Interest income	9	1 374 967	1 353 216
Interest expense	9	(259 940)	(283 478)
Net interest income		1 115 027	1 069 738
Fee and commission income	10	641 974	636 862
Fee and commission expense	10	(68 492)	(74 690)
Net fee and commission income		573 482	562 172
Dividend income	11	149	1
Result on financial assets and liabilities held for trading	12	8 015	22 010
Result on fair value hedge accounting	29	1 713	(2 868)
Gains (losses) on disposal of:	13	824	150 383
loans and other financial receivables		66	149 924
available for sale financial assets and held to maturity investments		809	464
financial liabilities		(51)	(5)
Operating income		1 699 210	1 801 436
Net impairment losses on financial assets and off-balance sheet commitments:	17	(115 126)	(129 389)
loans and other financial receivables		(124 470)	(128 226)
off-balance sheet commitments		9 344	(1 163)
Net result on financial activity		1 584 084	1 672 047
Administrative expenses	14	(1 036 360)	(874 590)
personnel expenses		(469 969)	(471 180)
other administrative expenses		(566 391)	(403 410)
Depreciation and amortization	15	(84 342)	(85 793)
Net result on other provisions		(5 535)	(829)
Net other operating income and expenses	16	35 739	6 541
Operating costs		(1 090 498)	(954 671)
Gains (losses) on subsidiaries and associates	18	10 110	10 003
Gains (losses) on disposal of property, plant and equipment and intangible assets	19	125	1 281
Profit before income tax		503 821	728 660
Income tax expense	20	(154 029)	(155 182)
Net profit for the period		349 792	573 478
1. Attributable to equity holders of the Bank		349 709	573 396
2. Attributable to non-controlling interest		83	82
Earnings per share (in PLN per share)			
basic for the period	21	1.33	2.18
diluted for the period	21	1.33	2.18

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	I QUARTER 2017 PERIOD FROM 01.01.2017 TO 31.03.2017	I QUARTER 2016 PERIOD FROM 01.01.2016 TO 31.03.2016
Net profit for the period		349 792	573 478
1. Attributable to equity holders of the Bank		349 709	573 396
2. Attributable to non-controlling interest		83	82
Other comprehensive income			
Item that are or may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial assets		172 399	29 099
Change in fair value of cash flow hedges	29	(4 491)	40 075
Tax on items that are or may be reclassified subsequently to profit or loss	20	(31 903)	(13 143)
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities		-	-
Share in remeasurements of the defined benefit liabilities of associates		-	-
Tax on items that will never be reclassified to profit or loss	20	-	-
Other comprehensive income (net of tax)		136 005	56 031
Total comprehensive income		485 797	629 509
1. Attributable to equity holders of the Bank		485 714	629 427
2. Attributable to non-controlling interests		83	82

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	31.03.2017	31.12.2016	31.03.2016
ASSETS				
Cash and due from Central Bank	23	4 056 082	5 872 911	5 881 507
Bill of exchange eligible for rediscounting at Central Bank		-	-	-
Loans and advances to banks	24	3 352 877	3 257 829	2 677 095
Financial assets held for trading	25	1 862 694	732 469	509 259
Derivative financial instruments (held for trading)	26	1 699 426	1 913 429	2 261 944
Loans and advances to customers	27	120 519 432	118 689 267	113 637 853
Receivables from finance leases	28	3 984 565	3 974 643	3 598 716
Hedging instruments	29	411 385	289 752	473 106
Investments (placement) securities	30	29 050 391	35 120 619	26 614 674
1. Available for sale		25 160 931	32 101 634	23 185 723
2. Held to maturity		3 889 460	3 018 985	3 428 951
Assets held for sale	31	48 222	48 277	45 762
Investments in associates		146 331	136 221	158 967
Intangible assets	32	610 559	596 181	614 984
Property, plant and equipment	33	1 405 887	1 422 930	1 429 066
Investment properties		24 603	24 874	29 843
Income tax assets		1 057 428	1 104 343	988 711
1. Current tax assets		147 580	100 992	116 423
2. Deferred tax assets		909 848	1 003 351	872 288
Other assets		930 951	1 031 198	773 044
TOTAL ASSETS		169 160 833	174 214 943	159 694 531
EQUITY AND LIABILITIES				
Liabilities				
Amounts due to Central Bank	23	6 007	6 091	6 012
Amounts due to other banks	35	5 267 691	4 823 440	4 636 257
Financial liabilities held for trading	25	611 023	673 165	267 341
Derivative financial instruments (held for trading)	26	1 836 069	1 952 674	2 476 315
Amounts due to customers	36	132 561 150	137 815 926	121 818 632
Hedging instruments	29	1 384 203	1 638 718	1 660 593
Debt securities issued	37	1 314 112	1 522 963	2 353 953
Income tax liabilities		4 968	11 579	5 070
1. Current tax liabilities		967	6 694	339
2. Deferred tax liabilities		4 001	4 885	4 731
Provisions	38	558 635	560 392	427 070
Other liabilities		2 219 235	2 298 052	1 991 115
TOTAL LIABILITIES		145 763 093	151 303 000	135 642 358
Equity				
Share capital		262 470	262 470	262 470
Other capital and reserves		20 522 232	20 375 527	20 931 515
Retained earnings and net profit for the period		2 598 031	2 259 022	2 843 671
Total equity attributable to equity holders of the Bank		23 382 733	22 897 019	24 037 656
Non-controlling interests		15 007	14 924	14 517
TOTAL EQUITY		23 397 740	22 911 943	24 052 173
TOTAL LIABILITIES AND EQUITY		169 160 833	174 214 943	159 694 531

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2017 to 31 March 2017

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK											
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL							
Equity as at 1.01.2017	262 470	20 375 527	9 137 221	1 982 324	9 092 735	(223 394)	386 641	2 259 022	22 897 019	14 924	22 911 943	
Management options	-	-	-	-	-	-	-	-	-	-	-	
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-	
Revaluation of management options	-	-	-	-	-	-	-	-	-	-	-	
Comprehensive income	-	136 005	-	-	-	136 005	-	349 709	485 714	83	485 797	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-	
Revaluation of available-for-sale investments (net of tax)	-	139 643	-	-	-	139 643	-	-	139 643	-	139 643	
Revaluation of hedging financial instruments (net of tax)	-	(3 638)	-	-	-	(3 638)	-	-	(3 638)	-	(3 638)	
Net profit for the period	-	-	-	-	-	-	-	349 709	349 709	83	349 792	
Appropriation of retained earnings	-	10 700	-	-	-	-	10 700	(10 700)	-	-	-	
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	
Profit appropriation to other reserves including consolidation adjustments	-	10 700	-	-	-	-	10 700	(10 700)	-	-	-	
Equity as at 31.03.2017	262 470	20 522 232	9 137 221	1 982 324	9 092 735	(87 389)	397 341	2 598 031	23 382 733	15 007	23 397 740	

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2016 to 31 December 2016

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY	
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES					OTHER
Equity as at 1.01.2016	262 470	20 869 976	9 137 221	1 975 415	9 092 740	283 597	381 003	2 275 783	23 408 229	15 964	23 424 193
Management options	-	-	-	-	-	-	-	-	-	-	-
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	(506 991)	-	-	-	(506 991)	-	2 279 275	1 772 284	489	1 772 773
Remeasurements of the defined benefit liabilities (net of tax)	-	(9 346)	-	-	-	(9 346)	-	-	(9 346)	-	(9 346)
Revaluation of available-for-sale investments (net of tax)	-	(493 144)	-	-	-	(493 144)	-	-	(493 144)	-	(493 144)
Revaluation of hedging financial instruments (net of tax)	-	(4 501)	-	-	-	(4 501)	-	-	(4 501)	-	(4 501)
Net profit for the period	-	-	-	-	-	-	-	2 279 275	2 279 275	489	2 279 764
Appropriation of retained earnings	-	12 547	-	6 909	-	-	5 638	(2 296 036)	(2 283 489)	(1 529)	(2 285 018)
Dividend paid	-	-	-	-	-	-	-	(2 283 489)	(2 283 489)	(1 529)	(2 285 018)
Profit appropriation to other reserves including consolidation adjustments	-	12 547	-	6 909	-	-	5 638	(12 547)	-	-	-
Other	-	(5)	-	-	(5)	-	-	-	(5)	-	(5)
Other	-	(5)	-	-	(5)	-	-	-	(5)	-	(5)
Equity as at 31.12.2016	262 470	20 375 527	9 137 221	1 982 324	9 092 735	(223 394)	386 641	2 259 022	22 897 019	14 924	22 911 943

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2016 to 31 March 2016

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										NON - CONTROLLING INTERESTS	TOTAL EQUITY
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER					
Equity as at 1.01.2016	262 470	20 869 976	9 137 221	1 975 415	9 092 740	283 597	381 003	2 275 783	23 408 229	15 964	23 424 193	
Management options	-	-	-	-	-	-	-	-	-	-	-	
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-	
Revaluation of management share options	-	-	-	-	-	-	-	-	-	-	-	
Comprehensive income	-	56 031	-	-	-	56 031	-	573 396	629 427	82	629 509	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-	
Revaluation of available-for-sale investments (net of tax)	-	23 570	-	-	-	23 570	-	-	23 570	-	23 570	
Revaluation of hedging financial instruments (net of tax)	-	32 461	-	-	-	32 461	-	-	32 461	-	32 461	
Net profit for the period	-	-	-	-	-	-	-	573 396	573 396	82	573 478	
Appropriation of retained earnings	-	5 508	-	-	-	-	5 508	(5 508)	-	(1 529)	(1 529)	
Dividend paid	-	-	-	-	-	-	-	-	-	(1 529)	(1 529)	
Profit appropriation to other reserves including consolidation adjustments	-	5 508	-	-	-	-	5 508	(5 508)	-	-	-	
Equity as at 31.03.2016	262 470	20 931 515	9 137 221	1 975 415	9 092 740	339 628	386 511	2 843 671	24 037 656	14 517	24 052 173	

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	I QUARTER 2017 PERIOD FROM 01.01.2017 TO 31.03.2017	I QUARTER 2016 PERIOD FROM 01.01.2016 TO 31.03.2016
Cash flow from operating activities – indirect method			
Net profit for the period		349 709	573 396
Adjustments for:		(8 229 363)	(889 127)
Depreciation and amortization	15	84 342	85 793
Share of profit (loss) of associates	18	(10 110)	(10 003)
(Gains) losses on investing activities		(740)	(1 618)
Net interest income	9	(1 115 027)	(1 069 738)
Dividend income	11	(149)	(1)
Interest received		1 292 384	1 207 529
Interest paid		(280 776)	(282 196)
Income tax		270 203	223 269
Income tax paid		(149 941)	(173 894)
Change in loans and advances to banks		(225 930)	559 345
Change in financial assets held for trading		(1 127 346)	616 723
Change in derivative financial instruments (assets)		214 003	944 503
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(1 780 579)	5 004 895
Change in receivables from finance leases		(9 922)	(94 737)
Change in investment (placement) securities		64 071	(146 903)
Change in other assets		(95 032)	1 464 383
Change in amounts due to banks		444 001	(1 317 543)
Change in financial liabilities held for trading		(62 142)	(344 101)
Change in derivative financial instruments (liabilities)		(116 605)	(728 013)
Change in amounts due to customers		(5 237 162)	(7 063 472)
Change in debt securities issued		7 621	(1 624)
Change in provisions		(1 757)	1 696
Change in other liabilities		(392 770)	236 580
Net cash flows from operating activities		(7 879 654)	(315 731)
Cash flow from investing activities			
Investing activity inflows		12 056 847	55 807 692
Sale of investment securities		11 913 322	55 700 818
Sale of intangible assets and property, plant and equipment		143	3 008
Dividend received	11	149	1
Other investing inflows		143 233	103 865
Investing activity outflows		(5 911 042)	(61 033 415)
Acquisition of investment securities		(5 846 291)	(60 999 292)
Acquisition of intangible assets and property, plant and equipment		(64 751)	(34 123)
Net cash flows from investing activities		6 145 805	(5 225 723)

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	I QUARTER 2017 PERIOD FROM 01.01.2017 TO 31.03.2017	I QUARTER 2016 PERIOD FROM 01.01.2016 TO 31.03.2016
Cash flows from financing activities			
Financing activity inflows		-	809 733
Issue of debt securities	37	-	809 733
Financing activity outflows		(213 083)	(1 343 809)
Redemption of debt securities	37	(213 083)	(1 343 809)
Net cash flows from financing activities		(213 083)	(534 076)
Total net cash flows		(1 946 932)	(6 075 530)
including: effect of exchange rate fluctuations on cash and cash equivalents held		(99 041)	(24 529)
Net change in cash and cash equivalents		(1 946 932)	(6 075 530)
Cash and cash equivalents at the beginning of the period		8 666 090	14 513 395
Cash and cash equivalents at the end of the period		6 719 158	8 437 865

Notes to the financial statements presented on pages 19 - 96 constitute an integral part of the consolidated financial statements.

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated income statement of Bank Pekao S.A.

	I QUARTER 2017 PERIOD FROM 01.01.2017 TO 31.03.2017	I QUARTER 2016 PERIOD FROM 01.01.2016 TO 31.03.2016 RESTATED
Interest income	1 342 250	1 316 944
Interest expense	(254 491)	(277 111)
Net interest income	1 087 759	1 039 833
Fee and commission income	577 699	583 159
Fee and commission expense	(69 157)	(76 316)
Net fee and commission income	508 542	506 843
Dividend income	143 264	64 816
Result on financial assets and liabilities held for trading	4 753	16 180
Result on fair value hedge accounting	1 713	(2 868)
Gains (losses) on disposal of:	824	150 385
loans and other financial receivables	66	149 924
available for sale financial assets and held to maturity investments	809	465
financial liabilities	(51)	(4)
Operating income	1 746 855	1 775 189
Net impairment losses on financial assets and off-balance sheet commitments:	(109 608)	(126 136)
loans and other financial receivables	(120 005)	(123 930)
off-balance sheet commitments	10 397	(2 206)
Net result on financial activity	1 637 247	1 649 053
Administrative expenses	(980 568)	(821 610)
personnel expenses	(418 240)	(420 951)
other administrative expenses	(562 328)	(400 659)
Depreciation and amortization	(80 074)	(81 347)
Net result on other provisions	(5 608)	(809)
Net other operating income and expenses	33 547	5 127
Operating costs	(1 032 703)	(898 639)
Gains (losses) on subsidiaries and associates	-	-
Gains (losses) on disposal of property, plant and equipment, and intangible assets	256	1 425
Profit before income tax	604 800	751 839
Income tax expense	(147 581)	(148 858)
Net profit for the period	457 219	602 981
Earnings per share (in PLN per share)		
basic for the period	1.74	2.30
diluted for the period	1.74	2.30

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated statement of comprehensive income of Bank Pekao S.A.

	I QUARTER 2017 PERIOD FROM 01.01.2017 TO 31.03.2017	I QUARTER 2016 PERIOD FROM 01.01.2016 TO 31.03.2016
Net profit for the period	457 219	602 981
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Change in fair value of available-for-sale financial assets	172 080	28 820
Change in fair value of cash flow hedges	(4 491)	40 075
Tax on items that are or may be reclassified subsequently to profit or loss	(31 842)	(13 090)
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)	135 747	55 805
Total comprehensive income	592 966	658 786

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated statement of financial position of Bank Pekao S.A.

	31.03.2017	31.12.2016	31.03.2016
ASSETS			
Cash and due from Central Bank	4 051 636	5 861 342	5 880 703
Bill of exchange eligible for rediscounting at Central Bank	-	-	-
Loans and advances to banks	3 482 923	3 454 679	2 953 175
Financial assets held for trading	1 858 870	721 031	490 367
Derivative financial instruments (held for trading)	1 729 858	1 955 499	2 304 134
Loans and advances to customers	121 013 810	119 033 599	113 601 803
Hedging instruments	411 385	289 752	473 106
Investment (placement) securities	28 796 576	34 864 031	26 385 859
1. Available for sale	24 997 728	31 938 170	23 047 573
2. Held to maturity	3 798 848	2 925 861	3 338 286
Assets held for sale	48 222	48 277	44 265
Investments in subsidiaries	1 063 050	1 063 050	1 099 654
Investments in associates	27 552	27 552	27 552
Intangible assets	586 388	571 076	590 932
Property, plant and equipment	1 389 280	1 405 100	1 412 368
Investment properties	12 624	12 710	17 124
Income tax assets	829 884	875 287	759 149
1. Current tax assets	143 424	97 009	114 221
2. Deferred tax assets	686 460	778 278	644 928
Other assets	825 383	805 867	606 761
TOTAL ASSETS	166 127 441	170 988 852	156 646 952
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	6 007	6 091	6 012
Amounts due to other banks	3 863 151	3 367 125	3 224 650
Financial liabilities held for trading	611 023	673 165	267 341
Derivative financial instruments (held for trading)	1 842 605	1 949 335	2 474 888
Amounts due to customers	132 862 480	138 066 129	122 166 520
Hedging instruments	1 384 203	1 638 718	1 660 593
Debt securities issued	86 190	300 945	1 119 419
Income tax liabilities	-	-	-
1. Current tax liabilities	-	-	-
2. Deferred tax liabilities	-	-	-
Provisions	557 701	560 483	425 690
Other liabilities	2 038 558	2 144 304	1 848 650
TOTAL LIABILITIES	143 251 918	148 706 295	133 193 763
Equity			
Share capital	262 470	262 470	262 470
Other capital and reserves	19 877 459	19 741 712	20 297 340
Retained earnings and net profit for the period	2 735 594	2 278 375	2 893 379
TOTAL EQUITY	22 875 523	22 282 557	23 453 189
TOTAL LIABILITIES AND EQUITY	166 127 441	170 988 852	156 646 952

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated statement of changes in equity of Bank Pekao S.A.

For the period from 1 January 2017 to 31 March 2017

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 1.01.2017	262 470	19 741 712	9 137 221	1 982 324	8 612 550	(223 510)	233 127	2 278 375	22 282 557	
Management options	-	-	-	-	-	-	-	-	-	
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	
Revaluation of management options	-	-	-	-	-	-	-	-	-	
Comprehensive income	-	135 747	-	-	-	135 747	-	457 219	592 966	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	
Revaluation of available-for-sale investments (net of tax)	-	139 385	-	-	-	139 385	-	-	139 385	
Revaluation of hedging financial instruments (net of tax)	-	(3 638)	-	-	-	(3 638)	-	-	(3 638)	
Net profit for the period	-	-	-	-	-	-	-	457 219	457 219	
Appropriation of retained earnings	-	-	-	-	-	-	-	-	-	
Dividend paid	-	-	-	-	-	-	-	-	-	
Profit appropriation	-	-	-	-	-	-	-	-	-	
Equity as at 31.03.2017	262 470	19 877 459	9 137 221	1 982 324	8 612 550	(87 763)	233 127	2 735 594	22 875 523	

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated statement of changes in equity of Bank Pekao S.A.

For the period from 1 January 2016 to 31 December 2016

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

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated statement of changes in equity of Bank Pekao S.A.

For the period from 1 January 2016 to 31 March 2016

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
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	-	55 805	-	-	-	55 805	-	602 981	658 786	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	
Revaluation of available-for-sale investments (net of tax)	-	23 344	-	-	-	23 344	-	-	23 344	
Revaluation of hedging financial instruments (net of tax)	-	32 461	-	-	-	32 461	-	-	32 461	
Net profit for the period	-	-	-	-	-	-	-	602 981	602 981	
Appropriation of retained earnings	-	-	-	-	-	-	-	-	-	
Dividend paid	-	-	-	-	-	-	-	-	-	
Profit appropriation	-	-	-	-	-	-	-	-	-	
Equity as at 31.03.2016	262 470	20 297 340	9 137 221	1 975 415	8 612 550	339 027	233 127	2 893 379	23 453 189	

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

Unconsolidated cash flow statement of Bank Pekao S.A.

	I QUARTER 2017 PERIOD FROM 01.01.2017 TO 31.03.2017	I QUARTER 2016 PERIOD FROM 01.01.2016 TO 31.03.2016
Cash flow from operating activities – indirect method		
Net profit for the period	457 219	602 981
Adjustments for:	(8 494 875)	(1 022 711)
Depreciation and amortization	80 074	81 347
(Gains) losses on investing activities	(1 054)	(1 761)
Net interest income	(1 087 759)	(1 039 833)
Dividend income	(143 264)	(64 816)
Interest received	1 260 925	1 165 518
Interest paid	(273 839)	(275 091)
Income tax	258 151	212 113
Income tax paid	(138 331)	(168 477)
Change in loans and advances to banks	(183 231)	481 553
Change in financial assets held for trading	(1 134 960)	625 816
Change in derivative financial instruments (assets)	225 641	949 983
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank	(1 930 444)	4 993 905
Change in investment (placement) securities	63 754	(139 746)
Change in other assets	(211 868)	1 423 588
Change in amounts due to banks	495 772	(1 323 876)
Change in financial liabilities held for trading	(62 142)	(344 101)
Change in derivative financial instruments (liabilities)	(106 730)	(726 910)
Change in amounts due to customers	(5 186 145)	(7 104 877)
Change in debt securities issued	343	(2 189)
Change in provisions	(2 782)	2 760
Change in other liabilities	(416 986)	232 383
Net cash flows from operating activities	(8 037 656)	(419 730)
Cash flow from investing activities		
Investing activity inflows	12 177 961	55 869 942
Sale of investment securities	11 893 141	55 700 032
Sale of intangible assets and property, plant and equipment	6	1 636
Dividend received	143 265	64 816
Other investing inflows	141 549	103 458
Investing activity outflows	(5 891 072)	(60 991 658)
Acquisition of investment securities	(5 828 580)	(60 962 326)
Acquisition of intangible assets and property, plant and equipment	(62 492)	(29 332)
Net cash flows from investing activities	6 286 889	(5 121 716)

Unconsolidated Financial Statements of Bank Pekao S.A.

(in PLN thousand)

	I QUARTER 2017 PERIOD FROM 01.01.2017 TO 31.03.2017	I QUARTER 2016 PERIOD FROM 01.01.2016 TO 31.03.2016
Cash flows from financing activities		
Financing activity inflows	-	809 733
Issue of debt securities	-	809 733
Financing activity outflows	(213 083)	(1 343 809)
Redemption of debt securities	(213 083)	(1 343 809)
Net cash flows from financing activities	(213 083)	(534 076)
Total net cash flows	(1 963 850)	(6 075 522)
including: effect of exchange rate fluctuations on cash and cash equivalents held	(100 627)	(24 538)
Net change in cash and cash equivalents	(1 963 850)	(6 075 522)
Cash and cash equivalents at the beginning of the period	8 750 011	14 568 422
Cash and cash equivalents at the end of the period	6 786 161	8 492 900

Notes to financial statements

(in PLN thousand)

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

1. General information

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

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

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

The condensed consolidated interim financial statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 31 March 2017 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and the associates accounted for using equity method.

Changes in share ownership structure of the Bank

Changes in share ownership structure of the Bank are presented in the Note 5.4 'The Bank's shareholding structure' of the Report on the activities of Bank Pekao S.A. Group for the first quarter of 2017.

2. Group structure

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			31.03.2017	31.12.2016
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Leasing Sp. z o.o.	Warsaw	Leasing services	100.00	100.00
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Pioneer Powszechné Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	65.00	65.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A., including:	Warsaw	Real estate development	100.00	100.00
FPB - Media Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00

As at 31 March 2017, all subsidiaries of the Bank have been consolidated.

Notes to financial statements (cont.)

(in PLN thousand)

Associates

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			31.03.2017	31.12.2016
Dom Inwestycyjny Xelion Sp. z o.o. (*)	Warsaw	Financial intermediary	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	49.00	49.00
<i>Pioneer Pekao TFI S.A.</i>	<i>Warsaw</i>	<i>Asset management</i>	<i>49.00</i>	<i>49.00</i>
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00

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

As at 31 March 2017, the Group held no shares in entities under joint control.

Changes in the Group structure

In the first quarter of 2017 there were no changes in the Group structure.

3. Business combinations

In the first quarter of 2017 and in 2016 there were no business combinations in the Group.

4. Statement of compliance

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

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

The consolidated financial statements of Bank Pekao S.A. Group as at and for the year ended 31 December 2016 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 three months period ended 31 March 2017, i.e. current interim period.

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

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

These condensed consolidated interim financial statements were authorized for issue by the Management Board on 9 May 2017.

Notes to financial statements (cont.)

(in PLN thousand)

5. Significant accounting policies

5.1 Basis of preparation of Consolidated Financial Statements

General information

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

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

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

Changes in presentation of financial data

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Consolidated income statement

	I QUARTER 2016 (before restatement)	Restatement	I QUARTER 2016 (after restatement)
Interest income	1 353 216	-	1 353 216
Interest expense	(283 478)	-	(283 478)
Net interest income	1 069 738	-	1 069 738
Fee and commission income	538 030	98 832	636 862
Fee and commission expense	(74 690)	-	(74 690)
Net fee and commission income	463 340	98 832	562 172
Dividend income	1	-	1
Result on financial assets and liabilities held for trading	120 842	(98 832)	22 010
Result on fair value hedge accounting	(2 868)	-	(2 868)
Gains (losses) on disposal of:	150 383	-	150 383
loans and other financial receivables	149 924	-	149 924
available for sale financial assets and held to maturity investments	464	-	464
financial liabilities	(5)	-	(5)
Operating income	1 801 436	-	1 801 436
Net impairment losses on financial assets and off-balance sheet commitments	(129 389)	-	(129 389)
loans and other financial receivables	(128 226)	-	(128 226)
off-balance sheet commitments	(1 163)	-	(1 163)
Net result on financial activity	1 672 047	-	1 672 047
Administrative expenses	(874 590)	-	(874 590)
personnel expenses	(471 180)	-	(471 180)
other administrative expenses	(403 410)	-	(403 410)
Depreciation and amortization	(85 793)	-	(85 793)
Net result on other provisions	(829)	-	(829)
Net other operating income and expenses	6 541	-	6 541
Operating costs	(954 671)	-	(954 671)
Gains (losses) on subsidiaries and associates	10 003	-	10 003
Gains (losses) on disposal of property, plant and equipment, and intangible assets	1 281	-	1 281
Profit before income tax	728 660	-	728 660
Income tax expense	(155 182)	-	(155 182)
Net profit for the period	573 478	-	573 478
1. Attributable to equity holders of the Bank	573 396	-	573 396
2. Attributable to non-controlling interest	82	-	82
Earnings per share (in PLN per share)			
basic for the period	2.18		2.18
diluted for the period	2.18		2.18

Notes to financial statements (cont.)

(in PLN thousand)

Unconsolidated income statement

	I QUARTER 2016 (before restatement)	Restatement	I QUARTER 2016 (after restatement)
Interest income	1 316 944	-	1 316 944
Interest expense	(277 111)	-	(277 111)
Net interest income	1 039 833	-	1 039 833
Fee and commission income	484 327	98 832	583 159
Fee and commission expense	(76 316)	-	(76 316)
Net fee and commission income	408 011	98 832	506 843
Dividend income	64 816	-	64 816
Result on financial assets and liabilities held for trading	115 012	(98 832)	16 180
Result on fair value hedge accounting	(2 868)	-	(2 868)
Gains (losses) on disposal of:	150 385	-	150 385
loans and other financial receivables	149 924	-	149 924
available for sale financial assets and held to maturity investments	465	-	465
financial liabilities	(4)	-	(4)
Operating income	1 775 189	-	1 775 189
Net impairment losses on financial assets and off-balance sheet commitments	(126 136)	-	(126 136)
loans and other financial receivables	(123 930)	-	(123 930)
off-balance sheet commitments	(2 206)	-	(2 206)
Net result on financial activity	1 649 053	-	1 649 053
Administrative expenses	(821 610)	-	(821 610)
personnel expenses	(420 951)	-	(420 951)
other administrative expenses	(400 659)	-	(400 659)
Depreciation and amortization	(81 347)	-	(81 347)
Net result on other provisions	(809)	-	(809)
Net other operating income and expenses	5 127	-	5 127
Operating costs	(898 639)	-	(898 639)
Gains (losses) on subsidiaries and associates	-	-	-
Gains (losses) on disposal of property, plant and equipment, and intangible assets	1 425	-	1 425
Profit before income tax	751 839	-	751 839
Income tax expense	(148 858)	-	(148 858)
Net profit for the period	602 981	-	602 981

Earnings per share (in PLN per share)		
basic for the period	2.30	2.30
diluted for the period	2.30	2.30

Notes to financial statements (cont.)

(in PLN thousand)

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2017, had no material impact on the Group's financial statements (Note 5.2).

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

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

IFRS 9 'Financial Instruments'

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

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

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

Classification and measurement

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

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

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

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

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

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

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

- loans and advances to banks, loans and advances to customers and debt securities which, in accordance with IAS 39 are classified as loans and receivables and are held to collect contractual cash flows will be mostly measured at amortized cost under IFRS 9,
- debt securities, which according to IAS 39 are classified as held to maturity, are held to collect contractual cash flows and will be measured at amortized cost under IFRS 9,
- the majority of the debt securities which in accordance with IAS 39 are classified as available for sale, are held to collect contractual cash flows or for sale and will be still measured at fair value through other comprehensive income in accordance with IFRS 9,

Notes to financial statements (cont.)

(in PLN thousand)

- financial assets and liabilities held for trading, including assets and liabilities arising from derivative financial instruments, will continue to be measured at fair value through profit or loss,
- investments in equity instruments classified as available for sale according to IAS 39, will be measured at fair value through profit or loss in accordance with IFRS 9. The Bank has not yet made a final decision regarding the possibility of making an irrevocable election regarding recognition of changes in fair value of the equity instrument in other comprehensive income.

The Bank assesses that the implementation of the new standard will have no impact on the accounting treatment of financial liabilities, as IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. Because of the aforementioned change the Bank will be obliged to calculate loss allowances based on the expected credit loss, taking into consideration forecasts of future economic conditions with regard to the measurement of the credit risk of an exposure, which is unacceptable under IAS 39.

The new impairment model will be applied to financial instruments measured, in accordance with IFRS 9, at amortized cost or at fair value through other comprehensive income, except for equity instruments.

Replacing the concept of 'incurred loss' with the concept of 'expected credit loss' will influence significantly the way of modelling credit risk parameters and the final amount of loss allowances. The currently applied loss identification period will not be used anymore, therefore the IBNR (incurred but not reported) category of loss allowance will be eliminated. In accordance with IFRS 9, the loss allowances will be calculated in the following categories (instead of the IBNR loss allowances and the loss allowances for non-performing exposures):

1. Stage 1 – 12-month expected credit losses – the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date,
2. Stage 2 and 3 – lifetime expected credit losses – the expected credit losses that result from all possible default events over the expected life of a financial instrument.

The measurement of lifetime expected credit losses will be applied to all exposures for which during the period between the initial recognition and the reporting date the Bank has identified a significant increase in credit risk (Stage 2) or has identified impairment (Stage 3). The measurement of 12-month expected credit losses (Stage 1) will be applied to all exposures for which the Bank has not identified a significant increase in credit risk or impairment during the period between the initial recognition and the reporting date.

The new approach to calculating the impairment of the financial assets will also have an impact on the interest income recognition. In particular, interest income on financial assets allocated to Stages 1 and 2 will be calculated based on the gross carrying amount of the exposure, whereas interest income on financial assets allocated to Stage 3 will be calculated based on the net carrying amount of the exposure (similarly to impaired financial assets under the requirements of IAS 39).

The Bank assumes that the implementation of the new impairment model based on the concept of ECL will have an impact on the level of the Bank's loss allowances, particularly with regard to exposures allocated to Stage 2. Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment triggers in order to estimate lifetime credit losses in Stage 2. Instead, the Bank is obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition.

In the event of significant increase in credit risk since the initial recognition of the asset, the Bank will be obliged to calculate lifetime expected credit losses – Stage 2. Such an approach will result in the earlier recognition of credit losses which will cause an increase in loss allowances and therefore it will also affect profit or loss.

Notes to financial statements (cont.)

(in PLN thousand)

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

The development of credit risk models is focused on estimating the life time credit risk parameters adjusted to take into account forward looking information in respect of Bank's expectations regarding future macroeconomic outlook. Modelling of the future exposure on the date of default will leverage on available payment schedules as well as information regarding prepayments. For the exposures without defined payment schedules the Bank is developing methodology aimed at modelling limit utilization at the date of default. In respect of transfer between Stage 1 and Stage 2 the Bank develops statistical transfer logic models utilizing probability of default parameter and other characteristics of the exposure such as product type, rating class or time to maturity, supplemented by additional qualitative transfer triggers.

In terms of new solutions, the works mainly include the development of criteria for the transfer between the stages, as well as taking into account the economic forecasts in the estimation of expected credit losses.

In the Bank's opinion, the implementation of the new Standard requires the application of more complex credit risk models of greater predictive abilities which require a significantly broader set of source data than the currently applied models.

Hedge accounting

The Bank decided to take advantage of the choice which gives IFRS 9 and will to continue to apply the hedge accounting requirements of IAS 39. This decision will apply to all hedging relationships, for which the Bank applies and will apply hedge accounting in the future.

Therefore, in the case of hedge accounting, the entry into force of IFRS 9 will have no impact on the financial position of the Bank.

Disclosures and comparatives

The Bank expects that new requirements of IFRS 9 will significantly change the presentation and extent of the disclosures on financial instruments, particularly in the year of the adoption of the new standard.

The Bank plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings as at 1 January 2018.

Implementation schedule

The Bank has launched a dedicated project of IFRS 9 implementation in 2015. The project is organized into two main streams: (1) C&M (classification and measurement including hedge accounting) and (2) LLP (impairment) which are managed by the key management persons of Finance and Risk Division respectively. Additionally the Bank has appointed the Steering Committee responsible for supervision over the project. The key members of Steering Committee are CFO, CRO and COO. Main objectives of Steering Committee are setting and monitoring key milestones and budget and taking major decisions concerning methodology and the operating model. The project involves also employees of Finance Division, Risk Division, as well as the main Business functions, Organization and Information Technology departments.

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

In parallel with the work on the methodology, the Bank develops architecture of IT systems in order to allow both the implementation of the new standard in the framework of impairment calculations and determining the risk parameters used.

Notes to financial statements (cont.)

(in PLN thousand)

Potential impact of IFRS 9 on the financial situation and the own funds

Quantitative assessment of the impact of changes on the financial statements upon adoption of the standard is not yet available primarily due to ongoing methodological works regarding adjustments of credit risk models to IFRS 9 requirements which are still in progress as well as from the lack of uniform market practice. From the legislative standpoint, the supervisory and regulatory authorities are working on updating prudential requirements which will be binding for the Bank. However, it needs to be noted that these works are not advanced enough to enable Bank to unambiguously determine the impact of the IFRS 9 on the financial position and capital adequacy indicators.

In the Bank's opinion, disclosing quantitative data that would not reflect the potential impact of all aspects of IFRS 9 on the Bank's financial situation and own funds could have a negative impact on the informative value of the financial statements for its users. Therefore, the Bank has chosen to disclose solely qualitative information on the Bank's approach to the IFRS 9 implementation, which in the Bank's opinion will enable the users of the financial statements to understand the impact of IFRS 9 on the financial situation and capital management of the Bank.

In the Bank's view the implementation of the new standard, and especially the introduction of the new impairment model based on the ECL concept, will increase the value of impairment allowances, especially in terms of exposures to Stage 2. The Bank does not anticipate a significant impact on the level or volatility of P&L/OCI, as expected changes in classification and measurement methods will be limited to a minor part of financial assets. The final result will depend on the structure of assets at the date of initial application of IFRS 9. Any changes in the carrying value of financial instruments due to the adoption of IFRS 9 will be recognized in the Bank's equity as of 1 January 2018.

The most significant impact on the Bank's own funds will have the above-mentioned increase in the value of allowances for credit losses and the change in the classification and valuation of equity securities which in accordance with IAS 39 are classified to available-for-sale portfolio and measured at fair value recognized through other comprehensive income (provided that the Bank does not exercise the OCI option in accordance with IFRS 9).

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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.</p> <p>Date of application: the first financial year beginning after 1 January 2018.</p>	The impact assessment of the new standard implementation on Group's financial statements is described in note 5.1 Basis of preparation of Consolidated Financial Statements.
IFRS 15 'Revenue from Contracts with Customers'	<p>The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.</p> <p>The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer.</p> <p>Date of application: the first financial year beginning after 1 January 2018.</p>	The Group is currently assessing the impact of the IFRS 15 application on its financial statements.

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

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 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.</p> <p>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 Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.
IFRS 16 'Leases'	<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.</p> <p>Date of application: annual periods beginning on or after 1 January 2019.</p>	The Group is currently assessing the impact of the IFRS 16 application on its financial statements.

Notes to the financial statements (cont.)

(in PLN thousand)

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 10 (amendment) 'Consolidated Financial Statements' and IAS 28 (amendment) 'Investments in Associates and Joint Ventures'	The amendments concern the sale or contribution of assets between the investor and the associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Effective date has been deferred indefinitely until the research project on the equity method has been concluded.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 7 (amendment) 'Statement of Cash Flows' - Disclosure Initiative	The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Date of application: annual periods beginning on or after 1 January 2017. At the date of authorisation of these financial statements The amendment has not been endorsed by EU.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 12 (amendment) 'Income Taxes'	The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Date of application: annual periods beginning on or after 1 January 2017. At the date of authorisation of these financial statements The amendment has not been endorsed by EU.	The Group is currently analyzing the impact of those changes on the financial statements.
IFRS 2 (amendment) 'Share-based Payment'	The amendments provide requirements on the accounting for (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, (b) share-based payment transactions with a net settlement feature for withholding tax obligations, and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Date of application: annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.
IFRS 4 (amendment) 'Insurance Contracts'	The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4. Date of application: effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 'Financial Instruments' is applied first time.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 40 (amendment) 'Investment Property'	Amendments to IAS 40 'Investment Property' - Transfers of Investment Property state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Amendments also state that the list of evidence in paragraph 57 was designated as non-exhaustive list of examples instead of the previous exhaustive list. Date of application: annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.
Improvements to IFRS 2014-2016	Amendments result from the annual improvement project of IFRS. Amendments relate to IFRS 1, IFRS 12 and IAS 28 and were introduced primarily with a view to removing inconsistencies and clarifying wording. Date of application: amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.
IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Date of application: annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.

Notes to the financial statements (cont.)

(in PLN thousand)

6. Accounting estimates

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

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

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

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

During the three months period ended 31 March 2017 the most significant estimates are as follows:

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

7. Risk management

Credit risk

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

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

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

RATING CLASS	RANGE OF PD	31.03.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.06%	11 466 693	25.5%	11 544 215	26.2%
2	0.06% <= PD < 0.19%	6 539 570	14.5%	6 794 533	15.4%
3	0.19% <= PD < 0.35%	18 315 212	40.7%	17 482 613	39.7%
4	0.35% <= PD < 0.73%	5 930 797	13.2%	5 463 689	12.4%
5	0.73% <= PD < 3.50%	1 456 698	3.2%	1 435 604	3.3%
6	3.50% <= PD < 14.00%	606 146	1.4%	638 891	1.5%
7	14.00% <= PD < 100.00%	669 899	1.5%	671 745	1.5%
Total		44 985 015	100.0%	44 031 290	100.0%

Notes to financial statements (cont.)

(in PLN thousand)

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

RATING CLASS	RANGE OF PD	31.03.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.34%	659 756	7.3%	687 697	7.9%
2	0.34% <= PD < 0.80%	905 673	10.0%	948 701	10.8%
3	0.80% <= PD < 1.34%	1 470 668	16.2%	1 506 160	17.2%
4	1.34% <= PD < 2.40%	2 848 644	31.5%	2 669 352	30.5%
5	2.40% <= PD < 4.75%	1 979 689	21.9%	1 815 307	20.7%
6	4.75% <= PD < 14.50%	800 621	8.8%	756 550	8.7%
7	14.50% <= PD < 31.00%	189 847	2.1%	186 915	2.1%
8	31.00% <= PD < 100.00%	196 501	2.2%	186 336	2.1%
Total		9 051 399	100.0%	8 757 018	100.0%

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

RATING CLASS	RANGE OF PD	31.03.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.15%	452 849	2.9%	515 756	3.5%
2	0.15% <= PD < 0.27%	1 720 113	10.9%	2 188 032	14.8%
3	0.27% <= PD < 0.45%	2 167 026	13.8%	1 984 785	13.5%
4	0.45% <= PD < 0.75%	2 524 763	16.0%	2 105 131	14.3%
5	0.75% <= PD < 1.27%	2 957 713	18.8%	2 131 155	14.5%
6	1.27% <= PD < 2.25%	2 546 728	16.2%	2 269 874	15.4%
7	2.25% <= PD < 4.00%	1 247 334	7.9%	1 266 801	8.6%
8	4.00% <= PD < 8.50%	2 001 431	12.7%	1 948 049	13.2%
9	8.50% <= PD < 100.00%	124 214	0.8%	319 268	2.2%
Total		15 742 171	100.0%	14 728 851	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	31.03.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.0000% <= PD < 0.0011%	-	0.0%	-	0.0%
2	0.0011% <= PD < 0.0031%	-	0.0%	-	0.0%
3	0.0031% <= PD < 0.0069%	-	0.0%	-	0.0%
4	0.0069% <= PD < 0.0124%	-	0.0%	-	0.0%
5	0.0124% <= PD < 0.0223%	-	0.0%	1	0.0%
6	0.0223% <= PD < 0.0395%	-	0.0%	-	0.0%
7	0.0395% <= PD < 0.0691%	-	0.0%	5	0.0%
8	0.0691% <= PD < 0.1208%	451 761	9.1%	430 448	8.0%
9	0.1208% <= PD < 0.2091%	614 713	12.4%	1 029 404	19.1%
10	0.2091% <= PD < 0.3581%	538 482	10.8%	255 864	4.8%
11	0.3581% <= PD < 0.6132%	2 135 972	42.9%	2 486 615	46.2%
12	0.6132% <= PD < 1.0807%	-	0.0%	-	0.0%
13	1.0807% <= PD < 1.9599%	902 608	18.1%	847 569	15.7%
14	1.9599% <= PD < 3.5545%	331 789	6.7%	331 740	6.2%
15	3.5545% <= PD < 7.6705%	8	0.0%	11	0.0%
16	7.6705% <= PD < 19.6959%	-	0.0%	-	0.0%
17	19.6959% <= PD < 100.0000%	-	0.0%	-	0.0%
Total		4 975 333	100.0%	5 381 657	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 CATEGORIES	31.03.2017		31.12.2016	
	CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
High	1 366 972	17.7%	3 470 755	42.6%
Good	4 624 241	59.9%	3 623 153	44.5%
Satisfactory	1 726 940	22.4%	1 010 603	12.4%
Low	2 088	0.0%	44 728	0.5%
Total	7 720 241	100.0%	8 149 239	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

	31.03.2017	31.12.2016
Loans with no impairment:	121 943 261	120 112 554
Loans to individuals:	57 202 587	55 863 932
Covered by internal rating model:	54 036 414	52 788 308
Mortgage loans	44 985 015	44 031 290
Consumer loans	9 051 399	8 757 018
Other, not covered by internal rating model	3 166 173	3 075 624
Loans to corporates:	64 740 674	64 248 622
Covered by internal rating model:	20 717 504	20 110 508
Clients with income not exceeding EUR 500 million	15 742 171	14 728 851
Clients assessed by central model with income exceeding EUR 500 million	4 975 333	5 381 657
Specialized lending exposures	7 720 241	8 149 239
Debt securities, not covered by internal rating model	12 147 285	12 352 160
Repo transactions, not covered by internal rating model	-	-
Other, not covered by internal rating model	24 155 644	23 636 715
Impaired loans	2 560 644	2 550 658
Total loans and advances to customers (*)	124 503 905	122 663 212

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

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting agreements or similar agreements, irrespective of whether they are offset in the statement of financial position.

The netting agreements concluded by the Group are:

- ISDA agreements and similar master netting agreements on derivatives,
- GMRA agreements on repo and reverse-repo transactions.

The netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the one of the counterparty. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Notes to financial statements (cont.)

(in PLN thousand)

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

- derivatives,
- repo and reverse-repo transactions.

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

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

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

31.03.2017	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	1 841 396	(1 219 167)	(437 572)	184 657
TOTAL	1 841 396	(1 219 167)	(437 572)	184 657

31.03.2017	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	2 829 208	(1 219 167)	(1 427 948)	182 093
TOTAL	2 829 208	(1 219 167)	(1 427 948)	182 093

31.12.2016	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	1 848 236	(1 434 265)	(182 765)	231 206
TOTAL	1 848 236	(1 434 265)	(182 765)	231 206

Notes to financial statements (cont.)

(in PLN thousand)

31.12.2016	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	3 254 372	(1 434 265)	(1 651 984)	168 123
TOTAL	3 254 372	(1 434 265)	(1 651 984)	168 123

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

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

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

31.03.2017	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 620 355	Derivative financial instruments (held for trading)	1 699 426	79 071	26
	221 041	Hedging instruments	411 385	190 344	29
FINANCIAL LIABILITIES					
Derivatives	1 449 291	Derivative financial instruments (held for trading)	1 836 069	386 778	26
	1 379 917	Hedging instruments	1 384 203	4 286	29

31.12.2016	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 791 677	Derivative financial instruments (held for trading)	1 913 429	121 752	26
	56 559	Hedging instruments	289 752	233 193	29
FINANCIAL LIABILITIES					
Derivatives	1 618 110	Derivative financial instruments (held for trading)	1 952 674	334 564	26
	1 636 262	Hedging instruments	1 638 718	2 456	29

Notes to financial statements (cont.)

(in PLN thousand)

The quality analysis of the Group's financial assets

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.03.2017	31.12.2016	31.03.2017	31.12.2016
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	737 046	642 927
- up to 1 month	-	-	42 148	106 904
- between 1 month and 3 months	-	-	44 687	31 323
- between 3 months and 1 year	-	-	226 032	228 925
- between 1 year and 5 years	7 737	8 192	2 096 761	2 565 907
- above 5 years	-	-	1 951 079	1 498 788
Total gross carrying amount	7 737	8 192	5 097 753	5 074 774
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(272 547)	(292 907)
- up to 1 month	-	-	(7 807)	(30 285)
- between 1 month and 3 months	-	-	(8 832)	(7 077)
- between 3 months and 1 year	-	-	(130 228)	(121 057)
- between 1 year and 5 years	(7 737)	(8 192)	(1 343 806)	(1 563 402)
- above 5 years	-	-	(1 422 300)	(1 170 559)
Total allowance for impairment	(7 737)	(8 192)	(3 185 520)	(3 185 287)
Net carrying amount of exposure individually impaired	-	-	1 912 233	1 889 487
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	168 278	166 121
- up to 1 month	-	-	71 217	69 664
- between 1 month and 3 months	-	-	51 032	56 545
- between 3 months and 1 year	-	-	301 848	286 856
- between 1 year and 5 years	-	-	1 274 161	1 297 813
- above 5 years	9 800	9 800	959 917	914 748
Total gross carrying amount	9 800	9 800	2 826 453	2 791 747
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(59 029)	(54 371)
- up to 1 month	-	-	(21 830)	(21 678)
- between 1 month and 3 months	-	-	(19 162)	(20 975)
- between 3 months and 1 year	-	-	(158 860)	(152 797)
- between 1 year and 5 years	-	-	(1 039 321)	(1 038 042)
- above 5 years	(9 800)	(9 800)	(879 840)	(842 713)
Total allowance for impairment	(9 800)	(9 800)	(2 178 042)	(2 130 576)
Net carrying amount of exposure collectively impaired	-	-	648 411	661 171

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

Notes to financial statements (cont.)

(in PLN thousand)

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	31.03.2017	31.12.2016	31.03.2017	31.12.2016	31.03.2017	31.12.2016
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	3 352 981	3 258 534	64 690 042	64 156 501	55 728 304	54 316 545
- up to 30 days	-	-	194 053	240 713	1 236 693	1 314 340
- between 30 days and 60 days	-	-	29 687	27 468	176 885	177 909
- above 60 days	-	-	120 611	88 700	190 420	184 075
Total gross carrying amount	3 352 981	3 258 534	65 034 393	64 513 382	57 332 302	55 992 869
IBNR PROVISION						
- not past due	(12)	(8)	(283 178)	(256 869)	(82 524)	(80 772)
- up to 30 days	-	-	(6 588)	(5 106)	(29 982)	(30 818)
- between 30 days and 60 days	-	-	(2 156)	(1 425)	(8 840)	(9 873)
- above 60 days	-	-	(1 797)	(1 360)	(8 369)	(7 474)
Total IBNR provision	(12)	(8)	(293 719)	(264 760)	(129 715)	(128 937)
Net carrying amount of exposure with no impairment	3 352 969	3 258 526	64 740 674	64 248 622	57 202 587	55 863 932

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

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.03.2017	31.12.2016	31.03.2017	31.12.2016
IMPAIRED EXPOSURES				
Gross carrying amount	17 537	17 992	7 924 206	7 866 521
Allowance for impairment	(17 537)	(17 992)	(5 363 562)	(5 315 863)
Total net carrying amount	-	-	2 560 644	2 550 658
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	-	-	90 729	100 560
<i>Exposure with collateral value included in expected discounted cash flow, in this:</i>	-	-	90 729	100 560
- <i>Past due exposures</i>	-	-	25 849	35 382
IBNR provision	-	-	(2 392)	(2 610)
Total net carrying amount	-	-	88 337	97 950
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	3 352 981	3 258 534	122 275 966	120 405 691
IBNR provision	(12)	(8)	(421 042)	(391 087)
Total net carrying amount	3 352 969	3 258 526	121 854 924	120 014 604

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

Notes to financial statements (cont.)

(in PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 March 2017

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (*)	
AA+ to AA-	-	310 631	-	-	310 631
A+ to A-	1 822 312	23 722 710	3 889 460	629 363	30 063 845
no rating	36 557	906 124	-	-	942 681
Total	1 858 869	24 939 465	3 889 460	629 363	31 317 157

(*) 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 2016

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (***)	
AA+ to AA	-	327 613	-	-	327 613
A+ to A-	654 918	24 719 097	2 998 379	700 960	29 073 354
BBB+ to BBB-	9 719	-	-	-	9 719
no rating	66 113	6 903 060 (*)	20 606 (**)	-	6 989 779
Total	730 750	31 949 770	3 018 985	700 960	36 400 465

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

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

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

Classification of exposures to derivative financial instruments according to Standard & Poor's ratings as at 31 March 2017

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	46	-	-	-	-	-	46
AA+ to AA-	69 542	-	-	21 704	-	-	91 246
A+ to A-	566 468	153 869	-	87 886	-	-	808 223
BBB+ to BBB-	352 124	-	-	41 829	-	-	393 953
BB+ to BB-	-	-	11	-	-	-	11
no rating	248 729	53 999	254 638	67 596	192 370	-	817 332
Total	1 236 909	207 868	254 649	219 015	192 370	-	2 110 811

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 2016

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	143	-	-	-	-	-	143
AA+ to AA-	75 047	-	-	1 044	-	-	76 091
A+ to A-	581 997	179 546	-	22 224	-	-	783 767
BBB+ to BBB-	379 748	-	-	4 414	-	-	384 162
no rating	303 021	69 325	324 602	26 868	235 202	-	959 018
Total	1 339 956	248 871	324 602	54 550	235 202	-	2 203 181

Forbearance measures

The identifying process of Forborne exposures has not changed in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2016.

Share of forborne exposures in the Group's loan portfolio

	31.03.2017	31.12.2016
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	121 943 261	120 112 554
forborne exposures	375 513	574 117
Impaired exposures, of which:	2 560 644	2 550 658
forborne exposures	1 567 731	1 476 521
Total net carrying amount, of which:	124 503 905	122 663 212
forborne exposures	1 943 244	2 050 638

The quality analysis of forborne exposures

	31.03.2017	31.12.2016
Exposures with no impairment		
Gross carrying amount	389 923	587 347
IBNR provisions	(14 410)	(13 230)
Net carrying amount	375 513	574 117
Impaired exposures		
Gross carrying amount, of which:	3 239 626	3 152 110
exposures individually impaired	2 891 302	2 816 470
exposures collectively impaired	348 324	335 640
Allowances for impairment, of which:	(1 671 895)	(1 675 589)
exposures individually impaired	(1 513 407)	(1 524 510)
exposures collectively impaired	(158 488)	(151 079)
Net carrying amount	1 567 731	1 476 521
Total net carrying amount	1 943 244	2 050 638

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 for individuals have been proposed recently, including the President's draft of the act on the restoration of the equality of parties of certain loan agreements. The proposed solutions are under discussion and may change significantly. Therefore, at the moment, the Group is not able to reliably estimate the impact of the proposed solutions on the financial statements. However, taking into account the relatively minor share of these loans in the total assets and limited market share, the Group assesses that potentially taken solutions should not materially affect the financial standing of the Group.

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

Structure of CHF loans to individuals

	31.03.2017	31.12.2016
Gross carrying amount, of which:	4 189 655	4 492 086
- denominated in CHF	4 162 162	4 461 077
- indexed to CHF	27 493	31 009
Impairment allowances, of which:	(89 151)	(91 931)
- denominated in CHF	(88 832)	(91 604)
- indexed to CHF	(319)	(327)
Net carrying amount, of which:	4 100 504	4 400 155
- denominated in CHF	4 073 330	4 369 473
- indexed to CHF	27 174	30 682

Notes to financial statements (cont.)

(in PLN thousand)

Quality of CHF loans to individuals

	31.03.2017	31.12.2016
Gross carrying amount of exposures with no impairment, of which:	4 006 193	4 302 638
- not past due	3 723 702	3 956 983
- up to 30 days	221 615	280 365
- between 30 days and 60 days	44 427	47 308
- above 60 days	16 449	17 982
IBNR provisions for exposures with no impairment, of which:	(10 418)	(11 261)
- not past due	(4 231)	(4 183)
- up to 30 days	(4 050)	(4 464)
- between 30 days and 60 days	(1 389)	(1 755)
- above 60 days	(748)	(859)
Gross carrying amount of impaired exposures, of which:	183 462	189 448
- not past due	30 215	31 997
- up to 1 month	20 950	18 589
- between 1 month and 3 months	10 465	12 590
- between 3 months and 1 year	29 756	32 948
- between 1 year and 5 years	54 924	55 254
- above 5 years	37 152	38 070
Allowances for impairment, of which:	(78 733)	(80 670)
- not past due	(5 049)	(6 020)
- up to 1 month	(3 680)	(2 867)
- between 1 month and 3 months	(2 312)	(2 720)
- between 3 months and 1 year	(8 752)	(9 379)
- between 1 year and 5 years	(31 745)	(31 609)
- above 5 years	(27 195)	(28 075)
Total net carrying amount	4 100 504	4 400 155

As of 31 March 2017 the average LTV for CHF loans to individuals granted by the Group amounted to 53.4% (56.3% as at 31 December 2016), with an average LTV for the whole portfolio of 66.1% (66.0% as at 31 December 2016).

Notes to financial statements (cont.)

(in PLN thousand)

Credit exposures towards Ukraine

As at 31 March 2017, the net balance sheet value of remaining exposures towards Ukraine amounted to PLN 106 million (which constitutes 0.1% of total Group exposures), less by PLN 5 million in comparison to the end of December 2016.

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

	31.03.2017	31.12.2016
Balance sheet exposures		
Loans and advances to customers	306 004	321 048
Total gross carrying amount	306 004	321 048
IBNR provision / Allowance for impairment	(199 753)	(209 687)
Total net carrying amount	106 251	111 361
Off-balance sheet exposure		
Credit lines granted	391	428
Total gross carrying amount	391	428
IBNR provision	-	-
Total net carrying amount	391	428

Market risk of the trading book

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

The table below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk in the period from 1 January to 31 March 2017 and in 2016.

	31.03.2017	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	25	20	351	1 510
interest rate risk	1 226	773	1 199	1 925
Trading portfolio	1 207	922	1 295	1 899

	31.12.2016	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	60	14	275	1 958
interest rate risk	819	804	1 106	1 677
Trading portfolio	791	791	1 187	2 174

Interest rate risk of the banking book

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

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

SENSITIVITY IN %	31.03.2017	31.12.2016
NII	(7.71)	(8.03)
EVE	(1.10)	(0.76)

Notes to financial statements (cont.)

(in PLN thousand)

Currency risk

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

The tables below present the Group's foreign currency risk profile measured by Value at Risk and currency position.

Value at Risk

CURRENCY	31.03.2017	31.12.2016
Currencies total (*)	183	208

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

Currency position

31.03.2017	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS-DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	18 820 446	18 215 481	12 138 759	12 749 572	(5 848)
USD	5 227 481	8 296 985	8 985 923	5 910 567	5 852
CHF	4 368 772	1 017 567	3 963 870	7 318 307	(3 232)
GBP	212 654	875 001	744 746	80 789	1 610
CZK	36 463	267 131	369 918	138 362	888
Other currencies	202 124	211 984	413 813	400 896	3 057
TOTAL	28 867 940	28 884 149	26 617 029	26 598 493	2 327

31.12.2016	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS-DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	21 197 815	17 067 038	12 655 773	16 763 013	23 537
USD	5 210 025	7 710 838	6 409 305	3 980 769	(72 277)
CHF	4 722 131	1 049 133	3 606 673	7 285 284	(5 613)
GBP	212 581	869 553	687 217	29 324	921
CZK	34 786	529 413	602 343	107 358	358
Other currencies	262 357	164 008	208 033	304 055	2 327
TOTAL	31 639 695	27 389 983	24 169 344	28 469 803	(50 747)

Notes to financial statements (cont.)

(in PLN thousand)

Liquidity risk

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

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

Adjusted liquidity gap

31.03.2017	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	35 163 624	7 782 113	23 582 886	49 943 410	52 688 800	169 160 833
Balance sheet liabilities	11 172 250	6 812 454	19 793 327	18 834 652	112 548 150	169 160 833
Off-balance sheet assets/liabilities (net)	(5 182 747)	752 214	352 313	1 403 225	1 603 203	(1 071 792)
Periodic gap	18 808 627	1 721 873	4 141 872	32 511 983	(58 256 147)	(1 071 792)
Cumulated gap	-	20 530 500	24 672 372	57 184 355	(1 071 792)	-

31.12.2016	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	42 255 570	4 225 036	24 539 554	50 597 089	52 597 694	174 214 943
Balance sheet liabilities	19 300 857	6 459 100	18 513 533	20 417 900	109 523 553	174 214 943
Off-balance sheet assets/liabilities (net)	(4 956 771)	(16 411)	862 106	1 309 640	1 496 475	(1 304 961)
Periodic gap	17 997 942	(2 250 475)	6 888 127	31 488 829	(55 429 384)	(1 304 961)
Cumulated gap	-	15 747 467	22 635 594	54 124 423	(1 304 961)	-

Structure of financial liabilities by contractual maturity

31.03.2017	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	2 213 854	27 760	60 608	1 572 276	1 488 574	5 363 072
Amounts due to customers	100 496 693	12 355 442	19 571 966	520 318	59 397	133 003 816
Debt securities issued	1 697	4 602	305 707	1 091 953	52 004	1 455 963
Financial liabilities held for trading	-	-	18 586	383 173	209 264	611 023
Total	102 712 244	12 387 804	19 956 867	3 567 720	1 809 239	140 433 874
OFF-BALANCE SHEET COMMITMENTS (**)						
Financial liabilities granted	31 374 013	-	-	-	-	31 374 013
Guarantees issued	11 033 720	-	-	-	-	11 033 720
Total	42 407 733	-	-	-	-	42 407 733

(*) Including Central Bank.

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

Notes to financial statements (cont.)

(in PLN thousand)

Structure of financial liabilities by contractual maturity

31.12.2016	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 568 626	7 866	62 274	1 490 498	1 775 910	4 905 174
Amounts due to customers	107 386 695	11 705 237	18 590 217	529 562	81 291	138 293 002
Debt securities issued	28 936	194 369	171 915	1 056 438	206 332	1 657 990
Financial liabilities held for trading	102 076	-	131 194	263 435	176 460	673 165
Total	109 086 333	11 907 472	18 955 600	3 339 933	2 239 993	145 529 331
OFF-BALANCE SHEET COMMITMENTS (**)						
Financial liabilities granted	32 304 313	-	-	-	-	32 304 313
Guarantees issued	11 259 832	-	-	-	-	11 259 832
Total	43 564 145	-	-	-	-	43 564 145

(*) Including Central Bank.

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

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

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

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

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

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

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

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.03.2017	16 603	25 341	123 658	1 006 803	380 666	1 553 071
31.12.2016	26 757	51 903	131 715	1 219 802	449 921	1 880 098

Notes to financial statements (cont.)

(in PLN thousand)

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.03.2017						
Inflows	26 207 653	6 096 200	6 781 269	4 832 792	2 853 115	46 771 029
Outflows	26 011 913	6 053 089	6 933 641	5 762 688	3 146 323	47 907 654
31.12.2016						
Inflows	20 805 957	6 032 490	7 701 296	8 030 511	2 915 201	45 485 455
Outflows	20 827 342	6 055 624	7 823 747	8 745 485	3 322 026	46 774 224

Operational risk

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

Fair value of financial assets and liabilities

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

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

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

As of 31 March 2017 and 31 December 2016, the Group classified the financial assets and liabilities measured at fair value into the following hierarchy of three categories based on the following hierarchy:

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

31.03.2017	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	21 884 883	6 870 335	379 218	29 134 436
Financial assets held for trading	1 809 996	20 649	32 049	1 862 694
Derivative financial instruments, including:	43	1 699 383	-	1 699 426
- Banks	-	1 236 909	-	1 236 909
- Customers	43	462 474	-	462 517
Hedging instruments, including:	-	411 385	-	411 385
- Banks	-	219 015	-	219 015
- Customers	-	192 370	-	192 370
Securities available for sale	20 074 844	4 738 918	347 169	25 160 931
Liabilities:	547 344	3 283 951	-	3 831 295
Financial liabilities held for trading	547 344	63 679	-	611 023
Derivative financial instruments, including:	-	1 836 069	-	1 836 069
- Banks	-	1 048 237	-	1 048 237
- Customers	-	787 832	-	787 832
Hedging instruments, including:	-	1 384 203	-	1 384 203
- Banks	-	1 379 917	-	1 379 917
- Customers	-	4 286	-	4 286

31.12.2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	20 944 182	13 685 790	407 312	35 037 284
Financial assets held for trading	636 385	29 971	66 113	732 469
Derivative financial instruments, including:	1	1 913 428	-	1 913 429
- Banks	-	1 339 956	-	1 339 956
- Customers	1	573 472	-	573 473
Hedging instruments, including:	-	289 752	-	289 752
- Banks	-	54 550	-	54 550
- Customers	-	235 202	-	235 202
Securities available for sale	20 307 796	11 452 639	341 199	32 101 634
Liabilities:	527 840	3 736 717	-	4 264 557
Financial liabilities held for trading	527 836	145 329	-	673 165
Derivative financial instruments, including:	4	1 952 670	-	1 952 674
- Banks	-	1 349 082	-	1 349 082
- Customers	4	603 588	-	603 592
Hedging instruments, including:	-	1 638 718	-	1 638 718
- Banks	-	1 636 262	-	1 636 262
- Customers	-	2 456	-	2 456

Notes to financial statements (cont.)

(in PLN thousand)

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

I QUARTER 2017	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
Opening balance	66 113	-	341 199
Increases, including:	353	-	9 634
Reclassification	-	-	-
Derivatives transactions made in 2017	-	-	-
Acquisition	-	-	-
Settlement	-	-	-
Gains on financial instruments	353	-	9 634
recognized in the income statement	353	-	1 791
recognized in revaluation reserves	-	-	7 843
Decreases, including:	(34 417)	-	(3 664)
Reclassification	-	-	-
Settlement/redemption	(307)	-	-
Sale	(34 106)	-	-
Losses on financial instruments	(4)	-	(3 664)
recognized in the income statement	(4)	-	(3 298)
recognized in revaluation reserves	-	-	(366)
Closing balance	32 049	-	347 169
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	77	-	1 512
Income statement:	77	-	1 878
net interest income	68	-	1 878
result on financial assets and liabilities held for trading	9	-	-
Other comprehensive income	-	-	(366)

Notes to financial statements (cont.)

(in PLN thousand)

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

2016	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
Opening balance	47 389	943	456 169
Increases, including:	188 786	-	68 170
Reclassification	-	-	-
Acquisition	187 298	-	58 952
Settlement	-	-	-
Gains on financial instruments	1 488	-	9 218
recognized in the income statement	1 488	-	7 598
recognized in revaluation reserves	-	-	1 620
Decreases, including:	(170 062)	(943)	(183 140)
Reclassification	-	(943)	-
Settlement / redemption	(23 454)	-	(181 678)
Sale	(146 585)	-	-
Loss on financial instruments	(23)	-	(1 462)
recognized in the income statement	(23)	-	(4)
recognized in revaluation reserves	-	-	(1 458)
Closing balance	66 113	-	341 199
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	25	-	(1 187)
Income statement:	25	-	271
net interest income	41	-	271
result on financial assets and liabilities held for trading	(16)	-	-
Other comprehensive income	-	-	(1 458)

Transfers of instruments between fair value hierarchy levels are based on changes in availability of active market quotations as at the end of the reporting periods.

In the period from 1 January to 31 March 2017 there were no transfers between fair value hierarchy levels.

Notes to financial statements (cont.)

(in PLN thousand)

The impact of estimated parameters on measurement of financial instruments for which the Group applies fair value valuation according to Level 3 as at 31 March 2017 and 31 December 2016 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.03.2017	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.03.2017	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate debt securities	283 473	Discounted cash flow	Credit spread	0.25%-1.14%	558	(406)

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

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

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

As of 31 March 2017 and 31 December 2016, the Group classified the financial assets and liabilities not measured at fair value in the consolidated statement of financial position into the following three categories based on the valuation level:

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

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

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

Notes to the financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

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

31.03.2017	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	4 056 082	4 056 082	2 405 178	1 650 904	-
Loans and advance to banks	3 352 877	3 353 642	-	1 196 762	2 156 880
Loans and advances to customers	120 519 432	119 211 227	-	5 900 153	113 311 074
Receivables from financial leases	3 984 565	4 051 386	-	-	4 051 386
Debt securities held to maturity	3 889 460	3 898 782	3 898 782	-	-
Total Assets	135 802 416	134 571 119	6 303 960	8 747 819	119 519 340
Liabilities					
Amounts due to Central Bank	6 007	6 018	-	-	6 018
Amounts due to other banks	5 267 691	5 297 657	-	672 633	4 625 024
Amounts due to customers	132 561 150	132 208 812	-	1 100 975	131 107 837
Debt securities issued	1 314 112	1 356 303	-	1 356 303	-
Total Liabilities	139 148 960	138 868 790	-	3 129 911	135 738 879

Notes to financial statements (cont.)

(in PLN thousand)

31.12.2016	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	5 872 911	5 872 802	2 639 531	3 233 271	-
Loans and advance to banks	3 257 829	3 257 936	-	1 089 488	2 168 448
Loans and advances to customers	118 689 267	117 912 278	-	5 789 241	112 123 037
Receivables from financial leases	3 974 643	4 038 178	-	-	4 038 178
Debt securities held to maturity	3 018 985	3 033 397	3 012 791	20 606	-
Total Assets	134 813 635	134 114 591	5 652 322	10 132 606	118 329 663
Liabilities					
Amounts due to Central Bank	6 091	6 185	-	-	6 185
Amounts due to other banks	4 823 440	4 870 778	-	482 375	4 388 403
Amounts due to customers	137 815 926	137 494 049	-	1 436 240	136 057 809
Debt securities issued	1 522 963	1 565 925	-	1 565 925	-
Total Liabilities	144 168 420	143 936 937	-	3 484 540	140 452 397

8. Operating segments

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

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

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

Operating segments

The operating segments of the Group are as follows:

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

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 31 March 2017

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	626 336	14 200	404 260	80 490	1 125 286
Non-interest income	372 389	6 905	206 951	32 848	619 093
Operating income	998 725	21 105	611 211	113 338	1 744 379
Personnel expenses	(276 847)	(5 966)	(65 111)	(122 045)	(469 969)
Other administrative expenses	(305 357)	(6 309)	(88 361)	160 622	(239 405)
Depreciation and amortisation	(41 076)	(347)	(5 492)	(37 427)	(84 342)
Operating costs	(623 280)	(12 622)	(158 964)	1 150	(793 716)
Gross operating profit	375 445	8 483	452 247	114 488	950 663
Net impairment losses on loans and off-balance sheet commitments	(66 798)	(10)	(45 323)	(2 995)	(115 126)
Net operating profit	308 647	8 473	406 924	111 493	835 537
Net result on other provisions	475	-	7	(6 017)	(5 535)
Guarantee funds charges	(27 923)	(159)	(34 176)	(138 894)	(201 152)
Tax on certain financial institutions	-	-	-	(125 154)	(125 154)
Net result on investment activities	(191)	-	60	256	125
Profit before tax	281 008	8 314	372 815	(158 316)	503 821
Income tax expense	-	-	-	-	(154 029)
Net profit for the period					349 792
Attributable to equity holders of the Bank					349 709
Attributable to non-controlling interests					83
Allocated assets	64 935 502	251 742	99 142 735	(4 074 432)	160 255 547
Unallocated assets					8 905 286
Total assets					169 160 833
Allocated liabilities	80 248 796	8 783 643	56 767 153	(5 208 730)	140 590 862
Unallocated liabilities					28 569 971
Total liabilities					169 160 833

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 31 March 2016

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	601 919	9 223	395 874	72 726	1 079 742
Non-interest income	369 285	7 019	203 882	157 410	737 596
Operating income	971 204	16 242	599 756	230 136	1 817 338
Personnel expenses	(277 651)	(6 493)	(64 570)	(122 466)	(471 180)
Other administrative expenses	(311 040)	(6 886)	(86 179)	148 963	(255 142)
Depreciation and amortisation	(45 136)	(449)	(5 702)	(34 506)	(85 793)
Operating costs	(633 827)	(13 828)	(156 451)	(8 009)	(812 115)
Gross operating profit	337 377	2 414	443 305	222 127	1 005 223
Net impairment losses on loans and off-balance sheet commitments	(88 225)	589	(41 625)	(128)	(129 389)
Net operating profit	249 152	3 003	401 680	221 999	875 834
Net result on other provisions	3	(100)	(217)	(515)	(829)
Guarantee funds charges	(25 212)	(171)	(34 116)	(7 487)	(66 986)
Tax on certain financial institutions	-	-	-	(80 640)	(80 640)
Net result on investment activities	(143)	-	-	1 424	1 281
Profit before tax	223 800	2 732	367 347	134 781	728 660
Income tax expense	-	-	-	-	(155 182)
Net profit for the period					573 478
Attributable to equity holders of the Bank					573 396
Attributable to non-controlling interests					82
Allocated assets	59 872 481	304 070	92 667 169	(1 981 238)	150 862 482
Unallocated assets					8 832 049
Total assets					159 694 531
Allocated liabilities	72 997 666	8 403 724	53 765 557	(4 650 124)	130 516 823
Unallocated liabilities					29 177 708
Total liabilities					159 694 531

Reconciliations of operating income for reportable segments

	I QUARTER 2017	I QUARTER 2016
Total operating income for reportable segments	1 744 379	1 817 338
Share in gains (losses) from associates	(10 110)	(10 003)
Net other operating income and expenses	(35 739)	(6 541)
Refunding of administrative expenses	680	642
Operating income	1 699 210	1 801 436

Geographical segment

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

Notes to financial statements (cont.)

(in PLN thousand)

9. Interest income and expense

Interest income

	I QUARTER 2017	I QUARTER 2016
Loans and other receivables from customers	1 121 770	1 097 585
Interbank placements	19 210	25 533
Reverse repo transactions	11 747	14 270
Investment securities	183 680	178 250
Hedging derivatives	34 705	35 518
Financial assets held for trading	3 855	2 060
Total	1 374 967	1 353 216

Interest expense

	I QUARTER 2017	I QUARTER 2016
Deposits from customers	(227 854)	(251 738)
Interbank deposits	(4 774)	(3 855)
Repo transactions	(16 681)	(9 702)
Loans and advances received	(2 366)	(3 720)
Debt securities issued	(8 265)	(14 463)
Total	(259 940)	(283 478)

10. Fee and commission income and expense

Fee and commission income

	I QUARTER 2017	I QUARTER 2016
Accounts maintenance, payment orders and cash transactions	150 644	152 007
Payment cards	137 481	140 413
Loans and advances	100 310	106 090
Margin on foreign exchange transactions with clients	106 133	98 832
Investment products sales intermediation	64 086	61 888
Securities operations	27 144	21 368
Custody activity	16 628	15 411
Pension and investment funds service fees	12 322	12 287
Guarantees, letters of credit and similar transactions	13 064	14 597
Other	14 162	13 969
Total	641 974	636 862

Notes to financial statements (cont.)

(in PLN thousand)

Fee and commission expense

	I QUARTER 2017	I QUARTER 2016
Payment cards	(49 101)	(57 280)
Money orders and transfers	(5 131)	(5 133)
Securities and derivatives operations	(7 557)	(5 550)
Accounts maintenance	(1 110)	(1 006)
Custody activity	(3 506)	(4 304)
Pension funds management charges	(103)	(94)
Acquisition services	(1 078)	(1 054)
Other	(906)	(269)
Total	(68 492)	(74 690)

11. Dividend income

	I QUARTER 2017	I QUARTER 2016
Issuers of securities held for trading	-	1
Issuers of securities available for sale	149	-
Total	149	1

12. Result on financial assets and liabilities held for trading

	I QUARTER 2017	I QUARTER 2016
Foreign currency exchange result	(6 653)	(346)
Gains (losses) on derivatives	10 004	11 608
Gains (losses) on securities	4 664	10 748
Total	8 015	22 010

13. Gains (losses) on disposal

Realized gains

	I QUARTER 2017	I QUARTER 2016
Loans and other financial receivables (*)	66	149 924
Available for sale financial assets – debt instruments	809	592
Total	875	150 516

(*) In the first quarter of 2016 the Bank sold loans with a total debt of PLN 1 863 million.

Realized losses

	I QUARTER 2017	I QUARTER 2016
Available for sale financial assets – debt instruments	-	(128)
Debt securities issued	(51)	(5)
Total	(51)	(133)

Net realized profit	824	150 383
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Notes to financial statements (cont.)

(in PLN thousand)

14. Administrative expenses

Personnel expenses

	I QUARTER 2017	I QUARTER 2016
Wages and salaries	(394 438)	(395 912)
Insurance and other charges related to employees	(72 015)	(72 514)
Share-based payments expenses	(3 516)	(2 754)
Total	(469 969)	(471 180)

Other administrative expenses

	I QUARTER 2017	I QUARTER 2016
General expenses	(216 936)	(235 169)
Taxes and charges	(12 218)	(11 673)
Bank Guarantee Fund fee	(200 504)	(66 860)
Financial supervision authority fee (KNF)	(11 579)	(9 068)
Tax on certain financial institutions	(125 154)	(80 640)
Total	(566 391)	(403 410)

Total administrative expenses	(1 036 360)	(874 590)
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From 1 January 2017 new rules for making contributions to Bank Guarantee Fund (hereinafter 'BGF'), defined in the Act of 10 June 2016 on Bank Guarantee Fund, deposit guarantee schemes and resolution of banks (hereinafter 'BGF Act'), have to be applied.

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

As a result of application of the Interpretation IFRIC 21 *Levies* for recognition of the above obligations, the costs of quarterly contribution to deposit guarantee fund of banks in the amount of PLN 22 115 thousand and the costs of annual contribution to resolution fund of banks in the amount of 178 389 thousand are charged to the income statement for the first quarter of 2017.

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

Notes to financial statements (cont.)

(in PLN thousand)

15. Depreciation and amortization

	I QUARTER 2017	I QUARTER 2016
Property, plant and equipment	(42 490)	(43 214)
Investment property	(270)	(330)
Intangible assets	(41 582)	(42 249)
Total	(84 342)	(85 793)

16. Net other operating income and expenses

Other operating income

	I QUARTER 2017	I QUARTER 2016
Rental income	5 312	5 371
Miscellaneous income	2 590	2 335
Recovery of debt collection costs	3 199	3 399
Revenues from sale of products, goods and services	21 698	1 659
Excess payments, repayments	487	1 212
Compensation, recoveries, penalty fees and fines received	31 835	911
Revenues from leasing activity	1 064	551
Refunding of administrative expenses	680	642
Income from written off liabilities	11	15
Releases of impairment allowances for litigation and other assets	231	291
Gains on sale of leasing assets for third person and other assets	298	157
Other	1 133	1 197
Total	68 538	17 740

Other operating expenses

	I QUARTER 2017	I QUARTER 2016
Costs related to leasing activity	(740)	(278)
Credit insurance expenses	(2 510)	(2 796)
Sundry expenses	(1 956)	(2 216)
Reimbursement and deficiencies	(2 161)	(597)
Costs from sale of products, goods and services	(19 761)	(470)
Customers complaints expenses	(257)	(720)
Impairment allowance for litigations and other assets	(765)	(682)
Costs of litigation and claims	(1 081)	(378)
Compensation, penalty fees and fines paid	(103)	(79)
Losses on disposal of leasing assets for third person and other assets	(503)	(332)
Other	(2 962)	(2 651)
Total	(32 799)	(11 199)

Net other operating income and expenses	35 739	6 541
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Notes to financial statements (cont.)

(in PLN thousand)

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

I QUARTER 2017	OPENING BALANCE	INCREASES			DECREASES		CLOSING BALANCE	IMPACT ON INCOME STATEMENT
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks measured at amortized cost	17 993	145	62	-	(128)	(533)	17 539	(17)
Loans and advances to customers measured at amortized cost	5 542 619	332 957	4 290	(1 013)	(209 926)	(50 286)	5 618 641	(123 031)
Receivables from financial leases	166 947	6 338	-	-	(4 916)	(4)	168 365	(1 422)
Financial assets available for sale	1 257	-	-	-	-	-	1 257	-
Off-balance sheet commitments	220 983	24 882	-	-	(34 226)	(924)	210 715	9 344
Total financial assets and off-balance sheet commitments	5 949 799	364 322	4 352	(1 013)	(249 196)	(51 747)	6 016 517	(115 126)
Impairment of other assets								
Investments in associates	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Property, plant and equipment	7 758	-	-	(365)	-	(27)	7 366	-
Investment properties	7 031	-	-	-	-	-	7 031	-
Other	80 266	765	-	(300)	(231)	(256)	80 244	(534)
Total impairment of other assets	95 055	765	-	(665)	(231)	(283)	94 641	(534)
Total	6 044 854	365 087	4 352	(1 678)	(249 427)	(52 030)	6 111 158	(115 660)

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

Notes to financial statements (cont.)

(in PLN thousand)

I QUARTER 2016	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT (**)
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks measured at amortized cost	19 774	920	349	-	(3 245)	(620)	17 178	2 325
Loans and advances to customers measured at amortized cost	5 678 633	350 816	29 981	(89 434)	(217 541)	(37 607)	5 714 848	(133 275)
Receivables from financial leasing	163 704	6 259	17	-	(4 854)	(539)	164 587	(1 405)
Financial assets available for sale	122	-	-	-	-	-	122	-
Impairment of off-balance sheet commitments	120 771	35 895	-	-	(34 732)	(256)	121 678	(1 163)
Total financial assets and off-balance sheet commitments	5 983 004	393 890	30 347	(89 434)	(260 372)	(39 022)	6 018 413	(133 518)
Impairment of other assets								
Investments in associates	60	-	-	-	-	(60)	-	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	8 451	-	-	(306)	-	-	8 145	-
Investment properties	8 682	-	-	-	-	-	8 682	-
Other	77 736	682	3 067	(691)	(291)	(149)	80 354	(391)
Total impairment of other assets	105 890	682	3 067	(997)	(291)	(209)	108 142	(391)
Total	6 088 894	394 572	33 414	(90 431)	(260 663)	(39 231)	6 126 555	(133 909)

(*) 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 133 518 thousand and proceeds from recovered bad debt in the amount of PLN 4 129 thousand, the total is PLN minus 129 389 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

18. Gains (losses) on subsidiaries and associates

	I QUARTER 2017	I QUARTER 2016
Share in gains (losses) from associates		
Dom Inwestycyjny Xelion Sp. z o.o.	609	428
Pioneer Pekao Investment Management S.A.	9 501	9 575
Total share in gains (losses) from associates	10 110	10 003
Total gains (losses) from subsidiaries and associates	10 110	10 003

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

	I QUARTER 2017	I QUARTER 2016
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	617	464
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	(492)	817
Total gains (losses) on disposal of property, plant and equipment and intangible assets	125	1 281

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

	I QUARTER 2017	I QUARTER 2016
INCOME STATEMENT		
Current tax	(93 313)	(125 614)
Current tax charge in the income statement	(96 528)	(125 000)
Adjustments related to the current tax from previous years	3 261	(145)
Other taxes (e.g. withholding tax)	(46)	(469)
Deferred tax	(60 716)	(29 568)
Occurrence and reversal of temporary differences	(60 716)	(29 568)
Tax charge in the consolidated income statement	(154 029)	(155 182)
EQUITY		
Deferred tax	(31 903)	(13 143)
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments - cash flows hedges	853	(7 614)
revaluation of available for sale financial assets – debt securities	(18 888)	(7 068)
revaluation of available for sale financial assets – equity securities	(13 868)	1 539
Tax on items that are or may be reclassified subsequently to profit or loss	(31 903)	(13 143)
Total charge	(185 932)	(168 325)

Notes to financial statements (cont.)

(in PLN thousand)

21. Earnings per share

Basic earnings per share

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

	I QUARTER 2017	I QUARTER 2016
Net profit	349 709	573 396
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Earnings per share (in PLN per share)	1.33	2.18

Diluted earnings per share

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

As at 31 March 2017 there were no diluting instruments in the form of convertible bonds in the Group.

	I QUARTER 2017	I QUARTER 2016
Net profit	349 709	573 396
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	1.33	2.18

22. Dividend proposal

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

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

The payment of the dividend will be on 6 July 2017.

Notes to financial statements (cont.)

(in PLN thousand)

23. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.03.2017	31.12.2016	31.03.2016
Cash	2 405 166	2 639 532	2 668 541
Current account at Central Bank	1 646 469	1 718 775	3 212 160
Other	4 447	1 514 604	806
Total	4 056 082	5 872 911	5 881 507

AMOUNTS DUE TO CENTRAL BANK	31.03.2017	31.12.2016	31.03.2016
Term deposits	6 007	6 091	6 012
Total	6 007	6 091	6 012

Cash and balances with Central Bank by currency

31.03.2017	ASSETS	LIABILITIES
PLN	3 266 177	6 007
EUR	300 450	-
USD	291 027	-
CHF	48 215	-
Other currencies	150 213	-
Total	4 056 082	6 007

31.12.2016	ASSETS	LIABILITIES
PLN	4 944 326	6 091
EUR	443 480	-
USD	260 015	-
CHF	59 727	-
Other currencies	165 363	-
Total	5 872 911	6 091

31.03.2016	ASSETS	LIABILITIES
PLN	4 791 639	6 012
EUR	536 039	-
USD	246 883	-
CHF	52 867	-
Other currencies	254 079	-
Total	5 881 507	6 012

Notes to financial statements (cont.)

(in PLN thousand)

24. Loans and advances to banks

Loans and advances to banks by product type

	31.03.2017	31.12.2016	31.03.2016
Current accounts	337 327	118 142	122 441
Interbank placements	228 531	267 828	432 238
Loans and advances	32 885	34 517	88 027
Cash collaterals	1 484 293	1 771 842	1 693 758
Reverse repo transactions	630 128	703 635	305 041
Cash in transit	657 252	379 858	52 768
Total gross amount	3 370 416	3 275 822	2 694 273
Impairment allowances	(17 539)	(17 993)	(17 178)
Total net amount	3 352 877	3 257 829	2 677 095

Loans and advances to banks by quality

	31.03.2017	31.12.2016	31.03.2016
Loans and advances to banks, including:			
non impaired (gross)	3 352 879	3 257 830	2 677 099
impaired (gross)	17 537	17 992	17 174
individual impairment allowances	(7 737)	(8 192)	(7 374)
collective impairment allowances (*)	(9 802)	(9 801)	(9 804)
Total	3 352 877	3 257 829	2 677 095

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

Loans and advances to banks by contractual maturity

	31.03.2017	31.12.2016	31.03.2016
Loans and advances to banks, including:			
up to 1 month	3 343 380	3 178 259	2 576 579
between 1 and 3 months	330	345	37 953
between 3 months and 1 year	157	69 684	829
between 1 and 5 years	116	47	32
over 5 years	2	2	51 222
past due	26 431	27 485	27 658
Total gross amount	3 370 416	3 275 822	2 694 273
Impairment allowances	(17 539)	(17 993)	(17 178)
Total net amount	3 352 877	3 257 829	2 677 095

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to banks by currency

	31.03.2017	31.12.2016	31.03.2016
PLN	1 481 116	1 012 264	623 953
CHF	1 477	19 462	35 804
EUR	1 543 750	2 010 070	1 628 919
USD	234 302	68 792	288 575
Other currencies	92 232	147 241	99 844
Total	3 352 877	3 257 829	2 677 095

Changes in impairment allowances in the period from 1 January to 31 March 2017 and in the period from 1 January to 31 March 2016 are presented in the Note 17.

25. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	31.03.2017	31.12.2016	31.03.2016
FINANCIAL ASSETS			
Debt securities	1 858 869	730 750	498 142
Equity securities	3 825	1 719	11 117
Total financial assets	1 862 694	732 469	509 259
FINANCIAL LIABILITIES			
Debt securities	611 023	673 165	267 341
Total financial liabilities	611 023	673 165	267 341

Debt securities held for trading

	31.03.2017	31.12.2016	31.03.2016
FINANCIAL ASSETS			
Debt securities issued by State Treasury	1 822 312	654 918	427 256
T- bills	36 678	-	44 709
T- bonds	1 785 634	654 918	382 547
Debt securities issued by banks	-	9 719	18 331
Debt securities issued by business entities	36 557	66 113	52 555
Total financial assets	1 858 869	730 750	498 142
FINANCIAL LIABILITIES			
Debt securities issued by State Treasury	611 023	673 165	267 341
T- bonds	611 023	673 165	267 341
Total financial liabilities	611 023	673 165	267 341

Equity securities held for trading

	31.03.2017	31.12.2016	31.03.2016
Shares	3 825	1 719	11 117
Total	3 825	1 719	11 117

Notes to financial statements (cont.)

(in PLN thousand)

Debt securities held for trading by maturity

	31.03.2017	31.12.2016	31.03.2016
FINANCIAL ASSETS			
Debt securities, including:			
up to 1 month	2 579	-	12 021
between 1 and 3 months	4 508	239	-
between 3 months and 1 year	56 366	117 804	56 300
between 1 and 5 years	1 540 701	324 868	219 964
over 5 years	254 715	278 120	202 082
unspecified term	-	9 719	7 775
Total financial assets	1 858 869	730 750	498 142
FINANCIAL LIABILITIES			
Debt securities, including:			
up to 1 month	-	102 076	-
between 1 and 3 months	-	-	-
between 3 months and 1 year	18 586	131 194	-
between 1 and 5 years	383 173	263 435	-
over 5 years	209 264	176 460	267 341
Total financial liabilities	611 023	673 165	267 341

Debt securities held for trading by currency

	31.03.2017	31.12.2016	31.03.2016
FINANCIAL ASSETS			
PLN	1 842 807	710 575	485 439
EUR	5 103	5 629	6 308
USD	10 959	14 546	6 395
Total financial assets	1 858 869	730 750	498 142
FINANCIAL LIABILITIES			
PLN	611 023	673 165	267 341
Total financial liabilities	611 023	673 165	267 341

Notes to financial statements (cont.)

(in PLN thousand)

26. Derivative financial instruments (held for trading)

Fair value of trading derivatives

31.03.2017	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 267 381	1 256 545
Forward Rate Agreements (FRA)	100	21
Options	3 895	831
Other	130	92
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	71 511	85 482
Currency Forward Agreements	115 746	238 683
Currency Swaps (FX-Swap)	149 093	161 154
Options for currency and gold	22 868	24 891
Transactions based on equity securities and stock indexes		
Options	7 151	7 167
Other	43	-
Transactions based on commodities and precious metals		
Options	5 006	4 798
Other	56 502	56 405
Total	1 699 426	1 836 069

31.12.2016	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 517 526	1 503 394
Forward Rate Agreements (FRA)	347	155
Options	1 837	1 710
Other	426	618
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	49 978	161 421
Currency Forward Agreements	183 636	84 759
Currency Swaps (FX-Swap)	62 207	93 089
Options for currency and for gold	52 971	53 605
Transactions based on equity securities and stock indexes		
Options	5 403	5 422
Other	1	9 723
Transactions based on commodities and precious metals		
Options	2 113	1 971
Other	36 984	36 807
Total	1 913 429	1 952 674

Notes to financial statements (cont.)

(in PLN thousand)

Fair value of trading derivatives

31.03.2016	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 972 695	1 948 046
Forward Rate Agreements (FRA)	452	623
Options	6 159	6 091
Other	1 007	815
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	26 921	77 989
Currency Forward Agreements	83 713	141 418
Currency Swaps (FX-Swap)	105 146	226 467
Options for currency and gold	39 283	40 614
Transactions based on equity securities and stock indexes		
Options	3 317	3 343
Other	30	7 858
Transactions based on commodities and precious metals		
Options	11 082	11 025
Other	12 139	12 026
Total	2 261 944	2 476 315

27. Loans and advances to customers

Loans and advances to customers by product type

	31.03.2017	31.12.2016	31.03.2016
Mortgage loans	55 687 837	54 713 809	51 352 003
Current accounts	11 383 986	10 599 898	10 997 487
Operating loans	14 042 212	13 897 871	13 907 206
Investment loans	16 544 940	16 810 632	16 042 129
Cash loans	10 685 378	10 211 931	9 162 759
Payment cards receivables	988 490	970 673	874 922
Purchased debt receivables	2 743 217	2 890 930	2 516 150
Other loans and advances	1 739 289	1 595 088	1 784 072
Debt securities	12 245 074	12 451 372	12 584 652
Reverse repo transactions	-	-	57 214
Cash in transit	77 650	89 682	74 107
Total gross amount	126 138 073	124 231 886	119 352 701
Impairment allowances	(5 618 641)	(5 542 619)	(5 714 848)
Total net amount	120 519 432	118 689 267	113 637 853

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by customer type

	31.03.2017	31.12.2016	31.03.2016
Corporate	55 838 059	55 257 059	53 513 873
Individuals	59 751 648	58 379 647	54 763 456
Budget entities	10 548 366	10 595 180	11 075 372
Total gross amount	126 138 073	124 231 886	119 352 701
Impairment allowances	(5 618 641)	(5 542 619)	(5 714 848)
Total net amount	120 519 432	118 689 267	113 637 853

Loans and advances to customers by quality

	31.03.2017	31.12.2016	31.03.2016
Loans and advances to customers, including:			
non impaired (gross)	118 430 138	116 571 271	111 436 406
impaired (gross)	7 707 935	7 660 615	7 916 295
individual impairment allowances	(3 193 727)	(3 189 149)	(3 296 124)
collective impairment allowances (*)	(2 424 914)	(2 353 470)	(2 418 724)
Total	120 519 432	118 689 267	113 637 853

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

Loans and advances to customers by contractual maturity

	31.03.2017	31.12.2016	31.03.2016
Loans and advances to customers, including:			
up to 1 month	15 439 161	15 184 650	15 384 894
between 1 and 3 months	3 863 267	3 050 503	4 505 400
between 3 months and 1 year	12 290 471	12 393 167	10 701 736
between 1 and 5 years	37 924 634	37 323 318	36 193 303
over 5 years	50 758 004	50 359 575	46 680 147
past due	5 862 536	5 920 673	5 887 221
Total gross amount	126 138 073	124 231 886	119 352 701
Impairment allowances	(5 618 641)	(5 542 619)	(5 714 848)
Total net amount	120 519 432	118 689 267	113 637 853

Loans and advances to customers by currency

	31.03.2017	31.12.2016	31.03.2016
PLN	99 826 523	96 647 980	93 490 203
CHF	4 317 188	4 640 419	4 787 787
EUR	12 981 904	13 934 872	12 212 349
USD	3 203 793	3 289 584	3 021 765
Other currencies	190 024	176 412	125 749
Total	120 519 432	118 689 267	113 637 853

Changes in impairment allowances in the period from 1 January to 31 March 2017 and in the period from 1 January to 31 March 2016 are presented in the Note 17.

Notes to financial statements (cont.)

(in PLN thousand)

28. Receivables from financial leases

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

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

31.03.2017	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 660 394	1 541 287
Between 1 and 5 years	2 469 490	2 338 991
Over 5 years	280 218	272 652
Total	4 410 102	4 152 930
Unearned finance income	(257 172)	
Net leasing investment	4 152 930	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	4 152 930	
Impairment allowances	(168 365)	
Balance sheet value	3 984 565	

31.12.2016	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 632 601	1 492 018
Between 1 and 5 years	2 520 358	2 353 845
Over 5 years	322 590	295 727
Total	4 475 549	4 141 590
Unearned finance income	(333 959)	
Net leasing investment	4 141 590	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	4 141 590	
Impairment allowances	(166 947)	
Balance sheet value	3 974 643	

31.03.2016	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 542 478	1 410 982
Between 1 and 5 years	2 236 982	2 080 173
Over 5 years	298 037	272 148
Total	4 077 497	3 763 303
Unearned finance income	(314 194)	
Net leasing investment	3 763 303	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	3 763 303	
Impairment allowances	(164 587)	
Balance sheet value	3 598 716	

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Receivables from financial leases from banks by quality

	31.03.2017	31.12.2016	31.03.2016
Receivables from financial leases from banks, including:			
non impaired (gross)	102	704	3 758
impaired (gross)	-	-	-
individual impairment allowances	-	-	-
collective impairment allowances (*)	(10)	(6)	(10)
Total	92	698	3 748

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

Receivables from financial leases from clients by quality

	31.03.2017	31.12.2016	31.03.2016
Receivables from financial leases from clients, including:			
non impaired (gross)	3 936 557	3 934 980	3 525 065
impaired (gross)	216 271	205 906	234 480
individual impairment allowances	(30 147)	(30 047)	(31 663)
collective impairment allowances (*)	(138 208)	(136 894)	(132 914)
Total	3 984 473	3 973 945	3 594 968

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

Receivables from financial leases by currency

	31.03.2017	31.12.2016	31.03.2016
PLN	2 530 101	2 450 665	2 283 262
CHF	1 006	1 416	2 042
EUR	1 452 328	1 522 242	1 310 668
USD	1 130	320	2 744
Total	3 984 565	3 974 643	3 598 716

Changes in impairment allowances in the period from 1 January to 31 March 2017 and in the period from 1 January to 31 March 2016 are presented in the Note 17.

Notes to financial statements (cont.)

(in PLN thousand)

29. Hedge accounting

As at 31 March 2017 the Group applies fair value hedge accounting and cash flow hedge accounting.

In the period from 1 January to 31 March 2017 the Group continued to apply the following hedge accounting:

- fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swap (IRS),
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS),
- cash flow hedge accounting for variable portfolio of loans in EUR and USD hedged with FX-Swap,
- fair value hedge accounting for fixed coupon debt securities classified as loans and receivables hedged with interest rate swaps (IRS).

The table below presents the fair value of hedging derivatives

31.03.2017	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	19 782	202 413
Cross-currency interest rate swap (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	209 018	-
Cross-currency interest rate swap (CIRS)	-	1 181 790
FX-Swaps	182 585	-
Total	411 385	1 384 203

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

Notes to financial statements (cont.)

(in PLN thousand)

The table below presents the fair value of hedging derivatives

31.03.2016	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	22	291 009
Cross-currency interest rate swap (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	324 802	-
Cross-currency interest rate swap (CIRS)	46 812	1 363 583
FX-Swaps	101 470	6 001
Total	473 106	1 660 593

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

	I QUARTER 2017	I QUARTER 2016
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portions recognized as effective hedge - gross value)	35 233	85 358
Net interest income on hedging derivatives	53 558	52 556
Ineffective portions of changes in the fair value of hedging transactions recognized in the income statement	(16)	(311)

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

	I QUARTER 2017	I QUARTER 2016
Opening balance	39 724	45 281
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	(4 470)	40 105
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	(21)	(28)
Closing balance	35 233	85 358

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

TYPE OF GAINS/LOSSES	I QUARTER 2017	I QUARTER 2016
Gains/losses from revaluation of hedging instruments to fair value	27 216	(58 666)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	(25 503)	55 798
Result on fair value hedge accounting	1 713	(2 868)
Net interest income on hedging derivatives	(18 853)	(17 038)

Notes to financial statements (cont.)

(in PLN thousand)

30. Investment (placement) securities

	31.03.2017	31.12.2016	31.03.2016
Debt securities available for sale (AFS)	24 939 465	31 949 770	22 898 125
Equity securities available for sale (AFS)	221 466	151 864	287 598
Debt securities held to maturity (HTM)	3 889 460	3 018 985	3 428 951
Total	29 050 391	35 120 619	26 614 674

Debt securities available for sale (AFS)

	31.03.2017	31.12.2016	31.03.2016
Securities issued by State Treasury	24 033 341	25 046 710	21 964 136
T-bills	496 997	-	1 090 494
T-bonds	23 536 344	25 046 710	20 873 642
Securities issued by Central Banks	-	5 978 629	-
Securities issued by business entities	251 425	249 912	252 995
Securities issued by local governments	654 699	674 519	680 994
Total	24 939 465	31 949 770	22 898 125
including impairment of assets	-	-	-

Equity securities available for sale (AFS)

	31.03.2017	31.12.2016	31.03.2016
Shares	221 466	151 864	287 598
Total	221 466	151 864	287 598
including impairment of assets	(1 257)	(1 257)	(122)

Debt securities held to maturity (HTM)

	31.03.2017	31.12.2016	31.03.2016
Securities issued by State Treasury	3 889 460	2 998 379	3 412 552
T- bills	-	-	239 448
T- bonds	3 889 460	2 998 379	3 173 104
Securities issued by Central Banks	-	20 606	16 399
Total	3 889 460	3 018 985	3 428 951
including impairment of assets	-	-	-

Investment debt securities according to contractual maturity

	31.03.2017	31.12.2016	31.03.2016
Debt securities, including:			
up to 1 month	2 214 590	7 424 354	40 512
between 1 and 3 months	251 425	573 661	-
between 3 months and 1 year	7 214 652	6 072 130	6 198 596
between 1 and 5 years	9 140 505	12 109 707	12 297 447
over 5 years	10 007 753	8 788 903	7 790 521
Total	28 828 925	34 968 755	26 327 076

Notes to financial statements (cont.)

(in PLN thousand)

Investment debt securities by currency

	31.03.2017	31.12.2016	31.03.2016
PLN	25 462 301	30 844 812	22 905 588
EUR	2 098 357	2 790 183	2 607 116
USD	1 268 267	1 333 760	814 372
Total	28 828 925	34 968 755	26 327 076

31. Assets and liabilities held for sale

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

As at 31 March 2017 non-current assets classified as held for sale are as follows:

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

Assets held for sale are presented below

	31.03.2017	31.12.2016	31.03.2016
ASSETS HELD FOR SALE			
Property, plant and equipment	25 648	25 703	23 247
Other assets	22 574	22 574	22 515
Total assets	48 222	48 277	45 762

The effect of disposal of other assets is as follows

	I QUARTER 2017	2016	I QUARTER 2016
Sales revenues	788	3 849	1 470
Net carrying amount of disposed assets (including sale costs)	(171)	(2 820)	(1 006)
Profit/loss on sale before income tax	617	1 029	464

32. Intangible assets

	31.03.2017	31.12.2016	31.03.2016
Intangible assets, including:	555 039	540 661	559 464
research and development expenditures	2 522	3 024	6 713
licenses and patents	475 670	455 647	446 940
other	8 554	7 688	10 049
assets under construction	68 293	74 302	95 762
Goodwill	55 520	55 520	55 520
Total	610 559	596 181	614 984

In the period from 1 January to 31 March 2017 the Group acquired intangible assets in the amount of PLN 53 821 thousand (in 2016 – PLN 130 182 thousand).

In the period from 1 January to 31 March 2017 and in 2016 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Notes to financial statements (cont.)

(in PLN thousand)

Contractual commitments

As at 31 March 2017 the contractual commitments for the acquisition of intangible assets amounted to PLN 32 572 thousand, whereas as at 31 December 2016 - PLN 43 930 thousand.

33. Property, plant and equipment

	31.03.2017	31.12.2016	31.03.2016
Non-current assets, including:	1 339 533	1 308 234	1 341 895
land and buildings	999 276	1 000 882	1 039 895
machinery and equipment	263 190	245 479	229 777
transport vehicles	39 247	24 026	32 283
other	37 820	37 847	39 940
Non-current assets under construction and prepayments	66 354	114 696	87 171
Total	1 405 887	1 422 930	1 429 066

In the period from 1 January to 31 March 2017 the Group acquired property, plant and equipment in the amount of PLN 10 929 thousand (in 2016 - PLN 143 081 thousand), while the value of property, plant and equipment sold amounted to PLN 108 thousand (in 2016 - PLN 8 150 thousand).

In the period from 1 January to 31 March 2017 and in 2016 there have been no property, plant and equipment whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 31 March 2017 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 18 377 thousand, whereas as at 31 December 2016 - PLN 17 525 thousand.

34. Assets pledged as security for liabilities

As at 31 March 2017 the Group held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	1 365 196	1 324 989	1 364 022
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	753 379	720 200	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	7 769	8 000	6 634
Lombard and technical loan	bonds	4 796 134	4 515 369	-
Other loans	bonds	326 231	321 700	263 629
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 683 027	1 683 643	1 227 922
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	49 029	48 804	-
Derivatives	bonds	46 564	48 775	26 345

Notes to financial statements (cont.)

(in PLN thousand)

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

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transaction	bonds	1 774 747	1 678 677	1 775 808
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	750 701	720 200	-
Lombard and technical loan	bonds	4 808 629	4 515 159	-
Other loans	bonds	357 614	353 900	297 497
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 678 258	1 679 057	1 222 018
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposit	51 155	50 890	-
Derivatives	bonds	60 792	65 302	31 987

As at 31 March 2016 the Group held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	791 490	757 542	791 772
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	707 089	680 200	-
Lombard and technical loan	bonds	4 877 097	4 601 556	-
Other loans	bonds	514 097	501 900	346 165
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 722 572	1 726 414	1 234 533
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	44 657	44 024	-
Derivatives	bonds	37 326	37 536	10 772

35. Amounts due to other banks

Amounts due to other banks by product type

	31.03.2017	31.12.2016	31.03.2016
Current accounts	1 370 543	902 856	740 592
Interbank deposits and other liabilities	819 781	309 837	547 686
Loans and advances received	2 761 460	3 249 417	3 228 995
Repo transactions	263 047	339 568	100 823
Cash in transit	52 860	21 762	18 161
Total	5 267 691	4 823 440	4 636 257

Notes to financial statements (cont.)

(in PLN thousand)

Amounts due to other banks by currency

	31.03.2017	31.12.2016	31.03.2016
PLN	1 873 179	1 442 611	1 134 274
CHF	677 750	731 657	716 395
EUR	2 659 553	2 592 591	2 702 761
USD	52 000	48 467	37 381
Other currencies	5 209	8 114	45 446
Total	5 267 691	4 823 440	4 636 257

36. Amounts due to customers

Amounts due to customers by entity and product type

	31.03.2017	31.12.2016	31.03.2016
Amounts due to corporate, including:	49 502 718	57 989 927	49 233 628
current accounts	30 279 076	33 946 882	31 212 983
term deposits and other liabilities	19 223 642	24 043 045	18 020 645
Amounts due to budget entities, including:	9 336 286	7 809 235	6 236 734
current accounts	6 510 973	5 461 224	4 808 757
term deposits and other liabilities	2 825 313	2 348 011	1 427 977
Amounts due to individuals, including:	72 307 221	70 347 039	65 369 789
current accounts	41 071 885	39 682 587	36 041 969
term deposits and other liabilities	31 235 336	30 664 452	29 327 820
Repo transactions	1 100 974	1 436 241	690 948
Cash in transit	313 951	233 484	287 533
Total	132 561 150	137 815 926	121 818 632

Amounts due to customers by currency

	31.03.2017	31.12.2016	31.03.2016
PLN	108 240 301	115 090 198	100 541 295
CHF	337 766	315 787	250 355
EUR	14 560 397	13 400 735	12 542 726
USD	8 089 510	7 476 067	7 537 837
Other currencies	1 333 176	1 533 139	946 419
Total	132 561 150	137 815 926	121 818 632

37. Debt securities issued

Debt securities issued by type

	31.03.2017	31.12.2016	31.03.2016
Certificates of deposit	86 190	300 945	1 119 418
Mortgage bonds	1 227 922	1 222 018	1 234 535
Total	1 314 112	1 522 963	2 353 953

Notes to financial statements (cont.)

(in PLN thousand)

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

Debt securities issued by currency

	31.03.2017	31.12.2016	31.03.2016
PLN	985 148	1 200 548	2 043 544
EUR	328 964	322 415	310 409
USD	-	-	-
Total	1 314 112	1 522 963	2 353 953

Changes in debt securities issued

	I QUARTER 2017	2016	I QUARTER 2016
Opening balance	1 522 963	2 903 233	2 903 233
Increase (issuance)	-	1 129 733	809 733
Decrease (redemption)	(213 083)	(2 467 807)	(1 343 809)
Decrease (partial redemption)	-	(38 245)	-
Foreign currency exchange differences	(15 288)	11 885	502
Purchase	-	-	-
Sale	22 303	-	-
Other	(2 783)	(15 836)	(15 706)
Closing balance	1 314 112	1 522 963	2 353 953

38. Provisions

Changes in provisions in the reporting period

I QUARTER 2017	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	8 551	294 014	220 983	36 844	560 392
Provision charges/revaluation	101	6 877	24 882	9 737	41 597
Provision utilization	(1 729)	(5 768)	-	(186)	(7 683)
Provision releases	(567)	-	(34 226)	-	(34 793)
Foreign currency exchange differences	-	-	(924)	-	(924)
Other changes	46	-	-	-	46
Closing balance	6 402	295 123	210 715	46 395	558 635
Short term	2 741	41 705	61 184	20 317	125 947
Long term	3 661	253 418	149 531	26 078	432 688

Notes to financial statements (cont.)

(in PLN thousand)

2016	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	10 608	268 858	120 771	25 137	425 374
Provision charges/revaluation	4 092	26 635	160 561	23 386	214 674
Provision utilization	(3 405)	(13 020)	-	(11 207)	(27 632)
Provision releases	(3 202)	(19)	(61 341)	(442)	(65 004)
Foreign currency exchange differences	-	-	992	-	992
Other changes	458	11 560	-	(30)	11 988
Closing balance	8 551	294 014	220 983	36 844	560 392
Short term	3 214	47 435	67 159	14 201	132 009
Long term	5 337	246 579	153 824	22 643	428 383

I QUARTER 2016	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	10 608	268 858	120 771	25 137	425 374
Provision charges/revaluation	895	6 558	35 895	2 664	46 012
Provision utilization	(2 554)	(5 769)	-	(915)	(9 238)
Provision releases	(66)	(24)	(34 732)	-	(34 822)
Foreign currency exchange differences	-	-	(256)	-	(256)
Other changes	-	-	-	-	-
Closing balance	8 883	269 623	121 678	26 886	427 070
Short term	2 542	15 410	72 550	145	90 647
Long term	6 341	254 213	49 128	26 741	336 423

Provisions for litigation and claims

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

Provisions for defined benefits plans

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

Other provisions

Other provisions include in particular provisions for other employee benefits.

39. Contingent commitments

Litigation

In the first quarter of 2017 the total value of the litigation subject in the ongoing court proceedings against the Group was PLN 838 990 thousand (in the first quarter of 2016 it was PLN 1 034 928 thousand).

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

Notes to the financial statements (cont.)

(in PLN thousand)

In the first quarter of 2017 still going on was the court litigation against the Group entities, Bank Pekao SA and Pekao SA Central Brokerage House, brought by private individuals for the payment of damage arising from the purchase of stocks and the financial compensation for the injury resulting from the execution process, in which the value of the litigation subject, as at 31 March 2017, was PLN 206 422 thousand (previously PLN 306 622 thousand). In the first half of 2015 the sentence dismissing the plaint against defendants was adjudicated. The sentence is not legally binding. The plaintiffs lodged an appeal against the sentence, i.e. its part related to the amount of PLN 206 422 thousand. In the third quarter of 2016 was issued a judgment dismissing the appeal. The plaintiffs are entitled to a cassation appeal.

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

- proceedings instigated in the first quarter of 2014 as a result of the plaint brought by guarantee beneficiaries for the payment of PLN 32 750 thousand as the bank guarantee drawing,
- proceedings instigated in the second quarter of 2014 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 55 996 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2015 as a result of the plaint brought by guarantee beneficiary for the payment of PLN 29 205 thousand as the bank guarantee drawing,
- proceeding instigated in the fourth quarter of 2016 as a result plaint brought by private individual for the payment of PLN 38 916 thousand taken by the Bank way of settlement of term financial transactions.

The Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the provisions as at 31 March 2017 is PLN 6 402 thousand (PLN 8 551 thousand as at 31 December 2016).

Financial commitments granted

Financial commitments granted by entity

	31.03.2017	31.12.2016	31.03.2016
Financial commitments granted to:			
financial entities	886 260	734 503	1 510 563
non - financial entities	29 537 429	31 088 328	29 655 930
budget entities	950 324	481 482	891 252
Total	31 374 013	32 304 313	32 057 745

Guarantees issued

Guarantees issued by entity

	31.03.2017	31.12.2016	31.03.2016
Issued to financial entities:	984 629	991 115	1 029 445
guarantees	984 629	991 115	1 029 340
confirmed export letters of credit	-	-	105
Issued to non - financial entities:	9 762 960	9 999 478	11 394 946
guarantees	6 270 105	6 505 040	6 926 473
securities' underwriting guarantees	3 470 955	3 455 429	4 402 216
sureties	21 900	39 009	66 257
Issued to budget entities:	286 131	269 239	353 986
guarantees	13 461	11 279	28 176
securities' underwriting guarantees	272 670	257 960	325 810
Total	11 033 720	11 259 832	12 778 377

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	31.03.2017	31.12.2016	31.03.2016
Financial received from:	206 796	209 107	270 210
financial entities	206 796	209 107	270 210
non - financial entities	-	-	-
budget entities	-	-	-
Guarantees received from:	13 720 812	10 818 912	11 181 143
financial entities	2 359 217	1 552 730	1 207 932
non - financial entities	10 470 563	8 344 980	9 218 374
budget entities	891 032	921 202	754 837
Total	13 927 608	11 028 019	11 451 353

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

40. Related party transactions

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions

Related party transactions as at 31 March 2017

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank 's parent entity	53 497	-	-	3	291 475	-	1 639
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	550 842	-	26 403	220	480 003	551 541	60
Associates of Bank Pekao S.A Group							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	6	32 787	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	137 565	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	-	16 194	123 250	-	-
Total Associates of Bank Pekao S.A. Group	-	-	-	16 200	293 602	-	-
Key management personnel of the Bank and UniCredit S.p.A.	7 934	-	-	-	28 626	-	-
Total	612 273	-	26 403	16 423	1 093 706	551 541	1 699

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by contractual maturity

31.03.2017	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank 's parent entity	53 497	-	-	-	-	-	53 497
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	548 580	2 200	-	62	-	-	550 842
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	5 507	214	2 213	7 934
Total	602 077	2 200	-	5 569	214	2 213	612 273

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

Liabilities from loans and deposits by contractual maturity

31.03.2017	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank 's parent entity	14 475	277 000	-	-	-	-	291 475
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	69 512	497	5 505	-	404 489	-	480 003
Associates of Bank Pekao S.A. Group	21 634	157 686	114 282	-	-	-	293 602
Key management personnel of the Bank and UniCredit S.p.A.	9 486	5 214	752	13 174	-	-	28 626
Total	115 107	440 397	120 539	13 174	404 489	-	1 093 706

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by currency

31.03.2017	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	53 199	298	-	-	-	53 497
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	535 902	270	7	2 210	12 453	550 842
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	7 934	-	7 934
Total	589 101	568	7	10 144	12 453	612 273

Liabilities from loans and deposits by currency

31.03.2017	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	8 806	93	-	282 576	-	291 475
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	47 032	711	374 950	57 145	165	480 003
Associates of Bank Pekao S.A. Group	-	-	-	293 602	-	293 602
Key management personnel of the Bank and UniCredit S.p.A.	7 884	1 048	-	19 692	2	28 626
Total	63 722	1 852	374 950	653 015	167	1 093 706

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions as at 31 December 2016

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	187 357	-	-	443	9 261	-	1 674
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	682 836	9 719	32 072	1 306	614 127	620 819	2 972
Associates of Bank Pekao S.A. Group							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	48	28 682	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	137 850	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	-	15 199	112 949	-	-
Total Associates of Bank Pekao S.A. Group	-	-	-	15 247	279 481	-	-
Key management personnel of the Bank and UniCredit S.p.A.	7 948	-	-	-	28 457	-	-
Total	878 141	9 719	32 072	16 996	931 326	620 819	4 646

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by contractual maturity

31.12.2016	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	12 342	175 015	-	-	-	-	187 357
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	597 829	85 007	-	-	-	-	682 836
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	5 506	-	-	202	2 240	7 948
Total	610 171	265 528	-	-	202	2 240	878 141

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

Liabilities from loans and deposits by contractual maturity

31.12.2016	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	9 261	-	-	-	-	-	9 261
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	65 821	126 115	315	1 451	420 425	-	614 127
Associates of Bank Pekao S.A. Group	17 348	91 256	170 877	-	-	-	279 481
Key management personnel of the Bank and UniCredit S.p.A.	8 501	3 226	15 748	982	-	-	28 457
Total	100 931	220 597	186 940	2 433	420 425	-	931 326

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and deposits by currency

31.12.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	2 160	10 180	-	175 017	-	187 357
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	561 564	113	7	99 082	22 070	682 836
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	7 948	-	7 948
Total	563 724	10 293	7	282 047	22 070	878 141

Liabilities from loans and deposits by currency

31.12.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	543	-	-	8 718	-	9 261
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	52 131	-	391 206	167 723	3 067	614 127
Associates of Bank Pekao S.A. Group	-	-	-	279 481	-	279 481
Key management personnel of the Bank and UniCredit S.p.A.	6 818	295	-	21 333	11	28 457
Total	59 492	295	391 206	477 255	3 078	931 326

Notes to financial statements (cont.)

(in PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January to 31 March 2017

NAME OF ENTITY	INTEREST INCOME	INTEREST EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	282	(43)	221	(730)	751	(2 240)
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	812	(1 234)	1 192	(53)	8 407	(23 690)
Associates of Bank Pekao S.A. Group						
Dom Inwestycyjny Xelion Sp. z o.o.	2	(91)	8	-	99	-
Pioneer Pekao Investment Management S.A.	-	(402)	2	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(355)	49 051	-	4	(3)
Total Associates of Bank Pekao S.A. Group	2	(848)	49 061	-	103	(3)
Key management personnel of the Bank and UniCredit S.p.A.	58	(87)	3	-	-	-
Total	1 154	(2 212)	50 477	(783)	9 261	(25 933)

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

NAME OF ENTITY	INTEREST INCOME	INTEREST EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	(146)	(95)	206	(727)	237	(4 179)
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	7 307	(633)	2 505	(48)	2 262	(10 278)
Associates of Bank Pekao S.A. Group						
Dom Inwestycyjny Xelion Sp. z o.o.	-	(77)	10	(106)	96	-
Pioneer Pekao Investment Management S.A.	-	(596)	65	-	5	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(445)	46 725	-	-	-
Total Associates of Bank Pekao S.A. Group	-	(1 118)	46 800	(106)	101	-
Key management personnel of the Bank and UniCredit S.p.A.	60	(75)	3	-	-	-
Total	7 221	(1 921)	49 514	(881)	2 600	(14 457)

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 March 2017

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	48 771	241 452	-	57 146
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	195 234	601 718	-	179 379
Associates of Bank Pekao S.A. Group				
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	103	-	-	-
Total Associates of Bank Pekao S.A. Group	118	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	206	-	-	-
Total	244 329	843 170	-	236 525

Notes to financial statements (cont.)

(in PLN thousand)

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

31.03.2017	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	-	-	48 771	48 771
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	-	-	-	15	195 219	195 234
Associates of Bank Pekao S.A. Group	-	-	-	-	118	-	118
Key management personnel of the Bank and UniCredit S.p.A.	30	-	-	5	171	-	206
Total	30	-	-	5	304	243 990	244 329
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	-	-	3 000	97 453	29 533	111 466	241 452
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	12 124	11 957	107 219	305 779	164 639	601 718
Total	-	12 124	14 957	204 672	335 312	276 105	843 170
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	6 033	-	33 424	16 212	1 477	57 146
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	67	63	71 860	7 655	99 734	179 379
Total	-	6 100	63	105 284	23 867	101 211	236 525

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees granted by currency

31.03.2017	EUR	USD	CHF	PLN	INNE	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	28 771	-	-	20 000	-	48 771
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	93 986	39 309	-	61 595	344	195 234
Associates of Bank Pekao S.A. Group	-	-	-	118	-	118
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	206	-	206
Total	122 757	39 309	-	81 919	344	244 329
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	9 186	-	-	232 266	-	241 452
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	53 668	-	-	548 050	-	601 718
Total	62 854	-	-	780 316	-	843 170
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	30 551	-	-	26 595	-	57 146
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	97 248	-	-	82 131	-	179 379
Total	127 799	-	-	108 726	-	236 525

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
UniCredit S.p.A. – the Bank's parent entity	50 162	246 519	-	53 963
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	202 191	599 604	5 192	192 481
Associates of Bank Pekao S.A Group				
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	96	-	-	-
Total Associates of Bank Pekao S.A. Group	111	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	217	-	-	-
Total	252 681	846 123	5 192	246 444

Notes to financial statements (cont.)

(in PLN thousand)

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

31.12.2016	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	-	-	50 162	50 162
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	-	-	-	-	202 191	202 191
Associates of Bank Pekao S.A. Group	-	-	-	-	111	-	111
Key management personnel of the Bank and UniCredit S.p.A.	30	-	5	-	182	-	217
Total	30	-	5	-	293	252 353	252 681
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	-	2 624	-	50 190	81 659	112 046	246 519
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	9 343	24 475	113 978	293 599	158 209	599 604
Total	-	11 967	24 475	164 168	375 258	270 255	846 123
FINANCIAL COMMITMENTS RECEIVED							
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	5 192	-	-	-	-	5 192
Total	-	5 192	-	-	-	-	5 192
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	4 645	752	33 619	13 399	1 548	53 963
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	-	3 322	75 122	11 062	102 975	192 481
Total	-	4 645	4 074	108 741	24 461	104 523	246 444

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees issued by currency

31.12.2016	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	30 164	-	-	19 998	-	50 162
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	98 535	41 716	-	61 580	360	202 191
Associates of Bank Pekao S.A. Group	-	-	-	111	-	111
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	217	-	217
Total	128 699	41 716	-	81 906	360	252 681
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	12 167	-	-	234 352	-	246 519
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	53 077	-	-	546 527	-	599 604
Total	65 244	-	-	780 879	-	846 123
FINANCIAL COMMITMENTS RECEIVED						
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	-	-	-	-	5 192	5 192
Total	-	-	-	-	5 192	5 192
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	29 130	-	-	24 833	-	53 963
Entities of UniCredit Group excluding Bank Pekao S.A. Group entities	109 606	-	-	82 090	785	192 481
Total	138 736	-	-	106 923	785	246 444

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 quarter of 2017 amounted to PLN 3 344 thousand, compared to PLN 3 327 thousand in the first quarter of 2016. Short-term employee benefits included: base salary, bonuses and other benefits due in next 12 months from the balance sheet date.

Long-term benefits related to the Management Board of the Bank amounted to PLN 1 651 thousand in the first quarter of 2017, compared to PLN 1 769 thousand in the first quarter of 2016 and comprised of provisions for deferred bonus payments.

The expenses of the first quarter of 2017 included PLN 1 924 thousand in respect of share-based payments, compared to PLN 1 510 thousand in the first quarter of 2016. The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of phantom shares, granted to the Members of the Bank's Management Board.

Remuneration expenses of Supervisory Board of the Bank, comprising short-term employee benefits, amounted to PLN 199 thousand in the first quarter of 2017, compared to PLN 322 thousand in the first quarters of 2016.

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in the period from 1 January to 31 March 2017 and in the period from 1 January to 31 March 2016.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

Remuneration expenses of Management Boards of Group's subsidiaries, comprising short-term employee benefits, amounted to PLN 4 123 thousand in the first quarter of 2017, compared to PLN 3 287 thousand in the first quarter of 2016.

The expenses in respect of share-base payments to the Management Board of the Bank and subsidiaries on the first quarter 2017 amounted 808 thousand.

Remuneration expenses of Supervisory Boards of Group's subsidiaries, comprising short-term employee benefits, amounted to PLN 77 thousand in the first quarter of 2017, compared to PLN 97 thousand in the first quarter of 2016.

41. Subsequent events

There have been no significant subsequent events.

Signatures of the Management Board Members

09.05.2017	Luigi Lovaglio	President of the Management Board CEO	
Date	Name/Surname	Position/Function	Signature
09.05.2017	Diego Biondo	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
09.05.2017	Andrzej Kopyrski	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
09.05.2017	Adam Niewiński	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
09.05.2017	Grzegorz Piwowar	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
09.05.2017	Stefano Santini	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
09.05.2017	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.