

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



Warsaw, August 2017

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

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Consolidated income statement

(in PLN thousand)

	NOTE	II QUARTER 2017 PERIOD FROM 01.04.2017 TO 30.06.2017	I HALF 2017 PERIOD FROM 01.01.2017 TO 30.06.2017	II QUARTER 2016 PERIOD FROM 01.04.2016 TO 30.06.2016 RESTATED	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016 RESTATED
Interest income	9	1 392 566	2 767 533	1 338 188	2 691 404
Interest expense	9	(256 384)	(516 324)	(256 183)	(539 661)
Net interest income		1 136 182	2 251 209	1 082 005	2 151 743
Fee and commission income	10	659 104	1 301 078	689 289	1 326 151
Fee and commission expense	10	(76 818)	(145 310)	(70 648)	(145 338)
Net fee and commission income		582 286	1 155 768	618 641	1 180 813
Dividend income	11	19 269	19 418	16 410	16 411
Result on financial assets and liabilities held for trading	12	858	8 873	11 906	33 916
Result on fair value hedge accounting	29	1 334	3 047	(2 533)	(5 401)
Gains (losses) on disposal of:	13	5 118	5 942	273 500	423 883
loans and other financial receivables		27	93	5 796	155 720
available for sale financial assets and held to maturity investments		5 120	5 929	267 707	268 171
financial liabilities		(29)	(80)	(3)	(8)
Operating income		1 745 047	3 444 257	1 999 929	3 801 365
Net impairment losses on financial assets and off-balance sheet commitments:	17	(114 848)	(229 974)	(131 179)	(260 568)
loans and other financial receivables		(112 254)	(236 724)	(72 740)	(200 966)
off-balance sheet commitments		(2 594)	6 750	(58 439)	(59 602)
Net result on financial activity		1 630 199	3 214 283	1 868 750	3 540 797
Administrative expenses	14	(865 632)	(1 901 992)	(911 446)	(1 786 036)
personnel expenses		(482 349)	(952 318)	(472 983)	(944 163)
other administrative expenses		(383 283)	(949 674)	(438 463)	(841 873)
Depreciation and amortization	15	(85 225)	(169 567)	(85 677)	(171 470)
Net result on other provisions		(8 467)	(14 002)	(2 024)	(2 853)
Net other operating income and expenses	16	12 153	47 892	3 971	10 512
Operating costs		(947 171)	(2 037 669)	(995 176)	(1 949 847)
Gains (losses) on subsidiaries and associates	18	10 444	20 554	9 788	19 791
Gains (losses) on disposal of property, plant and equipment and intangible assets	19	(59)	66	363	1 644
Profit before income tax		693 413	1 197 234	883 725	1 612 385
Income tax expense	20	(158 214)	(312 243)	(193 098)	(348 280)
Net profit		535 199	884 991	690 627	1 264 105
1. Attributable to equity holders of the Bank		535 069	884 778	690 513	1 263 909
2. Attributable to non-controlling interests		130	213	114	196
Earnings per share (in PLN per share)					
basic for the period	21	2.04	3.37	2.64	4.82
diluted for the period	21	2.04	3.37	2.64	4.82

Notes to the financial statements presented on pages 11 - 91 constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	II QUARTER 2017 PERIOD FROM 01.04.2017 TO 30.06.2017	I HALF 2017 PERIOD FROM 01.01.2017 TO 30.06.2017	II QUARTER 2016 PERIOD FROM 01.04.2016 TO 30.06.2016	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016
Net profit		535 199	884 991	690 627	1 264 105
1. Attributable to equity holders of the Bank		535 069	884 778	690 513	1 263 909
2. Attributable to non-controlling interests		130	213	114	196
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		94 566	266 965	(313 460)	(284 361)
Change in fair value of cash flow hedges	29	(27 607)	(32 098)	(6 281)	33 794
Tax on items that are or may be reclassified subsequently to profit or loss	20	(12 721)	(44 624)	60 751	47 608
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)		54 238	190 243	(258 990)	(202 959)
Total comprehensive income		589 437	1 075 234	431 637	1 061 146
1. Attributable to equity holders of the Bank		589 307	1 075 021	431 523	1 060 950
2. Attributable to non-controlling interests		130	213	114	196

Notes to the financial statements presented on pages 11 - 91 constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	30.06.2017	31.12.2016	30.06.2016
ASSETS				
Cash and due from Central Bank	23	6 735 048	5 872 911	5 892 348
Bill of exchange eligible for rediscounting at Central Bank		-	-	-
Loans and advances to banks	24	3 288 767	3 257 829	4 350 537
Financial assets held for trading	25	2 211 972	732 469	2 330 557
Derivative financial instruments (held for trading)	26	1 359 566	1 913 429	2 257 147
Loans and advances to customers	27	121 653 394	118 689 267	116 436 667
Receivables from finance leases	28	4 096 324	3 974 643	3 810 443
Hedging instruments	29	259 248	289 752	269 003
Investment (placement) securities	30	26 836 355	35 120 619	26 613 030
1. Available for sale		22 452 624	32 101 634	23 208 055
2. Held to maturity		4 383 731	3 018 985	3 404 975
Assets held for sale	31	48 222	48 277	49 609
Investments in associates		156 776	136 221	117 414
Intangible assets	32	592 941	596 181	598 826
Property, plant and equipment	33	1 400 241	1 422 930	1 408 851
Investment properties		22 640	24 874	25 448
Income tax assets		921 040	1 104 343	1 002 082
1. Current tax assets		507	100 992	3 992
2. Deferred tax assets		920 533	1 003 351	998 090
Other assets		947 569	1 031 198	850 321
TOTAL ASSETS		170 530 103	174 214 943	166 012 283
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to Central Bank	23	6 031	6 091	6 038
Amounts due to other banks	35	4 496 776	4 823 440	4 981 216
Financial liabilities held for trading	25	289 808	673 165	786 033
Derivative financial instruments (held for trading)	26	1 494 463	1 952 674	2 285 059
Amounts due to customers	36	134 601 235	137 815 926	126 894 124
Hedging instruments	29	1 306 573	1 638 718	1 888 106
Debt securities issued	37	1 314 487	1 522 963	2 085 276
Income tax liabilities		39 041	11 579	84 650
1. Current tax liabilities		34 591	6 694	79 632
2. Deferred tax liabilities		4 450	4 885	5 018
Provisions	38	574 626	560 392	490 718
Other liabilities		4 698 126	2 298 052	4 310 747
TOTAL LIABILITIES		148 821 166	151 303 000	143 811 967
Equity				
Share capital		262 470	262 470	262 470
Other capital and reserves		20 577 514	20 375 527	20 684 417
Retained earnings and net profit for the period		853 816	2 259 022	1 238 798
Total equity attributable to equity holders of the Bank		21 693 800	22 897 019	22 185 685
Non-controlling interests		15 137	14 924	14 631
TOTAL EQUITY		21 708 937	22 911 943	22 200 316
TOTAL LIABILITIES AND EQUITY		170 530 103	174 214 943	166 012 283

Notes to the financial statements presented on pages 11 - 91 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 30 June 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	-	190 243	-	-	-	190 243	-	884 778	1 075 021	213	1 075 234	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-	
Revaluation of available-for-sale investments (net of tax)	-	216 242	-	-	-	216 242	-	-	216 242	-	216 242	
Revaluation of hedging financial instruments (net of tax)	-	(25 999)	-	-	-	(25 999)	-	-	(25 999)	-	(25 999)	
Net profit for the period	-	-	-	-	-	-	-	884 778	884 778	213	884 991	
Appropriation of retained earnings	-	11 744	-	135	-	-	11 609	(2 289 984)	(2 278 240)	-	(2 278 240)	
Dividend paid	-	-	-	-	-	-	-	(2 278 240)	(2 278 240)	-	(2 278 240)	
Profit appropriation to other reserves including consolidation adjustments	-	-	-	135	-	-	11 609	(11 744)	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	
Equity as at 30.06.2017	262 470	20 577 514	9 137 221	1 982 459	9 092 735	(33 151)	398 250	853 816	21 693 800	15 137	21 708 937	

Notes to the financial statements presented on pages 11 - 91 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 11 - 91 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 30 June 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 options	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	(202 959)	-	-	-	(202 959)	-	1 263 909	1 060 950	196	1 061 146
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of available-for-sale investments (net of tax)	-	(230 332)	-	-	-	(230 332)	-	-	(230 332)	-	(230 332)
Revaluation of hedging financial instruments (net of tax)	-	27 373	-	-	-	27 373	-	-	27 373	-	27 373
Net profit for the period	-	-	-	-	-	-	-	1 263 909	1 263 909	196	1 264 105
Appropriation of retained earnings	-	17 405	-	6 909	-	-	10 496	(2 300 894)	(2 283 489)	(1 529)	(2 285 018)
Dividend paid	-	-	-	-	-	-	-	(2 283 489)	(2 283 489)	(1 529)	(2 285 018)
Profit appropriation to other reserves including consolidation adjustments	-	17 405	-	6 909	-	-	10 496	(17 405)	-	-	-
Other	-	(5)	-	-	(5)	-	-	-	(5)	-	(5)
Other	-	(5)	-	-	(5)	-	-	-	(5)	-	(5)
Equity as at 30.06.2016	262 470	20 684 417	9 137 221	1 982 324	9 092 735	80 638	391 499	1 238 798	22 185 685	14 631	22 200 316

Notes to the financial statements presented on pages 11 - 91 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	I HALF 2017 PERIOD FROM 01.01.2017 TO 30.06.2017	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016
Cash flow from operating activities – indirect method			
Net profit for the period		884 778	1 263 909
Adjustments for:		(8 138 717)	1 845 447
Depreciation and amortization	15	169 567	171 470
Share of profit (loss) of associates	18	(20 554)	(19 791)
(Gains) losses on investing activities		(5 779)	(269 507)
Net interest income	9	(2 251 209)	(2 151 743)
Dividend income	11	(19 418)	(16 411)
Interest received		2 805 729	2 635 481
Interest paid		(552 601)	(522 682)
Income tax		312 243	297 616
Income tax paid		(150 267)	(239 961)
Change in loans and advances to banks		114 003	118 984
Change in financial assets held for trading		(1 477 361)	(1 203 080)
Change in derivative financial instruments (assets)		553 863	949 300
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(2 946 802)	2 156 324
Change in receivables from finance leases		(121 681)	(306 464)
Change in investment (placement) securities		(85 851)	(596 245)
Change in other assets		(22 368)	1 590 057
Change in amounts due to banks		(326 711)	(971 191)
Change in financial liabilities held for trading		(383 357)	174 591
Change in derivative financial instruments (liabilities)		(458 211)	(919 269)
Change in amounts due to customers		(3 180 530)	(2 005 829)
Change in debt securities issued		7 086	10 676
Change in provisions		14 234	65 344
Change in other liabilities		(112 742)	2 897 777
Net cash flows from operating activities		(7 253 939)	3 109 356
Cash flow from investing activities			
Investing activity inflows		20 085 862	63 490 648
Sale of investment securities		19 709 272	63 090 024
Sale of intangible assets and property, plant and equipment		307	3 915
Dividend received		1 173	16 411
Other investing inflows		375 110	380 298
Investing activity outflows		(11 609 855)	(68 333 625)
Acquisition of investment securities		(11 497 502)	(68 249 629)
Acquisition of intangible assets and property, plant and equipment		(112 353)	(83 996)
Net cash flows from investing activities		8 476 007	(4 842 977)

Notes to the financial statements presented on pages 11 - 91 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	I HALF 2017 PERIOD FROM 01.01.2017 TO 30.06.2017	I HALF 2016 PERIOD FROM 01.01.2016 TO 30.06.2016
Cash flows from financing activities			
Financing activity inflows		-	1 079 733
Issue of debt securities	37	-	1 079 733
Financing activity outflows		(213 459)	(4 177 490)
Redemption of debt securities	37	(213 459)	(1 894 001)
Dividends and other payments to shareholders		-	(2 283 489)
Net cash flows from financing activities		(213 459)	(3 097 757)
Total net cash flows		1 008 609	(4 831 378)
including: effect of exchange rate fluctuations on cash and cash equivalents held		(122 993)	101 940
Net change in cash and cash equivalents		1 008 609	(4 831 378)
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		9 674 699	9 682 017

Notes to the financial statements presented on pages 11 - 91 constitute an integral part of the consolidated financial statements.

Notes to financial statements

(in PLN thousand)

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

1. General information

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

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

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

The condensed consolidated interim financial statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 30 June 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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

2. Group structure

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			30.06.2017	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 Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	65.00	65.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A., including:	Warsaw	Real estate development	100.00	100.00
<i>FPB - Media Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development</i>	<i>100.00</i>	<i>100.00</i>
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00

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

Associates

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			30.06.2017	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 30 June 2017, the Group held no shares in entities under joint control.

Changes in the Group structure

On 1 June 2017, the Bank as a Buyer has entered into a preliminary sales agreement with Pioneer Global Asset Management S.p.A. with its registered office in Milan (hereinafter referred to as 'PGAM') concerning 14 746 shares of Pioneer Pekao Investment Management S.A. with its registered office in Warsaw (hereinafter referred to as 'PPIM'), constituting 51% of PPIM's shares and 51% of its share capital and in the total number of votes at the General Meeting of PPIM. PPIM owns 100% shares in Pioneer Pekao Investment Funds S.A. with registered office in Warsaw.

The total amount to be paid to PGAM is EUR 140 million and includes the price of 35% shares of Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. (hereinafter referred to as 'PTE').

On that day, the Bank as the Buyer also concluded a preliminary purchase agreement of 50% shares in Dom Inwestycyjny Xelion Sp. z o.o. (hereinafter referred to as 'Xelion') from UniCredit S.p.A.

Notes to financial statements (cont.)

(in PLN thousand)

The conclusion of the final sales agreements, the terms and conditions of which have been agreed in the preliminary contracts, are conditional upon obtaining appropriate regulatory consent for each transaction.

As a result of the acquisition of the aforementioned shares, the Bank will hold 100% in the share capital and in the total number of votes at the General Meetings of PPIM and PTE and at the Shareholders' Meeting of Xelion.

3. Business combinations

In the first half 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 six months period ended 30 June 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 1 August 2017.

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,

Notes to financial statements (cont.)

(in PLN thousand)

- at historical cost for non-financial assets and liabilities or financial assets available for sale whose fair value cannot be reliably measured,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

	II QUARTER 2016 (before restatement)	Restatement	II QUARTER 2016 (after restatement)
Interest income	1 338 188	-	1 338 188
Interest expense	(256 183)	-	(256 183)
Net interest income	1 082 005	-	1 082 005
Fee and commission income	575 789	113 500	689 289
Fee and commission expense	(70 648)	-	(70 648)
Net fee and commission income	505 141	113 500	618 641
Dividend income	16 410	-	16 410
Result on financial assets and liabilities held for trading	125 406	(113 500)	11 906
Result on fair value hedge accounting	(2 533)	-	(2 533)
Gains (losses) on disposal of:	273 500	-	273 500
loans and other financial receivables	5 796	-	5 796
available for sale financial assets and held to maturity investments	267 707	-	267 707
financial liabilities	(3)	-	(3)
Operating income	1 999 929	-	1 999 929
Net impairment losses on financial assets and off-balance sheet commitments	(131 179)	-	(131 179)
loans and other financial receivables	(72 740)	-	(72 740)
off-balance sheet commitments	(58 439)	-	(58 439)
Net result on financial activity	1 868 750	-	1 868 750
Administrative expenses	(911 446)	-	(911 446)
personnel expenses	(472 983)	-	(472 983)
other administrative expenses	(438 463)	-	(438 463)
Depreciation and amortization	(85 677)	-	(85 677)
Net result on other provisions	(2 024)	-	(2 024)
Net other operating income and expenses	3 971	-	3 971
Operating costs	(995 176)	-	(995 176)
Gains (losses) on subsidiaries and associates	9 788	-	9 788
Gains (losses) on disposal of property, plant and equipment, and intangible assets	363	-	363
Profit before income tax	883 725	-	883 725
Income tax expense	(193 098)	-	(193 098)
Net profit for the period	690 627	-	690 627
1. Attributable to equity holders of the Bank	690 513	-	690 513
2. Attributable to non-controlling interest	114	-	114
Earnings per share (in PLN per share)			
basic for the period	2.64		2.64
diluted for the period	2.64		2.64

Notes to financial statements (cont.)

(in PLN thousand)

	I HALF 2016 (before restatement)	Restatement	I HALF 2016 (after restatement)
Interest income	2 691 404	-	2 691 404
Interest expense	(539 661)	-	(539 661)
Net interest income	2 151 743	-	2 151 743
Fee and commission income	1 113 819	212 332	1 326 151
Fee and commission expense	(145 338)	-	(145 338)
Net fee and commission income	968 481	212 332	1 180 813
Dividend income	16 411	-	16 411
Result on financial assets and liabilities held for trading	246 248	(212 332)	33 916
Result on fair value hedge accounting	(5 401)	-	(5 401)
Gains (losses) on disposal of:	423 883	-	423 883
loans and other financial receivables	155 720	-	155 720
available for sale financial assets and held to maturity investments	268 171	-	268 171
financial liabilities	(8)	-	(8)
Operating income	3 801 365	-	3 801 365
Net impairment losses on financial assets and off-balance sheet commitments	(260 568)	-	(260 568)
loans and other financial receivables	(200 966)	-	(200 966)
off-balance sheet commitments	(59 602)	-	(59 602)
Net result on financial activity	3 540 797	-	3 540 797
Administrative expenses	(1 786 036)	-	(1 786 036)
personnel expenses	(944 163)	-	(944 163)
other administrative expenses	(841 873)	-	(841 873)
Depreciation and amortization	(171 470)	-	(171 470)
Net result on other provisions	(2 853)	-	(2 853)
Net other operating income and expenses	10 512	-	10 512
Operating costs	(1 949 847)	-	(1 949 847)
Gains (losses) on subsidiaries and associates	19 791	-	19 791
Gains (losses) on disposal of property, plant and equipment, and intangible assets	1 644	-	1 644
Profit before income tax	1 612 385	-	1 612 385
Income tax expense	(348 280)	-	(348 280)
Net profit for the period	1 264 105	-	1 264 105
1. Attributable to equity holders of the Bank	1 263 909	-	1 263 909
2. Attributable to non-controlling interest	196	-	196
Earnings per share (in PLN per share)			
basic for the period	4.82		4.82
diluted for the period	4.82		4.82

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. Date of application: the first financial year beginning on or 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. The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer. Date of application: the first financial year beginning on or after 1 January 2018.</p>	The 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. Date of application: the first financial year beginning on or after 1 January 2016. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.</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. 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.
IFRS 17 'Insurance Contracts'	<p>The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2021.</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.

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: 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.
IFRS 15 (amendment) 'Revenue from Contracts with Customers'	Clarifications to IFRS 15 Revenue from Contracts with Customers. Date of application: annual periods beginning on or after 1 January 2018.	The Group is currently analyzing the impact of those changes on the financial statements.
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.
IFRIC 23 'Uncertainty over Income Tax Treatments'	It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. Date of application: annual periods beginning on or after 1 January 2019.	The Group is currently analyzing the impact of those changes on the financial statements.

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

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

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	30.06.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.06%	11 140 197	24.2%	11 544 215	26.2%
2	0.06% <= PD < 0.19%	6 288 005	13.7%	6 794 533	15.4%
3	0.19% <= PD < 0.35%	18 811 899	40.9%	17 482 613	39.7%
4	0.35% <= PD < 0.73%	6 541 485	14.2%	5 463 689	12.4%
5	0.73% <= PD < 3.50%	1 908 291	4.1%	1 435 604	3.3%
6	3.50% <= PD < 14.00%	615 599	1.3%	638 891	1.5%
7	14.00% <= PD < 100.00%	714 987	1.6%	671 745	1.5%
Total		46 020 463	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	30.06.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.34%	670 205	7.0%	687 697	7.9%
2	0.34% <= PD < 0.80%	891 403	9.3%	948 701	10.8%
3	0.80% <= PD < 1.34%	1 411 687	14.8%	1 506 160	17.2%
4	1.34% <= PD < 2.40%	2 993 834	31.4%	2 669 352	30.5%
5	2.40% <= PD < 4.75%	2 256 678	23.7%	1 815 307	20.7%
6	4.75% <= PD < 14.50%	896 424	9.4%	756 550	8.7%
7	14.50% <= PD < 31.00%	211 677	2.2%	186 915	2.1%
8	31.00% <= PD < 100.00%	208 941	2.2%	186 336	2.1%
Total		9 540 849	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	30.06.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.15%	448 384	2.9%	515 756	3.5%
2	0.15% <= PD < 0.27%	1 516 982	9.8%	2 188 032	14.8%
3	0.27% <= PD < 0.45%	2 171 482	14.0%	1 984 785	13.5%
4	0.45% <= PD < 0.75%	2 371 487	15.3%	2 105 131	14.3%
5	0.75% <= PD < 1.27%	3 703 025	24.0%	2 131 155	14.5%
6	1.27% <= PD < 2.25%	2 130 821	13.8%	2 269 874	15.4%
7	2.25% <= PD < 4.00%	1 168 907	7.6%	1 266 801	8.6%
8	4.00% <= PD < 8.50%	1 793 858	11.6%	1 948 049	13.2%
9	8.50% <= PD < 100.00%	160 499	1.0%	319 268	2.2%
Total		15 465 445	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	30.06.2017		31.12.2016	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.0000% <= PD < 0.0011%	-	0.0%	-	0.0%
2	0.0011% <= PD < 0.0031%	-	0.0%	-	0.0%
3	0.0031% <= PD < 0.0069%	-	0.0%	-	0.0%
4	0.0069% <= PD < 0.0124%	-	0.0%	-	0.0%
5	0.0124% <= PD < 0.0223%	-	0.0%	1	0.0%
6	0.0223% <= PD < 0.0395%	-	0.0%	-	0.0%
7	0.0395% <= PD < 0.0691%	-	0.0%	5	0.0%
8	0.0691% <= PD < 0.1208%	407 969	9.3%	430 448	8.0%
9	0.1208% <= PD < 0.2091%	724 028	16.6%	1 029 404	19.1%
10	0.2091% <= PD < 0.3581%	1 198 977	27.4%	255 864	4.8%
11	0.3581% <= PD < 0.6132%	1 297 019	29.6%	2 486 615	46.2%
12	0.6132% <= PD < 1.0807%	68 095	1.6%	-	0.0%
13	1.0807% <= PD < 1.9599%	659 723	15.1%	847 569	15.7%
14	1.9599% <= PD < 3.5545%	19 266	0.4%	331 740	6.2%
15	3.5545% <= PD < 7.6705%	15	0.0%	11	0.0%
16	7.6705% <= PD < 19.6959%	-	0.0%	-	0.0%
17	19.6959% <= PD < 100.0000%	-	0.0%	-	0.0%
Total		4 375 092	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 CATHEGORY	30.06.2017		31.12.2016	
	CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
High	1 379 198	17.9%	3 470 755	42.6%
Good	4 841 941	62.9%	3 623 153	44.5%
Satisfactory	1 479 930	19.2%	1 010 603	12.4%
Low	-	0.0%	44 728	0.5%
Total	7 701 069	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

	30.06.2017	31.12.2016
Loans with no impairment:	123 207 811	120 112 554
Loans to individuals:	58 881 005	55 863 932
Covered by internal rating model:	55 561 312	52 788 308
Mortgage loans	46 020 463	44 031 290
Consumer loans	9 540 849	8 757 018
Other, not covered by internal rating model	3 319 693	3 075 624
Loans to corporates:	64 326 806	64 248 622
Covered by internal rating model:	19 840 537	20 110 508
Clients with income not exceeding EUR 500 million	15 465 445	14 728 851
Clients assessed by central model with income exceeding EUR 500 million	4 375 092	5 381 657
Specialized lending exposures	7 701 069	8 149 239
Debt securities, not covered by internal rating model	11 727 737	12 352 160
Repo transactions, not covered by internal rating model	-	-
Other, not covered by internal rating model	25 057 463	23 636 715
Impaired loans	2 541 889	2 550 658
Total loans and advances to customers (*)	125 749 700	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.

30.06.2017	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
Financial assets				
Derivatives	1 367 333	(992 582)	(211 138)	163 613
Total	1 367 333	(992 582)	(211 138)	163 613

30.06.2017	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
Financial liabilities				
Derivatives	2 516 980	(992 582)	(1 378 838)	145 560
Total	2 516 980	(992 582)	(1 378 838)	145 560

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.

30.06.2017	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
Financial assets					
Derivatives	1 259 476	Derivative financial instruments (held for trading)	1 359 566	100 090	26
	107 857	Hedging instruments	259 248	151 391	29
Financial liabilities					
Derivatives	1 215 122	Derivative financial instruments (held for trading)	1 494 463	279 341	26
	1 301 858	Hedging instruments	1 306 573	4 715	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 (*)	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	777 264	642 927
- up to 1 month	-	-	31 544	106 904
- between 1 month and 3 months	-	-	26 673	31 323
- between 3 months and 1 year	-	-	174 718	228 925
- between 1 year and 5 years	7 271	8 192	2 104 318	2 565 907
- above 5 years	-	-	1 995 334	1 498 788
Total gross carrying amount	7 271	8 192	5 109 851	5 074 774
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(218 656)	(292 907)
- up to 1 month	-	-	(6 062)	(30 285)
- between 1 month and 3 months	-	-	(8 177)	(7 077)
- between 3 months and 1 year	-	-	(76 337)	(121 057)
- between 1 year and 5 years	(7 271)	(8 192)	(1 444 785)	(1 563 402)
- above 5 years	-	-	(1 453 996)	(1 170 559)
Total allowance for impairment	(7 271)	(8 192)	(3 208 013)	(3 185 287)
Net carrying amount of exposure individually impaired	-	-	1 901 838	1 889 487
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	194 718	166 121
- up to 1 month	-	-	54 436	69 664
- between 1 month and 3 months	-	-	61 473	56 545
- between 3 months and 1 year	-	-	298 473	286 856
- between 1 year and 5 years	-	-	1 254 805	1 297 813
- above 5 years	9 800	9 800	961 564	914 748
Total gross carrying amount	9 800	9 800	2 825 469	2 791 747
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(72 688)	(54 371)
- up to 1 month	-	-	(18 441)	(21 678)
- between 1 month and 3 months	-	-	(24 112)	(20 975)
- between 3 months and 1 year	-	-	(156 253)	(152 797)
- between 1 year and 5 years	-	-	(1 037 938)	(1 038 042)
- above 5 years	(9 800)	(9 800)	(875 986)	(842 713)
Total allowance for impairment	(9 800)	(9 800)	(2 185 418)	(2 130 576)
Net carrying amount of exposure collectively impaired	-	-	640 051	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 (*)			
	30.06.2017	31.12.2016	CORPORATE		RETAIL	
			30.06.2017	31.12.2016	30.06.2017	31.12.2016
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	3 288 795	3 258 534	64 302 151	64 156 501	57 660 658	54 316 545
- up to 30 days	-	-	193 355	240 713	976 068	1 314 340
- between 30 days and 60 days	-	-	29 318	27 468	202 405	177 909
- above 60 days	-	-	93 921	88 700	178 495	184 075
Total gross carrying amount	3 288 795	3 258 534	64 618 745	64 513 382	59 017 626	55 992 869
IBNR PROVISION						
- not past due	(9)	(8)	(284 259)	(256 869)	(95 397)	(80 772)
- up to 30 days	-	-	(4 199)	(5 106)	(23 583)	(30 818)
- between 30 days and 60 days	-	-	(2 116)	(1 425)	(11 212)	(9 873)
- above 60 days	-	-	(1 365)	(1 360)	(6 429)	(7 474)
Total IBNR provision	(9)	(8)	(291 939)	(264 760)	(136 621)	(128 937)
Net carrying amount of exposure with no impairment	3 288 786	3 258 526	64 326 806	64 248 622	58 881 005	55 863 932

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

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
IMPAIRED EXPOSURES				
Gross carrying amount	17 071	17 992	7 935 320	7 866 521
Allowance for impairment	(17 071)	(17 992)	(5 393 431)	(5 315 863)
Total net carrying amount	-	-	2 541 889	2 550 658
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	-	-	90 788	100 560
<i>Exposure with collateral value included in expected discounted cash flow, in this:</i>	-	-	90 788	100 560
- <i>Past due exposures</i>	-	-	17 523	35 382
IBNR provision	-	-	(1 236)	(2 610)
Total net carrying amount	-	-	89 552	97 950
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	3 288 795	3 258 534	123 545 583	120 405 691
IBNR provision	(9)	(8)	(427 324)	(391 087)
Total net carrying amount	3 288 786	3 258 526	123 118 259	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 30 June 2017

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (*)	
AA+ to AA-	-	297 088	-	-	297 088
A+ to A-	2 186 420	21 293 071	4 383 731	306 940	28 170 162
no rating	22 644	663 568	-	-	686 212
Total	2 209 064	22 253 727	4 383 731	306 940	29 153 462

(*) 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 30 June 2017

RATING	DERIVATIVES						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA+ to AAA-	5	-	-	-	-	-	5
AA+ to AA-	48 448	-	-	-	-	-	48 448
A+ to A-	610 952	99 814	-	56 248	-	-	767 014
BBB+ to BBB-	28 998	-	-	5 955	-	-	34 953
no rating	246 914	83 454	240 980	44 492	152 553	-	768 393
Total	935 317	183 268	240 980	106 695	152 553	-	1 618 813

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+ to AAA-	143	-	-	-	-	-	143
AA+ to AA-	75 047	-	-	1 044	-	-	76 091
A+ to A-	581 997	179 546	-	22 224	-	-	783 767
BBB+ to BBB-	379 748	-	-	4 414	-	-	384 162
no rating	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

	30.06.2017	31.12.2016
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	123 207 811	120 112 554
forborne exposures	504 356	574 117
Impaired exposures, of which:	2 541 889	2 550 658
forborne exposures	1 565 696	1 476 521
Total net carrying amount, of which:	125 749 700	122 663 212
forborne exposures	2 070 052	2 050 638

The quality analysis of forborne exposures

	30.06.2017	31.12.2016
Exposures with no impairment		
Gross carrying amount	517 601	587 347
IBNR provisions	(13 245)	(13 230)
Net carrying amount	504 356	574 117
Impaired exposures		
Gross carrying amount, of which:	3 285 074	3 152 110
exposures individually impaired	2 918 434	2 816 470
exposures collectively impaired	366 640	335 640
Allowances for impairment, of which:	(1 719 378)	(1 675 589)
exposures individually impaired	(1 551 272)	(1 524 510)
exposures collectively impaired	(168 106)	(151 079)
Net carrying amount	1 565 696	1 476 521
Total net carrying amount	2 070 052	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

	30.06.2017	31.12.2016
Gross carrying amount, of which:	3 988 669	4 492 086
- denominated in CHF	3 963 780	4 461 077
- indexed to CHF	24 889	31 009
Impairment allowances, of which:	(87 288)	(91 931)
- denominated in CHF	(86 958)	(91 604)
- indexed to CHF	(330)	(327)
Net carrying amount, of which:	3 901 381	4 400 155
- denominated in CHF	3 876 822	4 369 473
- indexed to CHF	24 559	30 682

Notes to financial statements (cont.)

(in PLN thousand)

Quality of CHF loans to individuals

	30.06.2017	31.12.2016
Gross carrying amount of exposures with no impairment, of which:	3 815 233	4 302 638
- not past due	3 587 589	3 956 983
- up to 30 days	168 865	280 365
- between 30 days and 60 days	41 377	47 308
- above 60 days	17 402	17 982
IBNR provisions for exposures with no impairment, of which:	(10 534)	(11 261)
- not past due	(4 948)	(4 183)
- up to 30 days	(3 150)	(4 464)
- between 30 days and 60 days	(1 715)	(1 755)
- above 60 days	(721)	(859)
Gross carrying amount of impaired exposures, of which:	173 436	189 448
- not past due	33 684	31 997
- up to 1 month	11 804	18 589
- between 1 month and 3 months	10 481	12 590
- between 3 months and 1 year	28 623	32 948
- between 1 year and 5 years	51 850	55 254
- above 5 years	36 994	38 070
Allowances for impairment, of which:	(76 754)	(80 670)
- not past due	(6 217)	(6 020)
- up to 1 month	(2 143)	(2 867)
- between 1 month and 3 months	(1 977)	(2 720)
- between 3 months and 1 year	(8 499)	(9 379)
- between 1 year and 5 years	(30 327)	(31 609)
- above 5 years	(27 591)	(28 075)
Total net carrying amount	3 901 381	4 400 155

As of 30 June 2017 the average LTV for CHF loans to individuals granted by the Group amounted to 51.8% (56.3% as at 31 December 2016), with an average LTV for the whole portfolio of 66.0% (66.0% as at 31 December 2016).

Notes to financial statements (cont.)

(in PLN thousand)

Credit exposures towards Ukraine

As at 30 June 2017, the net balance sheet value of exposures towards Ukraine amounted to PLN 30 million (which constitutes 0.02% of total Group exposures), less by PLN 81 million in comparison to the end of December 2016.

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

	30.06.2017	31.12.2016
Balance sheet exposures		
Loans and advances to customers	290 167	321 048
Total gross carrying amount	290 167	321 048
IBNR provision / Allowance for impairment	(260 069)	(209 687)
Total net carrying amount	30 098	111 361
Off-balance sheet exposure		
Credit lines granted	331	428
Total gross carrying amount	331	428
IBNR provision	(1)	-
Total net carrying amount	330	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 30 June 2017 and in 2016:

	30.06.2017	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	57	13	278	1 918
interest rate risk	1 372	773	1 241	1 925
Trading portfolio	1 366	922	1 353	3 046

	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 30 June 2017 and as at 31 December 2016.

SENSITIVITY IN %	30.06.2017	31.12.2016
NII	(8.03)	(8.03)
EVE	0.25	(0.76)

Notes to financial statements (cont.)

(in PLN thousand)

Foreign currency exchange risk

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

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

Value at Risk

CURRENCY	30.06.2017	31.12.2016
Currencies total (*)	326	208

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

Foreign currency position of the Group

30.06.2017	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	19 122 276	18 560 478	12 144 069	12 691 309	14 558
USD	4 961 120	8 495 117	11 465 865	7 986 869	(55 001)
CHF	4 192 326	1 195 648	4 122 525	7 121 350	(2 147)
GBP	230 496	894 561	737 992	70 507	3 420
CZK	150 451	202 211	338 184	286 398	26
Other currencies	313 022	318 664	389 831	380 274	3 915
Total	28 969 691	29 666 679	29 198 466	28 536 707	(35 229)

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

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

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

Adjusted liquidity gap

30.06.2017	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	36 862 741	4 498 205	25 157 794	50 836 439	53 174 924	170 530 103
Balance sheet liabilities	15 347 668	6 307 305	17 822 016	19 122 102	111 931 012	170 530 103
Off-balance sheet assets/liabilities (net)	(4 605 618)	(597 955)	(80 115)	1 605 294	2 589 955	(1 088 439)
Periodic gap	16 909 455	(2 407 055)	7 255 663	33 319 631	(56 166 133)	(1 088 439)
Cumulated gap	-	14 502 400	21 758 063	55 077 694	(1 088 439)	-

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 (*)

30.06.2017	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (**)	1 515 431	8 811	765 991	1 747 655	554 522	4 592 410
Amounts due to customers	103 552 891	12 850 954	17 643 718	918 472	49 082	135 015 117
Debt securities issued	226	8 602	300 249	1 084 819	51 989	1 445 885
Financial liabilities held for trading	-	-	82 360	66 469	140 979	289 808
Total	105 068 548	12 868 367	18 792 318	3 817 415	796 572	141 343 220
OFF-BALANCE SHEET COMMITMENTS						
Financial liabilities granted	32 010 842	-	-	-	-	32 010 842
Guarantees issued	11 047 433	-	-	-	-	11 047 433
Total	43 058 275	-	-	-	-	43 058 275

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

(*) 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'.

(**) Including Central Bank.

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

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

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

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

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

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.06.2017	20 966	20 504	104 458	810 910	355 647	1 312 485
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
30.06.2017						
Inflows	25 023 184	7 402 959	6 647 586	8 751 441	2 581 966	50 407 136
Outflows	25 154 680	7 445 940	6 815 716	9 321 094	2 818 734	51 556 164
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 those presented 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 30 June 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

30.06.2017	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	19 733 880	6 434 310	115 220	26 283 410
Financial assets held for trading	2 169 789	22 140	20 043	2 211 972
Derivative financial instruments, including:	35	1 359 531	-	1 359 566
Banks	-	935 317	-	935 317
Customers	35	424 214	-	424 249
Hedging instruments, including:	-	259 248	-	259 248
Banks	-	106 695	-	106 695
Customers	-	152 553	-	152 553
Securities available for sale	17 564 056	4 793 391	95 177	22 452 624
Liabilities:	228 183	2 862 661	-	3 090 844
Financial liabilities held for trading	228 181	61 627	-	289 808
Derivative financial instruments, including:	2	1 494 461	-	1 494 463
Banks	-	918 462	-	918 462
Customers	2	575 999	-	576 001
Hedging instruments, including:	-	1 306 573	-	1 306 573
Banks	-	1 301 855	-	1 301 855
Customers	-	4 718	-	4 718

31.12.2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
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 HALF 2017	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE
Opening balance	66 113	-	341 199
Increases, including:	67 706	-	14 175
Reclassification	-	-	-
Acquisition	67 000	-	-
Settlement	-	-	-
Gains on financial instruments	706	-	14 175
recognized in the income statement	706	-	3 526
recognized in revaluation reserves	-	-	10 649
Decreases, including:	(113 776)	-	(260 197)
Reclassification	-	-	-
Settlement/redemption	(680)	-	(252 697)
Sale	(113 089)	-	-
Losses on financial instruments	(7)	-	(7 500)
recognized in the income statement	(7)	-	(6 759)
recognized in revaluation reserves	-	-	(741)
Closing balance	20 043	-	95 177
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	43	-	10 649
Income statement:	43	-	-
net interest income	40	-	-
result on financial assets and liabilities held for trading	3	-	-
Other comprehensive income	-	-	10 649

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 30 June 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 30 June 2017 and 31 December 2016 is as follows:

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

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

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

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

As of 30 June 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, 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

30.06.2017	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	6 790 641	6 790 641	2 760 036	4 030 605	-
Loans and advance to banks	3 288 767	3 288 584	-	1 547 616	1 740 968
Loans and advances to customers	121 653 394	119 914 717	-	6 047 111	113 867 606
Receivables from financial leases	4 096 324	4 159 406	-	-	4 159 406
Debt securities held to maturity	4 383 731	4 401 913	4 401 913	-	-
Total Assets	140 212 857	138 555 261	7 161 949	11 625 332	119 767 980
Liabilities					
Amounts due to Central Bank	6 031	6 064	-	-	6 064
Amounts due to other banks	4 496 776	4 526 705	-	562 628	3 964 077
Amounts due to customers	134 601 235	134 897 035	-	311 080	134 585 955
Debt securities issued	1 314 487	1 352 314	-	1 352 314	-
Total Liabilities	140 418 529	140 782 118	-	2 226 022	138 556 096

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 subsidiaries that are assigned to the Corporate and Investment banking activity,
- assets and liabilities management and other – supervision and monitoring of fund transfers, other activities centrally managed as well as the results of subsidiaries and share in net profit of associates accounted for using the equity method that are not assigned to other reported segments.

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 30 June 2017

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	1 277 950	29 471	805 396	178 364	2 291 181
Non-interest income	742 701	13 539	421 617	42 414	1 220 271
Operating income	2 020 651	43 010	1 227 013	220 778	3 511 452
Personnel expenses	(558 211)	(11 993)	(130 351)	(251 763)	(952 318)
Other administrative expenses	(621 058)	(12 548)	(169 763)	331 292	(472 077)
Depreciation and amortisation	(81 148)	(689)	(10 916)	(76 814)	(169 567)
Operating costs	(1 260 417)	(25 230)	(311 030)	2 715	(1 593 962)
Gross operating profit	760 234	17 780	915 983	223 493	1 917 490
Net impairment losses on loans and off-balance sheet commitments	(136 141)	(332)	(95 371)	1 870	(229 974)
Net operating profit	624 093	17 448	820 612	225 363	1 687 516
Net result on other provisions	(2 212)	-	239	(12 029)	(14 002)
Guarantee funds charges	(54 209)	(314)	(68 100)	(101 038)	(223 661)
Tax on certain financial institutions	-	-	-	(252 685)	(252 685)
Net result on investment activities	(150)	-	114	102	66
Profit before tax	567 522	17 134	752 865	(140 287)	1 197 234
Income tax expense					(312 243)
Net profit for the period					884 991
Attributable to equity holders of the Bank					884 778
Attributable to non-controlling interests					213
Allocated assets	66 912 922	261 585	97 201 346	(1 988 871)	162 386 982
Unallocated assets					8 143 121
Total assets					170 530 103
Allocated liabilities	81 142 115	8 643 770	57 417 876	(5 444 341)	141 759 420
Unallocated liabilities					28 770 683
Total liabilities					170 530 103

Notes to financial statements (cont.)

(in PLN thousand)

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

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	1 202 230	21 525	800 812	163 378	2 187 945
Non-interest income	744 454	15 219	456 998	425 738	1 642 409
Operating income	1 946 684	36 744	1 257 810	589 116	3 830 354
Personnel expenses	(554 763)	(13 085)	(128 610)	(247 705)	(944 163)
Other administrative expenses	(630 923)	(13 267)	(173 815)	309 380	(508 625)
Depreciation and amortisation	(89 581)	(934)	(11 412)	(69 543)	(171 470)
Operating costs	(1 275 267)	(27 286)	(313 837)	(7 868)	(1 624 258)
Gross operating profit	671 417	9 458	943 973	581 248	2 206 096
Net impairment losses on loans and off-balance sheet commitments	(144 810)	493	(116 198)	(53)	(260 568)
Net operating profit	526 607	9 951	827 775	581 195	1 945 528
Net result on other provisions	(32)	(100)	(152)	(2 569)	(2 853)
Guarantee funds charges	(49 968)	(345)	(67 476)	(13 301)	(131 090)
Tax on certain financial institutions	-	-	-	(200 844)	(200 844)
Net result on investment activities	(148)	-	38	1 754	1 644
Profit before tax	476 459	9 506	760 185	366 235	1 612 385
Income tax expense					(348 280)
Net profit for the period					1 264 105
Attributable to equity holders of the Bank					1 263 909
Attributable to non-controlling interests					196
Allocated assets	61 086 540	287 860	97 606 010	(2 101 788)	156 878 622
Unallocated assets					9 133 661
Total assets					166 012 283
Allocated liabilities	75 102 384	8 757 057	55 973 704	(4 657 159)	135 175 986
Unallocated liabilities					30 836 297
Total liabilities					166 012 283

Reconciliations of operating income for reportable segments

	I HALF 2017	I HALF 2016
Total operating income for reportable segments	3 511 452	3 830 354
Share in gains (losses) from associates	(20 554)	(19 791)
Net other operating income and expenses	(47 892)	(10 512)
Refunding of administrative expenses	1 251	1 314
Operating income	3 444 257	3 801 365

Geographical segment

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

Notes to financial statements (cont.)

(in PLN thousand)

9. Interest income and expense

Interest income

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Loans and other receivables from customers	1 161 816	2 283 586	1 087 721	2 185 306
Interbank placements	20 316	39 526	17 422	42 955
Reverse repo transactions	6 968	18 715	12 619	26 889
Investment securities	164 949	348 629	182 371	360 621
Hedging derivatives	32 338	67 043	36 254	71 772
Financial assets held for trading	6 179	10 034	1 801	3 861
Total	1 392 566	2 767 533	1 338 188	2 691 404

Interest expense

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Deposits from customers	(224 621)	(452 475)	(224 255)	(475 993)
Interbank deposits	(4 450)	(9 224)	(6 701)	(10 556)
Repo transactions	(17 119)	(33 800)	(11 284)	(20 986)
Loans and advances received	(2 197)	(4 563)	(2 249)	(5 969)
Debt securities issued	(7 997)	(16 262)	(11 694)	(26 157)
Total	(256 384)	(516 324)	(256 183)	(539 661)

10. Fee and commission income and expense

Fee and commission income

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Accounts maintenance, payment orders and cash transactions	150 075	300 719	162 564	314 571
Payment cards	144 874	282 355	148 688	289 101
Loans and advances	112 278	212 588	126 441	232 531
Margin on foreign exchange transactions with clients	109 897	216 030	113 500	212 332
Investment products sales intermediation	67 404	131 490	60 396	122 284
Securities operations	18 700	45 844	21 846	43 214
Custody activity	16 665	33 293	15 932	31 343
Pension and investment funds service fees	12 960	25 282	12 047	24 334
Guarantees, letters of credit and similar transactions	13 133	26 197	15 149	29 746
Other	13 118	27 280	12 726	26 695
Total	659 104	1 301 078	689 289	1 326 151

Notes to financial statements (cont.)

(in PLN thousand)

Fee and commission expense

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Payment cards	(56 613)	(105 714)	(52 664)	(109 944)
Money orders and transfers	(5 337)	(10 468)	(5 095)	(10 228)
Securities and derivatives operations	(7 123)	(14 680)	(6 403)	(11 953)
Accounts maintenance	(1 429)	(2 539)	(1 270)	(2 276)
Custody activity	(3 850)	(7 356)	(3 432)	(7 736)
Pension funds management charges	(572)	(675)	(604)	(698)
Acquisition services	(1 193)	(2 271)	(668)	(1 722)
Other	(701)	(1 607)	(512)	(781)
Total	(76 818)	(145 310)	(70 648)	(145 338)

11.Dividend income

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Issuers of securities held for trading	16	16	16	17
Issuers of securities available for sale	19 253	19 402	16 394	16 394
Total	19 269	19 418	16 410	16 411

12.Result on financial assets and liabilities held for trading

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Foreign currency exchange result	(16 628)	(23 281)	(1 811)	(2 157)
Gains (losses) on derivatives	12 650	22 654	10 809	22 417
Gains (losses) on securities	4 836	9 500	2 908	13 656
Total	858	8 873	11 906	33 916

13.Gains (losses) on disposal

Realized gains

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Loans and other financial receivables (*)	27	93	5 796	155 720
Available for sale financial assets – debt instruments	4 944	5 753	4 935	5 527
Available for sale financial assets – equity instruments (**)	-	-	262 827	262 827
Held to maturity investments	176	176	-	-
Total	5 147	6 022	273 558	424 074

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Realized losses

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Available for sale financial assets – debt instruments	-	-	(55)	(183)
Debt securities issued	(29)	(80)	(3)	(8)
Total	(29)	(80)	(58)	(191)

Net realized profit	5 118	5 942	273 500	423 883
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14. Administrative expenses

Personnel expenses

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Wages and salaries	(402 854)	(797 292)	(396 253)	(792 165)
Insurance and other charges related to employees	(73 297)	(145 312)	(72 951)	(145 465)
Share-based payments expenses	(6 198)	(9 714)	(3 779)	(6 533)
Total	(482 349)	(952 318)	(472 983)	(944 163)

Other administrative expenses

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
General expenses	(223 337)	(440 273)	(235 432)	(470 601)
Taxes and charges	(9 960)	(22 178)	(9 708)	(21 381)
Bank Guarantee Fund fee	(22 213)	(222 717)	(64 528)	(131 388)
Financial supervision authority fee (KNF)	(242)	(11 821)	(8 591)	(17 659)
Tax on certain financial institutions	(127 531)	(252 685)	(120 204)	(200 844)
Total	(383 283)	(949 674)	(438 463)	(841 873)

Total administrative expenses	(865 632)	(1 901 992)	(911 446)	(1 786 036)
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From 1 January 2017 new rules for making contributions to Bank Guarantee Fund (hereinafter 'BGF'), defined in the Act of 10 June 2016 on Bank Guarantee Fund, deposit guarantee schemes and resolution of banks (hereinafter 'BGF Act'), have to be applied.

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

As a result of application of the Interpretation IFRIC 21 *Levies* for recognition of the above obligations, the costs of quarterly contribution to deposit guarantee fund of banks in the amount of PLN 44 327 thousand and the costs of annual contribution to resolution fund of banks in the amount of 178 389 thousand are charged to the income statement of Bank Pekao Group for the first half of 2017.

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

Notes to financial statements (cont.)

(in PLN thousand)

15. Depreciation and amortization

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Property, plant and equipment	(42 862)	(85 352)	(42 213)	(85 427)
Investment property	(198)	(468)	(312)	(642)
Intangible assets	(42 165)	(83 747)	(43 152)	(85 401)
Total	(85 225)	(169 567)	(85 677)	(171 470)

16. Net other operating income and expenses

Other operating income

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Rental income	4 917	10 229	5 209	10 580
Miscellaneous income	2 770	5 360	2 777	5 112
Recovery of debt collection costs	3 512	6 711	3 373	6 772
Revenues from sale of products, goods and services	18 120	39 818	1 050	2 709
Excess payments, repayments	643	1 130	383	1 595
Compensation, recoveries, penalty fees and fines received	6 874	38 709	2 182	3 093
Revenues from leasing activity	1 010	2 074	603	1 154
Refunding of administrative expenses	571	1 251	672	1 314
Income from written off liabilities	2	13	155	170
Releases of impairment allowances for litigation and other assets	180	411	215	506
Gains on sale of leasing assets for third person and other assets	-	298	299	456
Other	1 357	2 490	1 042	2 239
Total	39 956	108 494	17 960	35 700

Other operating expenses

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Costs related to leasing activity	(400)	(1 140)	(513)	(791)
Credit insurance expenses	(2 137)	(4 647)	(2 891)	(5 687)
Sundry expenses	(2 188)	(4 144)	(2 233)	(4 449)
Reimbursement and deficiencies	(401)	(2 562)	(1 035)	(1 632)
Costs from sale of products, goods and services	(17 373)	(37 134)	(612)	(1 082)
Customers complaints expenses	(306)	(563)	(401)	(1 121)
Impairment allowance for litigations and other assets	(641)	(1 406)	(1 852)	(2 534)
Costs of litigation and claims	(454)	(1 535)	(333)	(711)
Compensation, penalty fees and fines paid	(115)	(218)	(64)	(143)
Losses on disposal of leasing assets for third person and other assets	(57)	(560)	(68)	(400)
Other	(3 731)	(6 693)	(3 987)	(6 638)
Total	(27 803)	(60 602)	(13 989)	(25 188)
Net other operating income and expenses	12 153	47 892	3 971	10 512

Notes to financial statements (cont.)

(in PLN thousand)

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

I HALF 2017	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks measured at amortized cost	17 993	417	69	-	(395)	(1 011)	17 073	(22)
Loans and advances to customers measured at amortized cost	5 542 619	596 231	19 880	(52 701)	(362 472)	(91 435)	5 652 122	(233 759)
Receivables from financial leases	166 947	11 246	8	(18)	(8 303)	(4)	169 876	(2 943)
Financial assets available for sale	1 257	-	-	-	-	-	1 257	-
Off-balance sheet commitments	220 983	37 242	-	-	(43 992)	(1 110)	213 123	6 750
Total financial assets and off-balance sheet commitments	5 949 799	645 136	19 957	(52 719)	(415 162)	(93 560)	6 053 451	(229 974)
Impairment of other assets								
Investments in associates	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Property, plant and equipment	7 758	-	-	(983)	-	-	6 775	-
Investment properties	7 031	-	-	-	-	-	7 031	-
Other	80 266	1 406	917	(108)	(411)	(1 765)	80 305	(995)
Total impairment of other assets	95 055	1 406	917	(1 091)	(411)	(1 765)	94 111	(995)
Total	6 044 854	646 542	20 874	(53 810)	(415 573)	(95 325)	6 147 562	(230 969)

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

Notes to financial statements (cont.)

(in PLN thousand)

I HALF 2016	OPENING BALANCE	INCREASES			DECREASES		CLOSING BALANCE	IMPACT ON INCOME STATEMENT (**)
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks measured at amortized cost	19 774	1 043	803	-	(3 299)	(712)	17 609	2 256
Loans and advances to customers measured at amortized cost	5 678 633	582 725	67 581	(123 212)	(374 510)	(42 738)	5 788 479	(208 215)
Receivables from financial leases	163 704	10 891	-	(28)	(8 107)	(547)	165 913	(2 784)
Financial assets available for sale	122	-	-	-	-	(100)	22	-
Off-balance sheet commitments	120 771	112 718	697	-	(53 116)	-	181 070	(59 602)
Total financial assets and off-balance sheet commitments	5 983 004	707 377	69 081	(123 240)	(439 032)	(44 097)	6 153 093	(268 345)
Impairment of other assets								
Investments in associates	60	-	-	-	-	(60)	-	-
Intangible assets	10 961	-	-	(10 961)	-	-	-	-
Property, plant and equipment	8 451	-	-	(371)	-	-	8 080	-
Investment properties	8 682	-	-	(926)	-	(725)	7 031	-
Other	77 736	2 534	3 196	(822)	(506)	(756)	81 382	(2 028)
Total impairment of other assets	105 890	2 534	3 196	(13 080)	(506)	(1 541)	96 493	(2 028)
Total	6 088 894	709 911	72 277	(136 320)	(439 538)	(45 638)	6 249 586	(270 373)

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

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

Notes to financial statements (cont.)

(in PLN thousand)

18. Gains (losses) on subsidiaries and associates

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Share in gains (losses) from associates				
Dom Inwestycyjny Xelion Sp. z o.o.	831	1 440	506	934
Pioneer Pekao Investment Management S.A.	9 613	19 114	9 282	18 857
Total share in gains (losses) from associates	10 444	20 554	9 788	19 791
Total gains (losses) from subsidiaries and associates	10 444	20 554	9 788	19 791

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

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	103	720	-	464
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	(162)	(654)	363	1 180
Total gains (losses) on disposal of property, plant and equipment and intangible assets	(59)	66	363	1 644

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

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
INCOME STATEMENT				
Current tax	(181 171)	(274 484)	(257 861)	(383 475)
Current tax charge in the income statement	(181 016)	(277 544)	(257 650)	(382 650)
Adjustments related to the current tax from previous years	37	3 298	-	(145)
Other taxes (e.g. withholding tax)	(192)	(238)	(211)	(680)
Deferred tax	22 957	(37 759)	64 763	35 195
Occurrence and reversal of temporary differences	22 957	(37 759)	64 763	35 195
Tax charge in the consolidated income statement	(158 214)	(312 243)	(193 098)	(348 280)
EQUITY				
Deferred tax	(12 721)	(44 624)	60 751	47 608
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	5 246	6 099	1 193	(6 421)
revaluation of available for sale financial assets – debt securities	(21 642)	(40 530)	23 154	16 086
revaluation of available for sale financial assets – equity securities	3 675	(10 193)	36 404	37 943
Tax on items that are or may be reclassified subsequently to profit or loss	(12 721)	(44 624)	60 751	47 608
Total charge	(170 935)	(356 867)	(132 347)	(300 672)

Notes to financial statements (cont.)

(in PLN thousand)

21. Earnings per share

Basic earnings per share

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

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Net profit	535 069	884 778	690 513	1 263 909
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	2.04	3.37	2.64	4.82

Diluted earnings per share

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

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

	II QUARTER 2017	I HALF 2017	II QUARTER 2016	I HALF 2016
Net profit	535 069	884 778	690 513	1 263 909
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	2.04	3.37	2.64	4.82

22. Dividend payment

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

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

The payment of the dividend was on 6 July 2017.

Notes to financial statements (cont.)

(in PLN thousand)

23. Cash and balances with Central Bank

Cash and due from Central Bank	30.06.2017	31.12.2016	30.06.2016
Cash	2 704 442	2 639 532	2 720 160
Current account at Central Bank	4 017 200	1 718 775	3 145 000
Other	13 406	1 514 604	27 188
Total	6 735 048	5 872 911	5 892 348

Amounts due to Central Bank	30.06.2017	31.12.2016	30.06.2016
Term deposits	6 031	6 091	6 038
Total	6 031	6 091	6 038

Cash and balances with Central Bank by currency

30.06.2017	ASSETS	LIABILITIES
PLN	5 860 523	6 031
EUR	439 725	-
USD	174 668	-
CHF	59 926	-
Other currencies	200 206	-
Total	6 735 048	6 031

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

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

Notes to financial statements (cont.)

(in PLN thousand)

24. Loans and advances to banks

Loans and advances to banks by product type

	30.06.2017	31.12.2016	30.06.2016
Current accounts	225 321	118 142	161 695
Interbank placements	1 013 137	267 828	658 367
Loans and advances	32 261	34 517	35 913
Cash collaterals	1 477 654	1 771 842	2 289 319
Reverse repo transactions	309 860	703 635	805 709
Cash in transit	247 607	379 858	417 143
Total gross amount	3 305 840	3 275 822	4 368 146
Impairment allowances	(17 073)	(17 993)	(17 609)
Total net amount	3 288 767	3 257 829	4 350 537

Loans and advances to banks by quality

	30.06.2017	31.12.2016	30.06.2016
Loans and advances to banks, including:			
non impaired (gross)	3 288 769	3 257 830	4 350 542
impaired (gross)	17 071	17 992	17 604
individual impairment allowances	(7 271)	(8 192)	(7 804)
collective impairment allowances (*)	(9 802)	(9 801)	(9 805)
Total	3 288 767	3 257 829	4 350 537

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

Loans and advances to banks by contractual maturity

	30.06.2017	31.12.2016	30.06.2016
Loans and advances to banks, including:			
up to 1 month	3 191 545	3 178 259	4 210 781
between 1 and 3 months	886	345	1 760
between 3 months and 1 year	87 884	69 684	127 818
between 1 and 5 years	135	47	86
over 5 years	50	2	2
past due	25 340	27 485	27 699
Total gross amount	3 305 840	3 275 822	4 368 146
Impairment allowances	(17 073)	(17 993)	(17 609)
Total net amount	3 288 767	3 257 829	4 350 537

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to banks by currency

	30.06.2017	31.12.2016	30.06.2016
PLN	948 584	1 012 264	896 063
CHF	26 119	19 462	11 087
EUR	1 622 328	2 010 070	2 707 792
USD	425 653	68 792	503 655
Other currencies	266 083	147 241	231 940
Total	3 288 767	3 257 829	4 350 537

Changes in impairment allowances in the period from 1 January to 30 June 2017 and in the period from 1 January to 30 June 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

	30.06.2017	31.12.2016	30.06.2016
FINANCIAL ASSETS			
Debt securities	2 209 064	730 750	2 322 371
Equity securities	2 908	1 719	8 186
Total financial assets	2 211 972	732 469	2 330 557
FINANCIAL LIABILITIES			
Debt securities	289 808	673 165	786 033
Total financial liabilities	289 808	673 165	786 033

Debt securities held for trading

	30.06.2017	31.12.2016	30.06.2016
FINANCIAL ASSETS			
Debt securities issued by State Treasury	2 186 420	654 918	2 252 387
T- bills	-	-	-
T- bonds	2 186 420	654 918	2 252 387
Debt securities issued by banks	-	9 719	7 637
Debt securities issued by business entities	22 644	66 113	62 347
Total financial assets	2 209 064	730 750	2 322 371
FINANCIAL LIABILITIES			
Debt securities issued by State Treasury	289 808	673 165	786 033
T- bonds	289 808	673 165	786 033
Total financial liabilities	289 808	673 165	786 033

Equity securities held for trading

	30.06.2017	31.12.2016	30.06.2016
Shares	2 908	1 719	8 186
Total	2 908	1 719	8 186

Notes to financial statements (cont.)

(in PLN thousand)

Debt securities held for trading by maturity

	30.06.2017	31.12.2016	30.06.2016
FINANCIAL ASSETS			
Debt securities, including:			
up to 1 month	17 058	-	1 415 802
between 1 and 3 months	-	239	1 689
between 3 months and 1 year	28 065	117 804	303 169
between 1 and 5 years	2 031 748	324 868	511 380
over 5 years	132 193	278 120	82 694
unspecified term	-	9 719	7 637
Total financial assets	2 209 064	730 750	2 322 371
FINANCIAL LIABILITIES			
Debt securities, including:			
up to 1 month	-	102 076	-
between 1 and 3 months	-	-	-
between 3 months and 1 year	82 360	131 194	301 219
between 1 and 5 years	66 469	263 435	360 633
over 5 years	140 979	176 460	124 181
Total financial liabilities	289 808	673 165	786 033

Debt securities held for trading by currency

	30.06.2017	31.12.2016	30.06.2016
FINANCIAL ASSETS			
PLN	2 193 949	710 575	2 309 628
EUR	4 757	5 629	6 578
USD	10 358	14 546	6 165
Total financial assets	2 209 064	730 750	2 322 371
FINANCIAL LIABILITIES			
PLN	289 808	673 165	786 033
Total financial liabilities	289 808	673 165	786 033

Notes to financial statements (cont.)

(in PLN thousand)

26. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.06.2017	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 033 388	1 050 566
Forward Rate Agreements (FRA)	-	31
Options	5 067	992
Other	643	711
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	29 441	45 169
Currency Forward Agreements	113 198	161 344
Currency Swaps (FX-Swap)	105 614	163 625
Options for currency and gold	25 454	25 693
Transactions based on equity securities and stock indexes		
Options	8 381	8 392
Other	35	2
Transactions based on commodities and precious metals		
Options	4 428	4 277
Other	33 917	33 661
Total	1 359 566	1 494 463

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

30.06.2016	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 907 368	1 912 045
Forward Rate Agreements (FRA)	412	646
Options	4 067	4 027
Other	74	88
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	37 121	126 897
Currency Forward Agreements	187 518	69 963
Currency Swaps (FX-Swap)	63 351	106 823
Options for currency and gold	40 881	40 662
Transactions based on equity securities and stock indexes		
Options	3 678	3 702
Other	5	7 637
Transactions based on commodities and precious metals		
Options	5 664	5 670
Other	7 008	6 899
Total	2 257 147	2 285 059

27. Loans and advances to customers

Loans and advances to customers by product type

	30.06.2017	31.12.2016	30.06.2016
Mortgage loans	57 339 672	54 713 809	52 661 609
Current accounts	11 307 036	10 599 898	11 728 014
Operating loans	13 156 582	13 897 871	14 177 964
Investment loans	16 952 282	16 810 632	16 007 447
Cash loans	11 264 510	10 211 931	9 564 872
Payment cards receivables	1 031 944	970 673	920 697
Factoring	2 851 778	2 890 930	2 460 414
Other loans and advances	1 530 773	1 595 088	1 784 724
Debt securities	11 818 546	12 451 372	12 662 814
Reverse repo transactions	-	-	149 037
Cash in transit	52 393	89 682	107 554
Total gross amount	127 305 516	124 231 886	122 225 146
Impairment allowances	(5 652 122)	(5 542 619)	(5 788 479)
Total net amount	121 653 394	118 689 267	116 436 667

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by customer type

	30.06.2017	31.12.2016	30.06.2016
Corporate	55 464 586	55 257 059	55 372 630
Individuals	61 428 093	58 379 647	55 983 706
Budget entities	10 412 837	10 595 180	10 868 810
Total gross amount	127 305 516	124 231 886	122 225 146
Impairment allowances	(5 652 122)	(5 542 619)	(5 788 479)
Total net amount	121 653 394	118 689 267	116 436 667

Loans and advances to customers by quality

	30.06.2017	31.12.2016	30.06.2016
Loans and advances to customers, including:			
non impaired (gross)	119 600 327	116 571 271	114 242 350
impaired (gross)	7 705 189	7 660 615	7 982 796
individual impairment allowances	(3 405 462)	(3 189 149)	(3 357 526)
collective impairment allowances (*)	(2 246 660)	(2 353 470)	(2 430 953)
Total	121 653 394	118 689 267	116 436 667

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

Loans and advances to customers by contractual maturity

	30.06.2017	31.12.2016	30.06.2016
Loans and advances to customers, including:			
up to 1 month	15 795 361	15 184 650	15 720 384
between 1 and 3 months	3 826 289	3 050 503	3 202 961
between 3 months and 1 year	11 941 227	12 393 167	11 476 260
between 1 and 5 years	38 568 003	37 323 318	37 515 237
over 5 years	51 522 069	50 359 575	47 927 820
past due	5 652 567	5 920 673	6 382 484
Total gross amount	127 305 516	124 231 886	122 225 146
Impairment allowances	(5 652 122)	(5 542 619)	(5 788 479)
Total net amount	121 653 394	118 689 267	116 436 667

Loans and advances to customers by currency

	30.06.2017	31.12.2016	30.06.2016
PLN	101 404 454	96 647 980	94 919 877
CHF	4 104 633	4 640 419	4 854 202
EUR	13 059 415	13 934 872	13 359 993
USD	2 874 193	3 289 584	3 137 795
Other currencies	210 699	176 412	164 800
Total	121 653 394	118 689 267	116 436 667

Changes in impairment allowances in the period from 1 January to 30 June 2017 and in the period from 1 January to 30 June 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:

30.06.2017	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 695 071	1 568 930
Between 1 and 5 years	2 571 864	2 434 729
Over 5 years	269 624	262 541
Total	4 536 559	4 266 200
Unearned finance income	(270 359)	
Net leasing investment	4 266 200	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	4 266 200	
Impairment allowances	(169 876)	
Balance sheet value	4 096 324	

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	

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Receivables from financial leases from banks by quality

	30.06.2017	31.12.2016	30.06.2016
Receivables from financial leases from banks, including:			
non impaired (gross)	25	704	1 470
impaired (gross)	-	-	-
individual impairment allowances	-	-	-
collective impairment allowances (*)	(7)	(6)	(9)
Total	18	698	1 461

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

Receivables from financial leases from clients by quality

	30.06.2017	31.12.2016	30.06.2016
Receivables from financial leases from clients, including:			
non impaired (gross)	4 036 044	3 934 980	3 740 520
impaired (gross)	230 131	205 906	234 366
individual impairment allowances	(30 791)	(30 047)	(32 283)
collective impairment allowances (*)	(139 078)	(136 894)	(133 621)
Total	4 096 306	3 973 945	3 808 982

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

Receivables from financial leases by currency

	30.06.2017	31.12.2016	30.06.2016
PLN	2 599 059	2 450 665	2 384 591
CHF	783	1 416	1 870
EUR	1 479 582	1 522 242	1 422 056
USD	16 900	320	1 926
Total	4 096 324	3 974 643	3 810 443

Changes in impairment allowances in the period from 1 January to 30 June 2017 and in the period from 1 January to 30 June 2016 are presented in the Note 17.

Notes to financial statements (cont.)

(in PLN thousand)

29. Hedge accounting

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

In the period from 1 January to 30 June 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) transactions – described in point 1 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions – described in point 2 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions – described in point 3 of the table with details of hedging relationships,
- cash flow hedge accounting for variable portfolio of loans in EUR and USD hedged with FX-Swap instruments – described in point 4 of the table with details of hedging relationships,
- fair value hedge accounting for fixed coupon debt securities classified as loans and receivables hedged with interest rate swaps (IRS) – described in point 5 of the table with details of hedging relationships.

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

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

The table below presents the fair value of hedging derivatives

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

DESCRIPTION OF THE HEDGING RELATIONSHIP	HEDGED ITEM	HEDGING DERIVATIVES	FINANCIAL STATEMENTS PRESENTATION	PERIOD IN WHICH THE CASH FLOWS RELATED TO THE HEDGED ITEMS ARE EXPECTED TO OCCUR
1. Fair value hedge of fixed-coupon debt securities				
The Group hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as AFS, denominated in PLN, EUR and USD.	The hedging derivatives consist of IRS transactions in PLN, EUR and USD (short position in fixed-rate) for which the Group receives floating-rate payments, and pays fixed-rate.	The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. The remaining portion of the change in the hedged items' fair value (resulting from spread between swap yield curve and bond yield curve) is recognized in accordance with the accounting principles applicable to AFS (i.e. in the revaluation reserve in equity). Interest accrued on AFS bonds is presented in the net interest income. Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 18 January 2036.
2. Cash flow hedge of floating-rate loans and floating-rate deposits				
The Group hedges a portion of the interest rate risk and the foreign currency risk resulting from the volatility of cash flows from floating-rate assets and liabilities with the designated CIRS transactions (basis swap).	Hedged item consists of two separate components, which are cash flows arising from floating-rate assets portfolio and floating-rate liabilities portfolio.	Hedging derivatives consist of a portfolio of CIRS transactions (basis swap), where the Group pays floating-rate currency cash flows, and receives floating-rate PLN/currency cash-flows. CIRS transactions are decomposed into the part hedging the assets portfolio and the part hedging the liabilities portfolio.	The effective portion of the change in fair value of hedging derivatives' is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on CIRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 15 May 2029.
3. Cash flow hedge of floating-rate loans				
The Group hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate assets with the designated IRS transactions.	The hedged items consist of the cash flows from floating-rate assets.	The hedging derivatives consist of portfolio of IRS transactions (short position in floating rate – the Group receives fixed payments and pays floating-rate).	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on IRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 29 April 2020.
4. Cash flow hedge of floating-rate currency assets hedged with FX-Swap transactions against the exchange and interest rate risk				
The Group hedges volatility of cash flows constituting floating-rate financial assets (loans in EUR and USD) with FX-Swap transactions. The currency and interest rate risk is hedged.	Loans with variable interest rate risk, denominated in EUR and USD constitute hedged items.	FX-Swap transaction portfolio constitutes the hedging position.	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. Settled part of the swap points on the hedging instrument is transferred from the revaluation reserve in equity and recognized in interest income. Currency revaluation regarding the first capital exchange on the hedging instrument is transferred from the revaluation reserve in equity and recognized in the foreign currency exchange result.	It is expected that the cash flows related to the hedged items will occur until 4 January 2018.

Notes to financial statements (cont.)

(in PLN thousand)

DESCRIPTION OF THE HEDGING RELATIONSHIP	HEDGED ITEM	HEDGING DERIVATIVES	FINANCIAL STATEMENTS PRESENTATION	PERIOD IN WHICH THE CASH FLOWS RELATED TO THE HEDGED ITEMS ARE EXPECTED TO OCCUR
5. Fair value hedge of fixed-coupon debt securities				
The Group hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as loans and receivables, denominated in PLN.	The hedging derivatives consist of IRS transactions in PLN (short position in fixed-rate) for which the Group receives floating-rate payments, and pays fixed-rate.	The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on bonds is presented in the net interest income. Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 22 December 2026.
6. Cash flow hedge of expected future outflows in foreign currency				
The Group hedges the volatility of cash flows denominated in EUR constituting the projected outflows from expected purchases with the designated FX-Forward transactions. The currency risk is hedged.	Projected outflows dependent on EUR and Polish zloty exchange rates are the hedged item.	The hedging derivatives consist of a portfolio of FX-Forward transactions (FX-Spot and series of FX-Swap), in which the Group will buy EUR currency in exchange for PLN currency at an agreed exchange rate.	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading.	Currently it is expected that the cash flows related to the hedged items will occur until 7 August 2017. If needed hedging will be extended.
7. Cash flow hedge of floating-rate deposits in PLN				
The Group hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate deposits with the designated IRS transactions.	The hedged items consist of the cash flows from floating-rate deposits.	The hedging derivatives consist of portfolio of IRS transactions (short position in fixed rate – the Group receives floating-rate payments and pays fixed-rate).	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on IRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 22 June 2032.

30. Investment (placement) securities

	30.06.2017	31.12.2016	30.06.2016
Debt securities available for sale (AFS)	22 253 727	31 949 770	23 056 081
Equity securities available for sale (AFS)	198 897	151 864	151 974
Debt securities held to maturity (HTM)	4 383 731	3 018 985	3 404 975
Total	26 836 355	35 120 619	26 613 030

Debt securities available for sale (AFS)

	30.06.2017	31.12.2016	30.06.2016
Securities issued by State Treasury	21 590 159	25 046 710	22 114 419
T-bills	498 847	-	556 985
T-bonds	21 091 312	25 046 710	21 557 434
Securities issued by Central Banks	-	5 978 629	-
Securities issued by business entities	-	249 912	250 780
Securities issued by local governments	663 568	674 519	690 882
Total	22 253 727	31 949 770	23 056 081
including impairment of assets	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

Equity securities available for sale (AFS)

	30.06.2017	31.12.2016	30.06.2016
Shares	198 750	151 864	151 974
investment certificates	147	-	-
Total	198 897	151 864	151 974
including impairment of assets	(1 257)	(1 257)	(22)

Debt securities held to maturity (HTM)

	30.06.2017	31.12.2016	30.06.2016
Securities issued by State Treasury	4 383 731	2 998 379	3 404 975
T- bills	-	-	240 228
T- bonds	4 383 731	2 998 379	3 164 747
Securities issued by Central Banks	-	20 606	-
Total	4 383 731	3 018 985	3 404 975
including impairment of assets	-	-	-

Investment debt securities according to contractual maturity

	30.06.2017	31.12.2016	30.06.2016
Debt securities, including:			
up to 1 month	2 151 173	7 424 354	-
between 1 and 3 months	498 847	573 661	1 250 223
between 3 months and 1 year	4 696 115	6 072 130	6 889 084
between 1 and 5 years	10 639 641	12 109 707	9 965 243
over 5 years	8 651 682	8 788 903	8 356 506
Total	26 637 458	34 968 755	26 461 056

Investment debt securities by currency

	30.06.2017	31.12.2016	30.06.2016
PLN	23 221 896	30 844 812	22 684 801
EUR	2 102 100	2 790 183	2 775 970
USD	1 313 462	1 333 760	1 000 285
Total	26 637 458	34 968 755	26 461 056

31. Assets and liabilities held for sale

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Assets held for sale are presented below

	30.06.2017	31.12.2016	30.06.2016
ASSETS HELD FOR SALE			
Property, plant and equipment	25 648	25 703	27 094
Other assets	22 574	22 574	22 515
Total assets	48 222	48 277	49 609

The effect of disposal of other assets is as follows

	I HALF 2017	2016	I HALF 2016
Sales revenues	911	3 849	1 478
Net carrying amount of disposed assets (including sale costs)	(191)	(2 820)	(1 014)
Profit/loss on sale before income tax	720	1 029	464

32. Intangible assets

	30.06.2017	31.12.2016	30.06.2016
Intangible assets, including:	537 421	540 661	543 306
research and development expenditures	2 027	3 024	5 483
licenses and patents	464 151	455 647	432 239
other	7 712	7 688	9 357
assets under construction	63 531	74 302	96 227
Goodwill	55 520	55 520	55 520
Total	592 941	596 181	598 826

In the period from 1 January to 30 June 2017 the Group acquired intangible assets in the amount of PLN 78 223 thousand (in 2016 – PLN 130 182 thousand).

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

Contractual commitments

As at 30 June 2017 the contractual commitments for the acquisition of intangible assets amounted to PLN 51 699 thousand, whereas as at 31 December 2016 - PLN 43 930 thousand.

33. Property, plant and equipment

	30.06.2017	31.12.2016	30.06.2016
Non-current assets, including:	1 342 690	1 308 234	1 319 419
land and buildings	993 669	1 000 882	1 025 349
machinery and equipment	260 895	245 479	225 524
transport vehicles	50 854	24 026	29 844
other	37 272	37 847	38 702
Non-current assets under construction and prepayments	57 551	114 696	89 432
Total	1 400 241	1 422 930	1 408 851

Notes to financial statements (cont.)

(in PLN thousand)

In the period from 1 January to 30 June 2017 the Group acquired property, plant and equipment in the amount of PLN 34 129 thousand (in 2016 - PLN 143 081 thousand), while the value of property, plant and equipment sold amounted to PLN 408 thousand (in 2016 - PLN 8 150 thousand).

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

Contractual commitments

As at 30 June 2017 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 21 684 thousand, whereas as at 31 December 2016 - PLN 17 525 thousand.

34. Assets pledged as security for liabilities

As at 30 June 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	536 598	526 844	538 949
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	753 252	770 200	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	15 651	16 000	13 298
Lombard and technical loan	bonds	4 695 118	4 515 456	-
Other loans	bonds, leases encumbrances	325 070	319 500	261 038
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 666 354	1 665 698	1 228 433
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	47 690	47 502	-
Derivatives	bonds	34 590	36 433	16 285

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 Gurantee 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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

35. Amounts due to other banks

Amounts due to other banks by product type

	30.06.2017	31.12.2016	30.06.2016
Current accounts	683 338	902 856	1 067 956
Interbank deposits and other liabilities	562 571	309 837	190 523
Loans and advances received	3 001 569	3 249 417	3 341 148
Repo transactions	227 870	339 568	292 106
Cash in transit	21 428	21 762	89 483
Total	4 496 776	4 823 440	4 981 216

Amounts due to other banks by currency

	30.06.2017	31.12.2016	30.06.2016
PLN	1 303 251	1 442 611	1 486 580
CHF	664 429	731 657	745 668
EUR	2 473 711	2 592 591	2 623 318
USD	48 728	48 467	97 500
Other currencies	6 657	8 114	28 150
Total	4 496 776	4 823 440	4 981 216

Notes to financial statements (cont.)

(in PLN thousand)

36. Amounts due to customers

Amounts due to customers by entity and product type

	30.06.2017	31.12.2016	30.06.2016
Amounts due to corporate, including:	50 913 167	57 989 927	51 483 553
current accounts	30 735 198	33 946 882	29 943 974
term deposits and other liabilities	20 177 969	24 043 045	21 539 579
Amounts due to budget entities, including:	10 150 837	7 809 235	6 769 050
current accounts	5 914 704	5 461 224	4 630 883
term deposits and other liabilities	4 236 133	2 348 011	2 138 167
Amounts due to individuals, including:	72 944 623	70 347 039	67 280 241
current accounts	41 884 717	39 682 587	37 675 804
term deposits and other liabilities	31 059 906	30 664 452	29 604 437
Repo transactions	311 079	1 436 241	704 099
Cash in transit	281 529	233 484	657 181
Total	134 601 235	137 815 926	126 894 124

Amounts due to customers by currency

	30.06.2017	31.12.2016	30.06.2016
PLN	109 252 926	115 090 198	103 618 760
CHF	529 662	315 787	260 580
EUR	15 121 479	13 400 735	14 382 710
USD	8 303 989	7 476 067	7 706 407
Other currencies	1 393 179	1 533 139	925 667
Total	134 601 235	137 815 926	126 894 124

37. Debt securities issued

Debt securities issued by type

	30.06.2017	31.12.2016	30.06.2016
Certificates of deposit	86 054	300 945	838 758
Mortgage bonds	1 228 433	1 222 018	1 246 518
Total	1 314 487	1 522 963	2 085 276

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

Debt securities issued by currency

	30.06.2017	31.12.2016	30.06.2016
PLN	982 089	1 200 548	1 762 856
EUR	332 398	322 415	322 420
USD	-	-	-
Total	1 314 487	1 522 963	2 085 276

Notes to financial statements (cont.)

(in PLN thousand)

Changes in debt securities issued

	I HALF 2017	2016	I HALF 2016
Opening balance	1 522 963	2 903 233	2 903 233
Increase (issuance)	-	1 129 733	1 079 733
Decrease (redemption)	(213 459)	(2 467 807)	(1 893 422)
Decrease (partial redemption)	-	(38 245)	(579)
Foreign currency exchange differences	(14 566)	11 885	11 995
Purchase	-	-	-
Sale	26 122	-	-
Other	(6 573)	(15 836)	(15 684)
Closing balance	1 314 487	1 522 963	2 085 276

38. Provisions

Changes in provisions in the reporting period

I HALF 2017	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	8 551	294 014	220 983	36 844	560 392
Provision charges/revaluation	3 082	13 771	37 242	22 187	76 282
Provision utilization	(1 975)	(8 392)	-	(5 545)	(15 912)
Provision releases	(969)	-	(43 992)	(111)	(45 072)
Foreign currency exchange differences	-	-	(1 110)	-	(1 110)
Other changes	46	-	-	-	46
Closing balance	8 735	299 393	213 123	53 375	574 626
Short term	2 445	39 137	61 823	26 482	129 887
Long term	6 290	260 256	151 300	26 893	444 739

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

Notes to financial statements (cont.)

(in PLN thousand)

Changes in provisions in the reporting period

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

Provisions for litigation and claims

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

Provisions for defined benefits plans

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

Other provisions

Other provisions include in particular provisions for other employee benefits.

39. Contingent commitments

Litigation

In the first half of 2017 the total value of the litigation subject in the ongoing court proceedings against the Group was PLN 171 833 034 thousand (in the first half of 2016 it was PLN 1 035 143 thousand).

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

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

In the first half 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 plaintiffs lodged an appeal against the sentence, i.e. its part related to the amount of PLN 206 422 thousand. In the third quarter of 2016 was issued a judgment dismissing the appeal. The verdict of the Court of II instance has been appealed against by the plaintiffs by means of a cassation appeal.

Notes to financial statements (cont.)

(in PLN thousand)

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 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 30 June 2017 is PLN 8 735 thousand (PLN 8 551 thousand as at 31 December 2016).

Financial commitments granted

Financial commitments granted by entity

	30.06.2017	31.12.2016	30.06.2016
Financial commitments granted to:			
financial entities	677 073	734 503	869 391
non - financial entities	30 268 704	31 088 328	29 331 989
budget entities	1 065 065	481 482	779 567
Total	32 010 842	32 304 313	30 980 947

Guarantees issued

Guarantees issued by entity

	30.06.2017	31.12.2016	30.06.2016
Issued to financial entities:	953 134	991 115	1 012 669
guarantees	953 134	991 115	1 012 669
Issued to non - financial entities	9 661 116	9 999 478	10 563 830
guarantees	6 605 775	6 505 040	6 887 747
securities' underwriting guarantees	3 040 277	3 455 429	3 636 021
sureties	15 064	39 009	40 062
Issued to budget entities:	433 183	269 239	301 004
guarantees	15 141	11 279	11 054
securities' underwriting guarantees	418 042	257 960	289 950
Total	11 047 433	11 259 832	11 877 503

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.06.2017	31.12.2016	30.06.2016
Financial received from:	977 079	209 107	1 491 354
financial entities	976 879	209 107	1 191 354
non - financial entities	200	-	300 000
budget entities	-	-	-
Guarantees received from:	12 311 509	10 818 912	10 308 462
financial entities	2 276 404	1 552 730	1 177 927
non - financial entities	9 094 277	8 344 980	8 348 085
budget entities	940 828	921 202	782 450
Total	13 288 588	11 028 019	11 799 816

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 30 June 2017

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	5 470	-	-	700	459	5 491	1 344
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	6 335	-	8 056	-	8 542	8 118	-
Associates of Bank Pekao S.A. Group							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	8	34 282	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	196 384	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	-	15 479	84 507	-	-
Total Associates of Bank Pekao S.A. Group	-	-	-	15 487	315 173	-	-
Key management personnel of the Bank Pekao S.A.	2 565	-	6	-	19 585	-	-
Total	14 370	-	8 062	16 187	343 759	13 609	1 344

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by contractual maturity

30.06.2017	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	-	5 470	-	-	-	-	5 470
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	5 687	83	344	221	-	6 335
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-	-
Key management personnel of the Bank Pekao S.A.	-	-	-	-	65	2 500	2 565
Total	-	11 157	83	344	286	2 500	14 370

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

Liabilities from loans and deposits by contractual maturity

30.06.2017	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	459	-	-	-	-	-	459
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	8 182	360	-	-	-	-	8 542
Associates of Bank Pekao S.A. Group	21 187	13 925	280 061	-	-	-	315 173
Key management personnel of the Bank Pekao S.A.	4 046	913	13 273	1 353	-	-	19 585
Total	33 874	15 198	293 334	1 353	-	-	343 759

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by currency

30.06.2017	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	-	-	-	5 470	-	5 470
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	6 335	-	6 335
Associates of Bank Pekao S.A. Group	-	-	-	-	-	-
Key management personnel of the Bank Pekao S.A.	-	-	431	2 134	-	2 565
Total	-	-	431	13 939	-	14 370

Liabilities from loans and deposits by currency

30.06.2017	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	305	-	-	154	-	459
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	2	995	7 545	-	8 542
Associates of Bank Pekao S.A. Group	-	-	-	315 173	-	315 173
Key management personnel of the Bank Pekao S.A.	257	1 526	6	17 786	10	19 585
Total	562	1 528	1 001	340 658	10	343 759

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions as at 31 December 2016

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	187 357	-	-	443	9 261	-	1 674
Entities of UniCredit Group excluding of 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 Pekao S.A. 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 of 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 Pekao S.A. 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 of 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 Pekao S.A. 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 placements 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 of 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 Pekao S.A. 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 of 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 Pekao S.A. 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 30 June 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
PZU S.A. – the Bank's parent entity (*)	5	(38)	1 855	-	3	(35)
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities (*)	7	(10)	729	(10)	554	(13)
UniCredit S.p.A. – the Bank's parent entity (**)	154	(153)	391	(1 197)	1 510	(3 825)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities (**)	3 275	(1 253)	3 321	(62)	14 472	(1 725)
Associates of Bank Pekao S.A. Group						
Dom Inwestycyjny Xelion Sp. z o.o.	-	(187)	20	-	170	-
Pioneer Pekao Investment Management S.A.	-	(829)	5	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(715)	98 718	-	8	(3)
Total Associates of Bank Pekao S.A. Group	-	(1 731)	98 744	-	178	(3)
Key management personnel of the Bank Pekao S.A.	93	(163)	1	-	-	-
Total	3 534	(3 348)	105 041	(1 269)	16 717	(5 601)

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
PZU S.A. – the Bank's parent entity	-	-	-	-
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	20	-	-	-
Associates of Bank Pekao S.A Group				
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	95	-	-	-
Total Associates of Bank Pekao S.A. Group	110	-	-	-
Key management personnel of the Bank Pekao S.A.	206	-	-	-
Total	336	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

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

30.06.2017	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	20	-	-	-	-	20
Financial commitments granted							
Associates of Bank Pekao S.A. Group	-	-	-	-	110	-	110
Key management personnel of the Bank Pekao S.A.	30	-	-	-	176	-	206
Total	30	20	-	-	286	-	336

Off-balance sheet financial commitments and guarantees granted by currency

30.06.2017	EUR	USD	CHF	PLN	INNE	TOTAL
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	20	-	20
Financial commitments granted						
Associates of Bank Pekao S.A. Group	-	-	-	110	-	110
Key management personnel of the Bank Pekao S.A.	-	-	-	206	-	206
Total	-	-	-	336	-	336

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

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

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

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

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

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 8 335 thousand in the first half of 2017, compared to PLN 5 861 thousand in the first half of 2016.

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

Remuneration expenses of Supervisory Boards of Group's subsidiaries, comprising short-term employee benefits, amounted to PLN 126 thousand in the first half of 2017, compared to PLN 117 thousand in the first half of 2016.

41. Subsequent events

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

Signatures of the Management Board Members

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

Glossary

Glossary

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

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

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

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

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

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

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

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

IBNR – Incurred but Not Reported losses.

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

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

EAD – Exposure at Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

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

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

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

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