

# **Report on the activities of Bank Pekao S.A. Group for the first half of 2017**



**Warsaw, August 2017**

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

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

	1 HALF 2017	1 HALF 2016	2016	2015
<b>INCOME STATEMENT – SELECTED ITEMS</b> <span style="float: right;"><i>(in PLN million)</i></span>				
Operating income	3,511.5	3,830.3	7,347.2	7,058.6
Operating costs	(1,594.0)	(1,624.2)	(3,211.9)	(3,219.7)
Operating profit	1,917.5	2,206.1	4,135.3	3,838.9
Profit before income tax	1,197.2	1,612.4	2,896.5	2,831.1
Net profit for the period attributable to equity holders of the Bank	884.8	1,263.9	2,279.3	2,292.5
<b>PROFITABILITY RATIOS</b>				
Return on average equity (ROE)	7.9%	10.7%	9.8%	9.7%
Return on assets (ROA)	1.0%	1.5%	1.4%	1.4%
Net interest margin	2.8%	2.8%	2.8%	2.8%
Non-interest income / operating income	34.8%	42.9%	39.6%	40.0%
Cost / income	45.4%	42.4%	43.7%	45.6%
<b>STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS</b> <span style="float: right;"><i>(in PLN million)</i></span>				
Total assets	170,530.1	166,012.3	174,214.9	168,785.6
Net loans and advances to customers <sup>(*)</sup>	125,749.7	120,096.6	122,663.2	117,299.4
Amounts due to customers <sup>(**)</sup>	134,290.2	126,190.0	136,379.7	124,398.9
Debt securities issued	1,314.5	2,085.3	1,523.0	2,903.2
Equity	21,708.9	22,200.3	22,911.9	23,424.2
<b>STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS</b>				
Net loans <sup>(*)</sup> / total assets	73.7%	72.3%	70.4%	69.5%
Securities / total assets	17.0%	17.4%	20.6%	13.2%
Deposits <sup>(***)</sup> / total assets	79.5%	77.3%	79.2%	75.4%
Net loans <sup>(*)</sup> / deposits <sup>(***)</sup>	92.7%	93.6%	88.9%	92.1%
Equity / total assets	12.7%	13.4%	13.2%	13.9%
Total capital ratio (Basel III)	18.0%	18.1%	17.6%	17.7%
<b>EMPLOYEES AND NETWORK</b>				
Total number of employees	17,509	18,150	17,757	18,327
Number of outlets	918	947	928	975
Number of ATMs	1,757	1,754	1,761	1,759

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

(\*\*) Excluding repo transactions.

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

Note: Income statement data included in the table above and other notes to the Report on activities were presented according to income statement in a presentation form, which differs from the long form of the income statement presented in the Financial statements of the Group. Reconciliation of income statement in the presentation form and the long form is in the point 7.8 of the Report on activities of the Group.

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

## 2 Highlights of Bank Pekao S.A.

	1 HALF 2017	1 HALF 2016	2016	2015
<b>INCOME STATEMENT – SELECTED ITEMS</b>				<i>(in PLN million)</i>
Operating income	3,469.1	3,737.0	7,036.0	6,792.0
Operating costs	(1,478.8)	(1,514.0)	(2,991.4)	(2,992.6)
Operating profit	1,990.3	2,223.0	4,044.6	3,799.4
Profit before income tax	1,278.7	1,638.2	2,863.2	2,791.6
Net profit	980.2	1,303.9	2,278.4	2,290.4
<b>PROFITABILITY RATIOS</b>				
Return on average equity (ROE)	9.0%	11.4%	10.1%	10.1%
Return on assets (ROA)	1.2%	1.6%	1.4%	1.4%
Net interest margin	2.8%	2.8%	2.8%	2.7%
Non-interest income / operating income	31.2%	40.4%	37.5%	37.4%
Cost / income	42.6%	40.5%	42.5%	44.1%
<b>STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS</b>				<i>(in PLN million)</i>
Total assets	167,543.6	162,872.5	170,988.9	165,760.7
Net loans and advances to customers <sup>(*)</sup>	122,442.2	116,347.7	119,033.6	113,753.2
Amounts due to customers <sup>(**)</sup>	134,562.2	126,493.7	136,629.9	124,788.1
Debt securities issued	86.1	838.8	300.9	1,668.7
Equity	21,174.4	21,612.0	22,282.6	22,794.4
<b>STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS</b>				
Net loans <sup>(*)</sup> / total assets	73.1%	71.4%	69.6%	68.6%
Securities / total assets	17.2%	17.6%	20.8%	13.3%
Deposits <sup>(***)</sup> / total assets	80.4%	78.2%	80.1%	76.3%
Net loans <sup>(*)</sup> / deposits <sup>(***)</sup>	90.9%	91.4%	86.9%	90.0%
Equity / total assets	12.6%	13.3%	13.0%	13.8%
Total capital ratio (Basel III)	18.5%	18.6%	18.2%	18.2%
<b>EMPLOYEES AND NETWORK</b>				
Total number of employees	15,663	16,258	15,882	16,387
Number of outlets	918	947	928	975
Number of ATMs	1,757	1,754	1,761	1,759

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

(\*\*) Excluding repo transactions.

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

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

## 3 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2017, amounted to PLN 884.8 million after tax on certain financial institutions in the amount of PLN 252.7 million and one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 178.4 million. Strong contribution to the results was brought by a substantial growth of loan and deposit volumes in key strategic areas, further progress in costs optimization and lower cost of risk.

Due to aforementioned charges and one-off non-recurring items recognized in the previous year, net profit for the first half of 2017 was nominally lower by PLN 379.1 million, i.e. 30.0% than net profit for the first half of 2016. Net profit for the first half of 2017 would be higher by 9.5% year on year, excluding one-off non-recurring items recognized in the previous year (i.e. net result on disposal of loans and settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc), and including costs of contribution to the Bank Guarantee Fund attributable only to the first half of 2017 and tax on certain financial institutions for the full six months of 2016.

Thanks to the effective commercial activity of the Group in the first half of 2017, a significant growth in loan volumes in the area of retail loans (an increase of 9.7% year on year) and growth in corporate loans by 1.6% year on year was reported. Such increase in lending was financed almost fully by higher volumes of retail deposits growing by 8.6% year on year.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 92.7% as at the end of June 2017. This, together with high equity level reflected by total capital ratio (Basel III) amounting to 18.0%, enables for further sound and stable development of the Group's activities.

### Main P&L items

In the first half of 2017, the Group's operating income amounted to PLN 3,511.5 million, nominally lower by PLN 318.8 million, i.e. 8.3% in comparison with the first half of 2016, mainly due to one-off non-recurring items in the amount of PLN 412.8 million in 2016, with the following trends:

- Total net interest income, dividend income and income from equity investments in the first half of 2017, amounted to PLN 2,291.2 million and was higher by PLN 103.3 million, i.e. 4.7% compared to the first half of 2016, driven by higher volumes,
- Net non-interest income in the first half of 2017, amounted to PLN 1,220.3 million and was lower by PLN 9.3 million in comparison with the first half of 2016 (excluding one-off non-recurring items recognized in the previous year), with net fee and commission income (including fees on margins on foreign exchange transactions with clients) lower by 2.1% compared to the first half of 2016.

The operating costs amounted to PLN 1,594.0 million in the first half of 2017. They were lower by PLN 30.2 million, i.e. 1.9% as compared with the first half of 2016.

Guarantee funds charges in the first half of 2017, amounted to PLN 223.7 million, an increase of PLN 92.7 million, i.e. 70.8% in comparison with the first half of 2016, mainly due to one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 178.4 million in the first half of 2017.

On February 1, 2016, tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In the first half of 2017, it amounted to PLN 252.7 million and was higher by PLN 51.9 million, mainly due to the shorter life of the tax regulations in the first half of 2016.

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 230.0 million in the first half of 2017, a decrease of PLN 30.6 million, i.e. 11.7% as compared with the first half of 2016.

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

## Volumes

As at the end of June 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 131,216.4 million, an increase of PLN 5,189.3 million, i.e. 4.1% in comparison to the end of June 2016 with significant growth in key strategic areas with retail loans growing by 9.7% and corporate loans growing by 1.6% year on year.

As of June 30, 2017, the ratio of impaired receivables to total receivables excluding reverse repo transactions amounted to 5.9% as compared to 6.4% as at the end of June 2016.

As at the end of June 2017, the total amounts due to the Group's customers and debt securities issued amounted to PLN 135,604.7 million, an increase of PLN 7,329.4 million, i.e. 5.7% in comparison to the end of June 2016 with retail deposits growing by 8.6% and corporate deposits growing by 4.8% year on year.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,422.7 million as at the end of June 2017, an increase of PLN 1,282.3 million, i.e. 7.9% in comparison to the end of June 2016.

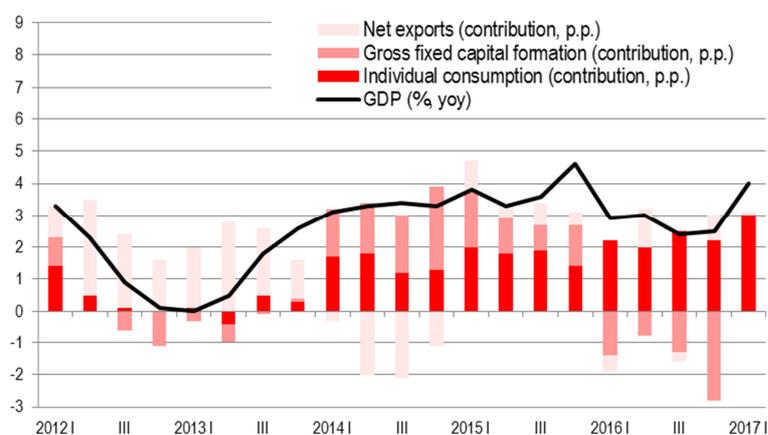
# Report on the activities of Bank Pekao S.A. Group for the first half of 2017

## 4 External Activity Conditions

### Economic growth

In the first quarter of 2017, economic growth amounted to 4.0% year on year as compared with the GDP growth of 2.5% year on year in the fourth quarter of 2016. Seasonally adjusted data indicate that in the first quarter of 2017, the GDP growth slowed to 1.1% quarter on quarter from 1.7% quarter on quarter in the fourth quarter of 2016. Domestic demand expanded by 4.1% year on year and was the main engine of economic growth, while foreign trade had a small contribution to the GDP growth in the first quarter of this year (+0.1 p.p). Households consumption increased by 4.7% year on year (the highest annual growth in 7 years) thanks to positive labour market developments (payments from Family 500 plus government program were launched in the second quarter of 2016). There was a further decline in gross fixed capital formation (down by 0.4% year on year), however the scale of decrease was much lower than 9.8% year on year posted in the fourth quarter of 2016. For the third quarter in a row change in inventories had positive contribution to the GDP growth (0.7 p.p).

The impact of Family 500 plus government program on annual growth of households consumption will be neutral in the second half of 2017, however private consumption growth momentum is expected to remain solid on the back of improving labour income of households (rising wages and employment). In the coming quarters it is expected also bounce back in fixed investments, mainly thanks to improvement in the European Union funds absorption. In 2017, economic growth should amount to 3.6% and in the favourable environment the economy may even expand by 4% as compared with 2.7% of the GDP growth reported in 2016.

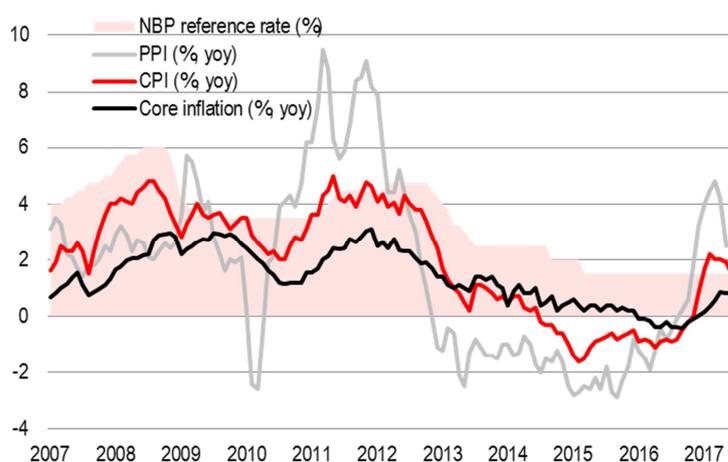


# Report on the activities of Bank Pekao S.A. Group for the first half of 2017

## Inflation and monetary policy

CPI inflation in June 2017 was 1.5% year on year and for the sixth month in a row was within acceptable limits of deviations from the National Bank of Poland (NBP) target (2.5%, +/- 1.5 p.p). Prices growth in June was largely due to higher food prices (3.9% year on year) and housing and energy (1.8% year on year). In the second quarter of 2017, consumer prices increased by 1.8% year on year on average vs. 2.0% year on year in the first quarter of 2017.

In the second quarter of 2017, the Monetary Policy Council (RPP) kept interest rates unchanged and as at the end of June 2017 the NBP reference rate amounted to 1.50% and the Lombard rate amounted to 2.50%. In the Council's opinion, in the following quarters inflation will remain moderate amid fading effects of the past increase in global commodity prices, with only a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions. In consequence, the risk of inflation running persistently above the target in the medium term is limited. The Council confirms its assessment that, given the available data and forecasts, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance.

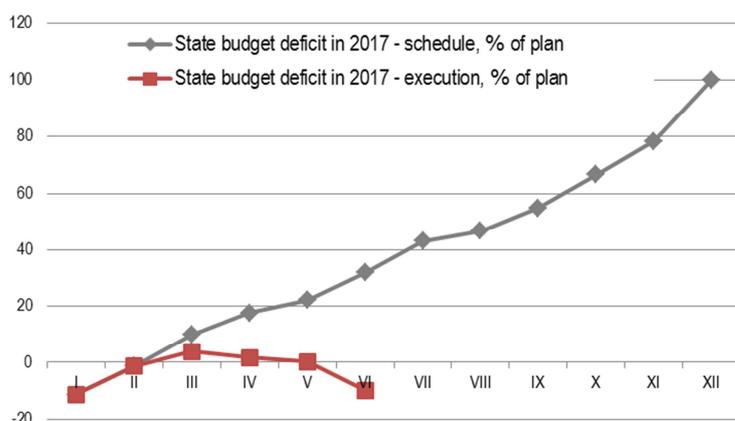


# Report on the activities of Bank Pekao S.A. Group for the first half of 2017

## Fiscal policy

After the first six months of 2017, the state budget surplus (cash basis) amounted to merely PLN 5.9 billion vs the annual limit set at the level of PLN 59.3 billion. Budget revenues amounted to PLN 176.7 billion and turned out PLN 18.1 billion higher than assumed in the budget execution schedule, while expenditures totaled PLN 170.8 billion and were PLN 6.7 billion lower than planned. In June the state budget received PLN 8.7 billion from the NBP profit for 2016 while in the budget act for 2017 the assumed revenue from the NBP 2016 profit was at the level of PLN 0.6 billion. At the same time, substantial improvement was reported in VAT collections as in the first half of 2017 receipts were nearly 30% higher than in the corresponding period of 2016. It should be noted that apart from improving economic conditions improved collections were also stemming from regulatory changes, of which some may turn out to have only temporary impact on VAT collections (shifts in the timing of tax returns at the turn of the year, higher frequency of tax declarations, reversed VAT in construction). Taking into account tax collections growth so far this year, higher than assumed in the budget act non-tax revenue from the NBP 2016 profit and assuming natural savings on the expenditure side of the budget, the state budget deficit may turn out nearly PLN 20 billion lower than the limit set in the budget act and amount to ca. PLN 40 billion.

As at the end of the first quarter of 2017, the general government debt amounted to PLN 1,013.6 billion and was PLN 7.3 billion higher than as at the end of 2016. As a result the debt to the GDP ratio moderated to 54.0% as at the end of the first quarter of this year from 54.4% as at the end of 2016. In the first quarter of 2017, general government result was positive and amounted to PLN 7.8 billion. The general government deficit decreased to the level of 2.0% of the GDP from 2.4% of the GDP as at the end of 2016.

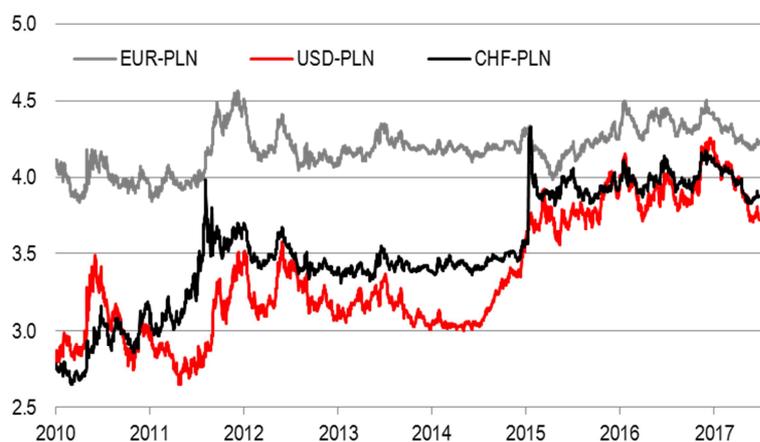


# Report on the activities of Bank Pekao S.A. Group for the first half of 2017

## Exchange rate

In the first half of 2017, the US dollar remained under significant sale pressure. The exchange rate lost ca. 6% against the basket of six currencies and more than 7% against the EUR in this period. A downward tendency continues since December 2016 with a short-term correction only. The greenback fell initially due to verbal interventions by US's administration and profit taking after a solid rally since the presidential elections in November 2016. Then financial markets began to priced-in lower US interest rate path after "dovish" signals from the Fed. Such bias and market expectations that the European Central Bank will trim its quantitative easing earlier than predicted, formed the EUR-USD at the level of 1.15, i.e. at the highest level since June 2016. In longer horizon it is expected the exchange rate consolidation in the broad range of 1.12-1.15.

During the first months of the year, the zloty attracted solid demand against the main currencies basket. The exchange rate gained ca. 5% against the EUR in the period of January – May 2017 and reached the best levels since August 2015 (4.16/EUR). A rate of return vs. USD was even better due to the greenback's decline on global F/X. The zloty touched a resistance of 3.70/USD as at the end of June 2017 (it was the strongest since April 2016) with the return rate at the level of 11% in the first half of 2017. The Fed's cautious bias in monetary policy, return of global risk appetite and consequently strong foreign capital inflows into Polish equities and T-bonds increased demand for the zloty. However, the zloty trimmed part of gains vs. the EUR and the CHF in June 2017 amid weaker investment mood in emerging markets and a risk of non-residents outflows due to possible more "hawkish" rhetoric by the Fed and the ECB. It cannot be ruled out weakening of the zloty towards EUR 4.26/EUR and then EUR 4.31/EUR in the next few weeks, due to growing risk of earlier tapering by the ECB. The exchange rate should return to stronger levels (4.15/EUR) later in a year due to improving prospects for the Polish economy and fiscal situation.



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

## Banking sector

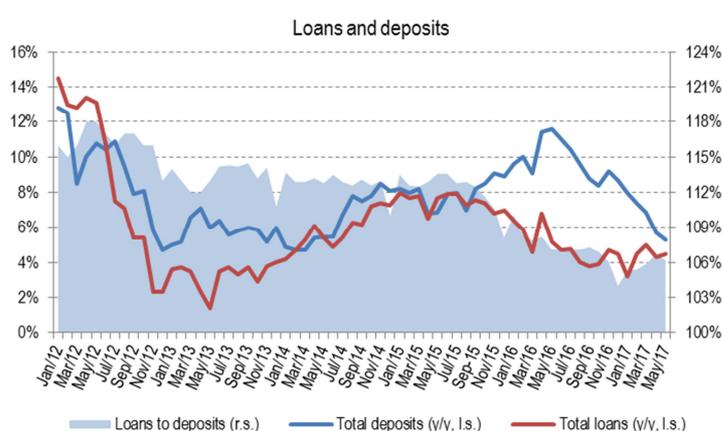
According to the Financial Supervision Authority (KNF) data, in the period of January-May 2017 net profit of the banking sector amounted to PLN 5.17 billion and was lower by -2.2% compared to the corresponding period of 2016. Negative rate of sector's profits was mainly due to the expansion of costs, especially operating expenses, they were driven by both bank levy (in 2016 it was paid since February, while in 2017 for the full period) and changes in schedule of the contribution payments to the Bank Guarantee Fund.

In the first five months of 2017, result on banking activity increased by +4.8% year on year. Growth was driven by strong (+11.1% year on year) increase of net interest income, growth of result on fees and commissions (+9.5% year on year) and decrease of other incomes (-32.3% year on year). In January-May period operating costs increased by +6.6% year on year. Lower costs of risk (impairments on assets and other reserves), which declined by 2.4% year on year contributed positively to banking sector results.

According to the KNF data, as at the end of May 2017, banking sector assets amounted to PLN 1,743 billion, and were higher by +5.6% year on year. Loans to non-financial sector increased by +4.0% year on year, while deposits of that sector increased by +6.1% year on year.

According to the NBP data, as at the end of May 2017, the nominal volume of loans to households was higher by +3.4% compared to the end of May 2016. Loans to enterprises grew in the same period by +4.6%. Taking into consideration favorable macro environment (the GDP and salaries increase and lower unemployment rate) as well as low interest rates, current growth pace in loans should be regarded as relatively weak. In case of corporate loans the situation is due to the muted investment activity. In case of retail loans growth is held back by the unfavorable regulatory environment (i.e. higher down-payment requirements in case of mortgages, 20% vs. 15% in 2016) and positive liquidity situation (result of salaries' growth and inflow of funds from Family 500 plus government program).

As at the end of May 2017, the volume of household deposits increased by +6.1% year on year. Corporate deposits grew in the same period by 3.9%.



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

## 5 Internal Factors

### 5.1 Description of the Group

The Group's structure is presented in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 30 June 2017.

### 5.2 Changes in the Group' structure

On June 1, 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 (PGAM) concerning 14,746 stocks of Pioneer Pekao Investment Management S.A. with its registered office in Warsaw (PPIM), constituting 51% of PPIM's stocks and 51% of its share capital and in the total number of votes at the General Meeting of PPIM. PPIM owns a 100% stake 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% of Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. (PTE).

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

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 stocks and 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 the Shareholder Meeting of Xelion.

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

#### Supervisory Board

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

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

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

On June 7, 2017, in the current report no. 32/2017, in connection with the current report no. 2/2017 on conditional resignations of Mr. Gianni Papa, Mr. Massimiliano Fossati, Ms. Laura Stefania Penna and Ms. Doris Tomanek from the positions of members of the Supervisory Board and current report no. 16/2017 on changing the conditions of resignations, the Management Board of Bank Pekao S.A. informed that on June 7, 2017, UniCredit S.p.A. sold in total 86,090,172 shares of the Bank to Powszechny Zakład Ubezpieczeń SA and Polski Fundusz Rozwoju S.A., as a result of these resignations of Mr. Gianni Papa, Mr. Massimiliano Fossati, Ms. Laura Stefania Penna and Ms. Doris Tomanek from the positions of Members of the Bank's Supervisory Board, became effective on June 7, 2017.

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

On June 9, 2017, in the current report no. 35/2017, the Management Board of Bank Pekao S.A. informed that on June 8, 2017, the Extraordinary General Meeting of the Bank dismissed the following members of the Supervisory Board: Mr. Jerzy Woźnicki, Mr. Leszek Pawłowicz, Mr. Dariusz Filar, Ms. Katarzyna Majchrzak.

On June 9, 2017, in the current report no. 36/2017, the Management Board of Bank Pekao S.A. informed that the Extraordinary General Meeting of the Bank on June 8, 2017, taking into account the fulfillment of suitability assessment, appointed members of the Supervisory Board for the new three-year joint term of office, starting on June 8, 2017. The following persons were appointed to the composition of the Supervisory Board of the Bank: Mr. Paweł Surówka, Mr. Paweł Stopczyński, Mr. Grzegorz Janas, Mr. Michał Kaszyński, Ms. Justyna Głębiowska-Michalak, Ms. Joanna Błaszczyk, Mr. Stanisław Ryszard Kaczoruk, Ms. Sabina Bigos-Jaworowska, Mr. Marian Majcher as Member.

Information on fulfillment of individual suitability assessment includes information referred to in § 28 p. 4-6 of the Decree of the Ministry of Finance dated February 19, 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.

Composition of the Supervisory Board:

JUNE 30, 2017	DECEMBER 31, 2016
Paweł Surówka Chairman of the Supervisory Board (*)	Jerzy Woźnicki Chairman of the Supervisory Board
Joanna Błaszczyk Deputy Chairman of the Supervisory Board (*)	Gianni Papa Deputy Chairman of the Supervisory Board
Stanisław Ryszard Kaczoruk Deputy Chairman of the Supervisory Board (*)	Leszek Pawłowicz Deputy Chairman of the Supervisory Board
Paweł Stopczyński Secretary of the Supervisory Board (*)	Massimiliano Fossati Secretary of the Supervisory Board
Sabina Bigos-Jaworowska Member of the Supervisory Board	Dariusz Filar Member of the Supervisory Board
Justyna Głębiowska-Michalak Member of the Supervisory Board	Katarzyna Majchrzak Member of the Supervisory Board
Grzegorz Janas Member of the Supervisory Board	Laura Penna Member of the Supervisory Board
Michał Kaszyński Member of the Supervisory Board	Wioletta Rosołowska Member of the Supervisory Board
Marian Majcher Member of the Supervisory Board	Doris Tomanek Member of the Supervisory Board

(\*) The Supervisory Board of the Bank elected at the meeting held on June 8, 2017, Mr. Paweł Surówka as Chairman of the Supervisory Board, Ms. Joanna Błaszczyk as Deputy Chairman of the Supervisory Board, Mr. Stanisław Ryszard Kaczoruk as Deputy Chairman of the Supervisory Board and Mr. Paweł Stopczyński as Secretary of the Supervisory Board.

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

## **Management Board of the Bank**

On June 14, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 39/2017 that the Supervisory Board dismissed Mr. Luigi Lovaglio from the position of the President of the Management Board and from the Management Board, effective as of June 14, 2017. Resolution does not provide information on the reasons for dismissal.

On June 14, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 40/2017 that Mr. Diego Biondo resigned from the position of Vice President of the Management Board, effective as of June 14, 2017. The resignation results from the sale by UniCredit S.p.A. on June 7, 2017 of 32,8% stake in Bank Pekao S.A. to Powszechny Zakład Ubezpieczeń SA and Polski Fundusz Rozwoju S.A.

On June 14, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 41/2017 that Mr. Stefano Santini resigned from the position of Vice President of the Management Board, effective as of June 14, 2017. The resignation results from the sale by UniCredit S.p.A. on June 7, 2017 of 32,8% stake in Bank Pekao S.A. to Powszechny Zakład Ubezpieczeń SA and Polski Fundusz Rozwoju S.A.

On June 14, 2017, the Management Board of Bank Pekao S.A. informed in the current report no. 42/2017 that on June 14, 2017, the Supervisory Board appointed Mr. Michał Krupiński to the Management Board of the Bank on the position of the Vice President of the Management Board, effective as of June 15, 2017. The Supervisory Board decides, that until receiving the approval from the Polish Financial Supervision Authority, Mr. Michał Krupiński will perform the function of the Vice President of the Management Board managing the work of the Management Board, and after receiving the approval of the Polish Financial Supervision Authority he will perform the function of the President of the Management Board. Mr. Michał Krupiński has been appointed after assessment of fulfillment of the suitability requirements.

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

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

On July 7, 2017, the Bank's Supervisory Board, taking into consideration suitability assessment, appointed Mr. Tomasz Styczyński since July 7, 2017 and Mr. Marek Tomczuk since September 1, 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 Banks' Management Board: Mr. Tomasz Kubiak, Mr. Michał Piotr Lehmann, Mr. Marek Lusztyn 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.

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

On August 1, 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 August 1, 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 July 7, 2017, decided that appointment of Mr. Marek Tomczuk as Vice President of the Management Board of the Bank will be effective on August 21, 2017. According to the submitted statement Vice President of the Management Board of the Bank, Mr. Marek Tomczuk starting from August 21, 2017, will not conduct any activity competitive to the Bank.

Composition of the Management Board:

AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2017	JUNE 30, 2017	DECEMBER 31, 2016
Michał Krupiński Vice President of the Management Board of the Bank managing the work of the Management Board	Michał Krupiński Vice President of the Management Board of the Bank managing the work of the Management Board	Luigi Lovaglio President of the Management Board, CEO
Andrzej Kopyrski Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Tomasz Kubiak Vice President of the Management Board	Adam Niewiński Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Michał Lehmann Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board	Adam Niewiński Vice President of the Management Board
Marek Lusztyn Vice President of the Management Board	Marian Ważyński Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Adam Niewiński Vice President of the Management Board		Stefano Santini Vice President of the Management Board
Tomasz Styczyński Vice President of the Management Board		Marian Ważyński Vice President of the Management Board

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

## 5.4 The Bank's shareholding structure

As at June 30, 2017, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034, it was divided into 262,470,034 shares and remained unchanged until the date of submitting the report.

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

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

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2017		AS OF JUNE 30, 2017		AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST QUARTER OF 2017		AS OF MARCH 31, 2017	
Powszechny Zakład Ubezpieczeń SA	52,494,007	20.00%	52,494,007	20.00%	-	-	-	-
Polski Fundusz Rozwoju S.A.	33,596,166	12.80%	33,596,166	12.80%	-	-	-	-
UniCredit S.p.A.	16,430,000	6.26%	16,430,000	6.26%	102,520,172	39.06%	102,520,172	39.06%
Oppenheimer Funds Inc.	-	-	-	-	-	-	14,040,662	5.35%
Other shareholders (below 5%)	159,949,861	60.94%	159,949,861	60.94%	159,949,862	60.94%	145,909,200	55.59%
<b>Total</b>	<b>262,470,034</b>	<b>100.00%</b>	<b>262,470,034</b>	<b>100.00%</b>	<b>262,470,034</b>	<b>100.00%</b>	<b>262,470,034</b>	<b>100.00%</b>

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

Joint exceeding the threshold of 25% of the total number of votes in the Bank by PZU SA and PFR S.A. resulted from a direct purchase from UniCredit S.p.A. by, respectively:

- PZU SA 52,494,007 shares of the Bank, constituting approximately 20% of the Bank's share capital and entitling to exercise 52,494,007 votes accounting for approximately 20% of the total number of votes and
- PFR S.A. 33,596,165 of the Bank's shares, representing approximately 12.8% of the Bank's share capital and entitling to 33,596,165 votes, constituting approximately 12.8% of the total number of votes.

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

Before the acquisition, PZU SA and PFR S.A. hold together a total 1 (one) share of the Bank, representing approximately 0.00000038% of the Bank's share capital and entitling to 1 (one) vote, representing approximately 0.00000038% of total votes, where:

- PZU SA did not directly or indirectly own any of the Bank's shares,
- PFR S.A. held directly 1 (one) share of the Bank, representing approximately 0.00000038% of the Bank's share capital and entitling to one (1) vote, representing approximately 0.00000038% of the total number of votes.

Since the acquisition of the Bank's shares, PZU SA 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 June 30, 2017:

- PZU SA holds directly 52,494,007 shares of the Bank, representing approximately 20% of the Bank's share capital and entitling her to 52,494,007 votes representing approximately 20% of total 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.

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

## 5.5 Financial credibility ratings

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

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

As of June 30, 2017, Bank Pekao S.A. had assigned following financial credibility ratings:

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

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

On May 16, 2017, Moody's Investors Service upgraded the outlook for a long-term rating of Bank Pekao S.A. from Negative to Stable following the analogous upgrade of the long-term rating outlook for Poland made on May 12, 2017.

### 5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

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

The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity. During the latest revision on June 9, 2017, agency confirmed the rating of covered bonds at the level of A and changed outlook from Evolving to Stable. The national long-term rating of Pekao Bank Hipoteczny S.A. is at the level AA+(pol) with a Stable outlook.

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

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

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

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

#### Distribution channels

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

	30.06.2017	30.06.2016
Total number of outlets	918	947
Total number of own ATMs	1,757	1,754

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

As at the end of June 2017, the Bank maintained 5,533.1 thousand PLN-denominated current accounts, 343.6 thousand mortgage loan accounts and 601.5 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

(in thousand)

	30.06.2017	30.06.2016
Total number of PLN current accounts <sup>(*)</sup>	5,533.1	5,377.0
of which packages	4,105.6	3,993.6
Number of mortgage loans accounts <sup>(**)</sup>	343.6	318.6
of which PLN mortgage loans accounts	309.7	283.4
Number of "Pożyczka Ekspresowa" loan accounts <sup>(***)</sup>	601.5	574.1

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

(\*\*) Retail customers accounts.

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

#### Individual clients

##### Individual clients service

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

The total value of new key loans granted for individual customers, including cash and PLN mortgage loans in the first half of 2017 amounted to PLN 8.9 billion and was higher by 38% in comparison to the first half of 2016. The high dynamics of loans granted was reflected in the volume of loan portfolio for individual customers which increased by 10.7% year on year (faster than the growth in the banking sector).

Bank Pekao S.A. is one of the leaders in electronic banking in Poland. Within the framework of electronic banking the Bank provides customers with full range of solutions such as: the Internet and mobile service, mobile application on mobile phones and tablets as well as the PeoPay mobile payments. In the first half of 2017, the Bank offered new mobile service Pekao24. In addition to visual change, user-friendly navigation and intuitive service, there are also functions well known from the "Pekao24 na tablety" application and the Internet service – expenses reporting by category, possibility to use loan offer "na klik" ("on click") and currencies exchange with a preferential rate.

Realizing the strategy of young customers acquisition, the Bank focused on long-term cooperation with the largest universities in Poland and various educational initiatives all over the country.

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

## **Lending products**

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

## **Mortgage loans**

In the first half of 2017, the Bank achieved record high result in mortgage loans, granting total amount of PLN 4.8 billion loans (+52% year on year) that translated into 11.7% of increase of PLN mortgage loans volume year on year and secured the market share at the level of ca. 18% as at the end of June 2017.

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

## **Consumer lending**

In the first half of 2017, the value of cash loans granted amounted to PLN 4.1 billion, an increase by 25% in comparison to the first half of 2016. Cash loans portfolio for individual clients increased by 19.4% year on year.

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

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

The Bank conducted also promotional campaign of Express Loan on TV, thematic channels and the Internet portals.

## **Payment cards**

Within the scope of active promotion of credit cards, in the first half of 2017, the Bank organized competition „Żyjemy aktywnie – Trzysta powodów, by płacić kartą” ("We live actively – Three hundred reasons to pay by card") in which customers could win attractive prizes. Moreover, promotional and educational activities for seniors were conducted aiming at demonstrating benefits of owing and using payment cards issued to the accounts. The Bank conducts also the activities supporting non-cash payments through the constant development of the Discount Program Galeria Rabatów under which the customers may receive special rebates while paying by cards of Bank Pekao S.A. In the first half of 2017, the number of cards increased by 88 thousand, including debit cards increasing by 72 thousand and credit cards increasing by 16 thousand. The total number of cards was higher by 246 thousand year on year.

More than half of debit cards issued in 2017 were multicurrency debit cards. Multicurrency debit card is one of the most innovative products in the market that enables execution of transactions in PLN as well as selected foreign currencies without FX conversion thanks to card's connection with corresponding currency accounts. The Bank's multicurrency debit card is used abroad most frequently for transactions in EUR realized in the European Union countries.

In a wide offer of payment cards of the Bank, Elektroniczna Legitymacja Studencka (Electronic Student Card) is well recognized, it combines functionality of student and payment card with the possibility to add also another services such as library card or public transport ticket.

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

## **Savings and investment products**

Thanks to a wide range of deposit products of the Bank, in the first half of 2017, individual customers deposits increased by PLN 2.7 billion as compared to the end of December 2016. In comparison to the first half of 2016, deposits volume of individual customers increased by 9.3% (a faster growth than in the banking sector). The Internet deposits (e-lokata) placed through the Pekao24 Internet banking were also very popular among the customers.

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

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

## **Brokerage activity**

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

As at the end of June 2017, the retail brokerage entities of the Group maintained 337.7 thousand investment accounts. The Group's brokerage entities were serving 181.8 thousand accounts with an active access to services through remote channels, including in particular the Internet and mobile applications. As at the end of June 2017, direct service of individual customers was conducted through nationwide network of 451 Points of Brokerage Services located all over the country.

As of June 30, 2017, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 25.3 billion.

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

In the first half of 2017, the brokerage entities of the Group participated in consortia serving 4 IPO's.

The activities related to functional development of services for remote customer service were continued. In the new mobile service of Bank Pekao S.A. the possibility of quotes viewing for users with an access to mobile service and a signed brokerage agreement with Dom Maklerski was introduced.

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

## **Private Banking**

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

Products offer available for the Private Banking customers through CDM was extended by adding new investment funds managed by Altus TFI, Union Investment TFI, NN Investment Partners TFI, Allianz TFI and Skarbiec TFI in cooperation with J.P. Morgan Asset Management.

In the first half of 2017, the clients were offered with structured products in a form of certificates issued by UniCredit Bank AG, based on share prices of Total SA, BMW AG and Orange SA. The clients were also provided with an access to initial offer of corporate bonds of the Warsaw Stock Exchange.

Within the scope of Investment Advisory another new agreements were signed and as at the end of June 2017, total value of assets covered by this service exceeded PLN 2.7 billion.

A series of investment meetings were held throughout Poland, where experts from the Bank and selected Investment Funds were presenting the directions and trends in the financial markets. Private Banking customers also had the opportunity to participate in events sponsored by the Bank, such as Paszporty Polityki (Passports of the Polityka magazine) awards ceremony, Ludwig van Beethoven Easter Festival, the Champions and European Leagues, prestigious meeting associated with publication of a List of 100 Polish billionaires 2017 of the Forbes magazine and the Official International Showjumping Competition CSIO 5\*.

In addition, the Private Banking representatives participated in workshops Kompetencje Przyszłości (Competencies for the Future) organized by Fundacja Firm Rodzinnych (Family Businesses Foundation). Workshops consists of four thematic blocks: strategies and management, including new technologies used in business efficiency growth, new media – how to effectively use mobile marketing, empathy in business and its impact on customer service and cyber security – how to use electronic banking safely. These meetings held in several cities in Poland were very popular among participants and were a great opportunity to meet new clients and to strengthen existing relations.

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## Electronic banking for Individuals

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

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

The Bank regularly expands the scope of functionalities available through remote access channels. Since May 2017, the Bank's customers were offered the opportunity to set up Profil Zaufany (Trusted Profile) in the Pekao24 Internet service, which is a free-of-charge method of identity confirmation in electronic systems of public administration.

In the first half of 2017, the Bank offered new mobile service Pekao24. In addition to visual change, user-friendly navigation and intuitive service, there are also functions well known from the "Pekao24 na tablety" application and the Internet service – expenses reporting by category, possibility to use loan offer "na klik" ("on click") and currencies exchange with a preferential rate.

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

The functionality of the "Pekao24 na tablety" application is systematically developed. Within the process "na klik" ('by click), the Bank offered functionality that allows to apply for debit card and sign currency account agreement remotely. In addition, the users can mark transactions in the history of operations which allows to search operations by individually created criteria and to split and assign individual transaction to a few categories of expenditure.

In the first half of 2017, the activating process of the Pekao24 system for new customers in the Bank's outlet was shortened through implementation of fast selection of all settings and activation of electronic banking in the process "na klik". At the same time the possibility of personalized instruction for customer was introduced which allows for fast and convenient access to electronic banking.

The Bank offers to its clients convenient and secure system of mobile payments PeoPay that allows, among others, payments execution in terminals accepting contactless payments in Poland and abroad, payments for online purchases, immediate transfers for system users on telephone number and cash withdrawal from the Bank's ATMs without payment card. Thanks to the PeoPay application it is possible to make payments in over 485 thousand of POS terminals in Poland (ca. 91.3% of total number of POS), in ca. 6 million terminals abroad as well as in majority of on-line shops in Poland and 300 thousand on-line shops with Masterpass logo abroad.

As at the end of June 2017, the number of individual users with an access to the Pekao24 system amounted to 3,286.5 thousand and was higher by 267.9 thousand as compared to the end of June 2016. In the second quarter of 2017, 1,764 thousand individual users logged in to the Pekao24 electronic banking services.

As at the end of June 2017, the number of individual users with an access to mobile banking amounted to 1,679.8 thousand and was higher by 436.8 thousand as compared to the end of June 2016.

	(in thousand)	
	30.06.2017	30.06.2016
Number of individual users with an access to electronic banking Pekao24 as at the end of period	3,286.5	3,018.6
Number of individual users with an access to mobile banking as at the end of period <sup>(*)</sup>	1,679.8	1,243.0

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

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

## Small and micro enterprises (SME)

In 2017, the Bank launched a business initiative focused on development of customer relations, supporting the development of small and micro enterprises. The Bank's goal is to strengthen its position in this segment on specific local markets. Within the scope of this initiative, the Bank implements changes in the offer and improves processes tailoring them to the needs and specificity of these customer groups, leveraging on experience and knowledge gathered in other business projects in the past.

Initiatives are being undertaken in order to simplify, facilitate and accelerate processes related to financing tailored to the needs of the company as well as improving flexibility in communication with the Bank.

Within the framework of these activities, among others, the range of products related to customers financing was extended and a number of simplifications in trade finance (including exports) were implemented in order to strengthen the Bank's relationship with the customers and more quickly respond to the customer's needs. The value of loans portfolio of SME customers increased by 12.2% in comparison to December 2016.

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

In May 2017, the Bank signed an agreement on cooperation with Bank Gospodarstwa Krajowego regarding the implementation of portfolio guaranties lines under the EU financing program - Program Operacyjny Inteligentny Rozwój 2014-2020 (POIR). New guarantees are aimed at facilitating access to financing for the innovative entities from the SME segment.

In May 2017, the Bank launched portal for enterprises, which intend to accept or accept non-cash payments with the use of cards, smartphones or POS terminals. The portal in a simple and intuitive way presents, among others, process of non-cash payments acceptance, benefits from execution of these payments for enterprises and costs. The offer configurator enables to tailor POS terminals and scope of services to the segment and scale of business which is a unique functionality in the market.

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

## Electronic banking for SME customers

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

In the first half of 2017, the Bank offered new mobile service Pekao24 dla firm for SME clients. In addition to visual change, user-friendly navigation and intuitive service, there are also functions known from the Internet service, including currencies exchange with a preferential rate.

As at the end of June 2017, 253.8 thousand business users had an access to the electronic banking systems. In the second quarter of 2017, 173.5 thousand business users logged in to the Pekao24 electronic banking services.

As at the end of June 2017, 22.5 thousand business users had an access to the mobile banking application for SME clients. The number of business users with an access to the mobile banking application increased by 2.6 thousand compared to the end of June 2016.

(in thousand)

	30.06.2017	30.06.2016
Number of business users (SME) with an access to the electronic banking systems as at the end of period	253.8	251.5
Number of business users (SME) with an access to the mobile banking as at the end of period	22.5	19.9

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

## Corporate customers

Bank Pekao S.A. Group is composed of financial and non-financial institutions organized around a universal bank and offers a full range of financial services available on the Polish market to individual and institutional customers (including factoring and leasing services). Bank Pekao S.A. is the largest corporate bank in Poland financing major strategic projects. A wide range of products, innovative solutions and an individual approach provide comprehensive financial services to enterprises, institutions and budgetary units.

The Bank is available to clients at every stage of the business activity. The Bank supports the processes of financial management of the production and sales network, automation of service processes, finances the development of the product and service and provides advisory services and funds for investments and international expansion.

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

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

## Transactional services

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

Key achievements in the area of transactional banking in the first half of 2017 include:

- processing within the framework of Pekao Collect service (mass payments identification) ca. 70 million transactions with total volume of over PLN 75 billion, i.e. increase by 3,8% and 16% respectively in comparison to the first half of 2016 which is the best half-yearly result in the Bank's history,
- an increase in the number of outgoing and incoming foreign payments by 35% and by 16% respectively in comparison to the first half of 2016,
- improvement in the offer of housing account for developers (developer accounts) by implementation: a new model of customer service for purchasers and a new IT system for developer accounts service. These changes simplify cooperation between developer and the Bank within the scope of documents workflow and ensure simple register of all investment settlements for developer,
- introduction of changes in the offer of escrow and custodial accounts by implementing standard agreements on escrow and custodial accounts linked with the service through the PekaoBiznes24 Internet banking system. Thanks to this, the customers were provided with possibility to manage the account and to process withdrawals without assistance of the Bank’s employee at any time, fast realization of online withdrawals without necessity of verification and manual execution of paper transfers in the Bank’s outlet and fully electronic paper workflow,
- installation another 3 “oplatomat” in Bydgoszcz, Zakopane and Radom. These devices allow to make payments to Municipal Offices in cash or by card.

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

## **Security in the digital age**

Bank Pekao S.A. is the leader in system integration and offers the most innovative solution - Pekao Connect that integrates ERP/ FK systems with the Bank, providing high level of data and operations security.

In 2016, this solution was implemented at over 150 corporate clients and in 2017, financial and accounting systems were implemented and integrated in nearly 300 of the Bank's clients. Currently, market share of Bank Pekao S.A. in the system integration market is ca. 25%, and the increase in the number of bank transfers processed through the new electronic banking channel was 16% year on year.

Due to strong interest of solutions supporting security the Bank anticipates a further dynamic increase in the number of implementations in subsequent quarters.

## **Cooperation with international clients**

In the first half of 2017, the Bank strengthen relations with existing international clients and attracted new customers. Bank Pekao S.A. and the UniCredit Group have reached an agreement on the further functioning of the existing group products in the field of account management (EuropeanGate) and liquidity management (cross-border cash pool) after ownership change. It will facilitate the maintenance of relationship with existing international clients using these services and help establish relationship with new customers interested in implementation of the products mentioned above.

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

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

In the first half of 2017, the value of new loan agreements amounted for PLN 4.1 billion.

The Bank participated in many investment projects realized for the institutional clients. The most important projects include:

- the largest private equity transaction in CEE since 2013,
- financing of the acquisition of an enterprise in the food sector,
- financing of development of a leader in the food processing industry,
- financing of a leading pharmaceutical company,
- financing of the development of a finishing construction materials manufacturer, leader in the industry,
- financing of the HORECA (hotel, restaurant, catering/café) sector leader,
- financing of the rail transport sector company,
- financing of the leading metal industry company,
- financing of the transport industry company.

The Bank was also the organizer of the largest acquisition in the trade sector. The amount of transaction exceeded PLN 4.7 billion.

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

- financing of office-shopping-residential complex located in post-industrial areas in Warsaw,
- financing of a leading developer of warehouses in Poland,
- financing construction of office buildings in Warsaw,
- financing of the housing estate in Trójmiasto.

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

## **Financial market and commercial debt instruments**

In the area of organization and management of commercial debt securities, Bank Pekao S.A. has 17% market share (2<sup>nd</sup> place), as of May 31, 2017 (data based on the Rating&Market bulletin published by Fitch Polska), including in particular:

- 1<sup>st</sup> place on corporate bonds market and corporate revenue bonds market (with maturities over 365 days) with a share of nearly 23%,
- 2<sup>nd</sup> place on municipal bonds market (with maturities over 365 days) with a share of over 27%.

In the first half of 2017, the Bank signed, among others, the following issuances of debt securities:

- the issue of 10-year bonds for the leading insurance company for the amount of PLN 2.25 billion,
- the issue of two series of 7-year bonds for a leading manufacturer of packaging for the amount of EUR 90 million,
- the issue of 8 series of 3-year bonds for leasing company for the total amount of PLN 252 million,
- the issue of 5-year bonds for a company operating in developers sector for the amount of PLN 148 million,
- the issue of 5-year bonds for domestic exchange of financial instruments for the amount of PLN 120 million,
- the issue of 5-year bonds for a company operating in developers sector for the amount of EUR 20 million,
- the issue of 5-year bonds for a wholesale trade company for the amount of PLN 75 million,
- the issue of 10 series of bank securities with the maturity date up to 3 years for the bank operating in Poland.

In addition, the Bank signed 12 new municipal bond issue agreements for the total amount of PLN 146 million.

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

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

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

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

- granting an investment loan for a purchase of fixed asset for one of the waste utilization companies in northeast of Poland,
- two short-term loans for Miasto Poznań for the amount of PLN 100 million,
- overdraft facility granted for a large city in central Poland for the amount of PLN 90 million,
- signing an agreement on bonds issuance with Miejskie Przedsiębiorstwo Komunikacyjne – Łódź Sp. z o.o. for financing of purchase of a new tram fleet up to the amount of PLN 60.8 million,
- the bond issue programme for the town in south of Poland in the amount of PLN 43 million,
- financing of the purchase of an electric bus fleet, including a fleet management system and the construction of a battery charging station in the amount of PLN 29 million for the municipal communication company in south of Poland,
- granting the non-renewable forfeiting limit for building a swimming pool complex for the town in southeast of Poland in the amount of PLN 28 million,
- financing of development and energy modernisation of the city swimming pool in northwest of Poland in the amount of PLN 23 million.

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

## **Cooperation with international and domestic financial institutions**

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

As at the end of the first half of 2017, the Bank maintains 71 nostro accounts in 48 banks in 26 countries; it runs 224 loro accounts for 209 foreign clients (banks and other financial institutions) from 47 countries and 42 current accounts for 40 foreign financial institutions.

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

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

## **Electronic banking**

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

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

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

## 6.2 Achievements of subsidiaries

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

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

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

In the first half of 2017, Pekao Bank Hipoteczny, as a specialized mortgage bank, continued to pursue its strategy focused on the creation of a secure loans portfolio financing purchase, construction, refurbishment or modernization of housing properties to individuals as well as commercial properties.

As at the end of June 2017, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 1,933.9 million. Loans granted to corporates and local governments represent 52.7% of loan portfolio and loans granted to individual clients represent 47.3%. In the first half of 2017, the volume of new loans financing housing properties to individuals amounted to 96.4% of total new loan.

The total value of liabilities due to covered bonds amounted to PLN 1,265.7 million as of June 30, 2017.

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

Pioneer Pekao Investment Management S.A. in which the Bank holds a 49% shares is the owner with 100% stake in Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A. (Pioneer Pekao TFI S.A.).

On June 1, 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 concerning 14,746 stocks of Pioneer Pekao Investment Management S.A. with its registered office in Warsaw, constituting 51% of PPIM's stocks and 51% of its share capital and in the total number of votes at the General Meeting of PPIM. The conclusion of the final sales agreement, the terms and conditions of which have been agreed in the preliminary contract, are conditional upon obtaining appropriate regulatory consent for transaction.

Pioneer Pekao TFI S.A. is the oldest investment fund in Poland and in its activities the company is focused on providing customers with modern financial products. In addition, the company creates savings programs, including programs offering the opportunity of additional retirement savings under the third voluntary pillar. Pioneer Pekao TFI S.A. offers also portfolio management service, which involves investing of client funds.

As of June 30, 2017, the net asset value of investment funds of Pioneer Pekao TFI S.A. amounted to PLN 17,422.7 million, an increase of PLN 1,282.3 million, i.e. 7.9% as compared to the end of June 2016 thanks to favourable situation on the capital markets.

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

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

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

As at the end of June 2017, the value of the pension fund's net assets (including DFE) was PLN 2,654.1 million and was higher by 33.0% in comparison with June 2016. As at the end of June 2017, Pekao OFE held 1.48% share in the market of open-end pension funds, i.e. on the similar level in comparison to the first half of 2016.

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

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

In the first half of 2017, the Company concluded over 5 thousand new agreements. The value of leased assets increased in comparison to the same period of 2016 by almost 7%.

Within the scope of the program of co-operation between Pekao Leasing and Bank Pekao S.A. the value of assets leased to the customers that were also the Bank's clients amounted to over PLN 750 million.

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

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

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

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

PIB acts also as market maker both on equities as well as on derivative instruments market, being one of the most active entity of this market. As at the end of June 2017, PIB was the market maker for 21 companies.

In the first half of 2017, PIB:

- provided, in particular, its advisory in processes of purchase of the company from retail sales sector,
- acted, among others, as an organizer of the offer of bonds issuance program for two companies,
- acted as an intermediary entity in tender offer for the sale of the shares and in obligatory redemption of shares of the company listed on the WSE.

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

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

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

CBB supports the Bank Pekao S.A., as a major customer, in the service of online banking, cards and call center products. The company within its operations serves customers through alternative channels of communication, including phone calls and mailing. The main channel of communication is phone calls - in the first half of 2017, CBB handled 8.0 million calls, i.e. 16.0% increase in comparison with the same period of 2016.

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

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

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

Among the clients served by the PFS there are companies with established market position. As at the end of June 2017, the company maintained its leading position in the market of OFE using the services of external Transfer Agent.

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

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

In the first half of 2017, CK S.A. continued realization of IT projects allowing the extension of a range of products offered by Bank Pekao S.A.

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

## 6.3 Awards

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

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

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

### **Bank Pekao S.A. the best investment bank in Poland**

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

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

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

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

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

### **Two awards for Bank Pekao S.A. from „Miesięcznik Finansowy BANK” magazine**

In the ranking "50 largest banks in Poland" organized by „Miesięcznik Finansowy BANK" magazine Pekao S.A. took the second place and received main award in category „Banki finansujące nieruchomości" (Banks financing real estate). The results of the 22nd edition of the ranking were announced at a gala ceremony during "Horyzonty Bankowości 2017".

The „Miesięcznik Finansowy BANK" ranking is one of the most prestigious and the most often quoted annual rankings of banks in Poland. The position of the bank in each category results from financial data evaluated by experts co-operating with the magazine editors. For years the „Miesięcznik Finansowy BANK" ranking is considered the most objective and reliable.

### **Awards for Centrum Bankowości Bezpośredniej Sp. z o.o. (CBB) – subsidiary of Bank Pekao S.A.**

In the first half of 2017, Phone service of Bank Pekao S.A. (operated by CBB) took the second place in the main ranking „Badanie Jakości Obsługi Klienta na Infoliniach Banków i w kontakcie przez e-mail" (Survey of Customer Service Quality in Infoline of Banks and in e-mail Contact) organized by Instytut Badawczy ARC Rynek i Opinia. In the categories: e-mail services and phone services Phone service of Bank Pekao S.A. took the first and the second place respectively.

In April 2017, Phone service of Bank Pekao S.A. won also the first place in category „Infolinia Informacyjna" in the competition „Złoty Bankier" – the largest ranking of banking services and products in Poland.

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

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

The activity of Bank Pekao S.A. and the Group's companies is in majority conducted on the Polish territory, hence the Group's performance will be mainly affected by economic situation in the country and international events that have influence on domestic economy.

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

The capital and liquidity requirements will continue to have a significant impact on banks' operations in the course of the year. Some banks have also been obliged to provide individually defined additional capital buffers. The situation of individual banks with regard to their capital and liquidity position significantly determines their risk appetite and at the sector level the intensity of competition in particular credit and deposit sub-markets.

In 2017, there were some changes in the functioning of the system ensuring stable and secure operation of the banking sector in Poland as well as the protection of insured deposits. As a result of the changes the overall level of the sector's burdens did not change materially, but individual contributions differ as the burden are now more closely linked to the particular institution risk profile. The changes had an impact on the schedule of contributions over the year.

Monetary policy is constantly an important factor influencing the banks' results. For the time being stabilization of NBP rates throughout 2017 seem to be the most likely scenario.

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

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

## 6.5 Description of major sources of risk and threats relating to the remaining months of 2017

### Economic factors

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

### Risk management

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

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

The Management Board of the Bank is responsible for achieving the strategic risk management goals, while the Supervisory Board, supported by the Risk Committee, oversees whether the Group's policy of taking various risks is compliant with the overall strategy and financial plan. The Credit Committee plays an important role in the credit risk management, the Asset, Liability and Risk Committee and Liquidity and Market Risk Committee in market and liquidity risk management, the Operational Risk Committee in the management of the operational risk and the Model Risk Committee in model risk management. The rules of managing each of the risks are defined by internal procedures and the assumptions of the credit and investment policies and the operational risk strategy and policy accepted annually by the Management Board and approved by the Supervisory Board. Detailed reports on credit, liquidity, market and operational risks are presented to the Management Board and the Supervisory Board on a regular basis.

The rules and instruments of managing each of the risks and information on the risk exposure are included in Note 7 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 30 June 2017 and in the document "Information in respect to capital adequacy of Bank Pekao S.A. Group as at 30 June 2017" published on the Bank's website.

### Risks related to the remaining months of 2017

In the second half of 2017, the Bank will continue its efforts and focus on keeping credit risk at adequate and safe level through prudent policy of credit portfolio development. Prudent standards in credit risk management in Bank Pekao S.A. stay unchanged with particular attention to potential threats coming from macroeconomic pillars and their effects on portfolio performance with timely actions undertaken along a strict monitoring of borrowers' risk profile. The same approach and focus is applied to the performance of the Bank's subsidiaries.

In the case of liquidity and market risks Bank Pekao S.A. does not expect substantial threats in the second half of 2017. As regards liquidity risk, it should be underlined that the Bank is characterized by a well-diversified, stable deposits base with low concentration and manages a substantial liquidity buffer of eligible and marketable government securities. The cautious liquidity risk management policy enables to expect stable liquidity situation in the second half of 2017.

As to market risk, taking into account the market uncertainty as well as possible increase of the market parameters volatility, the policy of the Bank is to keep the level of its exposure strictly under control. The Bank is assessing the structural interest rate risk as moderate, which is reflected in the repricing mismatch embedded in the Bank's balance sheet. Taking into account external conditions and the Bank's exposure to interest rate risk, in the case of decrease of interest rates, deterioration of net interest income of the Bank can follow. However, the risk of materialization of such a scenario is assessed as low. Further stabilization of interest rates is forecasted in the near term; then, interest rates are expected to increase.

The Bank does not identify any new significant factors implying change of operational risk profile, which could occur in the second half of 2017.

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

## 7 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 30 June, 2017 and 2016 respectively is presented in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 30 June 2017.

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

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

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

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

ASSETS	30.06.2017		30.06.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	6,735.0	3.9%	5,892.3	3.5%	14.3%
Loans and advances to banks <sup>(1)</sup>	3,288.8	1.9%	4,352.0	2.6%	(24.4%)
Loans and advances to customers <sup>(2)</sup>	125,749.7	73.7%	120,096.6	72.3%	4.7%
Reverse repo transactions	-	x	149.0	0.1%	x
Securities <sup>(3)</sup>	29,048.3	17.0%	28,943.6	17.4%	0.4%
Investments in associates	156.8	0.1%	117.4	0.1%	33.6%
Property, plant and equipment and intangible assets	1,993.2	1.2%	2,007.7	1.2%	(0.7%)
Other assets	3,558.3	2.2%	4,453.7	2.8%	(20.1%)
<b>Total assets</b>	<b>170,530.1</b>	<b>100.0%</b>	<b>166,012.3</b>	<b>100.0%</b>	<b>2.7%</b>

<sup>(1)</sup> Including net investments in financial leases to banks.

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

<sup>(3)</sup> Including financial assets held for trading and other financial instruments at fair value through profit and loss.

EQUITY AND LIABILITIES	30.06.2017		30.06.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	6.0	0.0%	6.0	0.0%	0.0%
Amounts due to other banks	4,496.8	2.6%	4,981.2	3.0%	(9.7%)
Amounts due to customers	134,290.2	78.7%	126,190.0	76.0%	6.4%
Debt securities issued	1,314.5	0.8%	2,085.3	1.3%	(37.0%)
Repo transactions	311.1	0.2%	704.1	0.4%	(55.8%)
Other liabilities	8,402.6	5.0%	9,845.4	5.9%	(14.7%)
Total equity, including	21,708.9	12.7%	22,200.3	13.4%	(2.2%)
non-controlling interests	15.1	0.0%	14.6	0.0%	3.4%
<b>Total equity and liabilities</b>	<b>170,530.1</b>	<b>100.0%</b>	<b>166,012.3</b>	<b>100.0%</b>	<b>2.7%</b>

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## Customers' Financing

### Customer structure of loans and advances

(in PLN million)

	30.06.2017	30.06.2016	CHANGE
<b>Loans and advances at nominal value<sup>(1)</sup></b>	<b>130,625.9</b>	<b>125,148.3</b>	<b>4.4%</b>
Loans <sup>(2)</sup>	118,851.0	112,525.0	5.6%
Retail	61,168.8	55,736.8	9.7%
Corporate	57,682.2	56,788.2	1.6%
Non-quoted securities	11,774.9	12,623.3	(6.7%)
Other <sup>(3)</sup>	627.1	611.5	2.6%
Nominal value adjustment	318.7	291.2	9.4%
<b>Impairment losses</b>	<b>(5,822.0)</b>	<b>(5,954.4)</b>	<b>(2.2%)</b>
<b>Total net receivables</b>	<b>125,749.7</b>	<b>120,096.6</b>	<b>4.7%</b>
Securities issued by non-monetary entities <sup>(4)</sup>	590.5	878.8	(32.8%)
Reverse repo transactions	-	149.0	x
<b>Total customers' financing<sup>(5)</sup></b>	<b>131,216.4</b>	<b>126,176.1</b>	<b>4.0%</b>
<b>Total customers' financing excluding reverse repo transactions</b>	<b>131,216.4</b>	<b>126,027.1</b>	<b>4.1%</b>

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

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

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

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

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

As at the end of June 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 131,216.4 million, an increase of PLN 5,189.3 million, i.e. 4.1% in comparison to the end of June 2016 with significant growth in key strategic areas.

As at the end of June 2017, the volume of retail loans amounted to PLN 61,168.8 million, an increase of PLN 5,432.0 million, i.e. 9.7% in comparison to the end of June 2016.

As at the end of June 2017, corporate loans amounted to PLN 57,682.2 million, an increase of PLN 894.0 million, i.e. 1.6% in comparison to the end of June 2016.

The volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 70,047.6 million as at the end of June 2017, a decrease of PLN 242.7 million, i.e. 0.3% as compared to the end of June 2016.

As at the end of June 2017, there were no reverse repo transactions. As of June 30, 2016, reverse repo transactions amounted to PLN 149.0 million.

### Receivables and impairment losses

(in PLN million)

	30.06.2017	30.06.2016	CHANGE
<b>Gross receivables<sup>(1)</sup></b>	<b>130,997.0</b>	<b>125,547.1</b>	<b>4.3%</b>
Not impaired	123,277.7	117,517.2	4.9%
Impaired	7,719.3	8,029.9	(3.9%)
Impairment losses	(5,822.0)	(5,954.4)	(2.2%)
Interest	574.7	503.9	14.1%
<b>Total net receivables</b>	<b>125,749.7</b>	<b>120,096.6</b>	<b>4.7%</b>

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

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As of June 30, 2017, the ratio of impaired receivables to total receivables excluding reverse repo transactions amounted to 5.9% as compared to 6.4% as at the end of June 2016.

Impairment losses as at the end of June 2017 amounted to PLN 5,822.0 million.

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

	30.06.2017		30.06.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	108,954.9	82.8%	102,294.5	81.2%	6.5%
Denominated in foreign currencies <sup>(**)</sup>	22,616.8	17.2%	23,756.5	18.8%	(4.8%)
<b>Total</b>	<b>131,571.7</b>	<b>100.0%</b>	<b>126,051.0</b>	<b>100.0%</b>	<b>4.4%</b>
Impairment losses	(5,822.0)	x	(5,954.4)	x	(2.2%)
<b>Total net</b>	<b>125,749.7</b>	<b>x</b>	<b>120,096.6</b>	<b>x</b>	<b>4.7%</b>

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

(\*\*) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of June 2017, their share was 82.8%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (66.1%), CHF (18.6%) and USD (14.4%).

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

	30.06.2017		30.06.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	15,719.8	11.9%	15,508.1	12.3%	1.4%
1 to 3 months	4,059.0	3.1%	3,422.1	2.7%	18.6%
3 months to 1 year	12,909.6	9.8%	12,373.1	9.8%	4.3%
1 to 5 years	40,992.0	31.2%	39,681.7	31.5%	3.3%
Over 5 years	57,264.2	43.5%	54,454.5	43.2%	5.2%
Other	627.1	0.5%	611.5	0.5%	2.6%
<b>Total</b>	<b>131,571.7</b>	<b>100.0%</b>	<b>126,051.0</b>	<b>100.0%</b>	<b>4.4%</b>
Impairment losses	(5,822.0)	x	(5,954.4)	x	(2.2%)
<b>Total net</b>	<b>125,749.7</b>	<b>x</b>	<b>120,096.6</b>	<b>x</b>	<b>4.7%</b>

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

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

## **Credit exposures towards Ukraine**

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

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## External sources of financing

(in PLN million)

	30.06.2017	30.06.2016	CHANGE
Amounts due to Central Bank	6.0	6.0	0.0%
Amounts due to other banks	4,496.8	4,981.2	(9.7%)
Amounts due to customers	134,290.2	126,190.0	6.4%
Debt securities issued	1,314.5	2,085.3	(37.0%)
Repo transactions	311.1	704.1	(55.8%)
<b>Total external sources of financing</b>	<b>140,418.6</b>	<b>133,966.6</b>	<b>4.8%</b>

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

## Total customer savings

(in PLN million)

	30.06.2017	30.06.2016	CHANGE
<b>Corporate deposits</b>	<b>61,033.8</b>	<b>58,211.0</b>	<b>4.8%</b>
Non-financial entities	43,292.0	45,359.4	(4.6%)
Non-banking financial entities	7,594.7	6,084.8	24.8%
Budget entities	10,147.1	6,766.8	50.0%
<b>Retail deposits</b>	<b>72,810.4</b>	<b>67,069.5</b>	<b>8.6%</b>
Other (*)	446.0	909.5	(51.0%)
<b>Amounts due to customers(**)</b>	<b>134,290.2</b>	<b>126,190.0</b>	<b>6.4%</b>
<b>Debt securities issued, of which</b>	<b>1,314.5</b>	<b>2,085.3</b>	<b>(37.0%)</b>
Structured Certificates of Deposit (SCD)	86.1	245.9	(65.0%)
Certificates of Deposit	-	589.1	x
Pekao Bank Hipoteczny S.A. covered bonds	1,221.3	1,239.6	(1.5%)
Interest	7.1	10.7	(33.6%)
<b>Amounts due to customers and debt securities issued, total(**)</b>	<b>135,604.7</b>	<b>128,275.3</b>	<b>5.7%</b>
Repo transactions	311.1	704.1	(55.8%)
<b>Investment funds of Pioneer Pekao TFI</b>	<b>17,422.7</b>	<b>16,140.4</b>	<b>7.9%</b>
Bond and money market funds	12,420.9	11,505.0	8.0%
Balanced funds	2,589.8	2,520.8	2.7%
Equity funds	2,412.0	2,114.6	14.1%
including distributed through the Group's network	17,087.9	15,812.2	8.1%

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

(\*\*) Excluding repo transactions.

As at the end of June 2017, the total amounts due to the Group's customers and debt securities issued amounted to PLN 135,604.7 million, an increase of PLN 7,329.4 million, i.e. 5.7% in comparison to the end of June 2016.

Retail deposits amounted to PLN 72,810.4 million as at the end of June 2017, an increase of PLN 5,740.9 million, i.e. 8.6% in comparison to the end of June 2016.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 73,302.9 million as at the end of June 2017, an increase of PLN 5,128.5 million, i.e. 7.5% in comparison to the end of June 2016.

Corporate deposits amounted to PLN 61,033.8 million as at the end of June 2017, an increase of PLN 2,822.8 million, i.e. 4.8% as compared to the end of June 2016.

The total volume of corporate deposits, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 62,301.8 million as at the end of June 2017, an increase of PLN 2,200.9 million, i.e. 3.7% as compared to the end of June 2016.

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Repo transactions amounted to PLN 311.1 million as at the end of June 2017, a decrease by PLN 393.0 million, i.e. 55.8% in comparison to the end of June 2016.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,422.7 million as at the end of June 2017, an increase of PLN 1,282.3 million, i.e. 7.9% in comparison to the end of June 2016.

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

	30.06.2017		30.06.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	108,941.8	81.1%	102,914.6	81.6%	5.9%
Denominated in foreign currencies	25,348.4	18.9%	23,275.4	18.4%	8.9%
<b>Total</b>	<b>134,290.2</b>	<b>100.0%</b>	<b>126,190.0</b>	<b>100.0%</b>	<b>6.4%</b>

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

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of June 2017 amounted to 81.1%. The majority of amounts due to customers denominated in foreign currencies were in EUR (59.7%) and USD (32.8%).

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

	30.06.2017		30.06.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	78,534.3	58.7%	72,250.3	57.7%	8.7%
Term deposits	55,309.9	41.3%	53,030.2	42.3%	4.3%
<b>Total deposits</b>	<b>133,844.2</b>	<b>100.0%</b>	<b>125,280.5</b>	<b>100.0%</b>	<b>6.8%</b>
Interest accrued	164.5	x	252.3	x	(34.8%)
Funds in transit	281.5	x	657.2	x	(57.2%)
<b>Total</b>	<b>134,290.2</b>	<b>x</b>	<b>126,190.0</b>	<b>x</b>	<b>6.4%</b>

(\*) Excluding repo transactions.

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

## 7.2 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2017, amounted to PLN 884.8 million after tax on certain financial institutions in the amount of PLN 252.7 million and one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 178.4 million. Strong contribution to the results was brought by a substantial growth of loan and deposit volumes in key strategic areas, further progress in costs optimization and lower cost of risk.

Due to aforementioned charges and one-off non-recurring items recognized in the previous year, net profit for the first half of 2017 was nominally lower by PLN 379.1 million, i.e. 30.0% than net profit for the first half of 2016. Net profit for the first half of 2017 would be higher by 9.5% year on year, excluding one-off non-recurring items recognized in the previous year (i.e. net result on disposal of loans and settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc), and including costs of contribution to the Bank Guarantee Fund attributable only to the first half of 2017 and tax on certain financial institutions for the full six months of 2016.

Thanks to the effective commercial activity of the Group in the first half of 2017, a significant growth in loan volumes in the area of retail loans (an increase of 9.7% year on year) and growth in corporate loans by 1.6% year on year was reported. Such increase in lending was financed almost fully by higher volumes of retail deposits growing by 8.6% year on year.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 92.7% as at the end of June 2017. This, together with high equity level reflected by total capital ratio (Basel III) amounting to 18.0%, enables for further sound and stable development of the Group's activities.

### The consolidated income statement – presentation form

(in PLN million)

	1 HALF OF 2017	1 HALF OF 2016	CHANGE
Net interest income	2,251.2	2,151.7	4.6%
Dividend income and income from equity investments	40.0	36.2	10.5%
<b>Total net interest income, dividend income and other income from equity investments</b>	<b>2,291.2</b>	<b>2,187.9</b>	<b>4.7%</b>
Net fee and commission income	1,155.8	1,180.8	(2.1%)
Trading result	17.8	296.7	(94.0%)
Net other operating income and expenses	46.7	164.9	(71.7%)
<b>Net non-interest income</b>	<b>1,220.3</b>	<b>1,642.4</b>	<b>(25.7%)</b>
<b>Operating income</b>	<b>3,511.5</b>	<b>3,830.3</b>	<b>(8.3%)</b>
<b>Operating costs</b>	<b>(1,594.0)</b>	<b>(1,624.2)</b>	<b>(1.9%)</b>
<b>Gross operating profit</b>	<b>1,917.5</b>	<b>2,206.1</b>	<b>(13.1%)</b>
Net impairment losses on loans and off-balance sheet commitments	(230.0)	(260.6)	(11.7%)
<b>Net operating profit</b>	<b>1,687.5</b>	<b>1,945.5</b>	<b>(13.3%)</b>
Net result on other provisions	(14.0)	(2.9)	> 100%
Guarantee funds charges	(223.7)	(131.0)	70.8%
Tax on certain financial institutions	(252.7)	(200.8)	25.8%
Net result on investment activities	0.1	1.6	(93.8%)
<b>Profit before tax</b>	<b>1,197.2</b>	<b>1,612.4</b>	<b>(25.8%)</b>
Income tax expense	(312.2)	(348.3)	(10.4%)
<b>Net profit</b>	<b>885.0</b>	<b>1,264.1</b>	<b>(30.0%)</b>
<b>Attributable to equity holders of the Bank</b>	<b>884.8</b>	<b>1,263.9</b>	<b>(30.0%)</b>
Attributable to non-controlling interest	0.2	0.2	0.0%

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

## Operating income

In the first half of 2017, the Group's operating income amounted to PLN 3,511.5 million, nominally lower by PLN 318.8 million, i.e. 8.3% in comparison with the first half of 2016, mainly due to one-off non-recurring items in the amount of PLN 412.8 million in 2016.

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

(in PLN million)

	1 HALF OF 2017	1 HALF OF 2016	CHANGE
Interest income	2,767.5	2,691.4	2.8%
Interest expense	(516.3)	(539.7)	(4.3%)
<b>Net interest income</b>	<b>2,251.2</b>	<b>2,151.7</b>	<b>4.6%</b>
Dividend income	19.4	16.4	18.3%
Income from equity investments	20.6	19.8	4.0%
<b>Total net interest income, dividend income and income from equity investments</b>	<b>2,291.2</b>	<b>2,187.9</b>	<b>4.7%</b>

Total net interest income, dividend income and income from equity investments in the first half of 2017, amounted to PLN 2,291.2 million and was higher by PLN 103.3 million, i.e. 4.7% compared to the first half of 2016 driven by higher volumes.

## Net non-interest income

(in PLN million)

	1 HALF OF 2017	1 HALF OF 2016	CHANGE
Fee and commission income	1,301.1	1,326.1	(1.9%)
Fee and commission expense	(145.3)	(145.3)	0.0%
<b>Net fee and commission income</b>	<b>1,155.8</b>	<b>1,180.8</b>	<b>(2.1%)</b>
Trading result	17.8	296.7	(94.0%)
of which gains on disposal of AFS assets	5.9	268.2	(97.8%)
Net other operating income and expense	46.7	164.9	(71.7%)
<b>Net non-interest income</b>	<b>1,220.3</b>	<b>1,642.4</b>	<b>(25.7%)</b>

Net non-interest income in the first half of 2017, amounted to PLN 1,220.3 million and was lower by PLN 9.3 million in comparison with the first half of 2016 (excluding one-off non-recurring items recognized in the previous year), with net fee and commission income (including fees on margins on foreign exchange transactions with clients) lower by 2.1% compared to the first half of 2016.

In the first half of 2017, the Group introduced changes in presentation in the income statement of the margins on foreign exchange transactions with the Group's clients. Before the change such margins were presented in the item Trading result, after the change are presented in the item Fee and commission income. In order to ensure comparability, data for the first half of 2016 in the Report on the activities of Bank Pekao S.A. Group for the first half of 2017 were restated in comparison to those previously published. Changes in presentation of financial data are described in detail in the Note 5 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 30 June 2017.

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The Group's net fee and commission income in the first half of 2017, amounted to PLN 1,155.8 million and was lower by PLN 25.0 million, i.e. 2.1% in comparison with the first half of 2016, mainly due to lower net fee and commission income on loans.

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

(in PLN million)

	1 HALF OF 2017	1 HALF OF 2016	CHANGE
<b>Net fee and commission income</b>	<b>1,155.8</b>	<b>1,180.8</b>	<b>(2.1%)</b>
on loans	243.5	265.1	(8.1%)
on cards	176.7	179.2	(1.4%)
on margins on foreign exchange transactions with clients	216.0	212.3	1.7%
on mutual funds	132.3	122.3	8.2%
other	387.3	401.9	(3.6%)

## Operating costs

The operating costs amounted to PLN 1,594.0 million in the first half of 2017. They were lower by PLN 30.2 million, i.e. 1.9% as compared with the first half of 2016.

(in PLN million)

	1 HALF OF 2017	1 HALF OF 2016	CHANGE
Personnel expenses	(952.3)	(944.2)	0.9%
Other administrative expenses	(472.1)	(508.6)	(7.2%)
Depreciation and amortization	(169.6)	(171.4)	(1.1%)
<b>Operating costs</b>	<b>(1,594.0)</b>	<b>(1,624.2)</b>	<b>(1.9%)</b>

In the first half of 2017, cost / income ratio amounted to 45.4% in comparison with 42.4% in the first half of 2016.

As of June 30, 2017, the Group employed 17,509 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,150 employees as at the end of June 2016.

As of June 30, 2017, the Bank employed 15,663 employees as compared to 16,258 employees as at the end of June 2016.

## Guarantee funds charges

Guarantee funds charges in the first half of 2017, amounted to PLN 223.7 million, an increase of PLN 92.7 million, i.e. 70.8% in comparison with the first half of 2016, mainly due to one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 178.4 million in the first half of 2017.

## Tax on certain financial institutions

On February 1, 2016, tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In the first half of 2017, it amounted to PLN 252.7 million and was higher by PLN 51.9 million, mainly due to the shorter life of the tax regulations in the first half of 2016.

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

## 7.3 The structure of the net profit

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

(in PLN million)

	1 HALF OF 2017	1 HALF OF 2016	CHANGE
<b>Net profit of Bank Pekao S.A.</b>	<b>980.2</b>	<b>1,303.9</b>	<b>(24.8%)</b>
<b>Entities consolidated under full method</b>			
Centralny Dom Maklerski Pekao S.A.	17.4	11.6	50.0%
Pekao Leasing Sp. z o.o.	17.2	18.3	(6.0%)
Pekao Faktoring Sp. z o.o.	5.4	4.4	22.7%
Pekao Financial Services Sp. z o.o.	3.0	3.8	(21.1%)
Pekao Bank Hipoteczny S.A.	2.6	3.2	(18.8%)
Pekao Investment Banking S.A.	2.1	10.6	(80.2%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	1.7	0.8	> 100%
Pekao Pioneer PTE S.A.	0.6	0.6	0.0%
Centrum Kart S.A.	0.3	0.4	(25.0%)
FPB "Media" Sp. z o.o.	0.3	0.1	> 100%
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji (*)	0.2	0.2	0.0%
Pekao Property S.A.	0.2	(0.2)	x
Pekao Leasing Holding S.A. w likwidacji (**)	-	0.4	x
<b>Entities valued under the equity method</b>			
Pioneer Pekao Investment Management S.A.	19.1	18.9	1.1%
Dom Inwestycyjny Xelion Sp. z o.o.	1.4	0.9	55.6%
<b>Exclusions and consolidation adjustments (**)</b>	<b>(166.9)</b>	<b>(114.0)</b>	<b>46.4%</b>
<b>Net profit of the Group attributable to equity holders of the Bank</b>	<b>884.8</b>	<b>1,263.9</b>	<b>(30.0%)</b>

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

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

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

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

## The results of Bank Pekao S.A.

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

(in PLN million)

	1 HALF OF 2017	1 HALF OF 2016	CHANGE
Net interest income	2,197.6	2,093.4	5.0%
Dividend income	187.8	132.6	41.6%
Total net interest income and dividend income	2,385.4	2,226.0	7.2%
Net non-interest income	1,083.7	1,511.0	(28.3%)
<b>Operating income</b>	<b>3,469.1</b>	<b>3,737.0</b>	<b>(7.2%)</b>
<b>Operating costs</b>	<b>(1,478.8)</b>	<b>(1,514.0)</b>	<b>(2.3%)</b>
<b>Gross operating profit</b>	<b>1,990.3</b>	<b>2,223.0</b>	<b>(10.5%)</b>
Net impairment losses on loans and off-balance sheet commitments	(226.1)	(252.5)	(10.5%)
<b>Net operating profit</b>	<b>1,764.2</b>	<b>1,970.5</b>	<b>(10.5%)</b>
Net result on other provisions	(11.7)	(3.0)	> 100%
Guarantee funds charges	(221.2)	(130.3)	69.8%
Tax on certain financial institutions	(252.7)	(200.8)	25.8%
Net result on investment activities	0.1	1.8	(94.4%)
<b>Profit before tax</b>	<b>1,278.7</b>	<b>1,638.2</b>	<b>(21.9%)</b>
<b>Net profit</b>	<b>980.2</b>	<b>1,303.9</b>	<b>(24.8%)</b>

Net profit of Bank Pekao S.A. for the first half of 2017, amounted to PLN 980.2 million after tax on certain financial institutions in the amount of PLN 252.7 million and one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund in the amount of PLN 176.9 million.

Due to aforementioned charges and one-off non-recurring items recognized in the previous year, net profit for the first half of 2017, was nominally lower by PLN 323.7 million, i.e. 24.8% than net profit for the first half of 2016. Net profit for the first half of 2017 would be higher by 15.1% year on year, excluding one-off non-recurring items recognized in the previous year (i.e. net result on disposal of loans and settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc), and including costs of contribution to the Bank Guarantee Fund attributable only to the first half of 2017 and tax on certain financial institutions for the full six months of 2016.

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

The main Bank's financial information are as follows:

	30.06.2017	30.06.2016	CHANGE
<b>STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)</b>			
Loans and advances at nominal value <sup>(*)</sup>	127,180.5	121,242.3	4.9%
Securities issued by non-monetary entities <sup>(**)</sup>	590.5	878.8	(32.8%)
Reverse repo transactions	-	149.0	x
Amounts due to customers	134,562.2	126,493.7	6.4%
Structured Certificates of Deposit	86.1	245.9	(65.0%)
Certificates of Deposit	-	589.1	x
Repo transactions	311.1	704.1	(55.8%)
Total assets	167,543.6	162,872.5	2.9%
Investment funds distributed through the Bank's network	16,175.8	14,932.6	8.3%
<b>SELECTED RATIOS</b>			
Impaired receivables to total receivables in % <sup>(***)</sup>	5.7%	6.2%	(0.5) p.p.
TCR (Basel III) in %	18.5%	18.6%	(0.1) p.p.

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

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

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

As at the end of June 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 127,771.0 million, an increase of PLN 5,649.9 million, i.e. 4.6% in comparison to the end of June 2016. As at the end of June 2017, the volume of retail loans amounted to PLN 60,251.5 million and the volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 67,519.5 million.

As at the end of June 2017, the amounts due to the customers, Structured Certificates of Deposit and Certificates of Deposit amounted to PLN 134,648.3 million, an increase of PLN 7,319.6 million, i.e. 5.7% in comparison to the end of June 2016.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. distributed through the Bank's network amounted to PLN 16,175.8 million as at the end of June 2017, an increase of PLN 1,243.2 million, i.e. 8.3% in comparison to the end of June 2016.

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

## Results of the Bank's major related entities

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

In the first half of 2017, consolidated net profit of PPIM amounted to PLN 39.0 million and was at the similar level to the profit achieved in comparable period of 2016. The Bank's share in the company's profit was **PLN 19.1 million**.

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

In the first half of 2017, net profit of CDM amounted to **PLN 17.4 million** compared with PLN 11.6 million profit earned in the first half of 2016, influenced by favourable situation on capital markets, higher turnover on the WSE and higher revenues on mutual funds.

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

In the first half of 2017, Pekao Leasing reported a net profit of **PLN 17.2 million** compared with PLN 18.3 million in the first half of 2016.

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

In the first half of 2017, PIB reported net profit of **PLN 2.1 million** compared with PLN 10.6 million in the first half of 2016 resulting from the realization of large transactions in 2016.

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

In the first half of 2017, Pekao Faktoring reported a net profit of **PLN 5.4 million** compared with PLN 4.4 million in the first half of 2016 influenced by favourable situation on factoring market and increased factoring commitment also in a result of services rendering to new customers.

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

In the first half of 2017, PFS reported a net profit in the amount of **PLN 3.0 million** compared with PLN 3.8 million in the first half of 2016. 2016 profit was also influenced by additional one-off revenues achieved within the implementation of new services for customers.

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

In the first half of 2017, Pekao Bank Hipoteczny reported a net profit of **PLN 2.6 million** compared with PLN 3.2 million in the first half of 2016, influenced by one-off recognition of costs of annual contribution to the resolution fund of banks related to the BFG.

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

## 7.4 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
<b>Total provisions</b>	<b>574.6</b>	<b>490.7</b>	<b>571.4</b>	<b>489.7</b>
of which:				
provisions for off-balance sheet commitments	213.1	181.1	217.8	186.2
provisions for liabilities to employees	326.8	297.8	322.9	294.9
other provisions	34.7	11.8	30.7	8.6
<b>Deferred tax liabilities</b>	<b>4.5</b>	<b>5.0</b>	<b>-</b>	<b>-</b>
<b>Deferred tax assets</b>	<b>920.5</b>	<b>998.1</b>	<b>696.0</b>	<b>775.6</b>

## 7.5 Net impairment losses

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	1 HALF OF 2017	1 HALF OF 2016	1 HALF OF 2017	1 HALF OF 2016
Impairment losses on loans	(236.7)	(201.0)	(233.5)	(191.7)
Impairment losses on off-balance sheet commitments	6.7	(59.6)	7.4	(60.8)
<b>Total</b>	<b>(230.0)</b>	<b>(260.6)</b>	<b>(226.1)</b>	<b>(252.5)</b>

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 230.0 million in the first half of 2017, a decrease of PLN 30.6 million, i.e. 11.7% as compared with the first half of 2016.

The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 226.1 million in the first half of 2017, a decrease of PLN 26.4 million i.e. 10.5% as compared with the first half of 2016.

## 7.6 Off-balance sheet items

(in PLN million)

	30.06.2017	30.06.2016	CHANGE
Contingent liabilities granted and received	56,346.8	54,658.3	3.1%
Liabilities granted:	43,058.2	42,858.5	0.5%
financial	32,010.8	30,981.0	3.3%
guarantees	11,047.4	11,877.5	(7.0%)
Liabilities received:	13,288.6	11,799.8	12.6%
financial	977.1	1,491.3	(34.5%)
guarantees	12,311.5	10,308.5	19.4%
Derivative financial instruments	200,439.8	196,566.0	2.0%
interest rate transactions	87,272.9	93,349.0	(6.5%)
transactions in foreign currency and in gold	112,299.7	102,596.2	9.5%
transactions based on commodities and equity securities	867.2	620.8	39.7%
<b>Total off-balance sheet items</b>	<b>256,786.6</b>	<b>251,224.3</b>	<b>2.2%</b>

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

## 7.7 Capital adequacy

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

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

The minimum value of capital ratios required by law is the sum of minimal capital requirement defined by CRR Regulation (equal to 8.0% for TCR and 6.0% for T1) and combined buffer requirement as defined in Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system (capital conservation buffer of 1.25% and, other systemically important institution buffer of 0.75%).

According to recommendation of KNF total capital ratio of the Group, including combined buffer requirement must be not less than 14.00% and Tier I capital ratio not less than 11.00%. Both levels are increased by additional capital requirement imposed by KNF<sup>1</sup>.

At the end of June 2017 for Bank Pekao S.A. Group, total capital ratio amounted to 17.95% and was significantly higher than the minimum level required by the law and level recommended by the KNF.

The table below presents the basic data concerning Bank Pekao S.A. Group capital adequacy as of June 30, 2017, December 31, 2016, and June 30, 2016 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	30.06.2017	31.12.2016	30.06.2016
Credit risk	8,320,561	8,323,345	8,140,822
Exceeding large exposure limits	-	-	-
Market risk	40,336	44,022	43,086
Counterparty credit risk including CVA	149,649	187,820	247,735
Operational risk	489,678	493,557	504,367
<b>Total capital requirement</b>	<b>9,000,224</b>	<b>9,048,744</b>	<b>8,936,010</b>
<b>OWN FUNDS</b>			
Common Equity Tier I Capital	20,196,937	19,954,579	20,206,080
<b>Own funds for total capital ratio</b>	<b>20,196,937</b>	<b>19,954,579</b>	<b>20,206,080</b>
<b>Common Equity Tier I Capital ratio (%)</b>	<b>17.95%</b>	<b>17.64%</b>	<b>18.09%</b>
<b>Total capital ratio (%)</b>	<b>17.95%</b>	<b>17.64%</b>	<b>18.09%</b>

Total capital ratio as at the end of June 2017 compared with the end of June 2016 decreased by 0.14 p.p. Total capital requirement is higher by 0.72% while own funds for total capital ratio remain at almost the same level (decrease by 0.05%).

The increase in total capital requirement as of June 30, 2017 was influenced by higher capital requirements for credit risk despite lower capital requirements for: counterparty risk including CVA, operational risk and market risk.

The increase in capital requirements for credit risk was due to increase of the Bank's loan portfolio.

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

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

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

### Consolidated income statement for the first half of 2017

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF OF 2017	COMMENTS
Net interest income		<u>2,251,209</u>	
Dividend income and income from equity investments		<u>39,972</u>	
	Dividend income	19,418	
	Gains (losses) on subsidiaries and associates	20,554	
<b>Total net interest income, dividend income and other income from equity investments</b>		<b>2,291,181</b>	
Net fee and commission income	Net fee and commission income	<u>1,155,768</u>	
Trading result		<u>17,769</u>	
	Result on financial assets and liabilities held for trading	8,873	
	Result on fair value hedge accounting	3,047	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	5,929	
	(Gains) losses on disposal of financial liabilities	(80)	
Net other operating income and expenses		<u>46,734</u>	
	Net other operating income and expenses	47,892	
	less - Refunding of administrative expenses	(1,251) /1	
	Gains (losses) on disposal of loans and other financial receivables	93	
<b>Net non-interest income</b>		<b>1,220,271</b>	
<b>Operating income</b>		<b>3,511,452</b>	
Operating costs		<u>(1,593,962)</u>	
	Personnel expenses	(952,318)	
	Other administrative expenses	(949,674)	
	less -Guarantee funds charges	223,661	
	less – tax on certain financial institutions	252,685	
	Refunding of administrative expenses	1,251 /1	
	Depreciation and amortization	(169,567)	
<b>Gross operating profit</b>		<b>1,917,490</b>	
Net impairment losses on loans and off-balance sheet commitments		<u>(229,974)</u>	
	Net impairment losses on loans	(236,724)	
	Net impairment provision for off-balance sheet commitments	6,750	
<b>Net operating profit</b>		<b>1,687,516</b>	
Net result on other provisions	Net result on other provisions	<u>(14,002)</u>	
Guarantee funds charges	Guarantee funds charges	(223,661)	
Tax on certain financial institutions	Tax on certain financial institutions	(252,685)	
Net result on investment activities		<u>66</u>	
	Gains ( losses) on disposal of property, plant and equipment and intangible assets.	66	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
<b>Profit before income tax</b>		<b>1,197,234</b>	
Income tax expense	Income tax expense	<u>(312,243)</u>	
<b>Net profit for the period</b>	<b>Net profit for the period</b>	<b>884,991</b>	
<b>Attributable to equity holders of the Bank</b>	<b>Attributable to equity holders of the Bank</b>	<b>884,778</b>	
Attributable to non-controlling interest	Attributable to non-controlling interest	213	

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

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

## Consolidated income statement for the first half of 2016

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF OF 2016	COMMENTS
Net interest income		<u>2,151,743</u>	
Dividend income and income from equity investments		<u>36,202</u>	
	Dividend income	16,411	
	Gains (losses) on subsidiaries and associates	19,791	
<b>Total net interest income, dividend income and other income from equity investments</b>		<b>2,187,945</b>	
Net fee and commission income	Net fee and commission income	<u>1,180,813</u>	
Trading result		<u>296,678</u>	
	Result on financial assets and liabilities held for trading	33,916	
	Result on fair value hedge accounting	(5,401)	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	268,171	
	(Gains) losses on disposal of financial liabilities	(8)	
Net other operating income and expenses		<u>164,918</u>	
	Net other operating income and expenses	10,512	
	less - Refunding of administrative expenses	(1,314)	/1
	Gains (losses) on disposal of loans and other financial receivables	155,720	
<b>Net non-interest income</b>		<b>1,642,409</b>	
<b>Operating income</b>		<b>3,830,354</b>	
Operating costs		<u>(1,624,258)</u>	
	Personnel expenses	(944,163)	
	Other administrative expenses	(841,873)	
	less - Guarantee funds charges	131,090	
	less - tax on certain financial institution	200,844	
	Refunding of administrative expenses	1,314	/1
	Depreciation and amortization	(171,470)	
<b>Gross operating profit</b>		<b>2,206,096</b>	
Net impairment losses on loans and off-balance sheet commitments		<u>(260,568)</u>	
	Net impairment losses on loans	(200,966)	
	Net impairment provision for off-balance sheet commitments	(59,602)	
<b>Net operating profit</b>		<b>1,945,528</b>	
Net result on other provisions	Net result on other provisions	<u>(2,853)</u>	
Guarantee funds charges	Guarantee funds charges	(131,090)	
Tax on certain financial institution	Tax on certain financial institution	(200,844)	
Net result on investment activities		<u>1,644</u>	
	Gains ( losses) on disposal of property, plant and equipment and intangible assets.	1,644	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
<b>Profit before income tax</b>		<b>1,612,385</b>	
Income tax expense	Income tax expense	<u>(348,280)</u>	
<b>Net profit for the period</b>	<b>Net profit for the period</b>	<b>1,264,105</b>	
<b>Attributable to equity holders of the Bank</b>	<b>Attributable to equity holders of the Bank</b>	<b>1,263,909</b>	
Attributable to non-controlling interest	Attributable to non-controlling interest	196	

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

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

## 8 Quarterly Income Statement

### 8.1 Consolidated income statement – long form

Consolidated income statement for 2017 and 2016 - Provided for comparability purposes.

(in PLN thousand)

	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Interest income	1,392,566	1,374,967	1,374,829	1,382,257	1,338,188	1,353,216
Interest expense	(256,384)	(259,940)	(262,018)	(264,806)	(256,183)	(283,478)
<b>Net interest income</b>	<b>1,136,182</b>	<b>1,115,027</b>	<b>1,112,811</b>	<b>1,117,451</b>	<b>1,082,005</b>	<b>1,069,738</b>
Fee and commission income	659,104	641,974	690,629	666,331	689,289	636,862
Fee and commission expense	(76,818)	(68,492)	(78,191)	(69,592)	(70,648)	(74,690)
<b>Net fee and commission income</b>	<b>582,286</b>	<b>573,482</b>	<b>612,438</b>	<b>596,739</b>	<b>618,641</b>	<b>562,172</b>
Dividend income	19,269	149	236	151	16,410	1
<b>Result on financial assets and liabilities held for trading</b>	<b>858</b>	<b>8,015</b>	<b>9,957</b>	<b>10,510</b>	<b>11,906</b>	<b>22,010</b>
<b>Result on fair value hedge accounting</b>	<b>1,334</b>	<b>1,713</b>	<b>5,265</b>	<b>1,449</b>	<b>(2,533)</b>	<b>(2,868)</b>
<b>Net result on other financial instruments at fair value through profit and loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gains (losses) on disposal of:</b>	<b>5,118</b>	<b>824</b>	<b>4,209</b>	<b>7,811</b>	<b>273,500</b>	<b>150,383</b>
loans and other financial receivables	27	66	3,773	-	5,796	149,924
available for sale financial assets and held to maturity investments	5,120	809	460	7,862	267,707	464
financial liabilities	(29)	(51)	(24)	(51)	(3)	(5)
<b>Operating income</b>	<b>1,745,047</b>	<b>1,699,210</b>	<b>1,744,916</b>	<b>1,734,111</b>	<b>1,999,929</b>	<b>1,801,436</b>
<b>Net impairment losses on financial assets and off-balance sheet commitments:</b>	<b>(114,848)</b>	<b>(115,126)</b>	<b>(106,179)</b>	<b>(133,882)</b>	<b>(131,179)</b>	<b>(129,389)</b>
loans and other financial receivables	(112,254)	(124,470)	(68,911)	(131,532)	(72,740)	(128,226)
off-balance sheet commitments	(2,594)	9,344	(37,268)	(2,350)	(58,439)	(1,163)
<b>Net result on financial activity</b>	<b>1,630,199</b>	<b>1,584,084</b>	<b>1,638,737</b>	<b>1,600,229</b>	<b>1,868,750</b>	<b>1,672,047</b>
<b>Administrative expenses</b>	<b>(865,632)</b>	<b>(1,036,360)</b>	<b>(920,340)</b>	<b>(895,948)</b>	<b>(911,446)</b>	<b>(874,590)</b>
personnel expenses	(482,349)	(469,969)	(482,836)	(469,837)	(472,983)	(471,180)
other administrative expenses <sup>(1)</sup>	(383,283)	(566,391)	(437,504)	(426,111)	(438,463)	(403,410)
<b>Depreciation and amortization</b>	<b>(85,225)</b>	<b>(84,342)</b>	<b>(84,359)</b>	<b>(85,037)</b>	<b>(85,677)</b>	<b>(85,793)</b>
<b>Net result on other provisions</b>	<b>(8,467)</b>	<b>(5,535)</b>	<b>(4,994)</b>	<b>(6,628)</b>	<b>(2,024)</b>	<b>(829)</b>
<b>Net other operating income and expenses</b>	<b>12,153</b>	<b>35,739</b>	<b>8,006</b>	<b>12,010</b>	<b>3,971</b>	<b>6,541</b>
<b>Operating costs</b>	<b>(947,171)</b>	<b>(1,090,498)</b>	<b>(1,001,687)</b>	<b>(975,603)</b>	<b>(995,176)</b>	<b>(954,671)</b>
<b>Gains (losses) on subsidiaries and associates</b>	<b>10,444</b>	<b>10,110</b>	<b>8,908</b>	<b>9,862</b>	<b>9,788</b>	<b>10,003</b>
<b>Gains (losses) on disposal of property, plant and equipment, and intangible assets</b>	<b>(59)</b>	<b>125</b>	<b>98</b>	<b>3,617</b>	<b>363</b>	<b>1,281</b>
<b>Profit before income tax</b>	<b>693,413</b>	<b>503,821</b>	<b>646,056</b>	<b>638,105</b>	<b>883,725</b>	<b>728,660</b>
Income tax expense	(158,214)	(154,029)	(151,172)	(117,330)	(193,098)	(155,182)
<b>Net profit for the period</b>	<b>535,199</b>	<b>349,792</b>	<b>494,884</b>	<b>520,775</b>	<b>690,627</b>	<b>573,478</b>
<b>Attributable to equity holders of the Bank</b>	<b>535,069</b>	<b>349,709</b>	<b>494,712</b>	<b>520,654</b>	<b>690,513</b>	<b>573,396</b>
Attributable to non-controlling interest	130	83	172	121	114	82

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

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

## 8.2 Consolidated statement of comprehensive income

### Consolidated statement of comprehensive income for 2017 and 2016

(in PLN thousand)

	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
<b>Net profit</b>	<b>535,199</b>	<b>349,792</b>	<b>494,884</b>	<b>520,775</b>	<b>690,627</b>	<b>573,478</b>
<b>Attributable to equity holders of the Bank</b>	<b>535,069</b>	<b>349,709</b>	<b>494,712</b>	<b>520,654</b>	<b>690,513</b>	<b>573,396</b>
Attributable to non-controlling interest	130	83	172	121	114	82
<b>Other comprehensive income</b>						
<i>Items that are or may be reclassified subsequently to profit or loss:</i>						
Foreign currency translation differences	-	-	-	-	-	-
Change in fair value of available-for-sale financial assets	94,566	172,399	(342,128)	17,670	(313,460)	29,099
Change in fair value of cash flow hedges	(27,607)	(4,491)	(44,063)	4,712	(6,281)	40,075
Income tax expense on other comprehensive income	(12,721)	(31,903)	73,376	(4,253)	60,751	(13,143)
<i>Items that will never be reclassified to profit or loss:</i>						
Re-measurements of the defined benefit liabilities	-	-	(11,560)	-	-	-
Share in re-measurements of the defined benefit liabilities of associates	-	-	18	-	-	-
Tax on items that will never be reclassified to profit or loss	-	-	2,196	-	-	-
<b>Other comprehensive income (net)</b>	<b>54,238</b>	<b>136,005</b>	<b>(322,161)</b>	<b>18,129</b>	<b>(258,990)</b>	<b>56,031</b>
<b>Total comprehensive income</b>	<b>589,437</b>	<b>485,797</b>	<b>172,723</b>	<b>538,904</b>	<b>431,637</b>	<b>629,509</b>
<b>Attributable to equity holders of the Bank</b>	<b>589,307</b>	<b>485,714</b>	<b>172,551</b>	<b>538,783</b>	<b>431,523</b>	<b>629,427</b>
Attributable to non-controlling interest	130	83	172	121	114	82

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

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

## 8.3 Consolidated income statement – presentation form

### Consolidated income statement for 2017 and 2016

(in PLN thousand)

	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	1,136,182	1,115,027	1,112,811	1,117,451	1,082,005	1,069,738
Dividend income and income from equity investments	29,713	10,259	9,143	10,033	26,198	10,004
<b>Total net interest income, dividend income and other income from equity investments</b>	<b>1,165,895</b>	<b>1,125,286</b>	<b>1,121,954</b>	<b>1,127,484</b>	<b>1,108,203</b>	<b>1,079,742</b>
Net fee and commission income	582,286	573,482	612,438	596,739	618,641	562,172
Trading result	7,283	10,486	15,658	19,770	277,077	19,601
Net other operating income and expenses	11,609	35,125	11,470	11,351	9,095	155,823
<b>Net non-interest income</b>	<b>601,178</b>	<b>619,093</b>	<b>639,566</b>	<b>627,860</b>	<b>904,813</b>	<b>737,596</b>
<b>Operating income</b>	<b>1,767,073</b>	<b>1,744,379</b>	<b>1,761,520</b>	<b>1,755,344</b>	<b>2,013,016</b>	<b>1,817,338</b>
<b>Operating costs</b>	<b>(800,246)</b>	<b>(793,716)</b>	<b>(793,808)</b>	<b>(793,841)</b>	<b>(812,143)</b>	<b>(812,115)</b>
<b>Gross operating profit</b>	<b>966,827</b>	<b>950,663</b>	<b>967,712</b>	<b>961,503</b>	<b>1,200,873</b>	<b>1,005,223</b>
Net impairment losses on loans and off-balance sheet commitments	(114,848)	(115,126)	(106,179)	(133,882)	(131,179)	(129,389)
<b>Net operating profit</b>	<b>851,979</b>	<b>835,537</b>	<b>861,533</b>	<b>827,621</b>	<b>1,069,694</b>	<b>875,834</b>
Net result on other provisions	(8,467)	(5,535)	(4,994)	(6,628)	(2,024)	(829)
Guarantee funds charges	(22,509)	(201,152)	(66,016)	(65,758)	(64,104)	(66,986)
One-off charge in favour of the Bank Guarantee Fund related to bankruptcy of Bank Spółdzielczy in Nadarzyn	-	-	(16,604)	-	-	-
Tax on certain financial institutions	(127,531)	(125,154)	(127,962)	(120,727)	(120,204)	(80,640)
Net result on investment activities	(59)	125	99	3,597	363	1,281
<b>Profit before income tax</b>	<b>693,413</b>	<b>503,821</b>	<b>646,056</b>	<b>638,105</b>	<b>883,725</b>	<b>728,660</b>
Income tax expense	(158,214)	(154,029)	(151,172)	(117,330)	(193,098)	(155,182)
<b>Net profit</b>	<b>535,199</b>	<b>349,792</b>	<b>494,884</b>	<b>520,775</b>	<b>690,627</b>	<b>573,478</b>
<b>Attributable to equity holders of the Bank</b>	<b>535,069</b>	<b>349,709</b>	<b>494,712</b>	<b>520,654</b>	<b>690,513</b>	<b>573,396</b>
Attributable to non-controlling interest	130	83	172	121	114	82

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

## 9 Human Resources Management

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

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

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

In the first half of 2017, these priorities were accomplished with a particular emphasis on promoting preferential values of corporate culture shared across the Bank.

### **Training and professional development**

The Bank creates learning opportunities and provides access to various forms of training for its employees. Educational activities focus on realization of in-class training programs, on-the-job learning, coaching and Virtual Class system allowing for distance learning in form of Webinars. In the first half of 2017, the Bank prepared implementation of further editions of on-the-job learning programs allowing for direct exchange of professional knowledge among experts.

In first half of 2017, the main training priorities of the Bank were as follows:

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

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

The Bank realized training projects supporting personnel in proper distribution of banking products. In cooperation with the National Bank of Poland, a comprehensive training program on banknotes security was continued. The Bank continued also training programs dedicated to the staff responsible for acquisition of new customers and personnel dealing with current clients.

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

The Bank continued realization of training projects aimed at reinforcement of risk culture and training regarding introduction of new business strategies. Additionally, intensive training program was initiated for employees servicing SME clients.

In the first half of 2017, the Bank delivered (in form of class room and e-learning as well as virtual sessions) ca. 152 thousands of training hours, in which attended over 12.5 thousands of employees (ca. 81% of all employed persons) confirming the Bank's determination in efficient implementation of required regulations and customer care.

### **Development programs and initiatives**

In the first half of 2017, development programs and initiatives were provided for the Bank employees, aimed at providing support in the development of managerial and interpersonal skills.

The priority of development programs in the Bank is identification, review, verification and development of current and future leaders of the Bank.

In order to achieve this goal, the Bank currently operates four main processes:

- Annual appraisal process of managers as well as planning and realization of development activities, In the first half of 2017, 627 persons took part in this process,
- Annual process of the professional development, potential and performance assessment, used to manage and develop talents in the Bank, which was attended by 133 persons, identified as part of the recruitment process, addressed to all employees of the Bank,

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

- Succession Plans, which are the key outcomes of the above mentioned processes and have fundamental importance in ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk,
- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In the first half of 2017, 13,883 employees took part in the process.

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

## **Internship and trainee programs**

One of the annual objectives of the Bank is to obtain a certain number of graduates of the best universities in Poland, offering them career development within the organization: the network of branches and units of the Head Office of the Bank.

The following programs were implemented in order to realize the above mentioned objective:

- a two year-long internship program, addressed to talented last-year MA students and graduates. The UniChallenge Program was used to spot high-potential candidates for employees,
- the apprenticeship programs addressed to students. The apprenticeship possibility is offered for 2 weeks to 3 months in order to give participants an opportunity to gain experience in different areas of banking, in all of the Bank's units.

## **Compensation policy**

Compensation Policy of the Bank (hereinafter referred to as "the Policy") reflects the mission and values of the Bank's approach to remuneration systems, and:

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

The Policy was updated and approved on October 11, 2016, by the Supervisory Board of Bank Pekao S.A as a result of yearly reviews of remuneration rules.

## **Incentive systems**

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

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

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

According to the provisions of the Corporate Collective Labour Agreement the basis of the system is a quarterly bonus which is discretionary and depends on the evaluation of employee's performance and the level of commitment and an incentive bonus, which is granted for outstanding work achievements and the Bank's results in a given year.

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

## **Retention Plans**

In the first half of 2017, the Long-Term Incentive Plans of UniCredit Group (edition 2007 and 2008 within the scope of stock options) addressed to the top management were carried out.

## **Additional benefits for employees**

Within the scope of remuneration system, the Bank's employees are offered non-wage benefits allowing fair treatment and consistency of remuneration system.

In the first half of 2017, Employee Share Ownership Plan (ESOP) was continued, under which the Bank offers to all employees the opportunity to invest in the shares of UniCredit S.p.A under at favorable conditions by obtaining Free Shares measured on the basis of the Investment Shares purchased by each Participant.

Moreover, the Bank provides its employees with additional medical care in domestic network of private medical clinics.

## **Suitability Assessment Policy**

The Bank adopted the Policy of the suitability assessment of the proposed and appointed Members of the Management and the Supervisory Board and Key Function Holders in Bank Pekao S.A. In the first half of 2017, the Supervisory Board of the Bank assessed the suitability of the candidates for function of Member of the Supervisory and the Management Board including an assessment of their qualifications, reputation, and additional criteria for management according to the mentioned policy.

## **Corporate values**

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

The foundation of this "System of Values" is the work of Integrity Charter Ombudsmen who are independent, experienced, retired managers to whom the employees may report behaviors which clash with the corporate values. The Ombudsmen use the available tools (meetings, notices) when they undertake measures to restore respect for the corporate values in relations among employees wherever they have been disrupted. Their work directly supports the Bank's internal communication and defines certain standards of conduct and communication patterns for all the employees to follow. The Integrity Charter Ombudsmen continued meetings with employees of the Bank in order to indicate the ability to solve problems.

## **Relations with Trade Union Organizations**

The co-operation between the Bank and the trade unions in the fields of consultation, negotiation, and agreements was carried out according to the rules and procedures defined by the Labour Law and with respect to the interest of the parties and the principles of social dialogue. In the first half of 2017, 7 meetings were held with attendance of the Bank and the Unions.

## **Relations with the Works Council**

A Works Council of Bank Pekao S.A. Employees operates in the Bank. The Council is a representative of the employees, authorized to get information and carry out consultation with the employees on matters defined by the Worker Information and Consultation Act of April 7, 2006. The discussions with the Employee Council concerned issues covered by the relevant legal regulations and co-operation with the Works Council progressed with respect to the mutual rights of the parties involved. Reports on agreements made with the Employer are published on the Intranet available to the all Bank's employees.

## **Workforce in number**

As at the end of June 2017, the Group employed 17,509 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,150 employees as at the end of June 2016.

As at the end of June 2017, the Bank employed 15,663 employees as compared to 16,258 employees as at the end of June 2016. The average age of the employees was 47 years, 65.2% of the employees are university graduates (64.3% in the first half of 2016), women represent 79.2% of the total workforce.

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

## 10 Other Information

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

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

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

According to information available to the Bank as at June 30, 2017 and as the date of submitting of this report, the Members of the Bank's management and supervisory bodies did not held shares of Bank Pekao S.A.

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

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE FIRST HALF OF 2017	FOR THE FIRST QUARTER OF 2017	CHANGE
Luigi Lovaglio	n/a <sup>(*)</sup>	64,035	x
Diego Biondo	n/a <sup>(**)</sup>	9,500	x
<b>Total</b>	-	<b>73,535</b>	<b>x</b>

(\*) On June 14, 2017, the Supervisory Board dismissed Mr. Luigi Lovaglio from the position of the President of the Management Board and from the Management Board, effective as of June 14, 2017.

(\*\*) On June 14, 2017, the Management Board of the Bank Pekao S.A. informed that Mr. Diego Biondo resigned from the position of Vice President of the Management Board, effective as of June 14, 2017.

### 10.3 Related party transactions

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

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

Detailed information on related party transactions is included in Note 40 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 30 June 2017.

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

Accounting principles adopted in the preparation of the report are described in Note 5 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 30 June 2017.

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

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

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

## 10.6 Issuance, redemption and repayment of debt securities

### **Structured Certificates of Deposit**

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 86.1 million (principal value) as at the end of June 2017. There is 1 issue of Structured Certificates of Deposit open in PLN with the maturity date on February 5, 2018.

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

The total value of liabilities due to covered bonds amounted to PLN 1,265.7 million as at the end of June, 2017. The liabilities under covered bonds with maturity date up to 1 year account for 15.7%, with maturity date from 1 up to 3 years account for 17.4%, with maturity date from 3 up to 5 years account for 63.0% and with maturity date from 5 up to 10 years account for 3.9% of the total nominal value.

## 10.7 Appropriation of profit achieved in 2016

The Management Board of Bank Pekao S.A. informed in the current report no.15/2017 from April 20, 2017, that the Ordinary General Meeting of Bank Pekao S.A. on April 19, 2017, took a resolution regarding the distribution of the net profit of the Bank for 2016 in the amount of PLN 2,278,374,734.13 in the following manner:

- 99.99% of net profit of the Bank i.e. PLN 2,278,239,895.12 is allocated to dividend,
- PLN 134,839.01 is allocated to fund for general banking risk.

## 10.8 Information on dividend

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

According to the Resolution:

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

## 10.9 Pending litigations

In the first half of 2017, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 624 with the total value amounting to PLN 171,833.0 million. The number of legal proceedings in respect of receivables was 16,395 with the total value of PLN 1,291.2 million.

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

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

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

## 10.10 Subsequent events

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

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

On July 7, 2017, the Bank's Supervisory Board, taking into consideration suitability assessment, appointed Mr. Tomasz Styczyński since July 7, 2017 and Mr. Marek Tomczuk since September 1, 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 Lusztyń 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 Banks' Management Board: Mr. Tomasz Kubiak, Mr. Michał Piotr Lehmann, Mr. Marek Lusztyń 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.

On August 1, 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 August 1, 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 July 7, 2017, decided that appointment of Mr. Marek Tomczuk as Vice President of the Management Board of the Bank will be effective on August 21, 2017. According to the submitted statement Vice President of the Management Board of the Bank, Mr. Marek Tomczuk starting from August 21, 2017, will not conduct any activity competitive to the Bank.

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

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

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

- the Condensed Unconsolidated Interim Financial Statements of Bank Pekao S.A. for the period from 1 January 2017 to 30 June 2017 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 30 June 2017 and comparative figures have been prepared in accordance with applicable accounting policies and that they reflect in a true, fair and clear manner the Bank's and the Group's financial position and their results,
- the Report on the activities of Bank Pekao S.A. Group for the first half of 2017 provides a true picture of Bank Pekao S.A. Group's development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of the Condensed Unconsolidated Interim Financial Statements of Bank Pekao S.A. for the period from 1 January 2017 to 30 June 2017 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2017 to 30 June 2017 has been selected in pursuance of applicable provisions of law. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the review concerning condensed interim unconsolidated financial statements and condensed interim consolidated financial statements, in accordance with applicable provisions of law and professional standards.

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

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

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 Lusztyń	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