

Report on the activities of Bank Pekao S.A. Group for the year 2016



Warsaw, February 2017

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

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1 Highlights of Bank Pekao S.A. Group

	2016	2015	2014	2013	2012	2011
INCOME STATEMENT CONTINUED OPERATIONS – SELECTED ITEMS^(*)						
	<i>(in PLN million)</i>					
Operating income	7,347	7,059	7,346	7,494	7,790	7,567
Operating costs	(3,212)	(3,220)	(3,286)	(3,331)	(3,445)	(3,497)
Operating profit	4,135	3,839	4,060	4,162	4,345	4,070
Profit before income tax	2,897	2,831	3,360	3,433	3,619	3,519
Net profit for the period attributable to equity holders of the Bank	2,279	2,293	2,715	2,767	2,906	2,842
INCOME STATEMENT – SELECTED ITEMS						
	<i>(in PLN million)</i>					
Operating income	7,347	7,059	7,346	7,565	7,953	7,808
Operating costs	(3,212)	(3,220)	(3,286)	(3,376)	(3,529)	(3,583)
Operating profit	4,135	3,839	4,060	4,189	4,424	4,225
Profit before income tax	2,897	2,831	3,360	3,454	3,664	3,593
Net profit for the period attributable to equity holders of the Bank	2,279	2,293	2,715	2,785	2,943	2,899
PROFITABILITY RATIOS						
Return on average equity (ROE)	9.8%	9.7%	11.5%	12.0%	13.3%	14.2%
Return on assets (ROA)	1.4%	1.4%	1.8%	1.9%	2.0%	2.2%
Net interest margin	2.8%	2.8%	3.1%	3.4%	3.7%	3.7%
Non-interest income / operating income	39.6%	40.0%	38.3%	39.6%	37.3%	40.6%
Cost / income	43.7%	45.6%	44.7%	44.6%	44.4%	45.9%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS						
	<i>(in PLN million)</i>					
Total assets	174,215	168,786	167,625	158,522	150,755	146,590
Net loans and advances to customers ^(**)	122,663	117,299	109,189	101,356	94,864	93,895
Amounts due to customers ^(***)	136,380	124,399	120,630	116,129	102,898	103,822
Debt securities issued	1,523	2,903	3,857	3,064	4,759	3,044
Equity	22,912	23,424	24,046	23,514	23,264	21,357
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS						
Net loans ^(**) / total assets	70.4%	69.5%	65.1%	63.9%	62.9%	64.1%
Securities / total assets	20.6%	13.2%	15.0%	22.2%	19.5%	20.4%
Deposits ^(****) / total assets	79.2%	75.4%	74.3%	75.2%	71.4%	72.9%
Net loans ^(**) / deposits ^(****)	88.9%	92.1%	87.7%	85.0%	88.1%	87.9%
Equity / total assets	13.2%	13.9%	14.3%	14.8%	15.4%	14.6%
Total capital ratio (Basel III) ^(*****)	17.6%	17.7%	17.3%	18.3%	18.1%	17.0%
EMPLOYEES AND NETWORK						
Total number of employees	17,757	18,327	18,765	18,916	19,816	20,357
Number of outlets (Bank Pekao S.A. and PJSC UniCredit Bank)	928	975	1,034	1,001	1,040	1,051
Number of ATMs (Bank Pekao S.A. and PJSC UniCredit Bank)	1,761	1,759	1,825	1,847	1,919	1,910

(*) As financial data for the period 2014 – 2016 don't include results of PJSC UniCredit Bank – sold on July 16, 2013, in order to ensure comparability, the section "Income statement continued operations – selected items" was added where for the previous periods only results of continued operations are reported.

(**) 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.

(*****) The total capital ratio for the period 2012- 2016 is calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 in force since January 1, 2014. The total capital ratio (previously capital adequacy ratios) for 2011 was calculated in accordance with the methodology which was in force before January 1, 2014.

Note: Since 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result (and thus in operating income, operating profit and respective ratios). In order to ensure comparability, data for the period 2011 – 2012 have been restated in comparison to those previously published.

In relation to changes in accounting policy in 2013 (for description refer to the Note 5 to the Consolidated Financial Statement of Bank Pekao S.A. Group for the period ended on December 31, 2014) data for the period 2012-2016 have been presented in accordance with the new rules. Data for earlier period remain unchanged.

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

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 7.4.4 of the Report on activities of the Group.

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2 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2016 amounted to PLN 2,279.3 million after tax on certain financial institutions in the amount of PLN 449.5 million and the extraordinary one-off charge of PLN 16.6 million to the Bank Guarantee Fund in relation to bankruptcy of Bank Spółdzielczy in Nadarzyn. Strong contribution to the results was brought by a substantial growth of loan and deposit volumes in key strategic areas, further progress in cost optimization and lower cost of risk, also thanks to successful recoveries from vindication activity.

Underlying net profit of Bank Pekao S.A. Group i.e. excluding net impact of significant extraordinary charges and one-off non-recurring items in 2016 would amount to PLN 2,367.8 million and would be higher by PLN 185.9 million, i.e. 8.5% than comparable net profit achieved in 2015.

Thanks to the effective commercial activity of the Group in 2016 a significant growth in loan volumes was reported in the area of retail loans (an increase of 7.7% year on year) and a 1.3% year on year growth in the area of corporate loans and non-quoted securities. Such increase in lending was financed by higher volumes of retail deposits growing 11.0% year on year.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 88.9% as at the end of December 2016. This, together with high equity level reflected by total capital ratio (Basel III) amounting to 17.6%, enables for further sound and stable development of the Group's activities.

Main P&L items

In 2016, the Group's operating income amounted to PLN 7,347.2 million, an increase of PLN 288.6 million, i.e. 4.1% in comparison to 2015 with the following trends:

- Total net interest income, dividend income and income from equity investments in 2016 amounted to PLN 4,437.4 million and was higher by PLN 205.1 million, i.e. 4.8% compared to 2015 driven by higher volumes,
- Net non-interest income in 2016 amounted to PLN 2,909.8 million, higher by PLN 83.5 million, i.e. 3.0% in comparison with 2015 thanks to higher trading result supported also by gains on settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc. and by higher net other operating income supported by disposal of loans, with net fee and commission income lower by 2.3% compared to 2015 mainly due to some pressure observed on capital market related fees.

The operating costs amounted to PLN 3,211.9 million in 2016. They were lower by PLN 7.8 million, i.e. 0.2% as compared with 2015.

Guarantee funds charges in 2016, amounted to PLN 262.9 million, a decrease of PLN 11.5 million, i.e. 4.2% in comparison with 2015.

On February 1, 2016 tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In 2016, it amounted to PLN 449.5 million.

In 2016, the Group additionally incurred one-off charges in the amount of PLN 16.6 million related to the contribution to the BGF for the purpose of payments of the funds guaranteed to the depositors of the bankrupt Bank Spółdzielczy in Nadarzyn.

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 500.6 million in 2016, a decrease of PLN 16.9 million, i.e. 3.3% as compared with 2015.

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Volumes

As at the end of December 2016, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 128,304.3 million, an increase of PLN 5,048.9 million, i.e. 4.1% in comparison to the end of December 2015 with significant growth in key strategic areas.

- As at the end of December 2016, the volume of retail loans amounted to PLN 58,109.9 million, an increase of PLN 4,165.3 million, i.e. 7.7% in comparison to the end of December 2015,
- The volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 70,194.4 million as at the end of December 2016, an increase of PLN 883.6 million, i.e. 1.3% as compared to the end of December 2015.

As at the end of December 2016, there were no reverse repo transactions. As of December 31, 2015, reverse repo transactions amounted to PLN 4,753.2 million.

As of December 31, 2016, the ratio of impaired receivables to total receivables excluding reverse repo transactions amounted to 6.0% as compared to 6.5% as at the end of December 2015.

As at the end of December 2016, the total amounts due to the Group's customers and debt securities issued amounted to PLN 137,902.7 million, an increase of PLN 10,600.7 million, i.e. 8.3% in comparison to the end of December 2015.

- The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 70,724.8 million as at the end of December 2016, an increase of PLN 6,859.5 million, i.e. 10.7% in comparison to the end of December 2015,
- The total volume of corporate deposits, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 67,177.9 million as at the end of December 2016, an increase of PLN 3,741.2 million, i.e. 5.9% as compared to the end of December 2015 while continuing selective pricing approach and focus on securing liquidity needs of the Group.

Repo transactions amounted to PLN 1,436.2 million as at the end of December 2016, a decrease by PLN 3,032.7 million, i.e. 67.9% in comparison to the end of December 2015.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 16,793.9 million as at the end of December 2016, an increase of PLN 91.4 million, i.e. 0.5% in comparison to the end of December 2015.

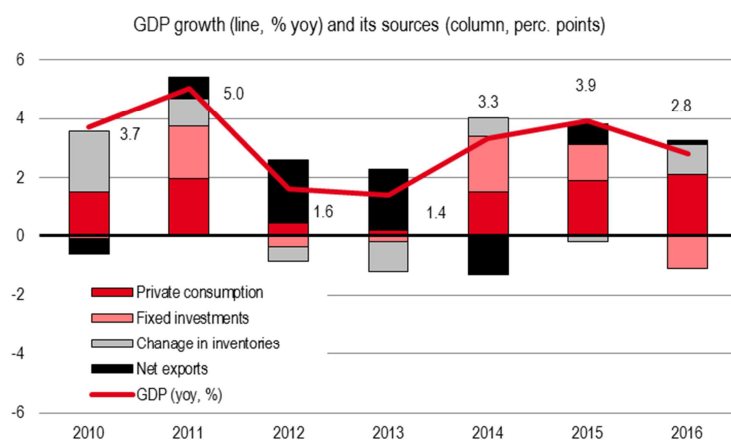
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3 External Activity Conditions

Economic growth

Poland's economic growth in 2016 estimated by Główny Urząd Statystyczny (Central Statistical Office) accounted for 2.8% as compared with the GDP growth of 3.9% in 2015. Economic growth slowed markedly, moderating towards about 2.5% year on year in the second half of 2016 due to deepening declines in investments. In 2016 as a whole, fixed investments decreased by 5.5% after an increase of 6.1% in 2015. The main engine of economic growth in 2016 was households consumption growth by 3.6% on the back of continued improvement on the labour market, what positively influenced disposable income of households. Consumer incomes were also supported by payments of Family 500 plus government program (in total just over PLN 17 billion in 2016). Foreign trade had neutral impact on the GDP growth in 2016. Net exports contributed positively to the GDP in 2016 and accounted for ca. 0.1 p.p. vs. 0.7 p.p. in 2015.

In 2017, the GDP growth is expected to accelerate slightly to ca. 3.0%. Domestic demand will still be supported by a robust growth of households consumption fueled by further improvement in the labour market conditions and higher social transfers (households will receive ca. PLN 23 billion within Family 500 plus program). At the same time, delays in implementing projects co-financed with the European Union funds from 2014-2020 financial perspective along with subdued propensity to invest in the private sector are likely to translate into further slight decline in fixed investments. Key external risks are linked to developments in the troubled Italian banking sector and changes in the U.S. economic policy under the new U.S. administration.



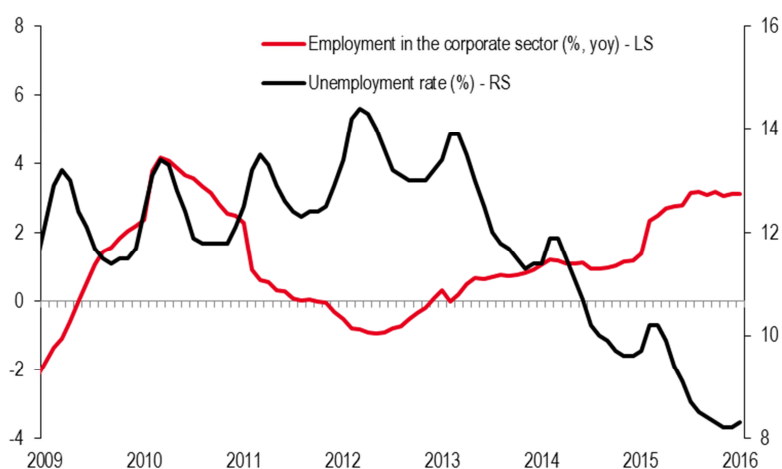
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Labor market

Average employment in the Polish corporate sector amounted to 5,799 thousand people in December 2016, by ca. 173 thousand more than in December 2015. The increase in employment in 2016, was a continuation of the upward trend in the number of jobs, which began in mid-2013 and in 2016 noted considerable acceleration. The centers of job creation in 2016 were still, as in the previous year, the manufacturing sector, trade and services (especially transportation), while job cuts still dominated in the construction sector (the fifth consecutive year) and the mining industry (long-term trend).

In 2016, it was a continuation of the downward trend in unemployment rate, which in December 2016 was at 8.3% compared to 9.7% in December 2015. It is expected that in 2017, the downward trend in unemployment rate will be continued, though at a much slower pace than in the recent years due to the emerging constraints of labour supply.

Wage growth rate in the Polish corporate sector in 2016 registered slight acceleration, which was supported by rising tensions on the domestic labour market resulting from shortage of labour supply. The average wage in the corporate sector increased in 2016 by 3.8% compared with an increase of 3.5% in the previous year. As a result, wage bill in the corporate sector increased in 2016 in nominal terms by 6.7% against 4.8% in 2015, which after adjusting for deflation resulted in an increase in real terms by 7.4% in 2016 compared to 5.8% in 2015.



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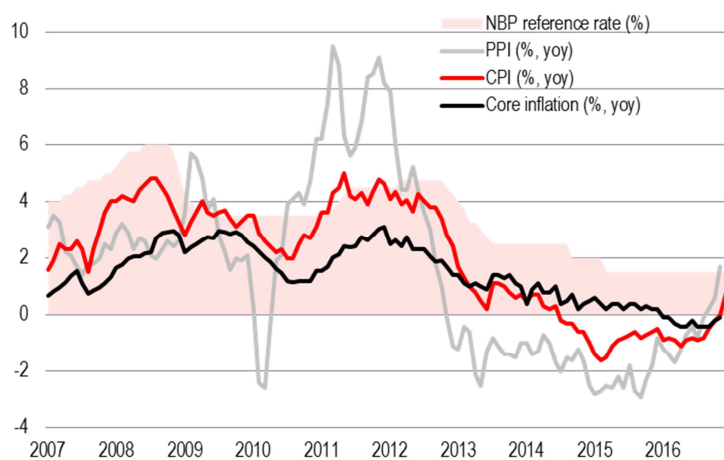
Inflation and monetary policy

Data from the Central Statistical Office showed that average level of inflation amounted to -0.6% in 2016 vs. -0.9% in 2015. The CPI has been below the lower limit of the range of permissible deviations from the inflation target of the National Bank of Poland (NBP) since February 2013, the center of which is defined at 2.5%, and the scope ranges from 1.5-3.5%. In December 2016, the CPI reached 0.8% year on year.

The biggest impact on low inflation level came from declines in prices of transport, clothing and footwear, and goods and services from the category of "recreation and culture". In 2016, there was a decline in core inflation (excluding food and energy prices) to 0.0% from 0.3% in 2015. Besides a decrease in consumer price inflation, it was recorded a drop in producer prices in 2016.

The Monetary Policy Council (MPC) kept interest rates unchanged throughout 2016. The reference rate remained at 1.50%, the Lombard rate at 2.50% and the deposit rate at 0.50%.

In 2017, it is expected a strong increase in CPI inflation. It will be largely due to higher food and transport prices. Inflation may return to the NBP target (2.5%) in the third quarter of 2017.



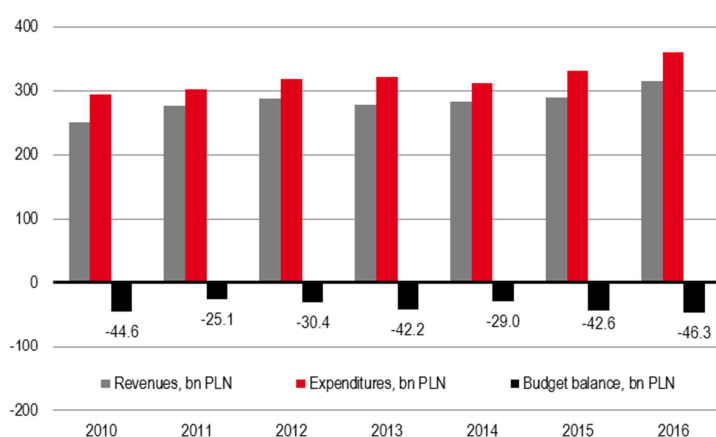
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Fiscal policy

According to the preliminary estimated data of the Ministry of Finance, the state budget deficit in 2016, amounted to PLN 46.3 billion i.e. 84.6% of the annual limit envisaged by the 2016 budget act at PLN 54.7 billion and was higher than deficit at the level of PLN 42.6 billion in 2015. In 2016, state budget revenues amounted to PLN 314.6 billion, i.e. 100.3% of the plan, and the expenditure amounted to PLN 360.9 billion, i.e. 97.9% of the plan. Revenues from VAT collections amounted to PLN 126.6 billion and were merely 2.8% higher as compared to 2015. The Ministry of Finance announced that Eurostat probably considers that proceeds from LTE, which in February 2016 credited the state budget with the amount of PLN 9.2 billion, according to the European definition methodology (ESA2010), will not be treated as the assets sale but as revenues from lease. Due to the fact that the digital frequencies were reserved for 15 years, then in subsequent years income of the general government will be increased by 1/15 of the amount of proceeds received in cash. In case of such interpretation, the general government deficit in the first quarter of 2016, will be enlarged by ca. 0.5% of the GDP. Combined with the lower than planned revenues from VAT, it pushes the government estimates of the general government deficit in 2016 to the level of 2.8-2.9% of the GDP (ESA2010 methodology).

The 2017 draft budget assumes the state budget deficit at record-high level of PLN 59.3 billion. In the budget bill it was stated that legal and enforcement actions will translate into significant improvement in tax collections. The Ministry of Finance projects that VAT collections will improve by PLN 16.9 billion (+13.3%). At the same time the budget expenditures will need to cover full annual cost of Family 500 plus program and the cost of lowering of the retirement age, effective from the fourth quarter of 2017. In cash terms, the support for income may come from higher-than-assumed payment from the NBP profit. Officials declare that the deficit according to the ESA2010 will be kept below the level required by the Stability and Growth Pact of 3% of the GDP.

The State Public Debt at the end of 2016 is estimated at 52.2% of the GDP vs. 48.8% of the GDP at the end of 2015.



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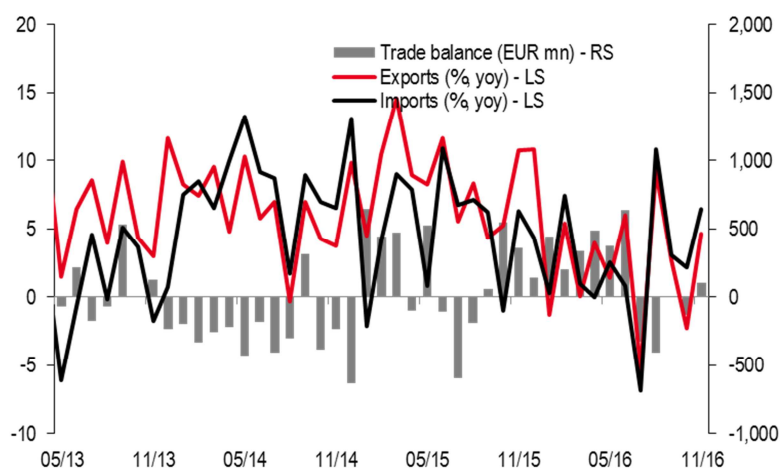
Foreign Sector

The NBP data indicate that in the period January-November 2016 the current account deficit amounted to EUR 2.0 billion vs. EUR 1.7 billion in the corresponding period of 2015, which translates into stabilization of 12-month relation to the GDP at the level of 0.7%.

A slightly deeper deficit of the current account resulted mainly from a deeper deficit of primary income due to a shift of inflow of part of the funds within the Common Agricultural Policy for 2017 (a deficit of EUR 14.9 billion in January-November 2016 against a deficit of EUR 13.5 billion in the corresponding period of 2015). A negative factor for the current account balance was also a slight decrease in the trade surplus (EUR 1.7 billion vs. EUR 2.1 billion in 2015) amid a larger scale of slowdown in exports growth (2.1% year on year vs. 8.3% year on year in 2015) than in imports growth (2.4% year on year vs. 5.0% year on year), as well as a deeper deficit of secondary income (EUR 0.9 billion vs. EUR 0.4 billion in 2015). A positive contribution to the current account balance was, in turn, a higher surplus of the services account (EUR 12.1 billion against EUR 10.1 billion a year earlier).

As for the financing side, there was a decline in foreign direct investment (FDI). In the period January-November 2016 there was an inflow of EUR 10.3 billion compared with EUR 14.3 billion in the corresponding period of 2015. In the case of portfolio investment, there was an outflow of funds (EUR 1.2 billion vs. an inflow of EUR 4.7 billion in 2015), both from the domestic debt market (an outflow of EUR 1.0 billion vs. an inflow of EUR 3.0 billion in 2015) and the stock market (an outflow of EUR 0.3 billion vs. an inflow of EUR 1.6 billion in 2015). Due to delays of the implementation of the EU new financial perspective there was a strong decrease of the EU capital transfers inflow - to EUR 3.4 billion from EUR 10.4 billion in 2015.

In 2016, a considerable increase in the Treasury's foreign debt was recorded. According to the Ministry of Finance data, at the end of October 2015, the Treasury's foreign debt amounted to PLN 307.4 billion, which means an increase by ca. PLN 16.1 billion in comparison to December 2015 (by 5.5%). The growth of the Treasury's foreign debt was partly caused by the weakening of the zloty against foreign currencies, in which it is denominated.



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Capital market

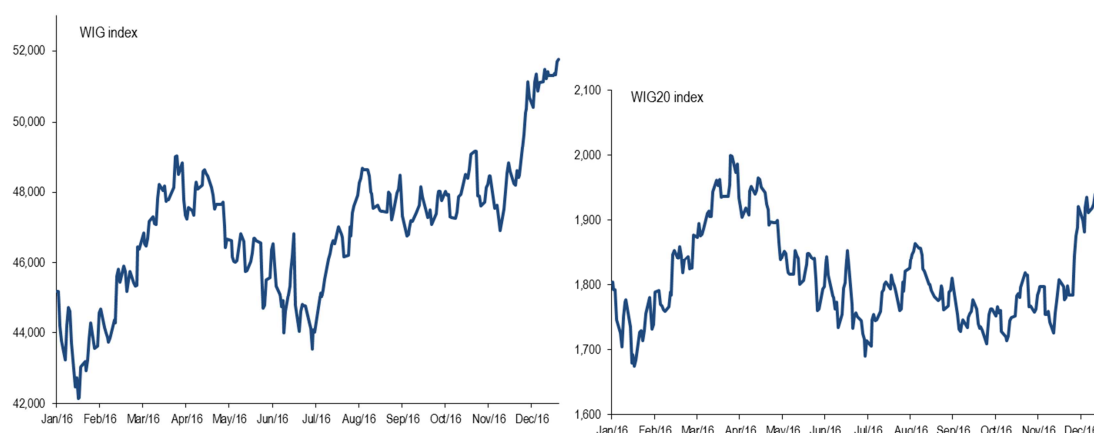
In spite of the risk of continuation of the cycle of tightening monetary policy by the U.S. Fed, key global stock indices remained in upward trend throughout 2016. Meanwhile an unexpected outcome of the UK referendum on Brexit (June 2016) and victory in the U.S. presidential elections (November 2016) triggered corrections, though short-lived only. They did not disrupt the long-term trend, however. Moreover the Republican candidate's success was a key supportive factor for equities later in the year. As a result the main indices increased by 14.4% (FTSE), 13.4% (Dow Jones), 9.5% (S&P 500) and 6.9% (DAX) during a whole year. The outlook for the financial markets remains mixed in the coming months. The economic policy of a new U.S. administration, the U.S interest rate path and a risk of "hard Brexit" will be key market points of interest in the near future.

Despite a promising beginning of 2016 on the Warsaw Stock Exchange (WSE) - as equities gained in the first quarter - following months brought a decline in the WIG and WIG20 indices and then a long-term consolidation, despite better situation in core markets. Concerns about Poland rating after the S&P downgraded it in January 2016 affected investment sentiment. Equities remained under pressure of uncertainty regarding Open Pension Funds and plans on the CHF mortgages. Banking tax, introduced in February 2016, was another adverse factors for banking sector. Solid demand for equities in the world in November and December 2016, helped to improve annual performance on the WSE and sent rates of return above zero in case of the biggest companies. The WIG index gained 11.4%, while the WIG20 index rose by 4.8%. Smaller companies outperformed the basket another year in a row. The mWIG40 grew by 18.2%, reaching the highest levels since 2007 (4,215.54 at the end of the period). As for the sub-indices, WIG-mining (79.7%), WIG-IT (33.7%) and WIG-oil & gas (26.9%) were top-performers. Chemical, energy, telecommunications and construction companies affected performance of the WIG index.

The capitalization of domestic companies rose to PLN 557.1 billion from PLN 516.8 billion in 2015. On the other hand, foreign companies capitalization fell to PLN 558.6 billion from PLN 566.1 billion in the previous year. The value of total turnover on the stock market fell to PLN 202.3 billion vs. PLN 225.3 billion in 2015.

The value of investment funds' assets increased slightly to PLN 258.9 billion in 2016. If not for the outflows by ca. PLN 9 billion from non-retail funds in December, the balance would be much better. Assets reached a record high level in November (PLN 265.2 billion).

If the Fed's interest rates path is neutral for investors and the European Central Bank leaves rates at a record lows, capital outflows from emerging markets should be an alternative scenario only. Domestic factors will be key market drivers as well, including economy performance after the GDP slowdown in the second half of 2016.



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Banking sector

In 2016, financial results of banks improved, which was however a result of a one-off event and base effect. According to Financial Supervision Authority (KNF), data in the period of January-November 2016 banking sector achieved a total net profit of PLN 13.1 billion (+20.5% year on year). Positive influence had transaction of the selling of banks' shares in Visa Europe to Visa Inc. (it is estimated, that it contributed over PLN 2 billion to gross profit). The event was reflected in growth of 30.6% year on year on so-called other positions from banking activity. Strong pace of growth was also influenced by base effect connected to the bankruptcy of SK Bank in November 2015. It lowered the banking sector's results in fourth quarter of 2015 due to payments within the deposits guarantee system and higher risk costs. In consequence costs related to assets' impairments and provisions in January-November 2016 fell by 12.4% year on year. Although banks' operating costs still rose by 5.4%, the mentioned base effect eased to some extent the negative impact of the implementation of the so-called banking levy. In the first eleven months of 2016 positive contribution to profits was also visible in case of net interest income (growth of 7.4% year on year). In turn a negative impact on results had a decline in net income from fees and commissions (-5.7% year on year).

According to KNF data the pace of growth of banking sector's assets was moderate – at the end of November of 2016 amounted to 6.1% year on year (in comparison to 6.7% in November 2015). At the same time deposits of the non-financial sector grew by 10.0% year on year (10.8% y/y in November 2015), while receivables by 5.3% year on year (8.0% year on year in November 2015).

In terms of main deposit categories, in 2016 the following developments were noted¹

- a growth of households' deposits at a similar rate as year before – as at the end of the year they increased by 9.1% year on year (9.2% in 2015). A high pace of growth was maintained mainly as a result of: improving financial situation of households, inflow of funds from government's new social programs (mainly Family 500 plus program) and limited propensity to invest in more risky assets (e.g. investment funds units, shares),
- weaker than in previous year, but still robust growth of corporate deposits portfolio – as at the end of the year they increased by 7.8% year on year, while in 2015 the growth pace amounted to 10.4% year on year. Continuing positive situation in corporate deposits stems mainly from their good financial performance and limited propensity to invest,
- relatively strong growth of other deposits – as at the end of the year the growth pace reached 7.5% year on year (in comparison to 3.2% year on year in 2015).

As at the end of December 2016, household deposits accounted for 65.2% (64.9% as at the end of 2015), corporate deposits for 24.9% (25.0% as at the end of 2015), and other deposits for 9.9% (10.1% as at the end of 2015) of all deposits.

In terms of main receivables categories, in 2016 the following developments were noted:

- an increase in households' receivables – as at the end of the year they increased by 5.1% year on year (6.6% at the end of 2015). This pace can be perceived as relatively weak, which is mainly connected with persistently low growth rate of housing loans, caused by growing requirements in terms of own contribution. At the same time, consumer loans' value is increasing relatively fast, which in turn can be associated with improving situation of households and thus higher propensity to take out loans on current needs,
- an increase in corporate receivables, though the pace was much slower than in previous year – as at the end of the year they increased by 4.9% year on year (8.6% year on year at the end of 2015). Deteriorating pace was mainly influenced by limited demand for current funds and falling investment activity,
- a minor decline in other receivables – as at the end of the year they decreased by 0.4% year on year (compared to a growth by 5.1% year on year at the end of 2015).

As at the end of December 2016, loans to households accounted for 59.2% (58.8% as at the end of 2015), corporate loans for 30.2% (30.1% as at the end of 2015) and other loans for 10.6% (11.1% as at the end of 2015) of all loans.

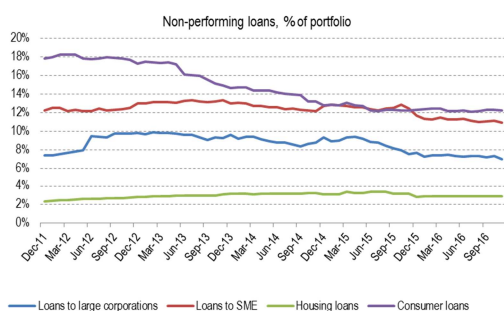
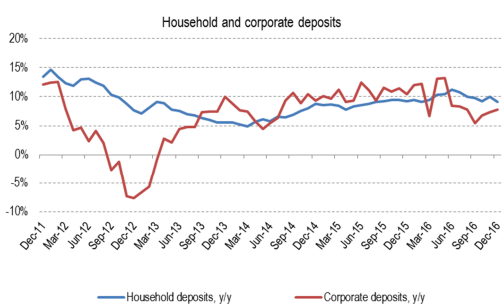
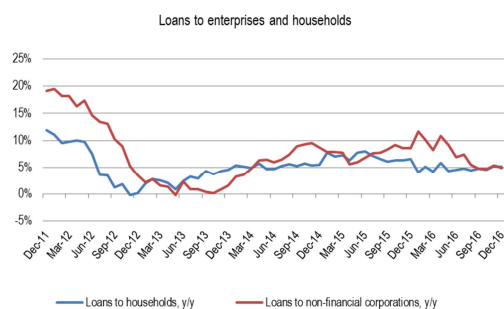
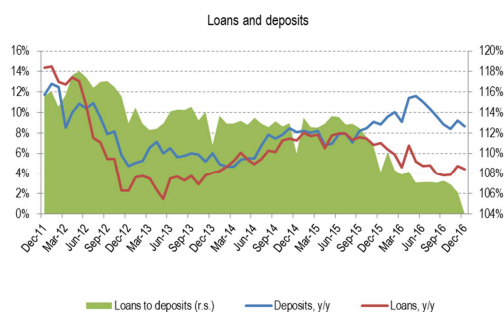
¹ Segment data for deposits and receivables are based on NBP monetary statistics.

Report on the activities of Bank Pekao S.A. Group for the year 2016

In terms of loan portfolio quality, in 2016 the following developments were noted:

- further decline in terms of the share of non-performing loans (NPLs) in the corporate loans portfolio. In November 2016, NPLs made up 9.2% of the portfolio, while as at the end of 2015 it was 10.0%. A similar fall of NPLs' share concerned both loans to large corporates (7.0% in November 2016 in comparison to 7.7% as at the end of 2015) and loans to SMEs (10.9% in November 2016 in comparison to 11.7% as at the end of 2015),
- stabilization of non-performing loans share in case of households' loan portfolio – the ratio was 6.2% in November 2016, similarly to the end of 2015. The NPL ratio remained the same for housing loans (2.9% both as at the end of November 2016 and 2015), while it decreased slightly for consumer loans (from 12.3% as at the end of 2015 to 12.2% as at the end of November 2016).

As far as the regulatory environment is concerned, an important event in 2016 was the introduction, from February, of tax on certain financial institutions. In case of banks, the tax base is assets value (net of selected items). The banks' activity was also affected by growing equity requirements and the need to support the Bank Guarantee Fund (BFG) caused by the bankruptcy of one of the cooperative banks.



Report on the activities of Bank Pekao S.A. Group for the year 2016

4 Important Events and Achievements

4.1 Changes in the Group' structure

The composition of Bank Pekao S.A. Group is presented in the Note 2 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December, 2016.

The most significant changes concerning the Group occurred in 2016 are presented below.

The deletion of Polish Banking System S.A. (in liquidation) and PPU Budpress Sp. z o.o. (in liquidation) from the Registry

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

Opening of liquidation of the company

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

Termination of liquidation procedure

In connection with termination of liquidation procedure of Pekao Leasing Holding S.A. (in liquidation), on September 20, 2016 the Company was removed from the National Court Register.

Termination of liquidation procedure of Pekao Leasing Holding S.A. was preceded by the transfer of shares of Pekao Leasing Sp. z o.o. held by the Company to Bank Pekao S.A. Currently, the Bank holds directly 100% share in the capital and votes in the General Meeting of Pekao Leasing Sp. z o.o.

Transfer of asset management directly to Pioneer Pekao TFI S.A.

On September 30, 2016, Pioneer Pekao Investment Management S.A. (PPIM) made an agreement with Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A. (TFI) on transfer of organized part of the enterprise being, in the internal organizational structure of PPIM, separate organizationally, financially and functionally set of tangibles, intangibles and liabilities designed to perform business activities within the scope of portfolios management which include one or more numbers of financial instruments. Transfer of the organized part of the enterprise was conducted on October 1, 2016 as a contribution in kind to cover shares acquired by PPIM in the increased share capital of TFI.

Restructuring Agreement

In accordance with the Restructuring Agreement between PBG S.A. and the creditors, on November 14, 2016 Bank Pekao S.A. became the owner of 62,848,380 H series stocks of PBG S.A., with a nominal value of PLN 0.02 representing 8.15% in the votes and the share capital of the Company.

Report on the activities of Bank Pekao S.A. Group for the year 2016

4.2 Changes in the Statutory Bodies of the Bank

Supervisory Board

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

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 S.A. and (ii) the direct sale by UniCredit S.p.A. of 26,247,003 shares in the Bank to Polski Fundusz Rozwoju S.A.

Composition of the Supervisory Board:

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

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

Report on the activities of Bank Pekao S.A. Group for the year 2016

Management Board of the Bank

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

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

Members of the Management Board of the Bank are appointed for a joint three-year term of office.

Members of the Management Board are appointed and removed from office by the Supervisory Board, taking into account assessment of fulfillment of suitability requirements. Vice Presidents and Members of the Management Board of the Bank are appointed and removed from office upon the request of the President of the Management Board of the Bank, taking into account assessment of fulfillment of suitability requirements. Appointment of two Members of the Management Board, including the President of the Management Board and the Member of the Management Board supervising the management of significant risk in the Bank operations and to entrust this function to the appointed Member of the Management Board, is subject to approval by the Polish Financial Supervision Authority, taking into account assessment of fulfillment of suitability requirements. The body which applies for the approval is the Supervisory Board.

The Management Board of the Bank runs the Bank's affairs and represents the Bank. The scope of activities of the Management Board of the Bank includes all matters which, pursuant to the provisions of law or the Bank's Statute do not fall within the scope of competence of other bodies. The rules and procedures governing the activities of the Bank's Management Board are stipulated in the Rules of Procedure for the Management Board of the Bank.

Report on the activities of Bank Pekao S.A. Group for the year 2016

Members of the Management Board of the Bank coordinate and supervise the activity of the Bank in accordance with the division of powers enacted by the Management Board of the Bank and approved by the Supervisory Board.

Mr. Luigi Lovaglio, President of the Management Board of the Bank, coordinates the activities of the Members of the Management Board of the Bank, supervising also, in particular the following areas of the Bank's activity: internal audit, compliance, and corporate communication, including investor relations.

Mr. Luigi Lovaglio heads the Management Board, convenes and presides over the Board meetings, presents its stance to other governing bodies of the Bank and in relations with third parties, in particular with the State authorities, and issues internal regulations.

Mr. Diego Biondo, Vice President of the Management Board of the Bank supervises the activity of the Risk Management Division.

Mr. Andrzej Kopyrski, Vice President of the Management Board of the Bank supervises the activity of the Corporate Banking and MIB Division.

Mr. Adam Niewiński, Vice President of the Management Board of the Bank supervises the activity of the Private Banking Division.

Mr. Grzegorz Piwowar, Vice President of the Management Board of the Bank supervises the activity of the Retail Banking Division.

Mr. Stefano Santini, Vice President of the Management Board of the Bank supervises the activity of the Finance Division.

Mr. Marian Ważyński, Vice President of the Management Board of the Bank supervises the activity of the Logistics and Procurement Division.

4.3 Organizational changes

In 2016, there were organizational changes in the Bank's Head Office impacting Financial Division and Global Banking Services Area.

The aim of the changes in the Global Banking Services Area was to centralize the process for data management and data quality in the Bank, their collection, processing and sharing.

In the Global Banking Services Area was created function of Chief Data Officer responsible for the overall management of data in the Bank, development and implementation of strategies and methods of management and use of data.

From the Financial Division to the Global Banking Services Area has been moved MIS Department responsible for the maintenance and development of the Management Information System, preparation and implementation of data management strategy and their quality. It was also separated unit (Data Architecture Team) dedicated to supporting processes of architecture and data quality management as well as the development and maintenance of Data Architecture Repository.

In addition in 2016, it was continued the process of centralization of operational activities which resulted in transferring tasks related to Money Transfer service (Western Union) from the Retail Banking Division to the Central Back Office.

Report on the activities of Bank Pekao S.A. Group for the year 2016

4.4 Awards and distinctions

Global Finance: Bank Pekao S.A. Innovator of the Year 2016 in transactional banking

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

Global Finance: Bank Pekao S.A. Best Sub-Custodian Bank in Poland

Bank Pekao S.A. for the fifth consecutive year won the title of the “Best Sub-Custodian Bank in Poland 2016” in the ranking organized by the Global Finance magazine what confirms professional and comprehensive approach of the Bank to custodian services.

Bank Pekao S.A. received the highest award due to such criteria as individual service by dedicated advisor, opportunity to conduct transaction through any brokerage house, opportunity to collect on escrow account any types of securities and full service of corporate rights arising from the securities.

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



In June 2016, EFRA project was recognized as the best transaction of 2015 in Oil & Gas sector by EMEA Finance magazine. EFRA transaction is a financing for the amount of USD 432 million and PLN 300 million for LOTOS Asphalt belonging to LOTOS Group. Bank Pekao S.A. in consortium with 7 financial institutions signed credit facility agreements with LOTOS Asphalt to finance the construction of an advanced Delayed Coking Unit (DCU) with auxiliary installations on the premises of the refinery in Gdańsk.

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

Najwyższa Jakość Quality International: Digital Gate offered by Bank Pekao S.A. awarded with the Gold Emblem of Quality International



Digital Gate offered by Bank Pekao S.A. and dedicated to corporate clients, won a prestigious title of the Highest Quality Service in the Quality International 2016 competition in QI Services category.

The Chapter of the Program, for the consecutive time, appreciated quality of services offered by Bank Pekao S.A. The Gold Emblem for the Digital Gate is an acknowledgement of the Bank's involvement in the improvement of quality of services provided to its clients.

Najwyższa Jakość Quality International competition is held under the auspices of the Polish Agency for Enterprise Development, Polski Komitet Normalizacyjny (Polish Standard) and Katedra Zarządzania Jakością Uniwersytetu Ekonomicznego w Kraków (Department of Quality Management in Cracow University of Economics).

Report on the activities of Bank Pekao S.A. Group for the year 2016

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



Bank Pekao S.A. was awarded with the title of the “Best Trade Finance Provider in Poland 2016” according to the survey organized by prestigious Euromoney magazine.

Over 2 thousand international companies selected three banks in which they use trade finance products. Bank Pekao S.A. received the most votes among banks operating in Poland.

Panattoni Europe: award for Bank Pekao S.A. in the category of the Best Financial Institution 2016



Panattoni Europe, the recognised developer and the undisputed leader in industrial real estate in Europe, honoured Bank Pekao S.A. with the title of the Best Financial Institution 2016 for its professional approach and confidence over many years.

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

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

Global Finance: Private Banking of Bank Pekao S.A. recognized as the best in Poland

Private Banking offered by Bank Pekao S.A. was recognized as the best in Poland by prestigious magazine Global Finance in the second edition of World's Best Private Banks Awards competition.

World's Best Private Banks Awards are granted to institutions, which offer the private banking customers the best customer service and the highest value and level of services. Experts from Global Finance magazine selected winners based on applications provided by these institutions, market analysis, opinions of analysts, top managers and private banking customers.

Forbes: the best 5-star score for Private Banking of Bank Pekao S.A.

Private Banking of Bank Pekao S.A. received, for the first time, the highest score in the sixth edition of private banking services competition organized by Forbes magazine. This distinction confirms high quality of private banking services and solutions that meet the needs of extremely demanding group of customers.

Evaluation of quality of private banking offer is conducted by a representative group using private banking services with a particular focus on solutions corresponding to market trends. The reason underlying the high position of Private Banking of Bank Pekao S.A. included the fact that the Bank has the right to distribute in Poland Goldman Sachs funds, which is a unique asset and a competitive advantage in the segment.

Report on the activities of Bank Pekao S.A. Group for the year 2016

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



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

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



Multicurrency debit card MasterCard Debit of Bank Pekao S.A. was recognized as Financial Innovation in the competition Złoty Bankier organized by the Internet portal Bankier.pl with the cooperation of "Puls Biznesu" daily. The Bank was awarded with the statuette of

Złoty Bankier in this category for the third time. Bankier.pl experts and the journalists of Puls Biznesu appreciated multicurrency card of Bank Pekao S.A. which meets requirements of the product defining trends in the banking sector in the coming years.

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

„Produkt Roku IT@BANK 2016” for the PeoPay mobile application



At an annual conference dedicated modern technologies in banking IT, the PeoPay mobile application of Bank Pekao S.A. was awarded with the title of „Produkt Roku IT@BANK 2016”.

System of mobile payments PeoPay allows payments execution in terminals accepting contactless payments in Poland and abroad as well as payments, not only in majority of shops and online but also in public administration offices.

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

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

The PeoPay application allows the Bank's customers to make fast payments between users (using the phone number), contactless payments execution in shops and service points cooperating with the Bank and online payments. Currently, thanks to PeoPay application it is possible to make payments in 425 thousand of POS terminals in Poland (ca. 85% of total number of POS) as well as in terminals accepting contactless payments abroad (nearly 4 million of terminals).

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



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

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

Izba Gospodarki Elektronicznej: Bank Pekao S.A. received distinction in the 4th edition of e-Commerce Polska awards 2016

Tablet application „Pekao24 na tablety” of Bank Pekao S.A. received distinction in the category “The most digital bank” in competition E-commerce Polska awards 2016 organized by Izba Gospodarki Elektronicznej (Chamber of digital economy).

Bank Pekao S.A. presented the application „Pekao24 na tablety” which is dedicated to individual customers using tablets daily for banking operations. The applications combines functions of Pekao24 Internet service with a tool for analysis of personal finance and provides information on expenditures that are aggregated in categories such as: home, kids, travel.

Competition e-Commerce Polska awards 2016 is organized for four years and addressed to entities operating in e-commerce, banking and insurance market. In 2016, the competition received a record number of nearly 150 notifications.

Polskie Stowarzyszenie Marketingu SMB: employees of Call Center of Bank Pekao S.A. won three main awards in the competition „Telemarketer Roku”



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

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

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

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5 Information for the Investors

5.1 The Bank's share capital and share ownership structure

As at December 31, 2016, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and remained unchanged until the date of submitting the report. The share capital of the Bank consisted of 262,470,034 shares of the following series:

137,650,000	Series A bearer shares with a par value of PLN 1 per share
7,690,000	Series B bearer shares with a par value of PLN 1 per share
10,630,632	Series C bearer shares with a par value of PLN 1 per share
9,777,571	Series D bearer shares with a par value of PLN 1 per share
373,644	Series E bearer shares with a par value of PLN 1 per share
621,411	Series F bearer shares with a par value of PLN 1 per share
603,377	Series G bearer shares with a par value of PLN 1 per share
359,840	Series H bearer shares with a par value of PLN 1 per share
94,763,559	Series I bearer shares with a par value of PLN 1 per share

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
	AS AT THE DATE OF SUBMITTING THE REPORT		AS AT DECEMBER 31, 2016		AS AT DECEMBER 31, 2015	
UniCredit S.p.A.	105,250,485	40.10%	105,250,485	40.10%	131,497,488	50.10%
Other shareholders (below 5%)	157,219,549	59.90%	157,219,549	59.90%	130,972,546	49.90%
Total	262,470,034	100.00%	262,470,034	100.00%	262,470,034	100.00%

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

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

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

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

Report on the activities of Bank Pekao S.A. Group for the year 2016

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

Moreover in the current report No. 31/2016 on December 8, 2016 the Bank informed that it had received communication from UniCredit S.p.A. concerning announcement on sale offer of 1,916 of certificates exchangeable for the Bank shares (equity linked certificates) of total reference value of approx. EUR 500 million, compulsorily settled in the Bank common shares no later than on December 15, 2019. Those certificates shall be used to sell the remaining 7.3% of the Bank shares belonging to UniCredit S.p.A. (after the conclusion of sale agreement mentioned above).

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

Polish open-end pension funds (OFE) constitute to the group of financial investors holding significant equity interests in the Bank. Based on their publicly available financial reports, as at December 31, 2016 OFE held in aggregate 14.78% of the Bank's shares.

The Polish open-end pension funds' holdings in Bank Pekao S.A.:

SHAREHOLDER	NUMBER OF SHARES AND VOTES AT GM		% OF SHARE CAPITAL AND TOTAL VOTE AT GM	
	DECEMBER 31, 2016		DECEMBER 31, 2015	
Aviva OFE Aviva BZ WBK	10,749,990	4.10%	10,709,906	4.08%
Nationale-Nederlanden OFE	6,254,975	2.38%	4,715,432	1.80%
OFE PZU „Złota Jesień”	5,291,194	2.02%	5,836,563	2.22%
OFE MetLife	3,644,584	1.39%	2,801,190	1.07%
AXA OFE	3,132,742	1.19%	3,020,824	1.15%
Aegon OFE	2,312,363	0.88%	2,103,268	0.80%
Generali OFE	2,165,755	0.83%	1,852,089	0.71%
Allianz Polska OFE	1,770,132	0.67%	1,863,768	0.71%
Nordea OFE	1,715,436	0.65%	1,653,909	0.63%
PKO BP Bankowy OFE	1,045,153	0.40%	1,039,288	0.40%
OFE Pocztylion	705,234	0.27%	732,676	0.28%
Total	38,787,558	14.78%	36,328,914	13.84%

Source: OFE Reports – annual structure of open-end pension funds assets; closing share price of Bank Pekao S.A. as at end of the period.

Report on the activities of Bank Pekao S.A. Group for the year 2016

5.2 Performance of market valuation of Bank Pekao S.A.'s stock

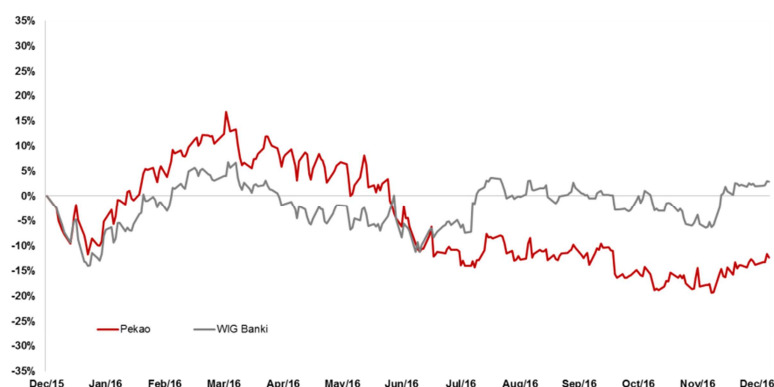
The shares of Bank Pekao S.A. have been listed on the WSE since June 1998 and they are one of the most liquid equities in Poland and Central and Eastern Europe. Since 2000, the Bank maintains Global Depository Receipts (GDR) program. The Bank's GDRs are traded on London Stock Exchange and on the over the counter market in the USA.

The Bank's market capitalization as of December 31, 2016 amounted to PLN 33.0 billion and making the Bank one of the largest traded companies from Central Europe. Given the high capitalization and liquidity the Bank's shares are a part of many important stock indices maintained by domestic and foreign institutions including Polish blue chips index – WIG20 and sector index – WIGBanks. Since December 19, 2011, the shares of Bank Pekao S.A. are included in the CEERIUS Sustainability Index at Vienna Stock Exchange.

With the average daily turnover volume at the level of 640 thousand and the worth of trading at PLN 21.1 billion in 2016, the share of the Bank's stock in trading on the WSE amounted to 11.13%.

The share price of Bank Pekao S.A. reached to PLN 125.8 as at the end of December 2016 comparing to PLN 143.5 a year earlier. Share price drop in 2016 was driven by both introduction of regulatory changes, adversely affecting the profitability of the banking sector and uncertainty coming from the change of controlling entity.

Performance of Bank Pekao S.A.'s shares and WIGBanks in year 2016.



Source: the WSE

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5.3 Dividend payment history

In 2016, the Bank paid dividend for 2015 in the amount of PLN 8.70 per share. Dividend yield amounted to 6.1%.

The dividend payments for the years from 2003 to 2015 are presented below:

DATE	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dividend for the year (in PLN million)	748	1,065	1,234	1,504	2,517	-	761	1,785	1,412	2,202	2,614	2,625	2,283
Dividend per 1 share (in PLN)	4.50	6.40	7.40	9.00	9.60	-	2.90	6.80	5.38	8.39	9.96	10.00	8.70

5.4 Investor Relations

The Bank's activity in investor relations area is focused on providing transparent and active communication with the market through active co-operation with investors, analysts and rating agencies, as well as fulfilling disclosure requirements within the frameworks of applicable law regulations.

The Bank's representatives regularly hold a lot of meetings with investors in Poland and abroad, and take part in most of the regional and sector dedicated investors conferences. Financial results of Bank Pekao S.A. Group are presented quarterly at conferences that are simultaneously transmitted via the Internet.

The Bank's financial results and its activity are regularly monitored by analysts representing Polish and foreign brokerage entities. In 2016, 21 analysts published reports and recommendations on the Bank.

The main activity of the Bank's investor relations is to enable to make a reliable evaluation of the Bank's financial situation, its market position and business model effectiveness in the context of banking sector conditions and macroeconomic situation in the domestic economy as well as on international markets.

Relevant information for the investors about the Bank is available on the Bank's website http://www.pekao.com.pl/information_for_investors/. The Bank publishes also on-line annual report available on the Bank's website, where is also posted "Information Policy of Bank Polska Kasa Opieki Spółka Akcyjna regarding communication with investors, media and customers".

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5.5 Bank Pekao S.A. 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 December 31, 2016, Bank Pekao S.A. had assigned following financial credibility ratings:

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

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

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

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

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

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

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

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6 Activity of Bank Pekao S.A. Group

6.1 Important factors influencing the Group's activities and results

In 2016, the Group's activity was to a large extent determined by the macroeconomic situation in Poland and abroad as well as by the trends observed in the banking sector.

Polish economy achieved growth rate at the level of 2.8%, comparing to 3.9% in 2015. The slowdown was caused by decreased investments, which were lowered by 5.5% year on year. Private consumption remained as the main driver of growth supported by significant labour market improvement and growth of social transfers.

The Monetary Policy Council kept interest rates unchanged for the whole year 2016, what neutrally impacted loan demand and net interest margin in banking sector.

Household lending growth rate amounted to 5.1% year on year, compared to 6.6% year on year a year ago. The slowdown was mostly caused by lower mortgage loans growth, where customer's own contribution requirements had been increased.

Corporate loans increased by 4.9% year on year, compared to 8.6% year on year a year ago, what resulted from investments decrease and was connected with lower demand for loans.

Household deposits growth amounted to 9.1% year on year vs. 9.2% year on year in the previous year, mainly due to steady improvement of labour market. Interest in alternative forms of investing, including investment funds, still remained low. The large uncertainty on the stock exchange market due to growing geopolitical risks, volatile commodity prices and intervention of politicians in some sectors of the economy were neither supportive for stock market indices nor for demand for investment products. Corporate deposits growth was at the level of 7.8% year on year vs. 10.4% year on year in 2015, what confirms the good financial standing of enterprises.

The banking sector results were improved. However, it was largely a result of realization of one-off profits from sales of Visa Europe shares to Visa Inc., what increased banking sector gross profit by ca. PLN 2 billion.

Since February 2016, the banking sector was burdened with so called banking tax amounting to 44 b.p. (annualized) of assets decreased by deducting selected items, what significantly influenced profitability of banking sector in negative way.

Works on finding solutions of denominated and indexed FX mortgage loans problem have been continued for the whole year, what had significant influence on increasing listed on the WSE banks' shares price volatility.

The capital requirements for the banking sector were tightened due to the implementation of EU regulations. Among others, the KNF decided to increase the capital buffers, introducing requirements for other financial institutions of systemic importance.

Competition in the sector remained high, especially in the most attractive areas, what has limited sector capacity to improve margins.

Banks continued investments in innovative solutions and new technologies, including remote channels of contact, especially on the Internet and mobile banking as well as mobile payments.

Favourable economic conditions and improvement of labour market supported assets quality, which has been steadily improving.

Report on the activities of Bank Pekao S.A. Group for the year 2016

6.2 Major sources of risk and threats

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 risk appetite assumed by the Group.

The key risks material for the Group include credit risk, liquidity and market risks and operational risk. Moreover, business, real estate, financial investment, model, macroeconomic, reputation, compliance risks, the risk of excessive leverage and bancassurance risk are also recognized.

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

The Management Board 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, and management of the operational risk falls within the scope of responsibility of the Operational Risk Committee.

The rules of managing each of the risks are defined in internal procedures and are subject to the assumptions of the credit and investment policies and the Operational Risk Strategy and Policy accepted annually by the Management Board and approved by the Supervisory Board.

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

The rules and instruments of managing each of the risks and information on the risk exposure are included in Note 6 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2016 and in the document "Information in respect to capital adequacy of Bank Pekao S.A. Group as at 31 December 2016" published on the Bank's website.

Credit risk

Managing credit risk and maintaining it at a safe level is vital for the Bank's financial performance. In order to minimize credit risk, special procedures have been established, pertaining in particular to the rules of assessing transaction risk, collateralization of loan and lease receivables, credit decision powers, and restrictions on lending to certain types of businesses.

Lending activities are subject to limits following both from the Banking Law and the Bank's internal standards, including limits concerning exposure concentration ratios for individual sectors of the economy, limit on the share of large exposures in the Bank's loan portfolio and limits of exposures to countries, foreign banks and domestic financial institutions.

The credit decision powers, lending restrictions as well as internal and external prudential standards, pertain to loans and guarantees as well as derivative transactions and debt instruments. The quality of the loan portfolio is also protected by periodic reviews and ongoing monitoring of the timely servicing of loans and the financial standing of customers.

The Bank has continued to work on further rationalization of the credit process with an aim to obtaining better efficiency and security, including in particular enhancement of the procedures and tools for risk measurement and monitoring.

Credit risk concentration limits

According to the Banking Law the total exposure of a bank to the risks associated with the single borrower or a group of borrowers in which entities are related by capital or management may not exceed 25% of a bank's equity. In 2016, the maximum exposure limits set forth in the Banking Law were not exceeded.

Report on the activities of Bank Pekao S.A. Group for the year 2016

Sector exposure concentration

In order to mitigate credit risk associated with excessive sector concentration the Bank employs a system for monitoring the sector structure of its credit exposure. The system involves setting concentration ratios for particular sectors, monitoring the loan portfolio and procedures for exchanging information. The system is based on the lending exposure in particular types of business activity according to the classification applied by the Polish Classification of Economic Activities (Polska Klasyfikacja Działalności – PKD).

Concentration ratios are determined on the basis of the Bank's current lending exposure to the particular sector and risk assessment of each sector. Periodic comparison of the Bank's exposure to particular sectors with the current concentration ratio allows for timely identification of the sectors in which the concentration of sector risk may become excessive. In case such situation occurs, an analysis of the economic situation of the sector is performed considering the current and forecasted trends and the quality of the current exposure to that sector. These measures enable the Bank to develop policies that reduce sector risk and allow for a timely reaction to a changing environment.

Compliance risk

Compliance risk is the risk resulting from breaching laws, internal regulations and market standards in the processes functioning within the Bank. Compliance risk can lead to criminal or administrative sanctions, material financial losses, diminished reputation, reduced brand value, reduced development potential and inability to perform contracts, as well as reduction or loss of business opportunities.

There is a separate unit for compliance matters functioning within the Bank, Compliance Department, organisationally and operationally independent and subordinated directly to the President of the Management Board. Compliance Department is the key element of ensuring compliance within the Bank.

The Bank ensures compliance through application of control mechanisms and compliance risk management process carried out by Compliance Department and encompassing identification, assessment, control and monitoring of compliance risk of the Bank's activity and presentation of reports in this scope. The reports on performance of tasks by Compliance Department together with the level of assessed compliance risk are presented to the Management Board and Supervisory Board. The oversight of compliance risk related to the activities of subsidiaries is performed in the Bank.

Assumptions of compliance risk management process were defined in Bank Pekao S.A. Compliance Policy developed by the Management Board and approved by the Supervisory Board. There are following key elements supporting compliance risk management process:

- supervision of the Supervisory Board and responsibility of the Management Board for the effective management of compliance risk and observance of the Compliance Policy,
- responsibility of the Bank's employees for ensuring compliance within the scope of their duties,
- properly defined organisational structure including appropriate location of Compliance Department,
- internal regulations on compliance matters,
- training,
- regular cooperation of Compliance Department with Internal Audit Department and other internal control system units.

As part of compliance with laws, internal regulations and market standards each employee of the Bank applies appropriate control mechanisms and performs independent monitoring of adherence to control mechanisms, within the scope of duties assigned to him/her.

Implementation and application of the compliance risk management standards are key factors in creating the enterprise value, reinforcing and protecting the Bank's reputation, and winning public trust in the Bank's activities and its standing.

Report on the activities of Bank Pekao S.A. Group for the year 2016

6.3 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. On 4th October, 2016 KNF issued the Decision regarding the identification of Bank as the other systemically important institutions and imposed on Bank, on a consolidated and individual basis, capital buffer of the other systemically important institution in the amount of the equivalent to 0.75% of the total amount of the risk exposure.

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

At the end of December 2016 for Bank Pekao S.A. Group, total capital ratio amounted to 17.64% 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 December 31, 2016, and December 31, 2015 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	31.12.2016	31.12.2015
Credit risk	8,323,345	8,202,427
Exceeding large exposure limits	-	-
Market risk	44,022	63,578
Counterparty credit risk including CVA	187,820	325,240
Operational risk	493,557	564,787
Total capital requirement	9,048,744	9,156,032
OWN FUNDS		
Common Equity Tier I Capital	19,954,579	20,209,595
Own funds for total capital ratio	19,954,579	20,209,595
Common Equity Tier I Capital ratio (%)	17.64%	17.66%
Total capital ratio (%)	17.64%	17.66%

Total capital ratio as at the end of 2016 compared with the end of 2015 decreased by 0.02 p.p. due to decrease in own funds by 1.3%, while decreasing the total capital requirement by 1.2%.

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

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

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6.4 Bank Pekao S.A. on the Polish banking market

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

Distribution channels

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

	31.12.2016	31.12.2015
Total number of outlets	928	975
Total number of own ATMs	1,761	1,759

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 December 2016, the Bank maintained 5,480.1 thousand PLN-denominated current accounts, 328.1 thousand mortgage loan accounts and 572.1 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

(in thousand)

	31.12.2016	31.12.2015
Total number of PLN current accounts ^(*)	5,480.1	5,314.4
of which packages	4,053.9	3,961.1
Number of mortgage loans accounts ^(**)	328.1	309.9
of which PLN mortgage loans accounts	293.6	273.8
Number of "Pożyczka Ekspresowa" loan accounts ^(***)	572.1	576.0

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

(**) Retail customers accounts.

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

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6.4.1 Individual clients

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

The total value of new key loans for individual customers, including cash and PLN mortgage loans in 2016 amounted to over PLN 14.5 billion and was higher by 4.3% in comparison to 2015.

The value of deposits of individual clients and small and micro enterprises placed in the Bank increased by PLN 7.4 billion during the last 12 months which resulted in an increase in the total balance of retail deposits by 10.7% in comparison to 2015.

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

Thanks to the PeoPay application the Banks' clients have the opportunity to make fast transfers between the application users, non-cash payments in POS terminals (425 thousand of terminals in Poland and nearly 4 million abroad) and online (in majority of online shops in Poland and in 250 thousand online shops abroad with Masterpass logo). In March 2016, Bank Pekao S.A., as the first bank in the world, allowed users of mobile phones with Windows 10 Mobile system to make contactless payments in HCE technology via the PeoPay application. In October, Bank Pekao S.A., as the first in Poland, provided the opportunity to make mobile payments in selected public administration offices in Poland, so that the customers can pay faster and more convenient for, among others, issue of driving license or vehicle registration directly at the office. Furthermore, the PeoPay mobile payments system was enriched with the opportunity to make contactless transactions in off-line mode and opportunity to top-up mobile phones on prepaid card.

Another innovative product offered by Bank Pekao S.A. on the Polish market is Elektroniczna Legitymacja Studencka (Electronic Student Card), which combines functionality of student and payment card with the opportunity to combine another services such as library card or public transport ticket. In 2016, the Bank issued Electronic Student Cards in the next five Polish universities.

As part of the government Family 500 plus Program realization, Bank Pekao S.A., as one of the first banks in Poland, allowed customers of the Pekao24 Internet banking system to submit applications. Additionally, there was prepared website for the government Family 500 plus Program and a dedicated offer for a family.

Lending products

The Bank 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 2016, the Bank consequently realized the strategy of strengthening its position on housing and consumer goods financing market.

Mortgage loans

In 2016, the Bank maintained its strong market position in the area of mortgage loans, granting the loans in the amount of PLN 6.9 billion what translated into 9.3% 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 2016.

The Bank takes also a leading position in mortgage loans granting under the government program "Mieszkanie dla Młodych" ("Apartment for the Young") supporting the persons aged up to 35 in acquisition of the first new apartment. The Bank conducted also local and country-wide promotional activities of mortgage loans, including promotional campaigns on the Internet and internal channels of marketing communication as well as participated on a regular basis in real estate fairs organized all over the country.

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Consumer lending

In 2016, the value of cash loans granted amounted to PLN 7.7 billion, an increase by 18.3% in comparison to 2015. Cash loans portfolio for individual clients increased in 2016 by 13.6%.

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

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 in the main TV channels with the largest coverage and thematic channels as well as on the Internet portals, including YouTube and Facebook.

Payment cards

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

Multicurrency debit card is one of the most innovative products on the market that enables execution of transactions in PLN as well as selected foreign currencies without FX rate conversion thanks to card’s connection with corresponding currency accounts. The Bank’s multicurrency debit card is used abroad most frequently for transactions in EUR realized in the European Union countries. In 2016, the Bank conducted multicurrency debit card promotion on popular Internet portals as well as through posting in magazines cyclical newsletters „Pieniądze na wakacje” (“Money for holiday”), where the issue related to effective cash management during travel was discussed.

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

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

The Bank provides to customers the ability to customize image of payment card by selecting from proposals of 72 images available in the catalogue. More than half of newly issued debit cards are cards with selected image from the catalogue.

The effectiveness of the Bank is confirmed by increasing number of payment cards in circulation, higher by 224.6 thousand (6.6%) as compared to the end of 2015, of which the credit card number increased by 64.9 thousand (11.8%).

Savings and investment products

Thanks to a wide range of deposit products of the Bank, during the last 12 months deposits volume of individual customers increased by 11.0% in comparison to the end of 2015.

An important support for increase of savings volume were regular inflows to the accounts of the Bank’s individual customers as well as term deposits placed in electronic channels and PLN negotiated deposits. In addition, there was an increase in volumes on saving accounts Mój Skarb dedicated to children.

The Bank continued activities to increase, among the customers, knowledge about the idea of regular saving in retirement programs. Focus of such activities among selected groups of customers translated directly into further increase in the number of new IKE and IKZE accounts as well as an increase in the level of payments realized by the customers who possessed these products before.

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In 2016, the Bank continued development of the Premium Personal Banking and introduced to its offer a new Kontakt Premium (Contact Premium) service. The service allows customers, among others, to purchase the majority of products from the Bank's offer during a phone conversation with a dedicated Personal Advisor. Kontakt Premium service increases significantly customer service standards in the area of affluent client. Currently, the service is available in several largest cities.

In order to provide customers with more opportunities in terms of products selection and access to new markets, in 2016, the Bank introduced to its offer new investment funds and structured products which ensures 100% capital protection at the end of investment:

- Pioneer Strategii Globalnej – konserwatywny with a lower investment risk level (equity part of the portfolio accounts for 30% of its assets), at the same time IKE and PAK offer was expanded by new investment fund,
- Pioneer Dochodu USD – mixed fund of a global nature investing in different types of assets with opportunity to invest in USD as well as in PLN, at the same time PAK offer was expanded by this investment fund,
- IKE offer was expanded by Pioneer Pieniężny Plus and IKZE offer was expanded by Pioneer Strategii Globalnej and Pioneer Strategii Globalnej- konserwatywny funds,
- program of regular savings Moja Perspektywa was also expanded by new portfolios: Portfel obligacyjny Rodzina Plus and Portfel konserwatywny Rodzina Plus,
- in the scope of the structured products, three certificates based on EUR/PLN exchange rate and one certificate based on a basket of European companies were issued.

Brokerage activity

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

As at the end of December 2016, the retail brokerage entities of the Group maintained 340.0 thousand investment accounts. The Group's brokerage entities were serving 181.6 thousand accounts with an active access to services through remote channels.

As of December 31, 2016, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 23.5 billion.

In 2016, activities of the Group's brokerage entities focused on acquisition of new customers as well as improving tools and the range of remote services.

In 2016, the brokerage entities of the Group participated in seven IPO's allowing individual customers access to over 70% of IPO and SPO offers on the Polish market.

CDM, as the first on the Polish market, introduced to offer Goldman Sachs Asset Management (GSAM) investment funds. Furthermore, CDM product offer was also expanded by Structured certificates with no capital protection, barrier reverse convertible on the shares of foreign companies: Daimler AG, Continental AG and Hugo Boss AG, issued by UniCredit Bank AG.

In the first half of 2016, CDM expanded its offer on foreign markets by pre-market orders. CDM is currently the only provider of this service in Poland offering customers access to pre-market on U.S. stock exchanges.

In 2016, Xelion implemented innovative paid service of investment advisory which is based on own automatic model of assets allocation.

In 2016, CDM and Dom Maklerski were among five the best-rated brokerage entities in Ogólnopolskie Badanie Inwestorów (National Survey of Investors) organized by Stowarzyszenie Inwestorów Indywidualnych (Association of Individual Investors).

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Private Banking

Private Banking of Bank Pekao S.A. is the market leader in Private Banking area in terms of the value of assets. Client service model is based on cooperation with dedicated Relationship Managers, who provide customers with product solutions tailored to their individual needs and market situation. A group of Relationship Managers consists of experienced employees who hold certificates of European Financial Planning Association. Relationship Managers are supported by assistants and product specialists teams what, combined with a unique experience and knowledge of markets allows, to maintain high level of services and to develop an offer for the most demanding customer segment. Both the customers and experts appreciate Private Banking of Bank Pekao S.A. awarding prizes and high positions in rankings.

In 2016, the activity in the area of Private Banking covered, in particular, intensive development of the Bank's offer, including investment offer as well as initiatives aiming at new clients acquisition and strengthening existing relations.

In the first quarter of 2016, the customers were provided with opportunity to open and maintain Eurokonto Walutowe account on individual terms in 9 additional currencies: Norwegian krone (NOK), Swedish krona (SEK), Danish krone (DKK), Canadian dollar (CAD), Australian dollar (AUD), Russian ruble (RUB), Japanese yen (JPY), dirham of the United Arab Emirates (AED) and Chinese yuan (CNY).

Since June 2016, Private Banking customers can benefit from the offer of investment funds managed by Goldman Sachs Asset Management (GSAM), which is the part of The Goldman Sachs Group, one of the largest investment banks in the world. From this moment for a period of eighteen months, Bank Pekao S.A. Group will be the exclusive distributor of GSAM solutions in Poland. Private Banking clients have a choice of nine selected funds from the GSAM offer available through the CDM. The offer on the Polish market consists of 3 debt funds, one alternative fund and 5 equity funds. In 2016, the co-operation with GSAM translated into investing of over PLN 100 million of assets in investment solutions offered to Private Banking customers.

Investment Advisory was very popular among customers – this service covered clients assets with total value amounting to over PLN 2.4 billion as at the end of 2016.

In the third quarter of 2016, investment offer was enriched with a new product group - structured certificates without capital protection. This innovative solution, the result of which is dependent on carefully selected base instrument and adopted formula of profit payment, was addressed to Private Banking clients accepting higher level of risk. The issuer of certificates is German UniCredit Bank AG, one of the leaders of the European market for structured products. Experts from UniCredit Bank AG as well as from Global Investment Strategy Department of Bank Pekao S.A. and Biuro Analiz of CDM determine base instrument and basic parameters of the product, ensuring the highest probability of expected profit, which may significantly exceed bank deposits interest rates.

In 2016, subscriptions of Indeks na Zysk deposits were conducted, including deposits based on the average exchange rate of foreign currencies (USD/PLN, EUR/PLN). The offer of investment funds was further expanded with selected solutions in the area of opened-end investment funds offered by Pioneer TFI and insurance capital funds offered by TU Allianz as well as by 9 new products for the most wealthiest clients in the area of closed-ended investment funds, including also products based on absolute return strategy. These products respond to the clients interest in such types of solutions resulting from high volatility on financial markets.

Within the scope of prestigious credit cards offer, special regulations of credit limits agreements and credit cards were implemented with Private Banking customers to support distribution of these products.

In 2016, a series of investment meetings were organized in the largest Polish cities, during which experts from the Bank and selected Investment Funds were presenting to the customers the directions and trends in the financial markets.

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In 2016, Private Banking customers also had the opportunity to participate in events sponsored by the Bank, such as the Champions League and the European League, Paszporty Polityki (Passports of the Polityka magazine) awards ceremony, Film and Art Festival Dwa Brzegi and Pekao Szczecin Open Tennis Tournament as well as at prestigious meeting associated with publication of a List of 100 Polish billionaires 2016 of the Forbes magazine. The Bank was also a partner of the Congress CFO of the Year organized by Rzeczpospolita magazine and the Silesian Gala of Business Center Club and the Official International Showjumping Competition CSIO 5* and gala of the Jan Wejchert award of the Polish Business Roundtable. These meetings were designed to strengthen customers relationship and establish new business contacts.

Electronic banking for individuals

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

The Pekao24 electronic banking system and mobile application additionally allow the individual clients to manage funds on brokerage accounts held by Dom Maklerski. In addition, clients of CDM and Xelion may use dedicated systems CDM24 and Xelion Internet platform for service of accounts held by these entities.

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 revenue and expenditure on their account. A new, simplified form of transfer and advanced search transactions history facilitate day-to-day usage of bank account. The "Pekao24 na tablety" application is available on devices with Android and iOS operating systems. The functionality of the new application "Pekao24 na tablety" is systematically developed. In 2016, the application users were provided with ability to display operations register in the Pekao24 electronic banking. They were also provided with an opportunity to manage access to the Pekao24 services, SMS notifications and credit cards (i.e. automatic repayment, download statement).

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

In 2016, the Bank implemented also improvements in foreign transfers processing, providing a new, simplified form adapted to requirements of Sepa End Date and mechanism of automatically determined SWIFT / BIC code of recipient's bank based on account number.

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

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, immediate payments to system users to telephone number and cash withdrawal from the Bank's ATMs without payment card.

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As at the end of December 2016, the number of individual users with an access to the Pekao24 system amounted to 3,176.9 thousand and was higher by 277.5 thousand as compared to the end of December 2015. In the fourth quarter of 2016, 1,708.6 thousand individual users logged in to the electronic banking services.

As at the end of December 2016, the number of individual users with an access to mobile banking amounted to 1,495.7 thousand and was higher by 481.1 thousand as compared to the end of December 2015. In the fourth quarter of 2016, 672.3 thousand of individual users logged in to the mobile service m.pekao24.pl, the Pekao24 mobile banking application (on phone or tablet) and the PeoPay application.

(in thousand)

	31.12.2016	31.12.2015
Number of individual users with an access to electronic banking Pekao24 as at the end of period	3,176.9	2,899.4
Number of individual users actively using electronic banking Pekao24 (*)	1,708.6	1,576.8
Number of individual users with an access to mobile banking as at the end of period (**)	1,495.7	1,014.6
Number of individual users actively using mobile banking (***)	672.3	509.2

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

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

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

6.4.2 Small and micro enterprises (SME)

In 2016, the Bank continued activities aimed at enrichment and promotion of products offer, acquisition of new customers, and, as a consequence, further strengthening its market position in the area of small and micro enterprises.

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

In 2016, there were launched promotional campaigns of loans which supported granting process of Business Express Loan, Pożyczka Ekspresowa Agro (Agro Express Loan) and loans offered to individual farmers under the Agromania project.

The Bank focused also its activity on long-term financing through campaigns addressed to the Bank's clients with positive credit history.

The Bank continued special promotional campaigns of loans „SLK - szybko dostępny limit kredytowy” (“SLK – quickly available credit limit”) addressed to the selected customers with dedicated short term loans offer and credit and charge cards limits available in simplified loans granting process. SLK offer was very popular among the customers, the almost three times more customers used this offer in comparison to 2015.

One of the supporting instruments of loans granting process were the portfolio guarantees of Bank Gospodarstwa Krajowego (BGK) and Europejski Fundusz Inwestycyjny (EFI). As at the end of 2016, Bank Pekao S.A. granted 14 thousand de minimis guarantees in the amount of PLN 3.4 billion. In October 2016, it was completed the realization of EU program Konkurencyjność i Innowacja (Competitiveness and Innovation) under which the Bank offered investment and operating loans (also for start-up's) with free of charge guarantee of EFI.

Small and micro enterprises were provided also with preferential investment financing within the credit line form of Bank Rozwoju Rady Europy (Council of Europe Development Bank) in June 2015. So far, small and micro enterprises were granted with 1.2 thousand loans with the value of almost PLN 500 million.

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Within the payment cards product offer development, the Bank implemented a new credit card MasterCard Business DUO Komfort for SME customers with the ability to reschedule the whole or a part of debt due to purchases. Additional advantage of the card is the ability to choose graphics of payment card by selecting from the catalogue, which consists of 72 images, tailored to needs and expectations of the customers.

In 2016, the Bank provided to its business clients an opportunity to place negotiated deposits through the PekaoBiznes24 Internet banking system. Within this functionality, there are available deposits in PLN, USD and GBP. Interest rate depends on deposit amount, deposit period and current deposit rate on the market.

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

In October 2016, at the VI Europejski Kongres Małych i Średnich Przedsiębiorstw (the 6th European Congress of SME) in Katowice, Bank Pekao S.A. was honored with the title and statue „Ambasadora MŚP”.

Thanks to offer development and activities supporting card products distribution in 2016, the number of cards offered by the Bank to business clients increased by 15.7%.

As a result of product offer development (including possibility of transaction realization of Dynamic Currency Conversion and Cash Back service) and thanks to increased activities of business customer advisors in the area of payment cards acceptance, there was an increase by over 30% in portfolio of SME customers using the Bank's terminals.

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 2016, the mobile offer for business customers using the Pekao24 dla firm system was implemented within m.pekao24.pl service, which is adapted to browsers on mobile devices.

Customers using the PekaoBiznes24 system were provided with new, simplified form of credit transfer adapted to requirements of Sepa End Date.

As at the end of December 2016, 254.7 thousand business users had an access to the electronic banking systems, of which 169.3 thousand were active users. The number of business users with an access to the electronic banking systems increased by 7.1 thousand compared to the end of December 2015.

(in thousand)

	31.12.2016	31.12.2015
Number of business users (SME) with an access to the electronic banking systems as at the end of period	254.7	247.6
Number of business users (SME) actively using electronic banking systems (*)	169.3	164.6

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

As at the end of December 2016, 21.8 thousand business users had an access to the mobile banking application, of which 12.0 thousand were active users. The number of business users with an access to the mobile banking application increased by 4.0 thousand compared to the end of December 2015.

(in thousand)

	31.12.2016	31.12.2015
Number of business users (SME) with an access to the mobile banking as at the end of period	21.8	17.8
Number of business users (SME) actively using the mobile banking (*)	12.0	10.7

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

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6.4.3 Corporate customers

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

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

“Tailor-made” solutions of Bank Pekao S.A. for corporate banking are recognized both in Poland and internationally. The safety and convenience of on-line services, 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. The market also recognizes the solutions used by the Bank to improve the service and to support relations with clients, such as the Digital Gate – Pekao General Agreement.

Participation in the most difficult and most prestigious transactions, strong position in the corporate banking market and numerous awards are 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.

In the area of transaction banking, in 2016, the Bank continued activities to simplify the procedures, processes and improve the safety and convenience of corporate clients.

Key achievements in the area of transaction banking in 2016 include:

- expanding the offer to include the Digital Gate – Pekao General Agreement, which makes the handling of the current account simpler, faster and more comfortable. Under a single General Agreement, the client gains access to a basic set of most frequently used products, and may activate other products using simple applications,
- introduction in the offer for the public sector of opatomat - a device for making payments to Municipal Offices without necessity to visit the Bank’s branch. Charges for the operations performed by the offices and taxes on their behalf may be made in cash or by card,
- introduction of a number of changes arising from the Regulation 260/2012 of March 14, 2012 of the European Parliament and the Council of the European Union, which establishes technical and trade requirements in connection with credit transfers and direct debits in EUR. These changes implement, among others, the obligation to make SEPA payments in a format compatible with the XML standard, based on ISO 20022,
- the possibility of making other non-SEPA payment orders compatible with the XML standard and offering additional facilities for clients using foreign orders in the electronic banking system,
- providing the fastest international settlements using the TARGET-2 system, which enable settlement with the contractual partner in ca. 1.5 hours,
- implementation in electronic banking, new, more efficient and open application architecture for the PekaoBiznes24 system, which provides easier management of the optimized infrastructure, unified software development model, resulting in shorter Time to Market time, more efficient and more stable performance and better application scalability.

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The strengthening of the position of market leader in transaction banking in 2016 is confirmed by:

- a 15% increase year on year of the number of issued corporate credit cards, including new card products for corporate clients, i.e. multicurrency card and credit card,
- a 34% increase year on year in the number of domestic transfers,
- an increase in the number of foreign outgoing transfers, incoming transfers and SEPA transfers, by respectively over 16%, over 14% and nearly 28% year on year,
- the number of available solutions integrating financial systems of corporates with the Bank and the volume of transactions performed via these channels. In 2016, a total of over 23 million orders were completed through alternative channels (Pekao Connect, PekaolnMail, web service), which means a 7-fold increase as compared to 2015.

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 2016, the most important changes in this area included:

- introduction of order confirmation, a tool providing automated information on the execution of payment and improving the flow of information inside the company and with its counterparties and notifications - a tool automatically sending information to the client concerning, among others, the security of the system and transactions,
- introduction of additional functions parametrization of corporate payment cards. Thereby, the clients gained tools for flexible cards management, i.e. the possibility of establishing limits for non-cash transactions for MasterCard Corporate Debit FX Pekao card,
- access to a universal, dynamic "Foreign transfer" form dedicated to, among others, the handling of SEPA transfers (foreign and currency transfers) to Poland, enabling a wider range of user interaction, dynamic determination of modes and available options, additional guidance and simplifying order entry. Users gained, among others, automatic identification of the SWIFT BIC code of the beneficiary's bank on the basis of the IBAN account for all accounts in this format and more effective verification of the correctness of the entered data,
- an access to a proprietary solution to convert the electronic form of a statement taken from the PekaoBiznes24 to a single structure (JPK) required by law, under the obligation imposed under the Tax Code. The solution prepared by the Bank eliminates the need for costly customization of financial and accounting systems of the clients to the required structure and allows to convert a statement from any period specified by the client.

The effect of the introduced changes and facilities includes increased automation and quicker service of the PekaoBiznes24 users. Clients, to a greater extent, make use of the management of the rights to the PekaoBiznes24 through electronic applications, appreciating the convenience, speed, accuracy and cost savings. Owing to this, the ratio of applications submitted electronically and applications submitted in paper form stands, as at the end of the year, at 70/30.

In the second half of the year, the use of a marketing tool, which allows for profiled campaigns encouraging users to remotely and easily activate new products and additional services, was intensified. Wider use of the functionality offered to clients by the PekaoBiznes24 system leads to increase in revenues from additional services and increases customer loyalty to Bank Pekao S.A.

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Trade finance

In the area of financing of domestic and foreign trade, the Bank continued to strengthen its leading position in product solutions.

In co-operation with the Pekao Factoring, the Bank introduced a new hybrid model of debt financing of corporate clients co-operating with the Group. An effective model of sale and implementation of products financing receivables was initiated within the project, which provided clients with access to the offer using elements of the Bank's products and Pekao Factoring. The entire financing is structured by one transaction specialist. The objectives of the sales team, as well as performance monitoring, is conducted on a portfolio of all products serving the receivables of the Group regardless of product and operations structure.

The most important projects realized in 2016, in the area of trade finance included, among others.:

- introduction of a new monitoring process for the product Kredyt Zaliczka (Loan Advance) and transfer of service to the new trading system that influence on increasing of the client's transactions security,
- implementation of a number of hardware and regulatory adjustments for the systems that support document products in connection with the recommendations of the KNF,
- launching of the "Trade Finance Infoline" for clients and companies potentially interested in trade finance products supported by experts in the field,
- implementation of new IT hardware infrastructure ensuring more stable operation, service efficiency and scalability of products,
- providing clients with new reporting and analytical tools in the electronic access channels.

Trade Finance Team conducted systematic training and workshops for employees of the Bank, which ensured that customer advisors had actual knowledge of the products offered and the market situation.

Depositary services

In 2016, the Bank realized the project to adapt to the new, expanded responsibilities of the depositary bank, under the amended Act on Investment Funds and Managing Alternative Investment Funds.

Cooperation with international clients

In 2016, the Bank continued the realisation of the UniCredit Group project "Internationalisation" aimed at using to the fullest extent the potential of the Unicredit Group, based on its position in the European countries. Under the project, the Bank strengthened relations with existing international clients of the Group, and attracted new customers, in close co-operation with the Group advisors, senior bankers and employees of international outlets of the banks, being members of the Unicredit Group.

The Bank implemented new procedures aimed at developing international co-operation, such as the procedure for intra-group guarantees, the terms and conditions for cross-border lending activities within the UniCredit Group and the documentation of the Single Bank Account Agreement in the UniCredit Group.

The Bank's International Customer Office, along with the Polish-Italian Chamber of Commerce, the Italian Institute for Foreign Trade and the Italian Embassy, co-organized events enhancing the Bank's image as a partner for foreign companies operating in Poland under the patronage of key customers such as: Macfrut, SIAD and ANCE.

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Investment banking, structured finance and commercial real estates

The Bank consistently supports the development of enterprises and infrastructure through financing, organising 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 2016, the Bank's strong position in the area of financing was confirmed by, among others: the issue of medium-term bonds for a total amount of PLN 2.8 billion, the organization of the largest transactions in 2016 in the market of mergers and acquisitions in the amount of over PLN 1 billion (advisor/investor of this transaction was a subsidiary of the Bank - Pekao Investment Banking S.A.), participation in the largest merger and acquisition transaction carried out on the Polish market in the amount of USD 3.25 billion, and financing of housing developers in the amount of PLN 663 million.

The Bank participated also in the following investment projects of the institutional clients:

- financing the production of an enterprise in the biofuel sector in the amount of over PLN 400 million,
- financing the investment needs of a leading enterprise in the food industry in the amount of over PLN 300 million,
- participation in syndicated loan in automotive sector in the amount of over PLN 300 million,
- financing of a new industrial plant for one of the leaders in the energy industry in the amount of over PLN 280 million,
- financing of enterprise operating in agri sector in the amount of PLN 250 million.

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

- refinancing of shopping centre in the amount of over PLN 550 million,
- financing the construction of a modern complex of varied purposes in the amount of over PLN 400 million,
- financing a residential and retail complex located in Warsaw in the amount of over PLN 160 million.

Financial market and commercial debt instruments

In the area of organization and management of commercial debt securities, Bank Pekao S.A. has nearly 20% market share (2nd place), as at 30 November 2016 (data based on the Rating&Market bulletin published by Fitch Polska). In the segment of medium-term corporate bonds, the Bank has 1st place with nearly 25% of market share.

In 2016, medium-term debt securities of enterprises and banks were issued through the Bank for a total amount of ca. PLN 4.5 billion, among which the following transactions deserve special attention:

- issue of four series with a 5- and 7-year maturity of unsecured bonds denominated in EUR and PLN for a leading manufacturer of packaging for a total amount equivalent to ca. PLN 1.1 billion,
- issues of medium-term debt securities (maturity period of 2-4 years) for commercial banks operating in Poland, in the total amount of nearly PLN 700 million,
- placing on the market several series of 5-year bonds for stock exchange listed companies from the construction industry for a total amount of PLN 400 million,
- organizing the issue of 5-year public bonds secured by mortgage in the amount of PLN 200 million for the largest hotel group in Eastern Europe.

Bank Pekao S.A. was among 14 dealers of treasury securities (TSD), who were selected for 2016 by the Ministry of Finance.

Bank Pekao S.A. belongs also to the group of 13 dealers of money market (DRP), who were selected for 2016 by the Polish National Bank.

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Comprehensive services for the public finance sector

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

In 2016, the Bank participated in the financing of the following local government infrastructure projects:

- a pioneering project for organizing the financing for the revitalization of urban infrastructure,
- financing the modernization of Łódzkie zoo and its expansion with a modern orientarium in the form of a bond issue program,
- increased the financing for medical investment projects in the Łódzkie voivodeship,
- financing, in the form of a bond issue program for the Municipal Sports and Recreation Centre in Radom Sp. z o.o. to build a new football stadium, a new sports hall, tennis courts and a modern system of city bikes,
- a long-term loan to finance the expenses associated with the expansion of the tram network in one of the Polish cities,
- financing, in the form of the issuance of bonds, the expansion and modernization of the municipal heating network in Lublin,
- a bond issue program in the amount of PLN 30 million to finance the preparatory process of building a thermal waste incineration plant.

In addition, the Bank was the sole organizer and agent of the issue of municipal bonds of the City of Kraków, with a total value of PLN 200 million. It is the largest single municipal bond issue in 2016 with 10-year maturity and a fixed rate.

The Bank also signed an agreement with the City of Gdańsk, including support for the budget of the city and all of its budgetary units in the years 2016-2021 and granted one year overdraft facility to one of the voivodeships.

In the second half of 2016, the Bank signed contracts with two other voivodeship towns, covering the support for the budgets of these towns and all their organizational units for the next five years.

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 2016, the Bank maintains 71 nostro accounts in 48 banks in 26 countries; it runs 223 loro accounts for 208 foreign clients (banks and other financial institutions) from 48 countries and 42 current accounts for 40 foreign financial institutions.

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

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

In 2016, the Bank enhanced its product offer for clients of correspondent banking and clearing services for banks, for which it runs Loro accounts and acquired 10 new banks for cooperation and service in the field of clearing in PLN and foreign currencies.

The Bank maintains a high level of STP transactions (straight through processing) rate amounting for 98% of outgoing client and interbank transactions.

In accordance with the requirements of Basel III, the Bank introduced modifications for formatting MT910 messages (Confirmation of Credit), which allow clients for effective reporting of transactions and liquidity management.

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6.5 Major areas of activities of the Group's 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 asset management, pension funds, brokerage services, transactional advisory, leasing and factoring markets.

Dom Maklerski, CDM and Xelion render brokerage services within the Group providing 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 6.4.1.

Below are described the areas of operations of the Group's key companies from the financial sector.

6.5.1 Banking activity

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

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

As at the end of 2016, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 2,024.2 million, a decrease by PLN 39.3 million, i.e. 1.9% in comparison to 2015. Loans granted to corporates and local governments represent 54.0% and loans granted to individual clients represent 46.0% of loan portfolio structure.

In 2016, within the framework of a strategy focused on co-operation with Bank Pekao S.A., the volume of new commercial real estate loans accounted for 65.5% of total new loans.

In 2016, within the second Program of Covered Bonds to bearer, bank successfully conducted one public issuance of covered bonds. The total value of liabilities due to covered bonds amounted to PLN 1,282.7 million as of December 31, 2016.

6.5.2 Assets management

Pioneer Pekao Investment Management S.A. – PPIM

As of December 31, 2016, the net asset value of investment funds of Pioneer Pekao TFI S.A. (a subsidiary of Pioneer Pekao Investment Management S.A, in which the Bank holds a 49% share) amounted to PLN 16,793.9 million, an increase of PLN 91.4 million, i.e. 0.5% as compared to the end of 2015. In August 2016, Pioneer Pekao TFI S.A. received license for customer portfolios management and after transfer of operational activities within the scope of management of financial instruments portfolios started to manage of the assets from October 1, 2016. Value of these assets as at the end of 2016 amounted to PLN 1,450.7 million.

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 2016, the value of the pension fund's net assets was PLN 2,262.6 million and Pekao OFE held 1.5% share in the market of open-end pension funds, i.e. on the similar level in comparison to 2015.

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6.5.3 Leasing activity

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 space, both in the form of operating and finance leases.

In 2016, the Company concluded 10,451 new agreements. The value of leased assets increased in comparison to 2015 by 14.5% and amounted to PLN 2,161.7 million, of which 62.4% were vehicles, 31.6% - plant and equipment, 1.9% - real estates and 4.1% - others.

Under the program of co-operation between Pekao Leasing and Bank Pekao S.A. in the area of sale, the value of assets leased via the Bank's branches amounted to PLN 1,484.9 million and increased by 12.5% in comparison to 2015.

6.5.4 Factoring activity

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 sales channels and enhancing sales through the existing ones.

The Company is ranked the fifth on the Polish factoring market, with 8.7% of market share.

6.5.5 Transactional advisory

Pekao Investment Banking S.A. - PIB

PIB operates as brokerage house, focusing on institutional and corporate clients service. The scope of services provided by PIB include in particular receiving and transferring financial instruments to buy or sell orders, execution of these orders on the account of orders provider, offering financial instruments, advisory for corporates within 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 an animator both on equities as well as on derivative instruments market, being one of the most active animators. As at the end of 2016, PIB was the animator for 22 companies.

In 2016, PIB acted as an intermediary entity in tender offer for the sale of the shares and in obligatory redemption of shares of two companies listed on the WSE, acted as a global coordinator and serves as a bookrunner for shares of non-banking sector company, which was the largest transaction of this type on the WSE in 2016 and successfully completed the first IPO of the company on the WSE.

PIB acted as entity offering retail bonds issued by a leading developer of commercial real estate in Poland (eight series of bonds were issued for retail investors and one series for institutions, which were introduced to trading on the regulated market). PIB successfully provided its advisory in processes of disposal/acquiring of the companies (including, among others, disposal of a company operating in waste utilization sector, and acquiring of a company operating in retail sector), in process of strategic options review, acquiring a strategic investor for a company from financial services sector and acquisition of companies (among others from packaging industry).

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6.5.6 Other financial services

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

CBB offers services of a financial intermediary, as well as comprehensive services through alternative channels of communication for clients from non-banking sector.

CBB supports Bank Pekao S.A., as a major customer, in the use of online banking, cards and call center products. The company in its operations serves customers through alternative channels of communication, including, above all, by phone and mailing (both traditional way and electronic). The main channel of communication are the phone calls - in 2016, CBB handled 15.6 million calls (an increase of 23% compared to 2015).

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

Pekao Financial Services Sp. o.o. – PFS

PFS outsourcing services to financial institutions in the field of operational solutions and technology, use of fund participants, as well as independent distribution of the funds. Operational and technological solutions are focused on providing customers with services of the highest quality and safety. PFS specialises in registers of participants in mutual and pension funds.

Among the clients served by the PFS there are companies with established market position. As at the end of December 2016, the company maintained its leading position in the OFE funds serving 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 2016, CK S.A. continued realization of important IT projects allowing the extension of a range of products offered by Bank Pekao S.A.

The main projects realized in 2016 included the implementation of mobile phones top-ups services in two distribution channels: the Pekao24 and the PeoPay application as well as development in the area of personalized image of payment cards.

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6.6 Investing in human capital

Human Capital as a key asset

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

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

In 2016, these priorities were accompanied by a particular emphasis on promoting preferential values of corporate culture shared across the Bank and UniCredit Group.

Training and professional development

The Bank creates learning opportunities and provides access to various forms of training for its employees. Key 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 2016, the Bank continued also structured rotation program allowing for direct exchange of professional knowledge between experts.

In 2016, 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 personnel

The Bank realized training projects supporting personnel in proper distribution of banking products, including products from bancassurance area. In co-operation with the NBP, it was implemented cascade training system for cashiers in scope of new securities of banknotes as well as it was initiated training program for the years 2016 and 2017 on introducing into circulation the new 500 PLN banknote. Training programs were also developed for 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 also realization of training projects aimed at reinforcement of risk culture and training regarding introduction of new business strategies. Training activities were concentrated on support of high potential employees and employees servicing SME clients.

In 2016, the Bank delivered (in form of class room and e-learning as well as virtual sessions) more than 375 thousands of training hours, in which attended over 15 thousands of employees (ca. 99% of all employed persons) confirming the Bank's determination in efficient implementation of required regulations and customer care.

Development programs and initiatives

In 2016, development programs and initiatives were provided for the Bank employees, aimed at providing support in the development of managerial and interpersonal skills.

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Development processes

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:

- Executive Development Plan (EDP) - annual appraisal process of managers as well as planning and realization of development activities. In 2016, 613 persons took part in the EDP,
- Talent Management Review (TMR) - annual process of the professional development, potential and performance assessment, used to manage and develop talents in the Bank and UniCredit Group, which was attended by 137 people, identified as part of the recruitment process, addressed to all employees of the Bank,
- Succession Plans, which are the key outcomes of the EDP and the TMR processes - Succession Plans are crucial for ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk,
- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In 2016, 14,383 employees took part in the process.

Furthermore, the Bank offers the following development:

- Assessment Centre/Development Centre session, survey of individual performance style and communication and 180/360 Feedback - diagnostic tools for identification of strengths and development areas of the employees.
- Mentoring and Coaching – dedicated for selected employees to give them broader business perspectives and an opportunity to gain new experience.
- International development programs realized at the level of UniCredit Group (international training for the higher level managerial staff in the range of Leadership Curriculum Program and Master in CIB).
- Career Navigator tool supporting career development planning of the Bank's employees.

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 are implemented in order to realize the above mentioned objective:

- UniChallenge – a two year-long internship program, addressed to talented last-year MA students and graduates. The UniChallenge Program is 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.

Increasing engagement of employees

In 2016, a number of activities were undertaken in order to increase the employees' satisfaction and engagement. It was launched the Intranet website 'We support diversity' and there was conducted a series of workshops for more than 400 managers and the Bank's employees within the scope of the friendly workplace and effective management of an own energy. Moreover, 'Team's climate' project was continued, which is realized within the teams and is aimed at strengthening the employees' engagement through implementation of the activities that improve the work atmosphere. In 2016, more than 1,000 employees from the 30 Bank's organizational units were covered by this project.

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Compensation policy

On October 11, 2016, as a result of yearly reviews of remuneration rules, the Supervisory Board of Bank Pekao S.A. approved the updated Compensation Policy of the Bank (hereinafter referred to as "the Policy"), reflecting the mission and values of the Bank's approach to remuneration systems, which:

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

General framework of the Policy is aimed at providing consistency of components and strategy of remuneration by maintaining compliance with risk management and long-term strategies.

The main principle of the Policy is to guarantee competitive level of remunerations and their efficiency, correctness in scope of acting and achieved results as well as transparency and internal justice.

In 2016, the main elements and assumptions of the Policy were not changed. The Bank's policy implemented in this area takes into account the regulations of the parent company, supplemented by provisions ensuring its compliance with the applicable provisions of the Polish law and the recommendations of regulators and supervisory authorities.

In 2016, in the Policy were included provisions to increase the role of the risk management function in the Bank in designing the compensation policy, incentive system and compensation processes, as well as defining the objectives and evaluating the results, the introduction of those responsible within the Bank's control functions maximum threshold, which the bonus pool of variable remuneration can be gradually reduced and the advantage the share of fixed remuneration in the total remuneration.

The compensation strategy was developed in line with the business standards and values underlying the Bank's mission and reflected in the Policy provisions as well as it constitutes the basis for enhancing and protecting the Bank's reputation and creating long term value for all the stakeholders. Moreover, the Policy presents provisions regarding variable compensation elements of persons in key managerial positions of the Bank. It is aimed at reinforcement of long-term value increase for shareholders and company stability. The conducted internal control concerning implementation of the Policy provisions regarding variable compensation elements confirmed execution of the above assumptions of the Policy at a good level.

Assessment report of functioning of the Policy in the Bank in 2015, according to the provisions of the Supervisory Board of Bank Pekao S.A. Regulation was presented for the General Meeting of Shareholders on June 16, 2016. After considering the report, the General Meeting of Shareholders estimated that the functioning of the Bank's Compensation Policy in 2015 contributed to the development and security of the Bank's activities.

Information regarding remuneration value of each Member of the Management and the Supervisory Board is presented in the section of Remuneration of the Management Board and the Supervisory Board.

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Incentive systems

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

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 providing for 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 behaviour with respect to law provisions and standards adopted by the Bank. In accordance with the system parameters, for reinforcement of care for long-term welfare of the Bank, at least 50% of variable remuneration is provided in phantom shares based on the value of the Bank shares and at least 40% of the bonus is deferrable and paid after the end of the evaluation period it is payable for. In case of the Management Board Members, deferral refers to 60% of the variable remuneration component. Variable remuneration payable for a particular year, is paid within 6 years by considering economic cycle and the risk resulting from conducted activity.

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

A system based on the provisions of the Corporate Collective Labour Agreement (CCLA) applies to all employees who are subject to it. According to the provisions of the CCLA the basis of the system is a quarterly bonus which is discretionary and depends on evaluation of employee's performance and the level of commitment and an incentive bonus, which is granted for outstanding work achievements and the Bank's results in a given year.

Retention Plans

In 2016, the Long-Term Incentive Plans of UniCredit Group (edition 2007 and 2008 within the scope of stock options) addressed to the top management was 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 2016, 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 favourable conditions by obtaining Free Shares measured on the basis of the Investment Shares purchased by each Participant. Detailed information on Employee Share Ownership Plan is included in the Note 46 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2016.

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

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 2016, 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 mentioned policy. The suitability assessment is performed by the Supervisory Board of the Bank with the support of the Nomination and Remuneration Committee.

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Diversity policy

On February, 4, 2016, the Supervisory Board of Bank Pekao S.A. approved the resolution "Diversity policy in reference to Supervisory Board Members, Management Board Members and Key Function Holders in the Bank", which defines the strategy of the Bank in scope of diversity management, including diversity in reference to appointment, the Supervisory Board Members, the Management Board Members and the Key Function Holders in the Bank.

The purpose of diversity strategy of the Bank is to provide high quality of tasks execution by its governing bodies, through selection of qualified people to hold function in the Supervisory Board, the Management Board and Key Function Holders in the Bank, using as the first objective criteria and taking into account the benefits of diversity in scope of knowledge, skills and work experience, as well as educational background, geographical origin and nationality, gender and age. An integral element of Diversity policy is the Gender Equality Policy of the Bank, which provides the Bank's employees career opportunities, success and performance evaluation based on individual merit, regardless of gender.

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 behaviours which clash with the corporate values. The Ombudsmen use the available tools (meetings, notices) when they undertake measures to restore respect for the corporate values in relations among employees wherever they have been disrupted. Their work directly supports the Bank's internal communication and defines certain standards of conduct and communication patterns for all the employees to follow. In 2016, the Integrity Charter Ombudsmen continue meetings with employees at the Bank in order to familiarize them with the "System of Values" and with the Ombudsmen's service. Furthermore, the Ombudsmen also meet with individual employees and they speak by telephone indicates the ability to solve problems.

Relations with Trade Union Organisations

In 2016, 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. There were 14 meetings between the Bank and the Unions in that period.

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 workforce, authorized to get information and carry out consultation with the employees on matters defined by the Worker Information and Consultation Act of April 7, 2006. In 2016, 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 December 2016, the Group employed 17,757 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,327 employees as at the end of 2015.

As at the end of December 2016, the Bank employed 15,882 employees as compared to 16,387 employees as at the end of 2015. The average age of the employees was 46.7 years, 64.7% of the employees are university graduates (64.1% in 2015), women represent 79.3% of the total workforce.

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6.7 Sponsorship and charity policy

The Bank's policy within the scope of sponsoring and charitable activity aims at strengthening the Bank's image as an open and modern institution, close to customers and communities in which the Bank operates.

Upon selecting initiatives, the Bank withdraws from activity based on single donations and reactive responding to requests for support, in favor of long-term social commitment based on partnership with selected organizations. In particular, the Bank supports selected organizations and institutions that execute projects in the scope of the following areas: high culture, sport, aiding children in need, environmental protection, responsible development of the economy.

Charitable activity of Bank Pekao S.A. are carried out mainly through Marian Kanton Foundation of Bank Pekao S.A., which was established in 1997. Each year, about one-third of the Foundation's financial resources are allocated to finance summer and winter holidays for children from poor families and rehabilitation camps for ill and disabled children and teenagers. Owing to such aid, the Foundation is able to improve the quality of their lives and ensure equal opportunities for them. In addition, the Foundation provides financial and material assistance to schools and libraries in villages and small towns, and supports sports clubs for children and teenagers, usually located in schools or in community centers. In line with the Founder's intention, the Foundation's Board also allocates funds for scholarships for talented pupils and students from socially disadvantaged families.

The Bank cooperates also with Foundation of the Great Orchestra of Christmas Charity (Wielka Orkiestra Świątecznej Pomocy – WOŚP), supporting selected projects of the Foundation, including the annual Grand Finale, educational program "Ratujemy i uczymy ratować", and since 2014 the Bank acts also as the Patron of the Academy of Fine Arts at Woodstock Festival Poland (Festiwal Przystanek Woodstock).

Bank Pekao S.A. is one of the titular sponsor of the Pekao Szczecin Open Tournament, the biggest and the most important men's tennis tournament in Poland. The Bank is continuously present at the Tournament since 1993, i.e. since its very beginning. Additionally, in 2015, the Bank launched educational program "Road to Pekao Szczecin Open" (Droga do Pekao Szczecin Open). The program is to promote sport among children and their parents, thus making it possible to select new talented tennis players, who will have a chance to win the Challenger tournament in Szczecin in the future.

The majority of projects, in which the Bank is engaged, are the high culture projects. In this area, the sponsoring activities of the Bank are carried out at two levels: the national level, at which the Bank sponsors strategic events with an undisputed impact on the Polish culture, and the local level, at which smaller projects of great significance to local communities are supported. One of the most important cultural projects supported by the Bank is Bank Pekao Project Room conducted in cooperation with the Center of Contemporary Art – Ujazdowski Castle in Warsaw, where young artists may develop their artistic projects in a special exhibition room in the Castle. In 2016, the Bank supports, among others.: POLITYKA Passports, The Gdańsk Shakespeare Festival, Film and Art Festival Dwa Brzegi, International Festival and Competition of Musical Personalities TANSMAN in Łódź, the Polish Theater in Wrocław, Polish PEN Club Association, Grape-Harvest Theater Meetings in Zielona Góra.

Significant element of the Bank's activities is to support important economic initiatives. Bank Pekao S.A. is the co-organizer of the European Financial Congress and the Corporate Banking Congress which supports both financially and substantively. In 2016, the Bank supported also the European Forum for New Ideas in Sopot and the European Congress of Small and Medium-Size Enterprises in Katowice.

For many years, the Bank is committed to the protection of the Polish bison, a unique and endangered species. The Bank's financial support is to help ensure the diversification and growth of the bison population, herds care, and the co-financing of scientific and educational projects.

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7 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 31 December, 2016 and 2015 respectively is presented in the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2016.

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

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

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

More detailed information on the Bank's share in transaction of acquisition of Visa Europe Ltd. by Visa Inc. is included in the Note 31 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2016.

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

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

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

ASSETS	31.12.2016		31.12.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	5,872.9	3.4%	7,881.6	4.7%	(25.5%)
Loans and advances to banks ^(*)	3,258.5	1.9%	7,319.0	4.3%	(55.5%)
Loans and advances to customers ^(**)	122,663.2	70.4%	117,299.4	69.5%	4.6%
Reverse repo transactions	-	x	4,755.5	2.8%	x
Securities ^(***)	35,853.1	20.6%	22,308.5	13.2%	60.7%
Investments in associates	136.2	0.1%	149.0	0.1%	(8.6%)
Property, plant and equipment and intangible assets	2,019.1	1.2%	2,097.4	1.2%	(3.7%)
Other assets	4,411.9	2.4%	6,975.2	4.2%	(36.7%)
Total assets	174,214.9	100.0%	168,785.6	100.0%	3.2%

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

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

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

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EQUITY AND LIABILITIES	31.12.2016		31.12.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	6.1	0.0%	0.9	0.0%	> 100%
Amounts due to other banks	4,823.4	2.8%	5,958.4	3.5%	(19.0%)
Amounts due to customers	136,379.7	78.3%	124,398.8	73.7%	9.6%
Debt securities issued	1,523.0	0.9%	2,903.2	1.7%	(47.5%)
Repo transactions	1,436.2	0.8%	4,468.9	2.6%	(67.9%)
Other liabilities	7,134.6	4.0%	7,631.2	4.5%	(6.5%)
Total equity, including	22,911.9	13.2%	23,424.2	13.9%	(2.2%)
non-controlling interests	14.9	0.0%	16.0	0.0%	(6.9%)
Total equity and liabilities	174,214.9	100.0%	168,785.6	100.0%	3.2%

7.1.1 Assets

Changes in the structure of assets

Loans and advances to customers and securities represent items of the largest value under assets. As at the end of 2016, they accounted for 70.4% and 20.6% of the total assets respectively in comparison with 69.5% and 13.2% respectively as at the end of 2015.

Cash and due from Central Bank

(in PLN million)

	31.12.2016	31.12.2015	CHANGE
Cash and due from Central Bank, including:	5,872.9	7,881.6	(25.5%)
Cash	2,639.5	2,951.4	(10.6%)
Current account at Central Bank	1,713.3	4,930.0	(65.2%)
Other	1,520.1	0.2	> 100%

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	31.12.2016	31.12.2015	CHANGE
Loans and advances at nominal value^(*)	127,421.6	122,363.1	4.1%
Loans ^(**)	115,020.0	110,026.2	4.5%
Retail	58,109.9	53,944.6	7.7%
Corporate	56,910.1	56,081.6	1.5%
Non-quoted securities	12,401.6	12,336.9	0.5%
Other ^(***)	647.0	534.5	21.0%
Nominal value adjustment	304.2	244.1	24.6%
Impairment losses	(5,709.6)	(5,842.3)	(2.3%)
Total net receivables	122,663.2	117,299.4	4.6%
Securities issued by non-monetary entities ^(****)	882.7	892.3	(1.1%)
Reverse repo transactions	-	4,753.2	x
Total customers' financing^(*****)	128,304.3	128,008.6	0.2%
Total customers' financing excluding reverse repo transactions	128,304.3	123,255.4	4.1%

(*) Excluding reverse repo transactions.

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

(***) Including interest and receivables in transit.

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

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

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As at the end of December 2016, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 128,304.3 million, an increase of PLN 5,048.9 million, i.e. 4.1% in comparison to the end of December 2015 with significant growth in key strategic areas.

As at the end of December 2016, the volume of retail loans amounted to PLN 58,109.9 million, an increase of PLN 4,165.3 million, i.e. 7.7% in comparison to the end of December 2015.

The volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 70,194.4 million as at the end of December 2016, an increase of PLN 883.6 million, i.e. 1.3% as compared to the end of December 2015.

As at the end of December 2016, there were no reverse repo transactions. As of December 31, 2015, reverse repo transactions amounted to PLN 4,753.2 million.

Receivables and impairment losses

(in PLN million)

	31.12.2016	31.12.2015	CHANGE
Gross receivables^(*)	127,815.4	122,677.8	4.2%
Not impaired	120,154.8	114,705.8	4.8%
Impaired	7,660.6	7,972.0	(3.9%)
Impairment losses	(5,709.6)	(5,842.3)	(2.3%)
Interest	557.4	463.9	20.2%
Total net receivables	122,663.2	117,299.4	4.6%

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

As of December 31, 2016, the ratio of impaired receivables to total receivables excluding reverse repo transactions amounted to 6.0% as compared to 6.5% as at the end of December 2015.

Impairment losses as at the end of December 2016 amounted to PLN 5,709.6 million.

Loans and advances to customers by currency^(*)

	31.12.2016		31.12.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	103,891.3	80.9%	100,977.2	82.0%	2.9%
Denominated in foreign currencies ^(**)	24,481.5	19.1%	22,164.5	18.0%	10.5%
Total	128,372.8	100.0%	123,141.7	100.0%	4.2%
Impairment losses	(5,709.6)	x	(5,842.3)	x	(2.3%)
Total net	122,663.2	x	117,299.4	x	4.6%

^(*) 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 December 2016, their share was 80.9%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (64.9%), CHF (19.4%) and USD (14.9%).

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

	31.12.2016		31.12.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	15,047.9	11.7%	12,651.3	10.3%	18.9%
1 to 3 months	3,271.3	2.5%	4,363.2	3.5%	(25.0%)
3 months to 1 year	13,330.4	10.4%	13,375.8	10.9%	(0.3%)
1 to 5 years	39,666.9	30.9%	39,562.3	32.1%	0.3%
Over 5 years	56,409.3	43.9%	52,654.6	42.8%	7.1%
Other	647.0	0.6%	534.5	0.4%	21.0%
Total	128,372.8	100.0%	123,141.7	100.0%	4.2%
Impairment losses	(5,709.6)	x	(5,842.3)	x	(2.3%)
Total net	122,663.2	x	117,299.4	x	4.6%

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

As at the end of December 2016, loans and advances with maturity over 5 years represents 43.9% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Information on loan concentration is included in the Note 28 and 29 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2016.

Credit exposures towards Ukraine

In 2016, the Group exposure towards Ukraine in the form of interbank placements were repaid in full.

As at December 31, 2016, the net balance sheet value of remaining exposures towards Ukraine amounted to PLN 111 million (which constitutes 0.1% of total Group exposures), less by PLN 481 million in comparison to the end of December 2015.

7.1.2 Liabilities

Changes in the structure of liabilities

Amounts due to customers were the main item under the Group's liabilities and equity. As at the end of 2016, amounts due to customers and debt securities issued totaled PLN 137,902.7 million, and their share in the total assets was 79.2%, compared with 75.4% as at the end of 2015. The share of total shareholder's equity in the total assets was 13.2% as at the end of 2016, compared with 13.9% as at the end of 2015.

External sources of financing

(in PLN million)

	31.12.2016	31.12.2015	CHANGE
Amounts due to Central Bank	6.1	0.9	> 100%
Amounts due to other banks	4,823.4	5,958.4	(19.0%)
Amounts due to customers	136,379.7	124,398.8	9.6%
Debt securities issued	1,523.0	2,903.2	(47.5%)
Repo transactions	1,436.2	4,468.9	(67.9%)
Total external sources of financing	144,168.4	137,730.2	4.7%

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.

Report on the activities of Bank Pekao S.A. Group for the year 2016

As at the end of 2016, the geographical structure of deposits acquired through the Bank's domestic branches was as follows:

REGION	% OF TOTAL DEPOSITS
Warszawski	29.4%
Mazowiecki	20.6%
Małopolski	10.4%
Centralny	9.5%
Południowo-Wschodni	8.6%
Wielkopolski	4.7%
Pomorski	4.3%
Śląski	4.3%
Dolnośląski	4.1%
Zachodni	4.1%
Total	100.0%

Total customer savings

(in PLN million)

	31.12.2016	31.12.2015	CHANGE
Corporate deposits	65,764.5	60,738.8	8.3%
Non-financial entities	48,932.4	47,225.8	3.6%
Non-banking financial entities	9,024.7	7,903.2	14.2%
Budget entities	7,807.4	5,609.8	39.2%
Retail deposits	70,183.2	63,254.4	11.0%
Other (*)	432.0	405.6	6.5%
Amounts due to customers(**)	136,379.7	124,398.8	9.6%
Debt securities issued, of which	1,523.0	2,903.2	(47.5%)
Structured Certificates of Deposit (SCD)	168.9	257.7	(34.5%)
Certificates of Deposit	130.0	1,393.1	(90.7%)
Pekao Bank Hipoteczny S.A. covered bonds	1,214.8	1,227.4	(1.0%)
Interest	9.3	25.0	(62.8%)
Amounts due to customers and debt securities issued, total(**)	137,902.7	127,302.0	8.3%
Repo transactions	1,436.2	4,468.9	(67.9%)
Investment funds of Pioneer Pekao TFI	16,793.9	16,702.5	0.5%
Bond and money market funds	12,108.2	11,366.4	6.5%
Balanced funds	2,418.1	2,780.5	(13.0%)
Equity funds	2,267.6	2,555.6	(11.3%)
including distributed through the Group's network	16,470.2	16,363.6	0.7%

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

(**) Excluding repo transactions.

As at the end of December 2016, the total amounts due to the Group's customers and debt securities issued amounted to PLN 137,902.7 million, an increase of PLN 10,600.7 million, i.e. 8.3% in comparison to the end of December 2015.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 70,724.8 million as at the end of December 2016, an increase of PLN 6,859.5 million, i.e. 10.7% in comparison to the end of December 2015.

The total volume of corporate deposits, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 67,177.9 million as at the end of December 2016, an increase of PLN 3,741.2 million, i.e. 5.9% as compared to the end of December 2015 while continuing selective pricing approach and focus on securing liquidity needs of the Group.

Report on the activities of Bank Pekao S.A. Group for the year 2016

Repo transactions amounted to PLN 1,436.2 million as at the end of December 2016, a decrease by PLN 3,032.7 million, i.e. 67.9% in comparison to the end of December 2015.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 16,793.9 million as at the end of December 2016, an increase of PLN 91.4 million, i.e. 0.5% in comparison to the end of December 2015.

Amounts due to customers by currency^(*)

	31.12.2016		31.12.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	113,654.0	83.3%	102,079.2	82.1%	11.3%
Denominated in foreign currencies	22,725.7	16.7%	22,319.6	17.9%	1.8%
Total	136,379.7	100.0%	124,398.8	100.0%	9.6%

(*) 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 December 2016 amounted to 83.3%. The majority of amounts due to customers denominated in foreign currencies were in EUR (59.0%) and USD (32.9%).

Amounts due to customers by contractual maturities^(*)

	31.12.2016		31.12.2015		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	79,090.1	58.2%	67,564.5	54.5%	17.1%
Term deposits	56,857.6	41.8%	56,428.7	45.5%	0.8%
Total deposits	135,947.7	100.0%	123,993.2	100.0%	9.6%
Interest accrued	198.5	x	219.0	x	(9.4%)
Funds in transit	233.5	x	186.6	x	25.1%
Total	136,379.7	x	124,398.8	x	9.6%

(*) Excluding repo transactions.

7.1.3 Off-balance sheet items Statement of Off-balance sheet items

(in PLN million)

	31.12.2016	31.12.2015	CHANGE
Contingent liabilities granted and received	54,592.2	56,968.3	(4.2%)
Liabilities granted:	43,564.2	45,008.7	(3.2%)
financial	32,304.3	30,935.9	4.4%
guarantees	11,259.9	14,072.8	(20.0%)
Liabilities received:	11,028.0	11,959.6	(7.8%)
financial	209.1	285.1	(26.7%)
guarantees	10,818.9	11,674.5	(7.3%)
Derivative financial instruments	196,569.9	226,692.6	(13.3%)
interest rate transactions	96,486.1	133,104.3	(27.5%)
transactions in foreign currency and in gold	99,253.8	92,934.2	6.8%
transactions based on commodities and equity securities	830.0	654.1	26.9%
Total off-balance sheet items	251,162.1	283,660.9	(11.5%)

More detailed information on off-balance-sheet items is included in the Notes 27 and 48 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2016.

Report on the activities of Bank Pekao S.A. Group for the year 2016

7.2 The structure of the net profit

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

(in PLN million)

	2016	2015	CHANGE
Net profit of Bank Pekao S.A.	2,278.4	2,290.4	(0.5%)
Entities consolidated under full method			
Pekao Leasing Sp. z o.o.	40.0	53.9	(25.8%)
Centralny Dom Maklerski Pekao S.A.	25.3	44.2	(42.8%)
Pekao Investment Banking S.A.	24.4	6.8	> 100%
Pekao Faktoring Sp. z o.o.	9.7	9.3	4.3%
Pekao Bank Hipoteczny S.A.	8.7	5.0	74.0%
Pekao Financial Services Sp. z o.o.	7.5	8.0	(6.3%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	3.4	2.7	25.9%
Pekao Pioneer PTE S.A.	1.4	2.9	(51.7%)
Pekao Leasing Holding S.A. w likwidacji(*)	0.4	61.4	(99.3%)
Centrum Kart S.A.	0.3	0.6	(50.0%)
Pekao Fundusz Kapitałowy Sp. z o.o.	0.3	0.2	50.0%
FPB "Media" Sp. z o.o.	(0.2)	0.2	x
Pekao Property S.A.	(0.3)	(0.2)	50.0%
Entities valued under the equity method			
Pioneer Pekao Investment Management S.A.	36.4	44.6	(18.4%)
Dom Inwestycyjny Xelion Sp. z o.o.	2.2	2.0	10.0%
Krajowa Izba Rozliczeniowa S.A. (**)	-	5.5	x
Exclusions and consolidation adjustments(***)	(158.6)	(245.0)	(35.3%)
Net profit of the Group attributable to equity holders of the Bank	2,279.3	2,292.5	(0.6%)

(*) On September 20, 2016 Pekao Leasing Holding S.A. w likwidacji was removed from the National Court Register. The result of Pekao Leasing Holding S.A. w likwidacji for 2015 includes mainly the dividend received from Pekao Leasing Sp. z o.o.

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

(***) 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 year 2016

The results of Bank Pekao S.A.

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

(in PLN million)

	2016	2015	CHANGE
Net interest income	4,266.9	4,039.6	5.6%
Dividend income	132.8	210.6	(36.9%)
Total net interest income and dividend income	4,399.7	4,250.2	3.5%
Net non-interest income	2,636.3	2,541.8	3.7%
Operating income	7,036.0	6,792.0	3.6%
Operating costs	(2,991.4)	(2,992.6)	(0.0%)
Gross operating profit	4,044.6	3,799.4	6.5%
Net impairment losses on loans and off-balance sheet commitments	(491.4)	(514.0)	(4.4%)
Net operating profit	3,553.2	3,285.4	8.2%
Net result on other provisions	(15.5)	(28.6)	(45.8%)
Guarantee funds charges	(260.3)	(273.1)	(4.7%)
One-off charges in favour of the Bank Guarantee Fund and contribution to Borrowers Support Fund ^(*)	(16.6)	(256.0)	(93.5%)
Tax on certain financial institutions	(449.5)	-	x
Net result on investment activities	51.9	63.9	(18.8%)
Profit before tax	2,863.2	2,791.6	2.6%
Net profit	2,278.4	2,290.4	(0.5%)

^(*) One-off charges in favour of the Bank Guarantee Fund and contribution to Borrowers Support Fund include:

- in 2016 - charge related to bankruptcy of Bank Spółdzielczy in Nadarzyn,
- in 2015 - charge related to bankruptcy of SBRiR in Wolomin and contribution to Borrowers Support Fund.

In 2016, the Bank's net profit amounted to PLN 2,278.4 million, a decrease of PLN 12.0 million, i.e. 0.5% in comparison to 2015.

Underlying net profit of Bank Pekao S.A. i.e. excluding net impact of significant extraordinary charges and one-off non-recurring items in 2016 would amount to PLN 2,366.9 million and would be higher by PLN 187.1 million, i.e. 8.6% than comparable net profit achieved in 2015.

Report on the activities of Bank Pekao S.A. Group for the year 2016

The main Bank's financial information are as follows:

	31.12.2016	31.12.2015	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	123,660.5	118,662.9	4.2%
Securities issued by non-monetary entities ^(**)	882.7	892.3	(1.1%)
Reverse repo transactions	-	4,753.2	x
Amounts due to customers	136,629.9	124,788.0	9.5%
Structured Certificates of Deposit	168.9	257.7	(34.5%)
Certificates of Deposit	130.0	1,393.1	(90.7%)
Repo transactions	1,436.2	4,468.9	(67.9%)
Total assets	170,988.9	165,760.7	3.2%
Investment funds distributed through the Bank's network	15,583.6	15,388.9	1.3%
SELECTED RATIOS			
Impaired receivables to total receivables in % ^(***)	5.8%	6.3%	(0.5) p.p.
TCR (Basel III) in %	18.2%	18.2%	0.0 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 December 2016, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 124,543.2 million, an increase of PLN 4,988.0 million, i.e. 4.2% in comparison to the end of December 2015. As at the end of December 2016, the volume of retail loans amounted to PLN 57,176.3 million and the volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 67,366.9 million.

As at the end of December 2016, the amounts due to the customers, Structured Certificates of Deposit and Certificates of Deposit amounted to PLN 136,928.8 million, an increase of PLN 10,490.0 million, i.e. 8.3% in comparison to the end of December 2015 with improved structure of liabilities thanks to growth of share of retail customers deposits.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. distributed through the Bank's network amounted to PLN 15,583.6 million as at the end of December 2016, an increase of PLN 194.7 million, i.e. 1.3% in comparison to the end of December 2015.

Report on the activities of Bank Pekao S.A. Group for the year 2016

Results of the Bank's major related entities

Pioneer Pekao Investment Management S.A. – PPIM

In 2016, consolidated net profit of PPIM amounted to PLN 74.3 million compared with PLN 91.1 million in 2015. The Bank's share in the company's profit was **PLN 36.4 million**. The result of 2016 was influenced by situation on capital markets and change of customers' preferences in terms of the level of acceptable risk.

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

In 2016, Pekao Leasing reported a net profit of **PLN 40.0 million** compared with PLN 53.9 million in 2015. Pekao Leasing result for 2015 included positive impact of VAT related settlements.

Centralny Dom Maklerski Pekao S.A. – CDM

In 2016, net profit of CDM amounted to **PLN 25.3 million** compared with PLN 44.2 million profit earned in 2015, influenced by situation on capital markets, lower turnover on the WSE and lower revenues on mutual funds.

Pekao Investment Banking S.A. – PIB

In 2016, PIB reported net profit of **PLN 24.4 million** compared with PLN 6.8 million in 2015 mainly thanks to completion of several transactions within the scope of advisory in processes of acquiring and disposal of companies, shares and bonds offering as well as realization on behalf of a customer the tender offer for the sale of shares of the company listed on the WSE.

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

In 2016, Pekao Faktoring reported a net profit of **PLN 9.7 million** and it was at a similar level to the net profit achieved in 2015.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In 2016, Pekao Bank Hipoteczny reported a net profit of **PLN 8.7 million** compared with PLN 5.0 million in 2015. The 2015 results was under negative influence of external conditions, higher charges in favour of the BFG (including the contribution to the BFG for the purpose of payments of the funds guaranteed to the depositors of the bankrupt Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin) and the cost of provision for Borrowers Support Fund.

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

In 2016, PFS reported a net profit in the amount of **PLN 7.5 million** compared with PLN 8.0 million in 2015.

Report on the activities of Bank Pekao S.A. Group for the year 2016

7.3 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2016 amounted to PLN 2,279.3 million after tax on certain financial institutions in the amount of PLN 449.5 million and the extraordinary one-off charge of PLN 16.6 million to the Bank Guarantee Fund in relation to bankruptcy of Bank Spółdzielczy in Nadarzyn. Strong contribution to the results was brought by a substantial growth of loan and deposit volumes in key strategic areas, further progress in cost optimization and lower cost of risk, also thanks to successful recoveries from vindication activity.

Underlying net profit of Bank Pekao S.A. Group i.e. excluding net impact of significant extraordinary charges and one-off non-recurring items in 2016 would amount to PLN 2,367.8 million and would be higher by PLN 185.9 million, i.e. 8.5% than comparable net profit achieved in 2015.

Thanks to the effective commercial activity of the Group in 2016 a significant growth in loan volumes was reported in the area of retail loans (an increase of 7.7% year on year) and a 1.3% year on year growth in the area of corporate loans and non-quoted securities. Such increase in lending was financed by higher volumes of retail deposits growing 11.0% year on year.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 88.9% as at the end of December 2016. This, together with high equity level reflected by total capital ratio (Basel III) amounting to 17.6%, enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

(in PLN million)

	2016	2015	CHANGE
Net interest income	4,382.0	4,166.6	5.2%
Dividend income and income from equity investments	55.4	65.7	(15.7%)
Total net interest income, dividend income and other income from equity investments	4,437.4	4,232.3	4.8%
Net fee and commission income	1,959.0	2,005.5	(2.3%)
Trading result	763.1	662.7	15.2%
Net other operating income and expenses	187.7	158.1	18.7%
Net non-interest income	2,909.8	2,826.3	3.0%
Operating income	7,347.2	7,058.6	4.1%
Operating costs	(3,211.9)	(3,219.7)	(0.2%)
Gross operating profit	4,135.3	3,838.9	7.7%
Net impairment losses on loans and off-balance sheet commitments	(500.6)	(517.5)	(3.3%)
Net operating profit	3,634.7	3,321.4	9.4%
Net result on other provisions	(14.5)	(28.8)	(49.7%)
Guarantee funds charges	(262.9)	(274.4)	(4.2%)
One-off charges in favour of the Bank Guarantee Fund and contribution to Borrowers Support Fund (*)	(16.6)	(260.5)	(93.6%)
Tax on certain financial institutions	(449.5)	-	x
Net result on investment activities	5.3	73.4	(92.8%)
Profit before tax	2,896.5	2,831.1	2.3%
Income tax expense	(616.7)	(537.6)	14.7%
Net profit	2,279.8	2,293.5	(0.6%)
Attributable to equity holders of the Bank	2,279.3	2,292.5	(0.6%)
Attributable to non-controlling interest	0.5	1.0	(50.0%)

(*) One-off charges in favour of the Bank Guarantee Fund and contribution to Borrowers Support Fund include:
 – in 2016 - charge related to bankruptcy of Bank Spółdzielczy in Nadarzyn,
 – in 2015 - charge related to bankruptcy of SBRiR in Wołomin and contribution to Borrowers Support Fund.

Report on the activities of Bank Pekao S.A. Group for the year 2016

Operating income

In 2016, the Group's operating income amounted to PLN 7,347.2 million, an increase of PLN 288.6 million, i.e. 4.1% in comparison to 2015 thanks to both higher net interest income, dividend income and income from equity investment and higher net non-interest income.

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

(in PLN million)

	2016	2015	CHANGE
Interest income	5,448.5	5,456.4	(0.1%)
Interest expense	(1,066.5)	(1,289.8)	(17.3%)
Net interest income	4,382.0	4,166.6	5.2%
Dividend income	16.8	13.6	23.5%
Income from equity investments	38.6	52.1	(25.9%)
Total net interest income, dividend income and income from equity investments	4,437.4	4,232.3	4.8%

Total net interest income, dividend income and income from equity investments in 2016 amounted to PLN 4,437.4 million and was higher by PLN 205.1 million, i.e. 4.8% compared to 2015 driven by higher volumes.

Net non-interest income

(in PLN million)

	2016	2015	CHANGE
Fee and commission income	2,252.1	2,388.5	(5.7%)
Fee and commission expense	(293.1)	(383.0)	(23.5%)
Net fee and commission income	1,959.0	2,005.5	(2.3%)
Trading result	763.1	662.7	15.2%
of which gains on disposal of AFS assets	276.5	229.6	20.4%
Net other operating income and expense	187.7	158.1	18.7%
Net non-interest income	2,909.8	2,826.3	3.0%

Net non-interest income in 2016 amounted to PLN 2,909.8 million, higher by PLN 83.5 million, i.e. 3.0% in comparison with 2015 thanks to higher trading result supported also by gains on settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc. and by higher net other operating income supported by disposal of loans, with net fee and commission income lower by 2.3% compared to 2015 mainly due to some pressure observed on capital market related fees.

The Group's net fee and commission income in 2016 amounted to PLN 1,959.0 million and was lower by PLN 46.5 million, i.e. 2.3% in comparison with 2015 mainly due to lower net fee and commission income on mutual funds.

Report on the activities of Bank Pekao S.A. Group for the year 2016

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

(in PLN million)

	2016	2015	CHANGE
Net fee and commission income	1,959.0	2,005.5	(2.3%)
on loans	524.5	486.2	7.9%
on cards	380.2	370.7	2.6%
on mutual funds	248.1	298.0	(16.7%)
other	806.2	850.6	(5.2%)

Operating costs

The operating costs amounted to PLN 3,211.9 million in 2016. They were lower by PLN 7.8 million, i.e. 0.2% as compared with 2015.

(in PLN million)

	2016	2015	CHANGE
Personnel expenses	(1,896.8)	(1,908.5)	(0.6%)
Other administrative expenses	(974.2)	(979.7)	(0.6%)
Depreciation and amortization	(340.9)	(331.5)	2.8%
Operating costs	(3,211.9)	(3,219.7)	(0.2%)

In 2016, cost / income ratio amounted to 43.7% in comparison with 45.6% in 2015.

As of December 31, 2016, the Group employed 17,757 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,327 employees as at the end of December 2015.

As of December 31, 2016, the Bank employed 15,882 employees as compared to 16,387 employees as at the end of December 2015.

Guarantee funds charges

Guarantee funds charges in 2016, amounted to PLN 262.9 million, a decrease of PLN 11.5 million, i.e. 4.2% in comparison with 2015.

Tax on certain financial institutions

On February 1, 2016 tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In 2016, it amounted to PLN 449.5 million.

One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn

In 2016, the Group additionally incurred one-off charges in the amount of PLN 16.6 million related to the contribution to the BGF for the purpose of payments of the funds guaranteed to the depositors of the bankrupt Bank Spółdzielczy in Nadarzyn.

Report on the activities of Bank Pekao S.A. Group for the year 2016

Net impairment losses

(in PLN million)

	2016	2015	CHANGE
Impairment losses on loans	(401.4)	(500.3)	(19.8%)
Impairment losses on off-balance sheet commitments	(99.2)	(17.2)	> 100%
Total	(500.6)	(517.5)	(3.3%)

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 500.6 million in 2016, a decrease of PLN 16.9 million, i.e. 3.3% as compared with 2015.

Provisions, deferred tax assets and liabilities

(in PLN million)

	31.12.2016	31.12.2015	CHANGE
Total provisions	560.4	425.4	31.7%
of which:			
provisions for off-balance sheet commitments	221.0	120.8	82.9%
provisions for liabilities to employees	316.7	293.4	7.9%
other provisions	22.7	11.2	> 100%
Deferred tax liabilities	4.9	4.9	0.0%
Deferred tax assets	1,003.4	915.2	9.6%

Report on the activities of Bank Pekao S.A. Group for the year 2016

7.4 Quarterly Income Statement

7.4.1 Consolidated income statement – long form

Consolidated income statement for 2016 - Provided for comparability purposes.

(in PLN thousand)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Interest income	1,374,829	1,382,257	1,338,188	1,353,216
Interest expense	(262,018)	(264,806)	(256,183)	(283,478)
Net interest income	1,112,811	1,117,451	1,082,005	1,069,738
Fee and commission income	578,725	559,541	575,789	538,030
Fee and commission expense	(78,191)	(69,592)	(70,648)	(74,690)
Net fee and commission income	500,534	489,949	505,141	463,340
Dividend income	236	151	16,410	1
Result on financial assets and liabilities held for trading	121,861	117,300	125,406	120,842
Result on fair value hedge accounting	5,265	1,449	(2,533)	(2,868)
Net result on other financial instruments at fair value through profit and loss	-	-	-	-
Gains (losses) on disposal of:	4,209	7,811	273,500	150,383
loans and other financial receivables	3,773	-	5,796	149,924
available for sale financial assets and held to maturity investments	460	7,862	267,707	464
financial liabilities	(24)	(51)	(3)	(5)
Operating income	1,744,916	1,734,111	1,999,929	1,801,436
Net impairment losses on financial assets and off-balance sheet commitments:	(106,179)	(133,882)	(131,179)	(129,389)
loans and other financial receivables	(68,911)	(131,532)	(72,740)	(128,226)
off-balance sheet commitments	(37,268)	(2,350)	(58,439)	(1,163)
Net result on financial activity	1,638,737	1,600,229	1,868,750	1,672,047
Administrative expenses	(920,340)	(895,948)	(911,446)	(874,590)
personnel expenses	(482,836)	(469,837)	(472,983)	(471,180)
other administrative expenses ⁽¹⁾	(437,504)	(426,111)	(438,463)	(403,410)
Depreciation and amortization	(84,359)	(85,037)	(85,677)	(85,793)
Net result on other provisions	(4,994)	(6,628)	(2,024)	(829)
Net other operating income and expenses	8,006	12,010	3,971	6,541
Operating costs	(1,001,687)	(975,603)	(995,176)	(954,671)
Gains (losses) on subsidiaries and associates	8,908	9,862	9,788	10,003
Gains (losses) on disposal of property, plant and equipment, and intangible assets	98	3,617	363	1,281
Profit before income tax	646,056	638,105	883,725	728,660
Income tax expense	(151,172)	(117,330)	(193,098)	(155,182)
Net profit for the period	494,884	520,775	690,627	573,478
Attributable to equity holders of the Bank	494,712	520,654	690,513	573,396
Attributable to non-controlling interest	172	121	114	82

⁽¹⁾ Including one-off charge to the Bank Guarantee Fund in relation to bankruptcy of Bank Spółdzielczy in Nadarzyn, tax on certain financial institutions and guarantee funds charges.

Report on the activities of Bank Pekao S.A. Group for the year 2016

Consolidated income statement for 2015 - Provided for comparability purposes.

(in PLN thousand)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Interest income	1,369,470	1,365,004	1,323,599	1,398,296
Interest expense	(308,959)	(317,370)	(308,104)	(355,366)
Net interest income	1,060,511	1,047,634	1,015,495	1,042,930
Fee and commission income	582,260	606,051	616,307	583,905
Fee and commission expense	(78,351)	(98,251)	(103,057)	(103,338)
Net fee and commission income	503,909	507,800	513,250	480,567
Dividend income	1	297	13,336	1
Result on financial assets and liabilities held for trading	124,074	103,916	94,931	105,127
Result on fair value hedge accounting	529	(223)	3,007	2,234
Net result on other financial instruments at fair value through profit and loss	-	-	-	-
Gains (losses) on disposal of:	58,476	16,162	2,019	152,944
loans and other financial receivables	132	-	58	344
available for sale financial assets and held to maturity investments	58,486	16,350	2,089	152,626
financial liabilities	(142)	(188)	(128)	(26)
Operating income	1,747,500	1,675,586	1,642,038	1,783,803
Net impairment losses on financial assets and off-balance sheet commitments:	(120,277)	(130,067)	(130,082)	(137,132)
loans and other financial receivables	(117,113)	(147,171)	(89,181)	(146,890)
off-balance sheet commitments	(3,164)	17,104	(40,901)	9,758
Net result on financial activity	1,627,223	1,545,519	1,511,956	1,646,671
Administrative expenses	(1,043,824)	(795,962)	(797,373)	(789,433)
personnel expenses	(471,865)	(484,565)	(480,167)	(471,922)
other administrative expenses (*)	(571,959)	(311,397)	(317,206)	(317,511)
Depreciation and amortization	(84,808)	(81,888)	(83,031)	(81,738)
Net result on other provisions	1,587	(3,714)	(767)	(25,872)
Net other operating income and expenses	10,635	22,843	117,895	9,623
Operating costs	(1,116,410)	(858,721)	(763,276)	(887,420)
Gains (losses) on subsidiaries and associates	10,622	72,426	14,599	15,556
Gains (losses) on disposal of property, plant and equipment, and intangible assets	11,171	628	(54)	628
Profit before income tax	532,606	759,852	763,225	775,435
Income tax expense	(93,960)	(149,008)	(143,806)	(150,866)
Net profit for the period	438,646	610,844	619,419	624,569
Attributable to equity holders of the Bank	438,364	610,469	619,209	624,417
Attributable to non-controlling interest	282	375	210	152

(*) Including one-off charge to the Bank Guarantee Fund in relation to bankruptcy of SBIRiR in Wolomin, contribution to the Borrowers Support Fund and guarantee funds charges.

Report on the activities of Bank Pekao S.A. Group for the year 2016

7.4.2 Consolidated statement of comprehensive income Consolidated statement of comprehensive income for 2016

(in PLN thousand)

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

Note: Net profit includes one-off charge to the Bank Guarantee Fund in relation to bankruptcy of Bank Spółdzielczy in Nadarzyn and tax on certain financial institutions.

Consolidated statement of comprehensive income for 2015

(in PLN thousand)

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

Note: Net profit includes one-off charge to the Bank Guarantee Fund in relation to bankruptcy of SBRiR in Wolomin and contribution to the Borrowers Support Fund.

Report on the activities of Bank Pekao S.A. Group for the year 2016

7.4.3 Consolidated income statement – presentation form

Consolidated income statement for 2016

(in PLN thousand)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	1,112,811	1,117,451	1,082,005	1,069,738
Dividend income and income from equity investments	9,143	10,033	26,198	10,004
Total net interest income, dividend income and other income from equity investments	1,121,954	1,127,484	1,108,203	1,079,742
Net fee and commission income	500,534	489,949	505,141	463,340
Trading result	127,562	126,560	390,577	118,433
Net other operating income and expenses	11,470	11,351	9,095	155,823
Net non-interest income	639,566	627,860	904,813	737,596
Operating income	1,761,520	1,755,344	2,013,016	1,817,338
Operating costs	(793,808)	(793,841)	(812,143)	(812,115)
Gross operating profit	967,712	961,503	1,200,873	1,005,223
Net impairment losses on loans and off-balance sheet commitments	(106,179)	(133,882)	(131,179)	(129,389)
Net operating profit	861,533	827,621	1,069,694	875,834
Net result on other provisions	(4,994)	(6,628)	(2,024)	(829)
Guarantee funds charges	(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	(127,962)	(120,727)	(120,204)	(80,640)
Net result on investment activities	99	3,597	363	1,281
Profit before income tax	646,056	638,105	883,725	728,660
Income tax expense	(151,172)	(117,330)	(193,098)	(155,182)
Net profit	494,884	520,775	690,627	573,478
Attributable to equity holders of the Bank	494,712	520,654	690,513	573,396
Attributable to non-controlling interest	172	121	114	82

Report on the activities of Bank Pekao S.A. Group for the year 2016

Consolidated income statement for 2015

(in PLN thousand)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest income	1,060,511	1,047,634	1,015,495	1,042,930
Dividend income and income from equity investments	10,623	11,666	27,935	15,502
Total net interest income, dividend income and other income from equity investments	1,071,134	1,059,300	1,043,430	1,058,432
Net fee and commission income	503,909	507,800	513,250	480,567
Trading result	182,947	119,855	99,899	259,961
Net other operating income and expenses	9,784	21,814	117,369	9,131
Net non-interest income	696,640	649,469	730,518	749,659
Operating income	1,767,774	1,708,769	1,773,948	1,808,091
Operating costs	(798,613)	(808,475)	(811,221)	(801,363)
Gross operating profit	969,161	900,294	962,727	1,006,728
Net impairment losses on loans and off-balance sheet commitments	(120,277)	(130,067)	(130,082)	(137,132)
Net operating profit	848,884	770,227	832,645	869,596
Net result on other provisions	1,587	(3,714)	(767)	(25,872)
Guarantee funds charges	(68,487)	(68,346)	(68,599)	(68,972)
One-off charges in favour of the Bank Guarantee Fund related to bankruptcy of SBRiR in Wolomin and contribution to Borrowers Support Fund	(260,549)	-	-	-
Net result on investment activities	11,171	61,685	(54)	683
Profit before income tax	532,606	759,852	763,225	775,435
Income tax expense	(93,960)	(149,008)	(143,806)	(150,866)
Net profit	438,646	610,844	619,419	624,569
Attributable to equity holders of the Bank	438,364	610,469	619,209	624,417
Attributable to non-controlling interest	282	375	210	152

Report on the activities of Bank Pekao S.A. Group for the year 2016

7.4.4 Reconciliation of income statement – presentation form and long form Consolidated income statement for 2016

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2016	COMMENTS
Net interest income		<u>4,382,005</u>	
Dividend income and income from equity investments		<u>55,378</u>	
	Dividend income	16,798	
	Gains (losses) on subsidiaries and associates	38,580	
Total net interest income, dividend income and other income from equity investments		4,437,383	
Net fee and commission income	Net fee and commission income	<u>1,958,964</u>	
Trading result		<u>763,132</u>	
	Result on financial assets and liabilities held for trading	485,409	
	Result on fair value hedge accounting	1,313	
	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	276,493	
	(Gains) losses on disposal of financial liabilities	(83)	
Net other operating income and expenses		<u>187,739</u>	
	Net other operating income and expenses	30,528	
	less - Refunding of administrative expenses	(2,282) /1	
	Gains (losses) on disposal of loans and other financial receivables	159,493	
Net non-interest income		2,909,835	
Operating income		7,347,218	
Operating costs		<u>(3,211,907)</u>	
	Personnel expenses	(1,896,836)	
	Other administrative expenses	(1,705,488)	
	less -Guarantee funds charges	262,864	
	less – One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	16,604	
	less – tax on certain financial institutions	449,533	
	Refunding of administrative expenses	2,282 /1	
	Depreciation and amortization	(340,866)	
Gross operating profit		4,135,311	
Net impairment losses on loans and off-balance sheet commitments		<u>(500,629)</u>	
	Net impairment losses on loans	(401,409)	
	Net impairment provision for off-balance sheet commitments	(99,220)	
Net operating profit		3,634,682	
Net result on other provisions	Net result on other provisions	<u>(14,475)</u>	
Guarantee funds charges	Guarantee funds charges	(262,864)	
One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	(16,604)	
Tax on certain financial institutions	Tax on certain financial institutions	(449,533)	
Net result on investment activities		<u>5,340</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	5,359	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	(19)	
Profit before income tax		2,896,546	
Income tax expense	Income tax expense	<u>(616,782)</u>	
Net profit for the period	Net profit for the period	2,279,764	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	2,279,275	
Attributable to non-controlling interest	Attributable to non-controlling interest	489	

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 year 2016

Consolidated income statement for 2015

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2015	COMMENTS
Net interest income		4,166,570	
Dividend income and income from equity investments		65,726	
	Dividend income	13,635	
	Gains (losses) on subsidiaries and associates	52,091	
Total net interest income, dividend income and other income from equity investments		4,232,296	
Net fee and commission income	Net fee and commission income	2,005,526	
Trading result		662,662	
	Result on financial assets and liabilities held for trading	428,048	
	Result on fair value hedge accounting	5,547	
	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	229,551	
	(Gains) losses on disposal of financial liabilities	(484)	
Net other operating income and expenses		158,098	
	Net other operating income and expenses	160,996	
	less - Refunding of administrative expenses	(3,432) /1	
	Gains (losses) on disposal of loans and other financial receivables	534	
Net non-interest income		2,826,286	
Operating income		7,058,582	
Operating costs		(3,219,672)	
	Personnel expenses	(1,908,519)	
	Other administrative expenses	(1,518,073)	
	less –Guarantee funds charges	274,404	
	less – One-off charges related to bankruptcy of SBRiR in Wolomin and contribution to Borrowers Support Fund	260,549	
	Refunding of administrative expenses	3,432 /1	
	Depreciation and amortization	(331,465)	
Gross operating profit		3,838,910	
Net impairment losses on loans and off-balance sheet commitments		(517,558)	
	Net impairment losses on loans	(500,355)	
	Net impairment provision for off-balance sheet commitments	(17,203)	
Net operating profit		3,321,352	
Net result on other provisions	Net result on other provisions	(28,766)	
Guarantee funds charges	Guarantee funds charges	(274,404)	
One-off charges related to bankruptcy of SBRiR in Wolomin and contribution to Borrowers Support Fund	less – One-off charges related to bankruptcy of SBRiR in Wolomin and contribution to Borrowers Support Fund	(260,549)	
Net result on investment activities		73,485	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	12,373	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	61,112	
Profit before income tax		2,831,118	
Income tax expense	Income tax expense	(537,640)	
Net profit for the period	Net profit for the period	2,293,478	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	2,292,459	
Attributable to non-controlling interest	Attributable to non-controlling interest	1,019	

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 year 2016

8 Other Information

Information required pursuant to Art. 111a of the Banking Law

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

The Bank and all subsidiaries of the Bank, within a consolidated basis under article 4, section 1, point 48 of the Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, run its activities on territory of Poland.

As at the end of December 2016, the number of full-time jobs in the Group was 17,304 compared to 17,933 as at the end of 2015.

In 2016, the Group's operating income amounted to PLN 7,347.2 million, an increase of PLN 288.6 million, i.e. 4.1% in comparison to 2015 thanks to both higher net interest income, dividend income and income from equity investment and higher net non-interest income.

Profit before tax of Bank Pekao S.A. Group in 2016 amounted to PLN 2,896.5 million and was higher by PLN 65.4 million, i.e. 2.3% in comparison to 2015. Income tax expense in 2016 amounted to PLN 616.7 million vs. PLN 537.6 million in 2015 and was higher by 14.7%.

As at the end of December 2016, the return on assets (ROA) of the Group was 1.4% and was at the same level as at the end of December 2015.

In 2016, the Bank do not conclude any agreements according to article 141t, section 1 of the Banking Law Act.

Management Board position regarding the possibility of achieving previously published forecasts

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

Report on the activities of Bank Pekao S.A. Group for the year 2016

Management Board remunerations

The amount of remunerations or benefits (in cash, payments in kind or in any form) paid or due to the Management Board Members in 2016^(*).

Fix remuneration

(in PLN thousand)

	BASE SALARY FOR 2016
Luigi Lovaglio	4,367
Diego Biondo	1,030
Andrzej Kopyrski	1,326
Adam Niewiński	839
Grzegorz Piwowar	1,286
Stefano Santini	645
Marian Ważyński	883

Variable remuneration

(in PLN thousand)

VARIABLE REMUNERATION (CASH PART) PAID FOR	2012	2014	2015
Luigi Lovaglio	793	1,189	1,842
Diego Biondo	112	168	231
Andrzej Kopyrski	179	215	320
Adam Niewiński	0	40	140
Grzegorz Piwowar	174	283	380
Stefano Santini	0	67	45
Marian Ważyński	87	107	150

Variable remuneration paid to the Management Board Members also includes phantom shares for 2011-2013 calculated base on the average share price PLN 149.80 (for the period from 16 May, 2016 to 15 June, 2016). Phantom shares relating the year 2011, 2012 and 2013 respectively: Mr. Luigi Lovaglio 5 611, 9 387, 8 985 shares, Mr. Diego Biondo 960, 1 460, 1 336 shares, Mr. Andrzej Kopyrski 1 415, 2 196, 1 932 shares, Mr. Adam Niewiński 0, 0, 431 shares, Mr. Grzegorz Piwowar 1 569, 2 130, 2 099 shares, Mr. Stefano Santini 0, 0, 672 shares, Mr. Marian Ważyński 613, 1 071, 857 shares.

Due portion of Members of the Management Board variable remuneration in phantom shares is 50,505 shares. The value of this portion of the variable remuneration will depend on the Bank's share price at the settlement date.

Other payments related to benefits received in 2016 for Management Board Members: Mr. Luigi Lovaglio PLN 149 thousand, Mr. Diego Biondo PLN 1 thousand, Mr. Andrzej Kopyrski PLN 112 thousand, Mr. Adam Niewiński PLN 81 thousand, Mr. Grzegorz Piwowar PLN 112 thousand, Mr. Stefano Santini PLN 1 thousand, Mr. Marian Ważyński PLN 31 thousand.

(*) the remuneration for expats is presented in pln rate valid for compensation payout on monthly basis

Report on the activities of Bank Pekao S.A. Group for the year 2016

In 2016, the Management Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

Additional payments related to secondment package in 2016 for Management Board Members: Mr. Luigi Lovaglio PLN 1,297 thousand, Mr. Diego Biondo PLN 1,056 thousand, Mr. Stefano Santini PLN 519 thousand.

Supervisory Board remunerations

The amount of remunerations or benefits (in cash, payments in kind or in any form) paid or due to the Supervisory Board Members in 2016:

(in PLN thousand)

	TOTAL	NOTES
Jerzy Woźnicki	233	
Gianni Papa (from June 17, 2016)	-	Did not receive remuneration according to the Group's policy
Leszek Pawłowicz	215	
Alessandro Decio (until June 16, 2016)	86	
Massimiliano Fossati (from June 17, 2016)	-	Did not receive remuneration according to the Group's policy
Dariusz Filar	191	
Katarzyna Majchrzak	133	
Roberto Nicastrò (until June 16, 2016)	79	
Laura Penna	-	Did not receive remuneration according to the Group's policy
Wioletta Rosołowska	133	
Doris Tomanek	-	Did not receive remuneration according to the Group's policy

In 2016, the Supervisory Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

The Incentive Programs

As at December 31, 2016, the following long-term incentive programs are realized in Bank Pekao S.A. Group:

- the Long-term UniCredit Group Incentive Program 2007 – in terms of the options 32 employees of Bank Pekao S.A. Group have been covered by the program, including 4 Members of the Management Board. The options expire in 2017,
- the Long-term UniCredit Group Incentive Program 2008 - in terms of the options 49 employees of Bank Pekao S.A. Group have been covered by the program, including 4 Members of the Management Board. The options expire in 2018.

Report on the activities of Bank Pekao S.A. Group for the year 2016

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

According to information available to the Bank as at December 31, 2016, the Members of the Bank's management and supervisory bodies held 73,535 shares of Bank Pekao S.A. with face value of PLN 73,535. The number of the Bank's shares held by the Members of the Bank's management and supervisory bodies and its face value remained unchanged as the date of submitting of this report.

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

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE YEAR 2016	FOR THE THIRD QUARTER OF 2016	FOR THE YEAR 2015
Luigi Lovaglio	64,035	64,035	64,035
Diego Biondo	9,500	9,500	9,500
Total	73,535	73,535	73,535

Moreover, as at December 31, 2016 UniCredit S.p.A. shares were held by: Mr. Luigi Lovaglio – 69,566 shares without nominal value, Mr. Diego Biondo – 5,033 shares without nominal value, Mr. Massimiliano Fossati – 37,335 shares without nominal value, Mr. Andrzej Kopyrski – 1,152 shares without nominal value, Mr. Gianni Papa – 139,470 shares without nominal value, Ms. Laura Penna – 11,187 shares without nominal value, Mr. Grzegorz Piwowar – 1,807 shares without nominal value, Mr. Stefano Santini – 45,786 shares without nominal value, Ms. Doris Tomanek – 56,684 shares without nominal value, Mr. Marian Ważyński - 827 shares without nominal value.

Information regarding contracts for post termination benefits

Employment agreements provide payment of compensation amounting to 18 times the value of the monthly base remuneration of the following Members of the Management Board of the Bank: Mr. Andrzej Kopyrski – Vice-president of the Management Board, Mr. Grzegorz Piwowar - Vice-president of the Management Board, Mr. Marian Ważyński - Vice-president of the Management Board, however, in case of Mr. Adam Niewiński - Vice-president of the Management Board, the employment contract provides payment of compensation amounting to 12 times of the monthly base remuneration for the last month. Payment of the compensation follows, among others, in the event of tenure expiration without appointment for the next tenure or dismissing from the function.

The above mentioned provisions do not apply in case of dismissal for reasons stipulated in art. 52 or art. 53 of the Labour Code or in case of, among others, failure to adequately execute responsibilities or infringement of the Bank Statute, resolutions of the Management Board and the Supervisory Board.

Moreover, the abovementioned Members of the Management Board have concluded non-competition agreements with the Bank, which define the rights and obligations of agreement parties in the scope covered by non-competition agreements during and after the employment period.

Employment contracts of the remaining Management Board Members do not provide compensations of this kind.

The Bank has no liabilities arising from pensions and similar benefits for former managers, supervisors or former members of the administrative bodies.

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Agreements with companies entitled to auditing of financial reports

On the basis of the agreement concluded on June 17, 2013, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. is the company appointed to audit and review the financial statements of Bank Pekao S.A. and Bank Pekao S.A. Group for the years 2013 – 2017.

Audit remuneration for services of Bank Pekao S.A. Group.

(in PLN thousand)

	2016	2015
Fee for the audit of annual financial statements	3,295	3,351
Fee for other attestation services, including review of financial statements	2,362	1,827

The amounts above do not include value added tax (VAT).

Average interest rates in Bank Pekao S.A. in December 2016

The average nominal interest rates for the basic types of PLN deposits for non-financial sector residents:

PLN retail deposits	0.8% p.a.
PLN corporate clients deposits	0.8% p.a.

The average nominal interest rates for the PLN loans for non-financial sector residents:

Total retail loans	4.3% p.a.
Mortgage	3.4% p.a.
Consumption	8.3% p.a.
Other	5.6% p.a.
Corporate loans	3.3% p.a.

Number and value of titles of execution and value of collaterals

Bank Pekao S.A. has established specific policy with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations in the Bank. The type of collateral and its value are carefully analyzed and chosen regarding the particular risk of the secured transaction.

The Bank obeys the rule, according to which the value of collateral should relate directly to the value of secured liability, that is cash provided by the Bank to a client (capital or the amount of off-balance sheet commitments granted by the Bank) together with extraneous amounts due, for example, interest or commissions.

In order to hedge risk related to lending activities the Bank accepts legal collateral under the Civil Code, the law on bills of exchange or resulting from the habits adopted in domestic or foreign trade, i.e. bank guarantees, guarantee under the Civil Code, blank of promissory notes, aval, transfer of debts, mortgages, registered pledges, pledges, assignment as collateral, transfer of assets in bank account, blockade assets on client's account.

For corporate clients, the total value of the collateral for impaired transactions as at December 31, 2016 amounted to PLN 1,646.3 million. For retail clients, the total value of the collateral for impaired transactions as at December 31, 2016 amounted to PLN 595.0 million. In 2016, there were no titles of execution issued on behalf of the Bank.

Pending litigations

In 2016, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 666 with the total value amounting to PLN 1,091.6 million. The number of legal proceedings in respect of receivables was 18,524 with the total value of PLN 1,629.5 million.

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

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

Related party transactions

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

In 2016, 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 53 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2016.

Information on significant agreements

In 2016, there have been no significant agreements concluded by the Bank, in particular the Bank has not concluded material agreements with central bank or the competent supervision authorities.

Information on derivative financial instruments and hedge accounting

Information on derivative financial instruments and hedge accounting is included in Note 27 and 30 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2016.

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 Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2016.

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 168.9 million (principal value) as at the end of December 2016. There are 4 issues of Structured Certificates of Deposit open in PLN with the maturity date on February 05, 2018. Those liabilities that mature in 2017 and 2018 account for 48.3%, and 51.7% of its total value, respectively.

Certificates of Deposit

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 130.0 million (principal value) as at the end of December 2016. There are 2 issues of Certificates of Deposit with the maturity date up to 3 months.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of liabilities due to covered bonds amounted to PLN 1,282.7 million as at the end of December, 2016. The liabilities under covered bonds with maturity date up to 1 year account for 12.3%, with maturity date from 1 up to 3 years account for 21.3%, with maturity date from 3 up to 5 years account for 50.9% and with maturity date from 5 up to 10 years account for 15.5% of the total nominal value.

Subsequent events

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

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9 Prospects for Development

9.1 Factors which will affect the results of the Group

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

The outlook for economic growth in 2017 is positive, with still dominating private consumption in the structure of the GDP growth, and good chances of acceleration of investments, both public as well as private ones. Consumption is propelled mostly thanks to the improvement in the labor market, which is characterized with increasing demand for labor force amid increasing - due to demographic reasons - shortages of supply. These factors are lowering the unemployment rate, at the same time propelling wages' growth – and these two combined are pushing consumer confidence indicators to record-highs. An additional factors are transfers within the Family 500 plus government program, which should dominate at least in the next one-two years, meaning favorable environment for, among others, banking business. It should be kept in mind, though, that the demographic challenges will intensify in the coming years, posing a challenge for the whole economy.

When it comes to investments, year 2017 should bring the beginning of implementation of investments within the EU financial perspective 2014-2020. However, many factors suggest this will happen in the second half of the year, and a sizeable "jump" in the level of the funds utilized will happen in 2018. Regarding private sector investments, the key factor will be limiting of the regulatory uncertainty, as many other factors (such as: high level of capacity utilization, good current financial results of the enterprises, sizeable accumulated profits, an exchange rate favorable for exporters, high level of amortization of existing productive assets, necessity to substitute labor with capital due to demographic challenges etc.) suggest the need or even necessity to invest by the private sector. It is anticipated gradual improvement with regard to private investments.

The forecast assumes ca. 3.0% of the GDP growth in 2017, after 2.8% in 2016.

In 2017, tax and regulatory environment is still going to have significant influence on banks' business and earnings, including in particular:

- Tax on certain financial institutions in force – this so-called bank levy was introduced in February 2016. In case of banks, the tax base is assets value (net of selected items). According to available information, in 2017 the tax is going to be charged according to the same rules as in previous year,
- growing requirements concerning the level of banks own capital,
- burdens related to the functioning of the BFG. In 2017, certain rules concerning calculation of the contribution are subject to change. As a result the burden for individual banks is going to be, to a higher extent than before, dependent on their risk profile. Moreover, in addition to pre-defined yearly contributions, an ad-hoc need for financing of the BFG may arise, as it did in previous years.

Strict tax and regulatory environment will continue to constrain banks' credit expansion.

It is hard to expect in 2017 a positive one-off event in the type of the one in 2016, when banks' shares in Visa Europe were sold to Visa Inc. It cannot be ruled out, however, that an opposite event may occur, namely an unexpected one-off burden for the sectors' earnings.

In 2017, it should be expected maintaining of the relatively high pace of growth of households' deposits. It is associated with favorable situation on labour market (growing employment and wages), as well as social programs carried out by the government. In case of the enterprises, the fall in deposits' interest rates led to higher attractiveness of other forms of funds placement. In addition, in case of international groups it also caused lower propensity to locate financial surplus in Poland. Such situation may lead to lower growth of corporate deposits in 2017.

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As for loans, in 2017 limited growth is to be expected, both in households and corporate portfolio. In case of enterprises, a low propensity to invest is visible (which is connected with uncertainty generated on global and local level). In turn for households, a low growth pace of loans portfolio is being influenced by, among others, growing requirements with regard to a down-payment (from 2017, requirement account for 20%) and growing scale of repayments of principal installments from loans taken out in the past.

In 2017, monetary policy may be among important factors influencing bank results. A rebound of inflation in Poland as at the end of last year with an outlook to maintain such a trend in 2017 greatly decreased the risk of another interest rate cuts. At the same time, if the CPI growth is higher than current expectations, the probability will rise for the Monetary Policy Council to start the cycle of rates hike in the second half of 2017. This would benefit the banks' net interest income.

In the Parliament works are conducted concerning the project of law on returns for some of the loans agreements. It assumes, that in case of FX loans, banks will have to return to the clients the difference between acceptable spread (the difference between the rate of buying and selling of the currency set by the law) and the one actually charged. Estimates point out, that if the law is passed the cost for the banking sector may amount to couple of billions of the zloty. The new law also provided space for introducing supervisory actions that are meant to induce banks to propose to their clients a conversion of FX loans on conditions beneficial to customers. 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 S.A. in 2007), the Bank assesses that potentially taken solutions should not materially affect the financial standing of the Group.

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9.2 Directions of the activities and business priorities

Bank Pekao S.A. is a universal commercial bank focused on conducting business activity on the Polish market. The strategic objective of the Bank is further business development and stable growth thanks to its strong capital and liquidity position while maintaining the highest standards of risk management and further improvement of cost efficiency. The Bank aims to maintain sustainable flow of income and increase its share in the sector income through strengthening its market position in the areas with the largest value creation potential and by effective margin management.

The Bank's philosophy is based on the customer-centric approach, adjusting its products offer and operational model to the changing clients' needs. The Bank aims to build long-term relationships with clients, allowing to ensure sustainable business growth.

The Bank's business model is based on customer segmentation identifying the following groups of customers:

- individual customers – embracing retail, affluent and private banking clients. Segmentation is based on monthly inflows or assets under management. Each segment has its own business model adjusted to the clients' needs,
- small and micro enterprises (SME) – customers are served by dedicated advisors with the support of product specialists. Service is carried out in retail branches as well as in specialized Business Customer Hubs. Customers are offered professional products and services adjusted to individual clients' needs,
- corporate customers – embracing medium and large companies. Segmentation takes into account the turnover value, sector, type of ownership (public/private, domestic/international, etc.). Customers are served by dedicated advisors with the support of product specialists enabling to optimize service level and cost. Customer advisors are focused on providing high-quality and effective service, using the best practices and integrated sales management tools.

The Bank offers competitive products and services on the Polish market, high service quality and nationwide, well-developed and easily accessible network of branches and ATMs as well as professional call center and a competitive Internet and mobile banking platform for individuals, corporate, small and micro enterprises.

Thanks to the scale of operations, strong capital and liquidity structure and balance sheet strength with a high level of solvency ratio and high surplus of deposits in relation to granted loans, the Bank has competitive advantages that allow effectively compete on the market.

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Directions of the activities and business priorities for the year 2017

The Bank's will continue the activities conducted in the previous years. Favourable macroeconomic scenario and strong Bank's fundamentals support the continuation of determined directions, despite still growing regulatory pressure, and introduction of significant additional banking sector financial burdens made last year.

In 2017, the Bank's priority will continue to be further business development and reinforcement of market position in selected areas while maintaining the highest standards of risk management, effective margin management and further operational efficiency improvement, keeping the liquidity and capital position at safe levels, while striving to ensure sustainable and attractive dividends. The Bank will aim to gradual improvement of business profitability by improving the structure and the level of achieved incomes as well as by further cost efficiency enhancement.

It is expected acceleration of high economic growth to the level of 3%, what allow to maintain the demand for loans in the sector at a level of 3%, similar to the level reached in 2016. At the same time a deposit growth at the level of 7% is expected, which will surpass loans dynamics for consecutive year and lead to further lowering loans to deposits ratio in the sector. The Bank, thanks to its competitive advantages, among others, strong capital position aims to continue its strategy of increasing lending activity and strengthening its market position in strategic areas that provide the largest value creation potential.

The Bank's goal is to build the position of the most recognizable bank in Poland thanks to the professionalism of its activities and value creation for the customer. The Bank's activities will be focused on increasing customer satisfaction with provided services through meeting the customer's needs, improvement of service quality and delivering the best on the market solutions that enable clients to reach their financial goals.

In the individual customer segment, the Bank will continue to grant consumer loans and mortgage loans denominated in PLN leveraging on long-term experience in selling these products and proved business model focused on effective and efficient adaptation of the offer to the clients' needs, while maintaining ethical principles in lending and reasonable risk level. In order to adopt best offer to the changing clients' preferences, the Bank will continue to upgrade CRM system and multi-module analytical tools and algorithms while developing sales of products via remote channels and automating and simplifying processes. Thinking about the future of clients, the Bank intends to continue the development of product offer proposing the best and proven savings and insurance solutions, building long-term relationships with the clients.

In the business customer segment, the Bank's focus is to reinforce its leading position in the corporate lending, transactional banking services as well as organisation and servicing of corporate bonds issuance. The Bank, leveraging on its experience, aims to support the clients in utilizing 2014-2020 EU funds assigned for building a modern and competitive economy. In addition, the Bank will continue the development of cooperation with customers from the agri-food sector.

In order to ensure the highest service quality for corporate as well as small and micro enterprises (SME), the Bank will continue working on the best adoption of its business model to the changing clients' requirements by simplifying business procedures, which should improve client satisfaction, and providing innovative financial solutions.

The Bank will continue acquisition of new clients consistently working on the number of customers increase in all segments. Investments in innovative products and solutions will be one of the elements that increase the attractiveness of the Bank's offer and allow to increase the number of customers served. The Bank will continue the development of remote distribution channels (multichannels / omnichannel), including the Internet and mobile banking exploring innovative solutions available on the market, allowing the customer to use the banking services on multiple devices, among others, computer, mobile/smartphone, tablet. Providing ready-made solutions, tailored to the needs of given customer through the remote channels, without branch visit, making life of the Bank's customers easier, remains one of the Bank's key objectives. The Bank intends to further develop mobile payment system by combining it with banking mobile system in one application, which should enable further dynamic increasing the number of active users and transaction volumes.

The Bank will continue the activities aimed at improving operational efficiency focusing on processes optimisation, gradual adjustment of the distribution channels structure to the evolving customer needs and simplification of the organizational model.

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10 Representations of the Bank's Management Board

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

- Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2016 and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner Bank Pekao S.A. Group financial position and their results,
- Report on the activities of Bank Pekao S.A. Group for the year 2016 provides the true picture of Bank Pekao S.A. Group 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 Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2016 has been selected in line with the binding legal regulations. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the annual consolidated financial statement, in line with the binding provisions of the law and professional standards.

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11 Statement of Bank Polska Kasa Opieki Spółka Akcyjna on application of Corporate Governance Standards in 2016

According to the ordinance of Minister of Finance dated February 19, 2009 *on current and periodic information published by issuers of securities and the conditions for recognition as equivalent the information required by the laws of a non-member state*¹, Bank Polska Kasa Opieki Spółka Akcyjna (the "Bank") states that it falls within the following set of corporate governance rules, including standards that issuer applies voluntarily and corporate governance practices used by issuer beyond the requirements of national law.²

General corporate governance rules i.e. a system of regulations and procedures defining guidelines for the activities of the Bank's governing bodies, including their relations with entities interested in the Bank's activities (stakeholders) result from laws regulations, especially from the Commercial Companies Code and the Banking Law, capital market regulations, as well as the rules laid down in: Code of Best Practice for WSE Listed Companies 2016, Corporate Governance Rules for the Supervised Institutions issued by the Financial Supervision Authority on July 22, 2014 and Code of Banking Ethics of Polish Bank Association.

In 2016, the Bank applied corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies 2016³ set by WSE Supervisory Board's Resolution No. 26/1413/2015 of October 13, 2015. Recommendation No. IV.R.2 did not apply to the Bank due to shareholder's structure, lack of notifications regarding shareholders expectations concerning mode of conducting General Meeting with the use of electronic communication means and lack of possibility to ensure technical infrastructure necessary to efficiently conduct General Meeting with the use of electronic communication means and to maintain relevant level of electronic communication security during General Meeting. The Bank ensured General Meeting transmission in real time via Internet.

In 2016, the Bank also applied Corporate Governance Rules for the Supervised Institutions issued by the Polish Financial Supervision Authority on July 22, 2014⁴ with the exclusion of:

- chapter 9 of the Rules related to asset management at the client's risk, in view of the fact that the Bank does not pursue any activity in this area,
- § 49 section 4 and § 52 section 2 of the Rules in view of the fact that there is an audit unit and a compliance unit functioning in the Bank,
- § 45 section 2 of the Rules in terms of risk assessment concerning failure to achieve the objectives of the internal control system due to ongoing adjustment works.

Moreover, taking into account the lack of possibility for the Bank to ensure the technical conditions necessary to correctly identify shareholders and to ensure the appropriate level of security of electronic communication during the Ordinary General Meeting of the Bank for 2015, in particular during the process of voting at the General Meeting, the Management Board has resolved not to allow participation in this General Meeting with the use of electronic communication means and hence has decided not to apply § 8 section 4 of Corporate Governance Rules for the Supervised Institutions.

Information about not applying the above mentioned rule was published by the Bank on the website, in accordance with Corporate Governance Rules for the Supervised Institutions.

¹ Journal of Laws 2014.133 unified text, as amended

² Par. 91.5.4.a and b of the ordinance of the Minister of Finance of February 19, 2009

³ The document is publicly available on the WSE website: http://www.gpw.pl/dobre_praktyki_spolek_regulacje

⁴ The document is publicly accessible on the Polish Financial Supervision Authority web site: <http://www.knf.gov.pl/regulacje/praktyka/index.html>

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In the announcement on convening the Ordinary General Meeting of the Bank published in the current report 5/2016 on May 12, 2016 the Bank informed that: "Considering the fact that the Shareholding of the Bank is characterized by a large number of shareholders, geographical and linguistic diversity, which means that for the Bank to meet the requirements necessary to identify the shareholders correctly and to ensure the appropriate level of security of electronic communication it is necessary for the Bank to provide highly advanced technical solutions which currently the Bank is not in possession of, in accordance with Art. 406⁵ § 2 of the Commercial Companies Code and § 8a sec. 2 of the Statute of the Bank, the Management Board of the Bank resolved not to allow participation with the use of electronic communication means in the Ordinary General Meeting of the Bank for the year 2015."

The Management Board of the Bank defines whether the participation in the General Meeting with the use of electronic communication means is possible if the Bank meets technical conditions necessary to participate in the General Meeting with the use of electronic communication means.

In 2016, the Bank applied corporate governance rules laid down in the Code of Banking Ethics of Polish Bank Association.⁵

Furthermore, the Bank applied corporate governance rules resulting from UniCredit Group Integrity Charter⁶ as requirements beyond requirements under national law.

The activities undertaken by the Bank comply with the laws regulations, the Bank's Statute, internal Bank's regulations, supervisory and control bodies recommendations, good practices standards and ethic norms.

Acting in compliance with par. 91.5.4.c–k of above mentioned ordinance of Minister of Finance dated February 19, 2009, the Bank presents following information:

1) The description of key features of the Bank's internal control and risk management systems related to the preparation of financial statements and consolidated financial statements⁷

The Management Board of the Bank is responsible for developing and implementing of an adequate, effective and efficient internal control system and risk management system with respect to the preparation of financial statements.

The Supervisory Board oversees the functioning of the internal control system by assessing its adequacy, effectiveness and efficiency through the Audit Committee and the Internal Audit Department.

The internal control system within the process of financial statements preparation is aimed at ensuring reliable, complete and correct disclosure of all commercial transactions executed over a given period.

The accounting policy adopted by the Bank, which is compliant with the International Financial Reporting Standards (IFRS), the chart of accounts and reporting databases take into account the format and the extent of detail of the financial data disclosed in the financial statements, in accordance with the requirements and rules applied by the parent entity. The Bank maintains its accounting books in the form of separate IT resources in its IT systems, in line with the adopted business structure. The IT systems ensure access to intelligible and centralized data, separately for each system, which confirm the accounting records and make it possible to control records continuity and transfer account activity and balances, as well as draw up financial statements.

The accounting books are reconciled against reporting databases.

The responsibility for preparation of financial statements, periodic financial reporting and information management rests with the Financial Division supervised by the Vice President of the Bank's Management Board.

UniCredit S.p.A. as the parent company of the Bank is subject to the provisions of the Italian "Savings Act 262" (law 262/2005). Therefore in the Bank there has been implemented a verification process of its operational and audit procedures applied in the drawing up of the financial statements, in accordance with UniCredit S.p.A. guidelines arising from the above provisions.

⁵ The document is publicly accessible on the Polish Bank Association web site: <http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej>

⁶ The document is publicly available on Bank Pekao S.A. website: http://www.pekao.com.pl/o_banku/misja/#tab2

⁷ Par. 91.5.4.c of the ordinance of the Minister of Finance of February 19, 2009

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2) Identification of shareholders owning directly or indirectly a significant block of shares together with identification of number of shares owned by those shareholders, percentage of shareholders share in share capital, number and percentage of votes at the Bank's General Meeting resulting from owned shares⁸

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As a result of realization block trades in the mode of the accelerated bookbuilding, concluded on July 13, 2016, UniCredit S.p.A. has sold 26,247,003 of the Bank shares. Those transactions were settled on July 15, 2016.

Before the sale UniCredit S.p.A. held 131,497,488 of the Bank shares, which accounted for 50.10% of the Bank share capital and corresponded to the same amount of votes at the Bank General Meeting and the same percentage the total votes at the Bank's General Meeting of Shareholders accordingly.

After the transaction and as at December 31, 2016, UniCredit S.p.A. held 105,250,485 of the Bank shares, which accounted for 40.10% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders. The remaining shareholders held 59.90% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders.

Since none of the remaining shareholders held more than 5% of the total vote at the Bank's General Shareholders Meeting, they were not required to disclose acquisitions of the Bank's shares.

The shareholders of the Bank owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the Bank's General Shareholders Meeting 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
	DECEMBER 31, 2016		DECEMBER 31, 2015	
UniCredit S.p.A.	105,250,485	40.10%	131,497,488	50.10%
Other shareholders (below 5%)	157,219,549	59.90%	130,972,546	49.90%
Total	262,470,034	100.00%	262,470,034	100.00%

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

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

Moreover in the current report No. 31/2016 on December 8, 2016 the Bank informed that it had received communication from UniCredit S.p.A. concerning announcement on sale offer of 1,916 of certificates exchangeable for the Bank shares (equity linked certificates) of total reference value of approx. EUR 500 million, compulsorily settled in the Bank common shares no later than on December 15, 2019. Those certificates shall be used to sell the remaining 7.3% of the Bank shares belonging to UniCredit S.p.A. (after the conclusion of sale agreement mentioned above).

⁸ Par. 91.5.4.d of the ordinance of the Minister of Finance of February 19, 2009

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3) Identification of holders of any securities with special control rights with description of those rights⁹

According to the Bank's Statute 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 laws.

Securities issued by the Bank do not give their holders any special control rights.

4) Identification of any restrictions of voting rights, such as restriction of voting rights of holders of given number or percentage of votes, temporary restrictions of voting or provisions according to which, with co-operation of a company, rights resulting from securities are separated from the fact of holding those securities¹⁰

According to the Bank's Statute there are no restrictions of voting rights.

5) Identification of any restrictions of ownership transfer of securities issued by the Bank¹¹

According to the Bank's Statute there are no restrictions of ownership transfer of the Bank's shares.

6) Description of rules governing appointment and dismissal of Members of managerial bodies and their rights, in particular right to decide whether to issue or repurchase shares¹²

Management Board

As stated in the Bank's Statute the Management Board is composed of 5 to 9 Members. Members of the Management Board are appointed by the Supervisory Board for the common term, which shall last three years. The Management Board comprises the President of the Management Board of the Bank, Vice Presidents of the Management Board of the Bank and Members of the Management Board of the Bank. Vice Presidents and Members of the Management Board are appointed and removed on the motion of the President. Appointment of the President of the Management Board and the Member of the Management Board supervising significant risk management or entrusting this function to the appointed Member of the Management Board, is subject to approval by the Financial Supervision Authority. The body which applies to the Financial Supervision Authority for the approval is the Supervisory Board.

At least half of the Members of the Management Board, including its President, should possess a thorough knowledge of the Polish banking market, i.e. they should meet all of the following criteria:

- they have professional experience gained on the Polish market, relevant for the performance of a managerial function at the Bank,
- they are permanently domiciled in Poland,
- they have command of the Polish language.

The Management Board runs the business and represents the Bank. Each Member of the Bank's Management Board is obliged to undertake actions in Bank's interest. Members of the Management Board are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be incompatible with the Bank's interests or their official duties. A Management Board Member is obliged to notify the Management Board of the Bank of any situation in which a conflict of interests might occur or has occurred as well as refrain from participating in discussion and voting on resolution in case of which a conflict of interest has occurred.

Members of the Management Board shall have rights under the generally applicable law.

According to the Bank's Statute they have no right to decide whether to issue or purchase shares.

9 Par. 91.5.4.e of the ordinance of the Minister of Finance of February 19, 2009

10 Par. 91.5.4.f of the ordinance of the Minister of Finance of February 19, 2009

11 Par. 91.5.4.g of the ordinance of the Minister of Finance of February 19, 2009

12 Par. 91.5.4.h of the ordinance of the Minister of Finance of February 19, 2009

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7) Description of rules governing amendment of the Statute of the Bank¹³

Amendment of the Bank's Statute requires adoption by way of resolution of the Bank's General Shareholders Meeting as well as registering the amendment in the National Court Register. Procedure of the General Shareholders Meeting of the Bank¹⁴ defines detailed rules of conducting the Bank's General Shareholders Meetings and adopting resolutions. The Bank's General Shareholders Meetings resolutions concerning the amendments of the Bank's Statute are being adopted by the three-quarter majority, whereas according to the Bank's Status the Bank's General Shareholders Meeting is entitled to adopt resolutions only if at least 50% of shares plus one share is represented. Moreover, as stated in Par. 34.2 of the Banking Act, any amendment of the Statute of the Bank shall require the authorization of the Polish Financial Supervision Authority where such amendment relates to:

- the company name,
- the bank's registered office, objects and scope of activity taking into consideration activities defined in par. 69.2.1-7 of the Act on Trading in Financial Instruments of July 29, 2005 that the bank intends to perform according to Par. 70.2 of this Act,
- the statutory bodies and their competences, including particularly the competences of the members of the management board appointed with acceptance of the Polish Financial Supervision Authority and decision making standards, the basic organizational structure of the bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions concerning the undertaking of commitments or disposal of assets whose total value with regard to a single entity exceeds 5% of the bank's own funds,
- the principles of functioning of the management system, including internal control system,
- the own funds and financial management principles, and
- voting preference or limitation attached to shares of a bank.

8) Functioning of the General Shareholders Meeting and its key powers, as well as description of the rights of shareholders and the manner of exercising these rights, in particular rules resulting from Rules of Procedure for the General Shareholders Meeting, unless these rules result directly from generally applicable law¹⁵

The operation of the Bank's General Shareholders Meeting is governed by the Rules of Procedure for the Bank's General Shareholders Meeting, adopted by way of Resolution No. 19 of April 8, 2003, amended by way of Resolution No. 41 of May 5, 2009 and Resolution No. 41 of June 1, 2012. The Regulation of Shareholders' Meetings of the Bank was amended by resolution No. 42 dated June 16, 2016 of the Ordinary General Meeting of the Bank which shall enter into force on the day following the next shareholder's General Meeting. The Regulation of Shareholders' Meetings of the Bank defines detailed rules of conducting General Shareholders Meetings and adopting resolutions. The Rules of Procedure are available to the public on the Bank's website¹⁶.

Apart from powers and authorities mentioned in binding laws, in particular in the Code of Commercial Companies and the Banking Law Act, in the Regulators' recommendations and the Bank's Statute, the Bank's General Shareholders Meeting has the following powers and authority:

- to review and approve the report on the Bank's operations and the Bank's financial statements for the previous financial year,
- to adopt a resolution on profit distribution or coverage of loss,
- to review and approve the report on the activities of the Supervisory Board,

¹³ Par. 91.5.4.i of the ordinance of the Minister of Finance of February 19, 2009

¹⁴ Adopted by virtue of the Resolution of the General Shareholders Meeting No. 19 of April 8, 2003

¹⁵ Par. 91.5.4.j of the ordinance of the Minister of Finance of February 19, 2009

¹⁶ http://www.pekao.com.pl/informacje_dla_inwestorow/walne-zgromadzenia-banku/

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- to grant discharge to Members of the Supervisory Board and Management Board in respect of their duties,
- to review and approve the report on the Group's operations and the Group's financial statements,
- to set the dividend record date and dividend payment date,
- to dispose of or lease a business or its organized part, and to encumber it with limited property rights,
- to amend the Bank's Statute and to draft its consolidated text,
- to increase or decrease the Bank's share capital,
- to issue convertible bonds, bonds with pre-emptive rights to acquire shares, and subscription warrants,
- to retire shares and to define the terms of retirement,
- to decide on the Bank's merger, demerger or liquidation,
- to create and release special accounts,
- to appoint and remove from office Members of the Supervisory Board, taking into account assessment of fulfilment of the suitability requirements,
- to define the remuneration rules for Members of the Supervisory Board,
- to conclude an agreement with a subsidiary which provides for the management of the subsidiary or for the transfer of profit by the subsidiary,
- to appoint the entity authorized to examine financial statements and review the financial statements,
- to deal with other matters falling within the scope of the Bank's activities which are submitted to the Bank's General Shareholders Meeting.

The Bank's General Shareholders Meeting is convened via the Bank's website and in a way determined for passing current information according to rules regarding public offer and conditions, under which the financial instruments are introduced to organized turnover system and to rules regarding public companies. The convocation have to take place at least twenty-six days before the Bank's General Shareholders Meeting.

The Ordinary General Shareholders Meeting should take place once a year, not later than in June. When determining the date of the Bank's General Shareholders Meeting, the Management Board seeks to enable as many shareholders as possible to participate in the Meeting.

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The Statute allows the participation in the General Meeting with the use of electronic communication means if the Management Board adopts such decision. Management Board adopts decision mentioned in the previous sentence in the case of fulfilling by the Bank technical conditions necessary for participation in the General Meeting with the use of electronic communication means what covers in particular:

- 1) real-life broadcast of General Meeting,
- 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from location other than the General Meeting,
- 3) exercising the rights to vote during a General Meeting either in person or through a plenipotentiary.

According to the Statute, in each case of convening the General Meeting, the Management Board of the Bank defines whether the participation in the General Meeting with the use of electronic communication means is possible and what are the requirements and limitations necessary to identify of shareholders and to ensure the safety of electronic communication. Detailed conditions of participation in the General Meeting with the use of electronic communication means are specified in regulation adopted by the General Meeting and notice of calling the General Meeting.

The Bank's Supervisory Board can convene Annual General Shareholders Meeting, if the Management Board does not convene it in due time stated in the Statute and the Extraordinary Shareholders Meeting, if necessary.

The full documentation which is to be presented to the Bank's General Meeting, together with the drafts of resolutions and information concerning the Bank's General Meeting are made available to persons entitled to participate in the Bank's General Meeting on the Bank's website and in paper form which is available in the Bank's Headquarters, Warsaw, Żwirki i Wigury Street 31. Information in this respect is covered by announcement about convening the General Meeting, in accordance with Art. 402² of Code of Commercial Companies.

Official copies of the Bank's Management Board on the Bank's operations and financial statements as well as copies of the Supervisory Board's report and external auditor's opinion are issued to shareholders upon request no later than 15 days prior to the Bank's General Meeting date.

The rights of the Bank's shareholders include in particular:

- the right of shareholders holding at least a half of the share capital or at least a half of the votes to convene Extraordinary Meeting of Shareholders. In this case, the shareholders elect the chairman of the Bank's General Meeting,
- the right of shareholders holding at least the twentieth of share capital to demand that specific issues be placed on the agenda of the next Bank's General Shareholders Meeting. The demand should include the justification and the project of resolution's project concerning proposed issue and should be submitted to the Management Board no later than 21 days prior to the Meeting date. The Management Board is obliged to announce changes in the Meeting agenda introduced because of shareholder's demand as fast as possible and no later than 18 days prior to the Meeting date. The Announcement takes place according to the way proper for General Meeting convocation,
- the right of shareholders holding at least the twentieth of share capital to submit via electronic communication media projects of resolutions concerning issues introduced to the Bank's General Meeting agenda or issues, which are supposed to be introduced to the Meeting agenda before the date of holding the Bank's General Meeting. The Bank instantly announces projects of resolutions on the Bank's website,
- the right of every shareholder to submit projects of resolutions concerning issues introduced to the Meeting's agenda,
- the right of shareholders to participate in the Bank's General Shareholders Meeting personally or by proxy,
- the right of shareholders holding a tenth of the share capital represented at the Bank's General Shareholders Meeting to demand that the attendance list of the Bank's General Shareholders Meeting be checked by a committee appointed for that purpose and composed of at least three persons, including one person appointed by the parties making the demand,

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- the right according to which the Bank's General Shareholders Meeting is not allowed to adopt a resolution to remove an item from the agenda or not to consider an issue which was placed on the agenda upon request of shareholders unless the shareholders express their consent to the same,
- the right according to which the Bank's General Shareholders Meeting may not be adjourned deliberately to obstruct the exercise of the shareholders rights,
- the right of each individual participant of the Bank's General Shareholders Meeting to nominate one or more candidates for membership on the Bank's Supervisory Board,
- the right of shareholders holding at least a fifth of the share capital to demand block voting on the appointment of the Supervisory Board; a relevant request should be submitted to the Management Board in writing at such time as to enable its placement on the agenda of the Bank's General Shareholders Meeting,
- the right to inspect the book of minutes and to receive copies of resolutions authenticated by the Management Board,
- the right according to which the Chairperson of the Bank's General Shareholders Meeting is obliged to ensure that the rights of minority shareholders are respected,
- the right of shareholders who raise an objection against a resolution to justify the objection in a concise manner.

All issues submitted to the Bank's General Shareholders Meeting have the recommendation of the Supervisory Board. According to Par. 9 of the Bank's Statute, issues submitted to the Bank's General Shareholders Meeting should be submitted to the Supervisory Board for consideration.

The Bank's General Shareholders Meetings are attended by Members of the Management Board and Supervisory Board in makeup that enables providing content-related answers to question in discussion. An auditor is present at the General Shareholders Meeting in particular Ordinary General Shareholders Meeting, if financial matters of the Bank are to be discussed at the Meeting.

The Bank's Management Board, as a body responsible for providing legal service to the Bank's General Shareholders Meeting, exerts every effort to ensure that resolutions are formulated in a clear and unambiguous manner.

The Rules of Procedure for the Bank's General Shareholders Meeting contain provisions (Par. 13.10–17) regarding block voting on the appointment of the Supervisory Board.

Any amendments to the Rules of Procedure for the Bank's General Shareholders Meeting take effect as of the date of the next General Shareholders Meeting.

In the course of performing their responsibilities, the Bank's governing bodies ensure that the interests of majority shareholders are served in such a way as not to prejudice the interests of the minority shareholders. The above principle finds its practical implementation in the proper composition of the Supervisory Board, which comprises representatives of both majority and minority shareholders. Thus, the interests of all shareholder groups are accounted for in carrying out the supervisory function. The principle of the majority rule is reflected in Par. 10.2 of the Bank's Statute, whereby the Bank's General Shareholders Meeting may adopt resolutions if at least 50% of the share capital plus one share is represented at the Meeting. The purpose of this provision is to guarantee that resolutions on matters most important to the Bank and its shareholders are adopted by the Bank's General Shareholders Meeting in the presence of shareholders representing jointly an absolute majority of the share capital. However, if a resolution is not adopted for lack of quorum, as defined above, the resolution may be adopted at the next Meeting with the same agenda, in the presence of shareholders representing at least 20% of the share capital.

The Chairperson of the Bank's General Shareholders Meeting is responsible for the orderly conduct of the meeting and ensures that the rights and interests of all shareholders are respected, that any abuse of rights by the participants is prevented, and that the rights of minority shareholders are observed.

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Within the scope of their competence and to the extent necessary to resolve issues placed under discussion of the Bank's General Shareholders Meeting, Members of the Supervisory Board, Members of the Management Board and the auditor provide the participants with the required explanations and information concerning the Bank.

Voting on procedural matters may be carried out only on issues related to the conduct of the Meeting. This voting procedure cannot be applied to resolutions which may have impact on the exercise of the shareholders rights.

Removing an item from the agenda or a decision not to consider an issue placed on the agenda at the request of shareholders requires a resolution of the Bank's General Shareholders Meeting, adopted with a three-quarter majority of the votes, following approval by all the present shareholders who submitted such a request.

9) Composition of the Bank's managerial, supervisory or administrative bodies and its committees, and its changes that occurred during last financial year as well as rules of procedure¹⁷

Management Board

As at January 1, 2016 the Management Board of the Bank was composed of the following persons:

Luigi Lovaglio	President of the Management Board, CEO,
Diego Biondo	Vice President of the Management Board,
Andrzej Kopyrski	Vice President of the Management Board,
Adam Niewiński	Vice President of the Management Board,
Grzegorz Piwowar	Vice President of the Management Board,
Stefano Santini	Vice President of the Management Board,
Marian Ważyński	Vice President of the Management Board.

With the effect from June 16, 2016 the mandates of Management Board Members expired. Therefore, on the meeting of June 6, 2016 the Supervisory Board, taking into account the assessment of fulfilment of the suitability requirements appointed the Management Board Members for three-year joint term, starting on June 17, 2016.

The following persons were appointed as members of the Management Board:

Luigi Lovaglio	as the President of the Management Board, CEO,
Diego Biondo	as Vice President of the Management Board, supervising material risk management in the Bank's activity,
Andrzej Kopyrski	as Vice President of the Management Board,
Grzegorz Piwowar	as Vice President of the Management Board,
Stefano Santini	as Vice President of the Management Board,
Marian Ważyński	as Vice President of the Management Board,
Adam Niewiński	as Vice President of the Management Board.

¹⁷ Par. 91.5.4.k of the ordinance of the Minister of Finance of February 19, 2009

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As at December 31, 2016 the Management Board was composed of the following persons:

Luigi Lovaglio	President of the Management Board, CEO,
Diego Biondo	Vice President of the Management Board, supervising material risk management in the Bank's activity,
Andrzej Kopyrski	Vice President of the Management Board,
Grzegorz Piwowar	Vice President of the Management Board,
Stefano Santini	Vice President of the Management Board,
Marian Ważyński	Vice President of the Management Board,
Adam Niewiński	Vice President of the Management Board.

The Management Board of the Bank acts according to the Bank's Statute and the Rules of procedure adopted by virtue of its Resolution No. 480/XII/2014 of December 22, 2014. The previously binding Resolution of the Management Board No. 101/VI/03 of June 3, 2003 expired. The Rules of procedure shall in particular define the matters which require joint consideration by the Management Board, as well as the procedure for adopting a resolution in writing. The Rules of Procedure of the Management Board are available on the Bank's website¹⁸. The Members of the Management Board shall coordinate and supervise the activity of the Bank pursuant to the binding division of competence adopted by the Management Board and approved by the Supervisory Board.

According to the Bank's Statute, the Management Board shall conduct the matters of the Bank and represent the Bank. Issues not reserved by virtue of the provisions of the law or of the Statute to fall within the scope of competence of other Bank's statutory bodies, shall fall within the scope of competence of the Bank's Management Board. The Management Board of the Bank in the framework limited by the rules of the binding Polish law submits all required information and data to UniCredit S.p.A. as the parent company. The Management Board of the Bank, operating through the statutory bodies of the subsidiaries of the Bank, coordinates and affects their activities aimed at ensuring the stability of the Group.

Pursuant to the provisions of the Rules of procedure, the Bank's Management Board prepares the development strategy for the Bank and is responsible for the implementation and execution of that strategy. The Supervisory Board issues its opinions on the Bank's long-term development plans and annual financial plans, prepared by the Management Board. The Management Board ensures that the management system at the Bank is transparent and effective, and runs the Bank's affairs in compliance with applicable laws and Best Practices. The core values underlying the management of the Bank are professionalism, credibility and confidentiality, while customer relations are underpinned by reliability and integrity, as well as compliance with applicable laws, including the provisions on anti-money laundering and financing of terrorism.

Pursuing the principle of efficient and prudent management, the Management Board is responsible for initiation and implementation of programs aimed at increasing the Bank's value and rate of return for the shareholders, as well as protection of the employees' long-term interests. In its decisions, the Bank's Management Board makes every effort to ensure, to the maximum extent possible, the promotion of the interests of the shareholders, creditors, employees, as well as other entities and persons co-operating with the Bank in its business activity.

¹⁸ http://www.pekao.com.pl/o_banku/wladze_Banku/

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Supervisory Board

As at January 1, 2016 the Supervisory Board of the Bank was composed of the following persons:

Jerzy Woźnicki	Chairman of the Supervisory Board,
Roberto Nicastro	Deputy Chairman of the Supervisory Board,
Leszek Pawłowicz	Deputy Chairman of the Supervisory Board,
Alessandro Decio	Secretary of the Supervisory Board,
Dariusz Filar	Member of the Supervisory Board,
Katarzyna Majchrzak	Member of the Supervisory Board,
Laura Stefania Penna	Member of the Supervisory Board,
Wioletta Rosołowska	Member of the Supervisory Board,
Doris Tomanek	Member of the Supervisory Board.

The Ordinary General Meeting of Shareholders of the Bank on June 16, 2016 appointed Members of the Supervisory Board of the Bank for three-year joint term starting on June 17, 2016.

The following persons were appointed as Members of the Supervisory Board: Dariusz Filar, Massimiliano Fossati, Katarzyna Majchrzak Giovanni Papa, Leszek Pawłowicz, Laura Stefania Penna, Wioletta Rosołowska, Doris Tomanek, Jerzy Woźnicki,

At the meeting on July 22, 2016 the Supervisory Board appointed:

Jerzy Woźnicki	as Chairman of the Supervisory Board,
Gianni Papa	as Deputy Chairman of the Supervisory Board,
Leszek Pawłowicz	as Deputy Chairman of the Supervisory Board,
Massimiliano Fossati	as Secretary of the Supervisory Board,

As at December 31, 2016 the Supervisory Board of the Bank was composed of the following persons:

Jerzy Woźnicki	Chairman of the Supervisory Board,
Gianni Papa	Deputy Chairman of the Supervisory Board,
Leszek Pawłowicz	Deputy Chairman of the Supervisory Board,
Massimiliano Fossati	Secretary of the Supervisory Board,
Dariusz Filar	Member of the Supervisory Board,
Katarzyna Majchrzak	Member of the Supervisory Board,
Laura Stefania Penna	Member of the Supervisory Board,
Wioletta Rosołowska	Member of the Supervisory Board,
Doris Tomanek	Member of the Supervisory Board.

Wioletta Rosołowska resigned from the position of the Member of the Supervisory Board as of the end of December 31, 2016.

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On January 13, 2017 the Bank Management Board informed in the current report No. 2/2017 that Gianni Papa, Massimiliano Fossati, Laura Stefania Penna and Doris Tomanek resigned 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 (fifty-two million four hundred and ninety-four thousand and seven) shares in the Bank to Powszechny Zakład Ubezpieczeń S.A. and (ii) the direct sale by UniCredit S.p.A. of 26,247,003 (twenty-six million, two hundred and forty-seven thousand and three) shares in the Bank to Polski Fundusz Rozwoju S.A.

The Supervisory Board acts on the basis of the Rules of procedure adopted by virtue of its Resolution No. 10/15 of February 6, 2015. amended by the resolution No. 54/15 of the Supervisory Board of December 18, 2015. The Rules of procedure of the Supervisory Board are available on the Bank's website¹⁹.

The role of the Supervisory Board is to exercise a general and permanent supervision over the Bank's activities, taking into consideration the Bank's function of a parent company regarding subsidiaries of the Bank. Apart from the competence defined in law, the Supervisory Board possesses competences stated in the Bank's Statute, the Supervisory Board in particular examines every matter submitted to the Bank's General Shareholders Meeting.

The Supervisory Board Members always act with due regard to the Bank's interests and take all actions necessary to ensure efficient functioning of the Supervisory Board. Moreover, Members of the Supervisory Board of the Bank are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be not in line with the Bank's best interest. About existing or potential conflict of interests the Member of the Supervisory Board informs the Supervisory Board and restrains from participating in a discussion and voting on resolution regarding issue in the case of which a conflict of interest occurred.

Each year, according to regulations in force, the Supervisory Board prepares and submits to the Bank's General Shareholders Meeting an assessment of the report on the activities of the Bank and the Group prepared by the Bank's Management Board, assessment of the Bank's financial statements and consolidated financial statements of the Group, assessment of motion concerning profit's division or losses coverage, as well as the Supervisory Board activities statements. The assessments prepared by the Supervisory Board are made available to the shareholders before the Bank's General Shareholders Meeting.

The Supervisory Board set up dedicated committees which deal with specific areas of the Bank's operations, including the Audit Committee, the Nomination and Remuneration Committee and the Financial Committee and Risk Committee . Reports of the committees set up by the Supervisory Board are stored at the Bank's Head Office. Annual reports of committees are annexed to and published with the Supervisory Board statement.

Audit Committee

As at January 1, 2016 the Audit Committee was composed of the following persons:

Dariusz Filar	President of the Committee,
Alessandro Decio	Member of the Committee,
Leszek Pawłowicz	Member of the Committee,
Laura Stefania Penna	Member of the Committee,
Jerzy Woźnicki	Member of the Committee.

Due to appointing a new composition of the Supervisory Board, the composition of the Audit Committee has changed.

¹⁹ http://www.pekao.com.pl/o_banku/wladze_Banku/#tab2

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Since July 22, 2016 Audit Committee is composed of the following persons:

Dariusz Filar	President of the Committee,
Massimiliano Fossati	Member of the Committee,
Leszek Pawłowicz	Member of the Committee,
Laura Stefania Penna	Member of the Committee,
Jerzy Woźnicki	Member of the Committee.

and until December 31, 2016 it did not change.

The scope of the Audit Committee's competence has been determined by the Supervisory Board's Resolution No. 41/14 of December 12, 2014. Previously in force Supervisory Board's Resolution No. 9/12 of March 8, 2012 expired.

The Audit Committee supports the Supervisory Board in the performance of its duties, therein related to the adequacy and effectiveness of the Bank's internal control mechanisms, including identification, measurement and management of risk, compliance with applicable laws and procedures governing the Bank's operations, correct application of accounting rules in the process of drawing up financial statements, and ensuring independence of external auditors and the resources of the Internal Audit Department.

The Audit Committee is composed of five persons selected from among the Members of the Supervisory Board, and includes at least three independent Members. The Chairman of the Audit Committee is an independent Member of the Supervisory Board.

Meetings of the Audit Committee are held as need of Committee arises, but not less frequently than four times a year, and dates of these meetings coincide with key dates in the Bank's quarterly reporting cycle and the review of the annual audit plan presented by the Director of the Internal Audit Department.

Nomination and Remuneration Committee

As at January 1, 2016, in the Bank operated the Remuneration Committee, which was composed of the following persons:

Roberto Nicastro,
Wioletta Rosołowska,
Doris Tomanek,
Jerzy Woźnicki.

As a result of appointing new composition of the Supervisory Board, the composition of the Nomination and Remuneration Committee has changed.

Since July 22, 2016 Nomination and Remuneration Committee is composed of the following persons:

Dariusz Filar,
Gianni Papa,
Wioletta Rosołowska – until December 31, 2016.
Doris Tomanek,
Jerzy Woźnicki

and until December 31, 2016 it did not change.

The Committee operates on the basis of the Rules of Procedure of the Supervisory Board of the Bank which was adopted on April 27, 2015, amended by the resolution No. 75/16 dated October 11, 2016.

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The aim of the Committee is to support the Supervisory Board in performing its duties by, among others:

- a) submission of recommendations regarding conditions of agreements that regulate employment relationship or other legal relationship between Members of the Management Board and the Bank, including the amount of remuneration to be paid to Members of the Management Board, and regarding approval of the policy on variable components of the remuneration for persons holding managerial positions in the Bank according to separate regulations and in order to submit recommendations to the General Shareholders Meeting regarding the remuneration to be paid to Members of the Supervisory Board,
- b) preparation of recommendations regarding fulfillment of suitability requirements for the purpose of appointment of Members of the Management Board and the Supervisory Board,
- c) Preparation of report for the General Shareholders Meeting regarding assessment of functioning of the remuneration policy in the Bank.

Financial Committee

As at January 1, 2016, the Financial Committee was composed of the following persons:

Alessandro Decio,
Roberto Nicastro,
Laura Stefania Penna.

As a result of appointing new composition of the Supervisory Board, the composition of the Financial Committee has changed.

Since July 22, 2016 Financial Committee is composed of the following persons:

Massimiliano Fossati,
Gianni Papa,
Laura Stefania Penna

and until December 31, 2016 it did not change.

The Financial Committee operates on the basis of the Supervisory Board's resolution. Its role is to exercise supervision over the implementation of the Bank's financial objectives. Members of the Committee have the right to use services of advisers.

Risk Committee

Since July 22, 2016 Risk Committee was composed of the following persons:

Massimiliano Fossati,
Katarzyna Majchrzak
Leszek Pawłowicz

and until December 31, 2016 it did not change.

Risk Committee operates on the basis of "Rules of Procedure of the Risk Committee" set up by the Supervisory Board. Mission of the Committee is to support the Supervisory Board in fulfillment of its obligations concerning supervision over risk management system and assessment of the adequacy and effectiveness of the said system.

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10. Description of the Bank's diversity Policy applied to governing, managing and supervising bodies with respect to such factors as age, gender or education and professional experience, aims of the diversity policy, manner of its realisation and results in the given reporting period,²⁰

On December 22, 2015 Management Board of the Bank adopted by resolution and on February 4, 2016 Supervisory Board of the Bank accepted by resolution "Diversity policy in reference to Supervisory Board members, Management Board members and Key Function Holders in Bank Polska Kasa Opieki Spółka Akcyjna" (hereinafter referred to as "the Policy").

This Policy defines the strategy of the Bank in scope of diversity management, including diversity in reference to appointment the Supervisory Board members, Management Board members and Key Function Holders in the Bank.

The purpose of diversity strategy of the Bank is to provide high quality of tasks execution by its governing bodies, through selection of qualified people to hold function in the Supervisory Board, the Management Board and Key Function Holders in the Bank, using as the first objective criteria and taking into account the benefits of diversity.

The diversity strategy includes and uses to achieve the best outcome differences, which in addition to knowledge, skills and work experience result from educational background, geographical origin and nationality, gender and age. The diversity strategy is also conducted in the processes of selection, suitability assessment and succession.

Application of diversity strategy is accomplished also by the Gender Equality Policy of the Bank, which assumes striving to provide representatives of both genders in the following processes referring to Management Board members and Key Functions in the Bank: external selection, internal appointment, succession planning, taking into account provisions on equal treatment in the field of establishing an employment relationship.

In 2014-2016 the share of men and women the Management of the Bank was following.

	DECEMBER 31, 2014		DECEMBER 31, 2015		DECEMBER 31, 2016	
	No. of persons	%	No. of persons	%	No. of persons	%
Women		0%		0%		0%
Men	6	100%	7	100%	7	100%
Sum	6	100%	7	100%	7	100%

In 2014-2016 the share of men and women the Supervisory Board of the Bank was following.

	DECEMBER 31, 2014		DECEMBER 31, 2015		DECEMBER 31, 2016	
	No. of persons	%	No. of persons	%	No. of persons	%
Women	4	44%	4	44%	4	44%
Men	5	56%	5	56%	5	56%
Sum	9	100%	9	100%	9	100%

²⁰ § 91, item 5, pt 4 I of the ordinance of the Minister of Finance of February 19, 2009

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Signatures of all Members of the Bank's Management Board

09.02.2017	Luigi Lovaglio	President of the Management Board, CEO	
Date	Name/Surname	Position/Function	Signature
09.02.2017	Diego Biondo	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
09.02.2017	Andrzej Kopyrski	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
09.02.2017	Adam Niewiński	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
09.02.2017	Grzegorz Piwowar	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
09.02.2017	Stefano Santini	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
09.02.2017	Marian Ważyński	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature