

Report on the activities of Bank Pekao S.A. Group for the first half of 2019



Warsaw, August 2019

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Report on the activities of Bank Pekao S.A. Group for the first half of 2019

1 Highlights of Bank Pekao S.A. Group

The Group has adopted International Financial Reporting Standard 9 “Financial Instruments” (IFRS 9) with a date of transition of 1 January 2018. The Group decided to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

	1 HALF 2019	1 HALF 2018	2018	2017
INCOME STATEMENT – SELECTED ITEMS				
	<i>(in PLN million)</i>			
Operating income	4,016.8	3,780.8	7,757.1	7,350.4
Operating costs	(1,809.6)	(1,752.6)	(3,444.4)	(3,263.3)
Gross operating profit	2,207.2	2,028.1	4,312.7	4,087.1
Profit before income tax	1,212.9	1,277.3	3,047.3	3,153.0
Net profit for the period attributable to equity holders of the Bank	824.4	932.1	2,287.2	2,475.1
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	7.2%	8.2%	10.2%	11.0%
Return on average equity (ROE) - linearly adjusted for BFG charges	8.8%	8.8%	10.2%	11.0%
Return on assets (ROA)	0.9%	1.0%	1.3%	1.4%
Net interest margin	2.9%	2.8%	2.8%	2.8%
Non-interest income / operating income	33.8%	35.4%	35.6%	37.5%
Cost / income	45.1%	46.4%	44.4%	44.4%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS				
	<i>(in PLN million)</i>			
Total assets	196,910.9	183,503.5	191,089.8	185,465.6
Customers' financing ^(*)	146,538.5	133,891.5	140,032.3	132,300.4
Amounts due to customers ^(**)	149,814.8	142,284.3	149,143.4	145,397.8
Debt securities issued and subordinated liabilities	8,315.5	5,139.3	7,243.3	4,028.6
Equity	22,080.9	21,451.5	22,808.2	23,267.8
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ^(*) / total assets	74.4%	73.0%	73.3%	71.3%
Securities / total assets	17.9%	17.3%	15.0%	20.8%
Deposits ^(***) / total assets	80.3%	80.3%	81.8%	80.6%
Customers' financing ^(*) / deposits ^(***)	92.7%	90.8%	89.5%	88.5%
Equity / total assets	11.2%	11.7%	11.9%	12.5%
Total capital ratio	17.3%	17.4%	17.4%	17.1%
EMPLOYEES AND NETWORK				
Total number of employees	16,613	17,307	16,714	17,339
Total number of outlets	812	846	818	843
Number of ATMs	1,674	1,716	1,708	1,745

(*) Including net investments in financial leases to customers, non-treasury debt securities and excluding reverse repo transactions.

(**) Excluding repo transactions and lease liabilities.

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

Note: Since 2017, the financial data include results of Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) and Dom Inwestycyjny Xelion Sp. z o.o. for eleven months of 2017 under the equity method and for December 2017 under full method.

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

2 Highlights of Bank Pekao S.A.

The Bank has adopted International Financial Reporting Standard 9 'Financial Instruments' with a date of transition of 1 January 2018. The Bank decided to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

	1 HALF 2019	1 HALF 2018	2018	2017
INCOME STATEMENT – SELECTED ITEMS				<i>(in PLN million)</i>
Operating income	3,877.1	3,733.9	7,396.9	7,085.3
Operating costs	(1,635.1)	(1,595.0)	(3,119.0)	(3,024.5)
Gross operating profit	2,242.0	2,138.9	4,278.0	4,060.8
Profit before income tax	1,273.9	1,408.5	3,020.8	2,727.8
Net profit	916.3	1,083.9	2,310.6	2,088.1
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	8.4%	9.9%	10.7%	9.6%
Return on average equity (ROE) - linearly adjusted for BFG charges	10.0%	10.6%	10.7%	9.6%
Return on assets (ROA)	1.0%	1.2%	1.3%	1.2%
Net interest margin	2.9%	2.8%	2.8%	2.8%
Non-interest income / operating income	33.2%	36.3%	34.2%	36.7%
Cost / income	42.2%	42.7%	42.2%	42.7%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS				<i>(in PLN million)</i>
Total assets	189,574.3	178,781.5	184,347.2	182,077.0
Customers' financing ^(*)	138,340.1	129,025.1	133,085.1	128,873.2
Amounts due to customers ^(**)	150,296.6	142,804.3	149,784.4	146,109.9
Debt securities issued and subordinated liabilities	4,276.9	2,675.9	3,745.1	2,727.2
Equity	21,186.5	20,584.2	21,821.9	22,258.5
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ^(*) / total assets	73.0%	72.2%	72.2%	70.8%
Securities / total assets	18.8%	17.6%	15.5%	21.1%
Deposits ^(***) / total assets	81.5%	81.4%	83.3%	81.7%
Customers' financing ^(*) / deposits ^(***)	89.5%	88.7%	86.7%	86.6%
Equity / total assets	11.2%	11.5%	11.8%	12.2%
Total capital ratio	18.8%	18.4%	18.7%	18.4%
EMPLOYEES AND NETWORK				
Total number of employees	14,436	15,182	14,569	15,316
Total number of outlets	812	846	818	843
Number of ATMs	1,674	1,716	1,708	1,745

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

(**) Excluding repo transactions and lease liabilities.

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

3 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders of the first half of 2019 amounted to PLN 824.4 million.

Net profit was higher by 11.0% y/y on a comparable basis (excluding Bank Guarantee Fund (BFG) fee and the one-off items i.a. restructuring provision in 2019 and costs of voluntary retirement program in 2018), mainly thanks to dynamic development of the commercial activities of the Group driving the growth of customers' financing by 9.4% y/y, as well as amounts due to customers by 5.3% (of which retail deposits by 12.6% y/y), strict operating costs control and prudent management of cost of risk.

Net profit was nominally lower by 11.6% (PLN 107.7 million) than net profit for the first half of 2018, due to twice higher BFG fee (by PLN 208.6 million).

The Group maintained the solid capital base (TCR amounted to 17.3% as at the end of June 2019) and the safe liquidity profile reflected by net loans to deposits ratio at 92.7%. This, together with high level of capital, enables for further solid and stable development of the Group's activities.

Main P&L items

In the first half of 2019, the Group's operating income amounted to PLN 4,016.8 million and was higher by 6.2% y/y than operating income in the first half of 2018 mainly thanks to the acceleration of the dynamics of core revenues (an increase by 6.8% y/y). This acceleration was particularly reflected in the dynamics of the second quarter of 2019, when core revenues increased by 4.5% q/q and 7.4% y/y.

- Net interest income in the first half of 2019, amounted to PLN 2,657.9 million and was higher by PLN 216.7 million, i.e. 8.9% compared to the first half of 2018, mainly driven by higher volumes of loans and deposits as well as higher margin. Positive dynamics of commercial activities allowed to compensate the effect of a drop in interest rates on the bonds portfolio.
- The Group's net fee and commission income in the first half of 2019, amounted to PLN 1,236.3 million and was higher by PLN 31.0 million, i.e. 2.6% compared to the first half of 2018, mainly due to higher commission on loans growing by 12.9% year on year, higher income on cards and higher income on margins on foreign exchange transactions with clients.
- In the first half of 2019, other income amounted to PLN 122.6 million and was lower by PLN 11.7 million as compared to the first half of 2018, mainly due to lower gains on disposal of AFS assets.

The operating costs amounted to PLN 1,809.6 million in the first half of 2019. Excluding one-off items, operating costs would be higher by 1.3% y/y, significantly below inflation and despite the costs of ongoing investments in operational transformation and digitization. Nominally, the costs were higher by PLN 57.0 million, i.e. 3.3% compared to the costs achieved in the first half of 2018, mainly due to the restructuring provision for collective redundancies in the amount of PLN 85 million and due to twice higher financial supervision authority fee.

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 286.9 million in the first half of 2019, an increase of PLN 36.0 million, i.e. 14.3% as compared with the first half of 2018. The costs of risk in the first half of 2019 amounted to 0.38% and were slightly higher by 3 bps y/y, consistent with strategic assumptions reflecting a prudent risk management policy.

Bank Guarantee Fund fee in the first half of 2019, amounted to PLN 413.6 million, an increase of PLN 208.6 million, i.e. in comparison with the first half of 2018 due to the increase the fee for contribution to resolution fund of banks. Tax on certain financial institutions in the first half of 2019 amounted to PLN 297.3 million and was higher by PLN 20.4 million, i.e. 7.4% in comparison with the first half of 2018, due to an increase in Group's assets by 7.3%.

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Volumes

As at the end of June 2019, loans and advances at nominal value amounted to PLN 151,560.8 million, an increase of PLN 12,273.2 million, i.e. 9% in comparison to the end of June 2018. The volume of retail loans grew by 10% y/y thanks to dynamic growth of key products: consumer loans by 13% y/y and PLN mortgage loans by 11% y/y. The volume of corporate loans including non-treasury debt securities grew by 8% y/y thanks to strong dynamics in the medium-sized enterprise segment and leasing receivables.

As at the end of June 2019, amounts due to the Group's customers and debt securities issued amounted to PLN 158,130.3 million, an increase of PLN 10,706.7 million, i.e. 7% in comparison to the end of June 2018, with volume of retail deposits growing by 13% y/y and systematically increasing share in the financing structure.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 20,403.1 million as at the end of June 2019, an increase of PLN 1,198.1 million, i.e. 6% in comparison to the end of June 2018.

Key financial ratios

In the first half of 2019, the average return on equity (ROE) amounted to 8.8%^(*) (unchanged y/y, despite the negative impact in the amount of -0.9 p.p. of the increase of BFG fees).

In the first half of 2019, cost / income ratio excluding the one off items amounted to 42.9% and was lower by 2.1 p.p. y/y, approaching the strategic target of 40% set for 2020.

The table below presents key financial ratios against the Strategy's goals:

	1 HALF OF 2019	1 HALF OF 2018	STRATEGIC GOAL ON 2020
Growth of customers' financing	9%	7%	7-8%
Growth of commercial revenues	12%	8%	10%
Dynamic of operating costs ^(**)	1.3%	4.8%	below inflation
Cost / income ^(**)	42.9%	45.0%	< 40%
Cost of risk	0.38%	0.35%	< 0,50%
Return on average equity (ROE) ^(*)	8.8%	8.8%	12.5% ^(***)

(*) Linearly adjusted for BFG charges

(**) Excluding one-off items (i.a. restructuring provision in the amount of PLN 85 million in 2019 and costs of voluntary retirement program in the amount of PLN 50 million in 2018)

(***) Assuming that interest rates will remain unchanged until the end of 2020.

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4 External Activity Conditions

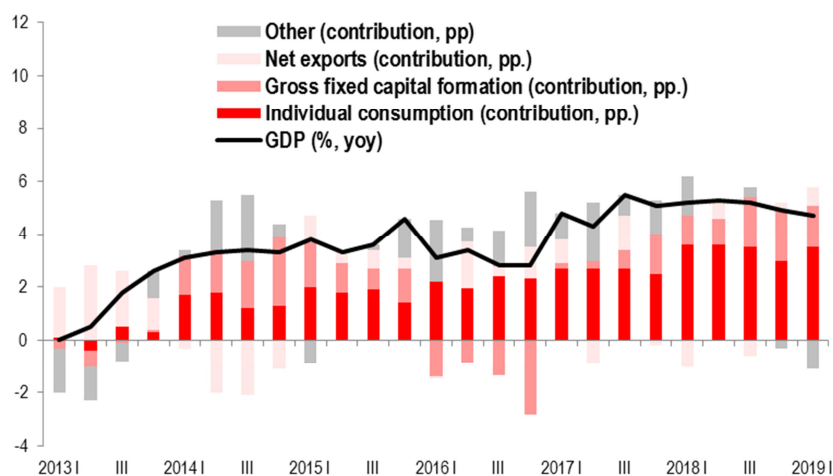
Economic growth

In the first quarter of 2019 the economic growth amounted to 4.7% year on year as compared with the GDP growth of 4.9% year on year in the fourth quarter of 2018. Seasonally adjusted data indicate that in the first quarter of 2019 Polish growth accelerated to 1.5% quarter on quarter from 0.5% quarter on quarter growth posted in the previous quarter. Domestic demand expanded by 4.2% year on year as compared with 4.8% year on year increase in the final quarter of 2018, while foreign trade contributed 0.7 p.p. to the annual growth rate. Households consumption advanced by 3.9% year on year, what was the slowest annual growth since the second quarter of 2016. Households labour income continued rising robustly and consumer confidence remained near record-highs. In the first quarter of 2019 fixed investments expanded at a double-digit rate in annual terms. Gross fixed capita formation increased by 12.6% year on year, after expanding by 8.2% year on year in the fourth quarter of 2018.

In 2019 economic growth is expected to remain buoyant (around 4.5%) despite less favourable external environment (slower GDP growth on the main exports markets, especially in Germany). Households consumption should continue rising robustly due to a boost from a proposed fiscal package (higher budget spending, lower tax burden).

The year 2020 will see further slowdown of Poland's economy. After 4.5% GDP growth in 2019 we look for 3.7% in 2020. Nonetheless, such pace of growth would still position Poland among the countries with the strongest economic growth in the EU. Relatively strong economic growth will be supported with private consumption, which in turn is propelled with rising wages. This makes domestic GDP growth less dependent on the situation in the global economy. The factors supporting growth are: relatively weak PLN and relatively high share of consumer goods in the structure of Poland's exports – as global demand weakened especially strong in other categories of goods: intermediate and investment ones.

It's also worth pointing out to factors that will stabilize the value of zloty in case of stronger negative pressure from the global markets. In the last decade the NBP monetary reserves almost doubled (from 60 billion USD in 2008 to 117 billion USD in 2018), and current size of the current account deficit (0,7% of GDP) is significantly lower than at the beginning of the previous slowdown (more than 6% in 2009). Therefore, in case of strong negative impulses from outside, the weakening of the zloty would act as an additional buffer, but its significant weakening is not very probable.

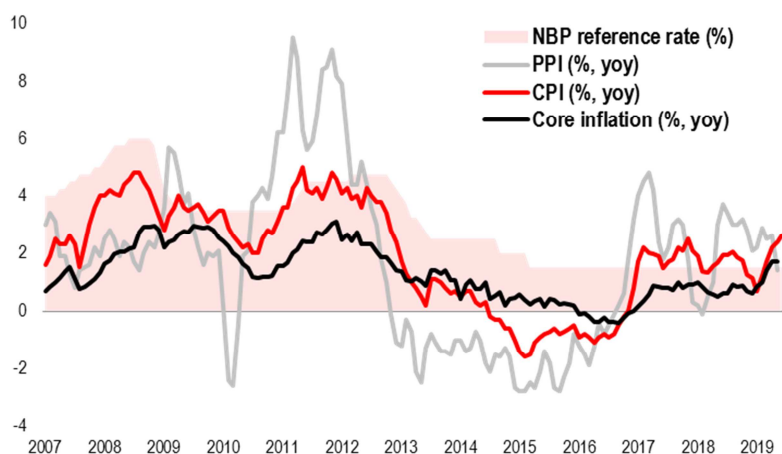


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Inflation and monetary policy

According to the Central Statistical Office (GUS) data in June 2019 CPI inflation increased to 2.6% year on year and exceeded the National Bank of Poland (NBP) target of 2.5% (+/- 1.0 percentage point) for the first time since November 2012. In June consumer inflation was predominantly driven by an increase in food and non - alcoholic beverages prices (up by 5.7% year on year) and higher costs linked to house maintenance (up by 1.7% year on year) that contributed 1.42 p.p. and 0.33 p.p. respectively to the annual CPI growth. In the second quarter of 2019 consumer prices went up by 2.4% year on year after rising by 1.2% year on year in the first quarter of 2019.

The Monetary Policy Council (MPC) kept the main policy rates unchanged in the second quarter of 2019. The NBP reference rate stood at 1.50%, the lombard rate at 2.50% and the deposit rate at 0.50%. According to the MPC in the monetary policy transmission horizon inflation will remain close to the inflation target and the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability.

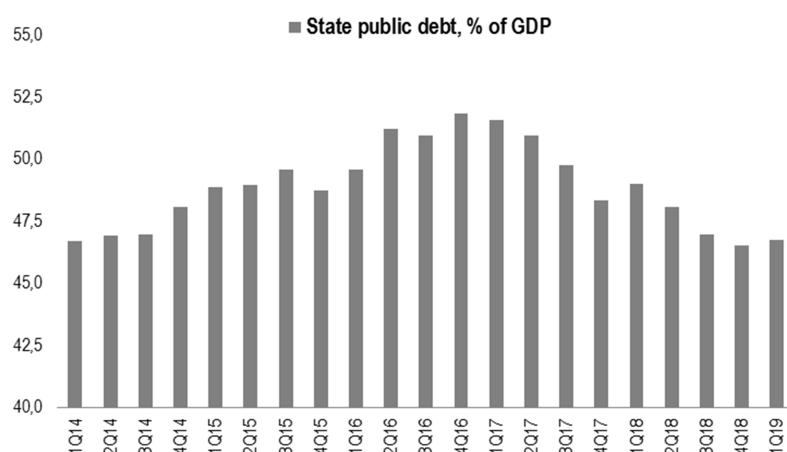


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Fiscal policy

After June 2019 the state budget (cash basis) posted a deficit of PLN 5.0 billion, while the budget act envisages an annual deficit limit of PLN 28.5 billion. Budget revenues totaled PLN 192.2 billion and were PLN 10.2 billion higher than in the corresponding period of 2018, whereas budget expenditures amounted to PLN 197,2 billion and were PLN 24.7 billion higher than in the first six months of 2018. After June VAT revenues were 3.5% higher than in the first six months of 2018 and excise duty collections declined by 1.3%. First half of 2019 brought further increase in direct taxes collections – CIT revenues jumped up by 8.1% year on year and PIT revenues increased by 11.4% year on year. Substantial increase in expenditures was among others linked to higher subsidy to the Social Security Fund and high contribution payment to the EU budget.

At the end of the first quarter of 2019 the state public debt amounted to PLN 1 005.3 billion and was PLN 20.9 billion higher than at the end of 2018. In the first quarter of this year domestic debt increased by PLN 18.0 billion, while foreign debt went up by PLN 3.0 billion. In relation to GDP the state public debt rose to 46.8% at the end of the first quarter from 46.5% at the end of 2018. At the end of the first quarter the debt of general government sector stood at PLN 1,054.9 billion i.e. 49.1% of GDP.

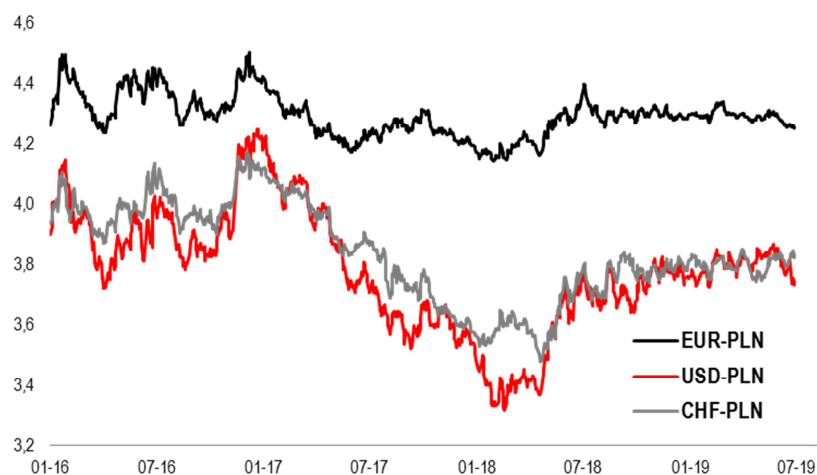


Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Currency market

Although the Federal Reserve's stance in its monetary policy slightly eased in late 2018, the FOMC officials macroeconomic projections still assumed a risk of interest rate hikes in 2019. Such perspective supported an upward tendency of the greenback against the basket of major currencies. At the same time concerns about economic slowdown in the Eurozone rose across the markets. Under such circumstances, EUR-USD decreased gradually from 1.1570, set in mid-January 2019, toward the lowest level since June 2017 (1.11). This trend halted in June 2019 and then the exchange rate returned to 1.14 after the Fed signaled monetary easing. As a result, the dollar trimmed most of its gains and appreciated by only 0.5% in relation to the single currency in the first half of 2019. However, the odds that EUR rally will be a more permanent tendency are higher right now, we expect consolidation in a wide range of 1.13-1.17 later in 2019. Should the scenario assuming more severe global economic slowdown prevail, the ECB will be also under pressure to deliver more monetary stimuli. The room for appreciation of the single currency would be limited, if expectations for the main interest rate below zero increase.

The Polish zloty was relatively stable against the single currency in the first half of 2019. Excluding short-term periods of an elevated volatility, resulting in fluctuations in the range of 4.31-4.35/EUR and 4.25-4.27/EUR, the exchange rate basically consolidated in the area of 4.2750-4.3100/EUR for most of the time. The PLN stabilization, despite global risk aversion, resulted from growing hopes that the scale of the economic slowdown in Poland would be limited. Investors' expectations that the economic growth in 2019 may be above 4.5%, rose systematically over a period. As a result, the zloty is the strongest since May 2018 (4.24 /EUR), vs the single currency and since February 2019 (3.7250/USD) vs the greenback, after it appreciated by more than 1%, and 0.5%, respectively. We remain optimistic about the zloty in the long-term. Further, though rather moderate, appreciation of the PLN against major currencies may result from relatively better economic outlook for Poland compared to the core markets. Under such circumstances, we expect the exchange rate to stabilize close to lower bound of the range of 4.2400-4.2750/ EUR with a chance to test targets around 4.20/EUR in the case of further improvement in moods across financial markets.



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Banking sector

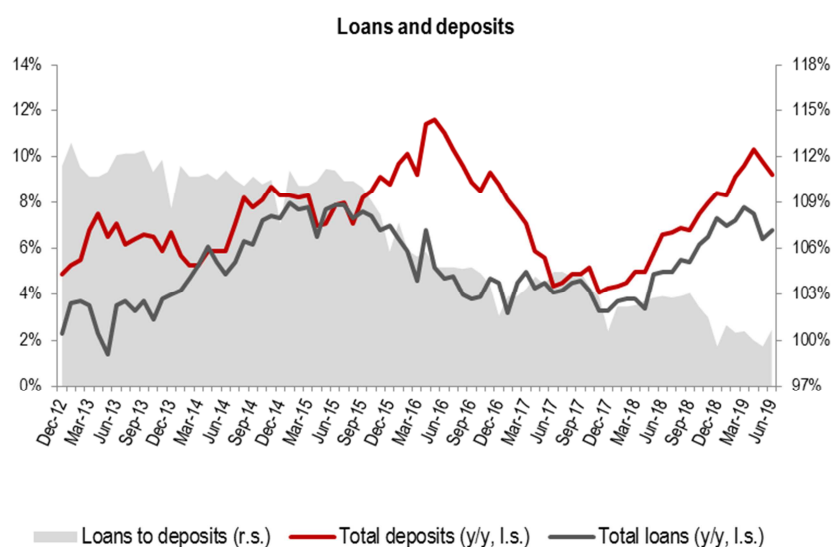
According to the Financial Supervision Authority (KNF) data, in the period of January-May 2019 net profit of the banking sector amounted to PLN 5.86 billion and fell by 8.7% in comparison to corresponding period of 2018.

Total net operating income of banks in described period increased by 8.3% year on year. Net interest income was still the main driver, rising by 8.6% year on year, additionally supported by strong growth of other income (+25% year on year). The pace of revenues was however slightly curbed by persistently weaker net fees and commission income (-2.1% year on year). Operating costs (together with depreciation and amortization) turned out 8.9% higher, which was to a large extent caused by substantially higher regulatory costs accounted for in first quarter of the year. Moreover, a strong increase was recorded in terms of cost of risk (+17.1% year on year).

At the end of May 2019 total assets of the banking sector amounted to PLN 1,956 billion and increased by 6.3% year on year compared to the end of May 2018. Total receivables from the non-financial sector increased by 5.1% year on year and total deposits from this sector increased by 10.5% year on year.

According to the National Bank of Poland (NBP), at the end of June 2019 the nominal volume of households' loans increased by 6.0% year on year compared to year before. The pace deteriorated slightly since 2018 year-end, when it reached 7%, but remains on relatively high levels in comparison to previous years. In case of enterprises sector the growth was weaker, after June deteriorating to 3.4% year on year (vs. 6.4% year on year at the end of 2018).

The growth pace of household deposits volume remains on high levels. After June 2019 pace reached +11.0% year on year (vs. +9.8% year on year at the end of 2018). Solid growth was also recorded in case of enterprises deposits, which increased by 6.7% year on year (vs. 4.3% year on year at the end of 2018).



Report on the activities of Bank Pekao S.A. Group for the first half of 2019

5 Important Events and Achievements

5.1 Description of the Group

The Group's structure is presented in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 June 2019.

5.2 Changes in the Group' structure

Opening of liquidation of the company

On March 1, 2019, the Extraordinary General Meeting of Shareholders of Pekao Property S.A. took the resolution to dissolve the company and to open its liquidation from that date. Currently, the company will operate under the name Pekao Property S.A. in liquidation.

Declaration of bankruptcy of FPB-Media Sp. z o.o

On 11 April, 2019, the District Court for the Capital City of Warsaw, 10th Economic Department for bankruptcy and restructuring, declared the bankruptcy of FPB-Media Sp. z o.o. The decision on the declaration of bankruptcy became valid on 8 May, 2019. FPB Media is a 100% subsidiary of Pekao Property S.A. in liquidation. Currently, the company operates under the name FPB Media Sp. z o.o. in bankruptcy.

The division of Centralny Dom Maklerski Pekao S.A.

On 25 June, 2019, the Ordinary General Meeting of Centralny Dom Maklerski Pekao S.A. (CDM Pekao S.A.) and the Extraordinary General Meeting of CBB Sp. z o.o. and on 26 June, 2019, the Ordinary General Meeting of the Bank adopted resolutions accepting the division of (CDM Pekao S.A.).

The division plan was agreed by the management boards of the companies participating in the division on 27 February, 2019 and assumed that the division will be effected in accordance with art. 529 § 1 Section 1 of the Commercial Companies Code, i.e.:

- by transferring to the Bank part of the assets (assets and liabilities) and the rights and obligations of CDM Pekao S.A. in the form of an organized part of the company CDM Pekao S.A. related to the provision of brokerage services,
- by transferring to CBB Sp. z o.o. part of assets (assets and liabilities) and rights and obligations of CDM Pekao S.A. in the form of an organized part of the company CDM Pekao S.A. related to call center services.

The formal completion of the division process should take place in the third quarter of 2019 by increasing the share capital in CBB Sp. z o.o. and cancellation of CDM Pekao S.A. from the national court register.

Planned sale of the organised part of the enterprise of Pekao Investment Banking S.A.

It is planned to sell the organised part of the enterprise of Pekao Investment Banking S.A. connected with the provision of brokerage services to the Bank's organizational unit - Dom Maklerski Pekao. Other operations of Pekao Investment Banking S.A. connected with offering investment banking services will remain in the Company.

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5.3 Changes in the Statutory Bodies of the Bank

Supervisory Board

As of 30 June, 2019, the composition of the Supervisory Board of Bank Pekao S.A. has not changed in comparison with 31 December, 2018 and it was as follows:

JUNE 30, 2019	DECEMBER 31, 2018
Paweł Surówka Chairman of the Supervisory Board	Paweł Surówka Chairman of the Supervisory Board
Joanna Błaszczuk Deputy Chairman of the Supervisory Board	Joanna Błaszczuk Deputy Chairman of the Supervisory Board
Stanisław Ryszard Kaczoruk Deputy Chairman of the Supervisory Board	Stanisław Ryszard Kaczoruk Deputy Chairman of the Supervisory Board
Paweł Stopczyński Secretary of the Supervisory Board	Paweł Stopczyński Secretary of the Supervisory Board
Sabina Bigos-Jaworowska Member of the Supervisory Board	Sabina Bigos-Jaworowska Member of the Supervisory Board
Justyna Głębikowska-Michalak Member of the Supervisory Board	Justyna Głębikowska-Michalak Member of the Supervisory Board
Grzegorz Janas Member of the Supervisory Board	Grzegorz Janas Member of the Supervisory Board
Michał Kaszyński Member of the Supervisory Board	Michał Kaszyński Member of the Supervisory Board
Marian Majcher Member of the Supervisory Board	Marian Majcher Member of the Supervisory Board

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Management Board of the Bank

On 6 March, 2019, the Management Board of Bank Pekao S.A. informed in the current report no. 6/2019 that on 6 March, 2019, the Bank's Supervisory Board, taking into consideration suitability assessment, appointed Mr Piotr Wetmański and Mr Grzegorz Olszewski to the Banks' Management Board for the current term of office and entrusted them with the position of Management Board Members of the Bank. The appointment is effective as of 7 March 2019 in case of Mr Piotr Wetmański and 1 April 2019 in case of Grzegorz Olszewski. Additionally, Mr Grzegorz Olszewski was appointed Member of the Management Board for the new three-year joint term of office, effective as of the day following holding of the Ordinary General Meeting approving the financial statements of Bank for the financial year 2018.

According to the submitted statement Mr Piotr Wetmański does not conduct any business competitive to that of the Bank and he is not involved in a competitive business as a shareholder or partner in a civil law company or partnership or a corporation or as a member of a corporate body of a competitive legal person, is not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

According to the submitted statement Mr Grzegorz Olszewski is not involved in a competitive business as a shareholder or partner in a civil law company or partnership or a corporation or as a member of a corporate body of a competitive legal person and declared termination of professional activity with respect to entities of the PZU Group before effective appointment as a Member of the Management Board. Mr Grzegorz Olszewski is not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

On 24 May, 2019, the Management Board of Bank Pekao S.A. informed in the current report no. 14/2019 that on 24 May, 2019, the Bank's Supervisory Board, taking into consideration the suitability assessment, appointed Ms Magdalena Zmitrowicz entrusting her with the position of the Vice President of the Bank's Management Board and Mr Piotr Wetmański entrusting him with the position of a Member of the Bank's Management Board for the new three-year joint term of office, effective as of the day following holding of the Ordinary General Meeting of the Bank approving the financial statements of Bank for the financial year 2018.

According to the submitted statement Ms Magdalena Zmitrowicz does not conduct any business competitive to that of the Bank and she is not involved in a competitive business as a shareholder or partner in a civil law company or partnership or a corporation or as a member of a corporate body of a competitive legal person. Ms Magdalena Zmitrowicz is not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

As of 30 June, 2019, the composition of the Management Board of Bank Pekao S.A. has changed in comparison with 31 December, 2018 and it was as follows:

JUNE 30, 2019	DECEMBER 31, 2018
Michał Krupiński President of the Management Board	Michał Krupiński President of the Management Board
Tomasz Kubiak Vice President of the Management Board	Tomasz Kubiak Vice President of the Management Board
Michał Lehmann Vice President of the Management Board	Michał Lehmann Vice President of the Management Board
Marek Lusztyn Vice President of the Management Board	Marek Lusztyn Vice President of the Management Board
Tomasz Styczyński Vice President of the Management Board	Tomasz Styczyński Vice President of the Management Board
Marek Tomczuk Vice President of the Management Board	Marek Tomczuk Vice President of the Management Board
Magdalena Zmitrowicz Vice President of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board
Grzegorz Olszewski Member of the Management Board	
Piotr Wetmański Member of the Management Board	

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

5.4 The Bank's share capital and share ownership structure

As at 30 June, 2019, 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 1.00 per share,
- 7,690,000 Series B bearer shares with a par value of PLN 1.00 per share,
- 10,630,632 Series C bearer shares with a par value of PLN 1.00 per share,
- 9,777,571 Series D bearer shares with a par value of PLN 1.00 per share,
- 373,644 Series E bearer shares with a par value of PLN 1.00 per share,
- 621,411 Series F bearer shares with a par value of PLN 1.00 per share,
- 603,377 Series G bearer shares with a par value of PLN 1.00 per share,
- 359,840 Series H bearer shares with a par value of PLN 1.00 per share,
- 94,763,559 Series I bearer shares with a par value of PLN 1.00 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
	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2019		AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST QUARTER OF 2019	
Powszechny Zakład Ubezpieczeń S.A.	52,494,007	20.00%	52,494,007	20.00%
Polski Fundusz Rozwoju S.A.	33,596,166	12.80%	33,596,166	12.80%
UniCredit S.p.A.	16,430,000	6.26%	16,430,000	6.26%
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	-	-	13,357,769	5.09%
Other shareholders (below 5%)	159,949,861	60.94%	146,592,092	55.85%
Total	262,470,034	100.00%	262,470,034	100.00%

On 28 June, 2019, in the current report No. 21/2019, the Management Board of Bank Pekao S.A. informed that on 27 June, 2019, on receiving the Notification from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. (NN PTE) on reducing its stake below the 5% of total numbers of votes at the General Meeting of the Bank.

According to the information provided in the received Notification by NN PTE as a result of the disposal of the Bank's shares in transactions on the Warsaw Stock Exchange, settled on 21 June, 2019 Nationale-Nederlanden Otwarty Fundusz Emerytalny reduced the ownership of the Bank's shares below 5% of votes at the General Meeting of the Bank. As the results of the same transactions the funds managed by NN PTE: Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny reduced the ownership of the Bank's shares below 5% of votes at the General Meeting of the Bank.

Until the date of submitting the report 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.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

5.5 Financial credibility ratings

5.5.1 Bank Pekao S.A. financial credibility ratings

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

As of 30 June, 2019, Bank Pekao S.A. had assigned following financial credibility ratings:

FITCH RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating (IDR)	BBB+	A-
Short-term rating	F2	F2
Viability rating	bbb+	-
Support rating	5	-
Support rating factor	No floor	-
Outlook	Stable	Stable
S&P GLOBAL RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating in foreign currencies	BBB+	A-
Long-term rating in domestic currency	BBB+	A
Short-term rating in foreign currencies	A-2	A-2
Short-term rating in domestic currency	A-2	A-1
Stand-alone credit profile	bbb+	-
Outlook	Positive	Stable
S&P GLOBAL RATINGS (RESOLUTION COUNTERPARTY RATING)	BANK PEKAO S.A.	POLAND
Long - term RCR in foreign currencies	A-	-
Short - term RCR in foreign currencies	A-2	-
Long - term RCR in domestic currency	A-	-
Short - term RCR in domestic currency	A-2	-
MOODY'S INVESTORS SERVICE (UNSOLICITED RATING)	BANK PEKAO S.A.	POLAND
Long-term foreign-currency deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa1	-
Long-term counterparty risk assessment	A1(cr)	-
Short-term counterparty risk assessment	Prime-1(cr)	-
Outlook	Stable	Stable
Long-term Counterparty Risk Rating (CRR)	A1	-
Short-term Counterparty Risk Rating (CRR)	Prime-1	-

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

At the end of June 2019 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 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. The Fitch Ratings rating agency assigned to Pekao Bank Hipoteczny S.A. BBB + long-term assessment with a "stable" perspective.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

6 Activity of Bank Pekao S.A. Group

6.1 Achievements of Bank Pekao S.A.

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

Distribution channels

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

	30.06.2019	30.06.2018
Total number of outlets	812	846
own outlets	736	775
partner branches	76	71
Total number of own ATMs	1,674	1,716

The number of accounts

As at the end of June 2019, the Bank maintained 6,073.9 thousand PLN-denominated current accounts, 387.2 thousand mortgage loan accounts and 700.7 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

(in thousand)

	30.06.2019	30.06.2018
Total number of PLN current accounts ^(*)	6,073.9	5,805.0
of which packages	4,435.1	4,252.4
Number of mortgage loans accounts ^(**)	387.2	368.8
of which PLN mortgage loans accounts	355.4	336.1
Number of "Pożyczka Ekspresowa" loan accounts ^(***)	700.7	652.5

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

(**) Retail customers accounts.

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

Individual clients

Individual clients service

In the first half of 2019, the Bank continued initiatives launched under the strategy for 2018-2020 "Siła Polskiego Żubra". The Bank dynamically developed customer acquisition, expansion in the area of consumer loans as well as a range of products dedicated to retail segment customers. These objectives were implemented through using the potential of gaining customers in the Internet channel applying the latest biometrics solutions, automating the credit process for cash loans and strengthening cooperation with the PZU Group in the area of insurance and investment products. Consistent implementation of the strategy translated into an increasing of income in the Retail Banking area in the first half of 2019 by 11.4% year on year.

As part of the "Siła Polskiego Żubra" strategy, the Bank uses the potential to acquire new customers, in the first half of 2019 the Bank opened 208 thousand of new accounts for individual clients which translated into a 19% increase compared to the first half of 2018. The sale of the Konto Przekorzystne and the multi-currency card was supported by attractive offers of savings accounts, a revolutionary card guaranteeing low rates in payments abroad as well as marketing campaigns conducted on television, cinemas, public transport, social media and the Internet, and also by building an attractive image of the Bank as part of a new communication platform "Bierz życie za róg" created at the beginning of the year.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Bank Pekao S.A. strengthened the leading position among banks focused on young customers. The largest growth in the number of clients concerned young people aged 13-17. In the first half of 2019, the number of newly acquired customers aged 13-17 was 50% higher compared to the first half of 2018.

For young customers who open an Konto Przekorzystne another edition of the OK, GO online development program has been launched with free access to selected online training organized by ICAN Institute, publisher of Harvard Business Review Polska.

Bank Pekao S.A. occupies a leading position in the field of servicing foreigners, the largest group among foreigners using banking services in Poland are Ukrainian citizens for whom the Bank has prepared a wide range of products and services, including infoline in Ukrainian, the Bank's regulations in Ukrainian, PeoPay mobile banking and m.Pekao24.pl, Konto Przekorzystne, multicurrency card with the option of free withdrawals from ATMs abroad, including Ukraine. In the first half of 2019, the Bank's offer was also promoted in Ukraine.

Bank, in cooperation with the European Fund for the Development of Polish Villages, began another edition of an educational project addressed to primary school children from rural areas, aimed at developing the knowledge, entrepreneurial attitude and developing banking skills.

In the first half of 2019, the Bank consistently continued its efforts to build a leading position on the consumer goods financing market. Sales of cash loans in the first half of 2019 amounted to PLN 2.8 billion and the portfolio of cash loans increased by 12.7% year on year to the level of PLN 13.0 billion.

The sale of cash loans was supported by a competitive offer, individual loan offers using CRM tools and a gradual increase in the availability of credit offers as part of the "click" processes. A fast and fully automatic process that allows to get a loan without leaving home in 30 seconds after accepting the contract is available to customers via the internet service and the PeoPay mobile application. The sale of loans in "on click" electronic processes has been systematically growing, in the first half of 2019 the Bank granted 34% more loans than in the analogous period of 2018.

Thanks to the constant increase of active PeoPay applications, process optimization and numerous promotional activities, the sale of loans in mobile channels has also increased rapidly. In June 2019, 40% of all cash loans "per click" were granted in the mobile channel.

The Bank's activities in the first half of 2019 were also focused on the implementation of new processes that were aimed at increasing the efficiency of operations. The Bank improved sales processes both in remote channels and in a network of fixed outlets. In all branches of the Bank, a new system for handling loan applications was implemented, which allowed to shorten the credit granting process by more than half and the time of waiting for the customer to withdraw funds while maintaining the highest quality of loans granted.

The Bank adjusts the mortgage loan offer to the changing market conditions on a current basis and consistently concentrates its activities on optimizing the process of granting and servicing housing loans. Solutions have been introduced thanks to which the loan agreement is generated automatically based on the earlier collected and integrated data. Bank provided also a tool to support sales negotiations with clients, enabling quick information about the estimated loan installment.

In the first half of 2019, the sale of mortgage loans amounted to PLN 4.9 billion, which translates into growth of the loan portfolio by 10.6% year on year. The Bank's share in the housing loan market, despite the ending of the government program "Mieszkanie dla Młodych" (MdM) remains at around 18% and the Bank holds the position of vice-leader of the moment.

In the area of Private Banking, Bank focused on acquiring of new customers, deepening relationships with existing clients, as well as implementing initiatives aimed at maintaining a high level of service by offering product solutions adequate to the needs of customers. In the first half of the year, 255 new clients were acquired.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

In the first half of 2019, the Bank consistently developed cooperation with the PZU Group in the bancassurance offer. For customers with a cash loan, the Bank expanded the product offer with the new PZU insurance available in the branches. Customers can take advantage of new life and property insurance packages tailored to their needs. In the second quarter of 2019, the value of the insurance premium related to the sale of cash loans in remote channels increased by 23% compared to the first quarter of 2019. In the segment covering property insurance of buildings and flats, the Bank recorded in the second quarter of 2019 an increase in the value of the insurance premium by 16% compared to the first quarter of 2019. In the first half of 2019, the Bank increased 4.5 times the sales of insurance to mortgage loans compared to the analogous period of 2018.

In the first half of 2019 continued in electronic channels the PZU travel insurance campaign, offered via the Moje PZU portal.

Saving, investment products and brokerage activity

In the first half of 2019, deposits of individual clients at Bank Pekao S.A. increased by PLN 4.3 billion. The annual growth rate of deposits of individual clients amounted to 12,6% and was higher than the market. The Bank actively promoted the Savings Account and Premium Savings Account with a promotional interest rate of 3.00% per annum for 6 months from the date of opening of the account. At the end of June, customers had founded over 38,000 of savings accounts. Among the deposits, e-deposits and negotiated deposits were very popular. The most significant impact on the growth of savings volumes were regular inflows to the accounts of retail clients.

The bank consistently developed the offer of investment products. In the first half of 2019, the Bank extended the offer of structured products by 5 new issues of certificates under the common name Akumulator, aimed at stabilizing exchange rates: (EUR/PLN accumulator, EUR/PLN 2 accumulator, EUR/PLN 3 accumulator, EUR/PLN 4 accumulator, EUR/PLN 5 accumulator) and new certificates assuming a decrease prices of selected US market companies (American basket 3, American basket 3 (USD) enabling investment in US dollars.

The offer of the Super Basket Program was extended by introducing a new portfolio (Conservative Portfolio), which includes funds with low investment risk.

Private Banking customers using the offer of Centralny Dom Maklerski received in the first half of 2019 access to the public offer of structured certificates with a capital guarantee and without a guarantee of capital issued by UniCredit Bank AG. The underlying asset for the certificates were both companies, including such as Engie SA or Deutsche Telekom AG, also stock indices such as STOXX Europe 600 Utilities. Customers had the opportunity to invest funds in both PLN and USD. The value of acquired investment products was PLN 647 million. In addition, the investment advisory service has been extended to investment funds from the offer of new Partners: Investors TFI and Schrodgers were included.

Thanks to the cooperation with the Corporate Banking Division of Bank Pekao, Pekao TFI and Centralny Dom Maklerski, in January 2019 another subscription of the Pekao Samorząd Plus FIZ fund certificates was prepared and dedicated to Private Banking customers.

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 Dom Inwestycyjny Xelion Sp. z o.o. (DI Xelion).

In the first half of 2019, activities of the Group's brokerage entities focused on clients service on the secondary market, acquisition of new customers through public offers as well as development of tools and scope of services rendered through remote channels.

As at the end of June 2019, the retail brokerage entities of the Group maintained 266.4 thousand investment accounts. The Group's brokerage entities were serving 171.6 thousand accounts with an active access to services through remote channels, in particular through the Internet and mobile applications. As at the end of June 2019, direct service of individual customers was conducted through nationwide network of 430 points of brokerage services.

As of June 30, 2019, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 20.9 billion.

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The Group's brokerage entities, depends on individual business decisions, served:

- sales of 7 series of Structured Certificates under Trzeci Program Emisji Strukturyzowanych Certyfikatów Depozytowych issued by Bank Pekao S.A., registering orders for the total amount of PLN 290 million (Dom Maklerski) and USD 4.83 mln (Dom Maklerski),
- 11 public bond offers, registering orders for the total amount of PLN 133.9 million and USD 0.82 million (Dom Maklerski, CDM),
- 2 offers for the sale of non-public Investment Certificates of Zamknięte Investment Funds, registering orders for the total amount of PLN 34.8 million (CDM),

Additionally, Dom Maklerski acted as the Offering entity for the issue of Investment Certificates of PZU FIZ Akord for the AB and AC series.

In the first half of 2019, the Dom Maklerski provided a modern eTrader Pekao investment platform and expanded its offer on foreign markets, enabling clients to invest in securities listed on the US markets.

CDM expanded the availability of investment advisory services by lowering the minimum value of assets required to issue recommendations and extending the number of Service Points where the advisory service is provided.

Electronic banking for Individuals

In 2019, the Bank provided the process of independent online opening of the account by the client on a computer or on a smartphone. Identity verification is carried out using facial biometrics and an identity card. The service is available online for 24h / 7 days.

The Bank provides modern PeoPay mobile banking which is both an application for banking operations and payments. The PeoPay application offers innovative solution in the market such as biometric technology for payments authorization: fingerprint and Face ID, payments for online shopping in mobile phone without logging into Internet banking, scanning banking account number directly from invoice instead of rewrite it to the application. In addition, the application gives the opportunity to pay by mobile phone also abroad (or a foreign online store) directly from the account held in the foreign currency without any additional fees and commissions for currency conversion. New PeoPay application, enables execution of transactions in PLN as well as in selected foreign currencies without FX conversion thanks to connection with corresponding currency accounts. The PeoPay application is available for devices with Android and iOS operational systems. Thanks to the PeoPay application it is possible to make payments in over 822 thousand of terminals in Poland and in ca. 6 million terminals abroad as well as in majority of on-line shops in Poland and on-line shops with Apple Pay or Mastercard logo abroad.

In the PeoPay mobile banking there is offered 24 hours a day foreign currency service as well as management of payment cards that allows customers to activate or cancel payment card and change withdrawal and card payment limits. The user of the application can also set the main screen information about the amount of the account balance before logging in (the amount or percentage). Thanks to the PeoPay application, it is also possible to verify the client during a conversation with a banking consultant. Owners of individual and business accounts can withdraw cash from all ATMs with the BLIK logo using the PeoPay application and the BLIK code, deposit cash into their accounts in the devices of two payment networks, Euronet and Planet Cash, as well as pay in the store and online. The PeoPay app is available in three language versions: Polish, English and Ukrainian.

In 2019, the possibility of executing recurring BLIK payments has been made available, allowing for quick and recurring transactions such as: payment of invoices from a given issuer, subscriptions. The service is available only in two banks.

Bank as one of the first in Poland provided Apple Pay service and as only one institution in Poland offers to its customers a possibility to connect Apple Pay with personal account through the PeoPay mobile banking without having payment card.

For customers using the Android system, the Bank implemented in the PeoPay and m.pekao24.pl applications the possibility of contacting the consultant via text messages (chat). The service is available for logged in users. Thanks to it, customers can get full information about the products and orders.

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In the PeoPay mobile application, there are also available special loans offers as part of the "click" process, enabling them to receive a loan without leaving their home - within 30 seconds of accepting the contract.

In 2019, all the e-banking services of Pekao24 were changed in the scope of assigning names to defined transfers. Currently, the names of defined transfers may contain more than one word, Polish letters and special characters.

In the first half of 2019, the Bank provided a special secure API created in accordance with the Payment Services Directive (PSD2), which aims to provide a safe and easy-to-use set of financial services made available by the Bank. The launch of a dedicated interface is the result of the entry into force of the legal requirements introduced by the EU PSD2 directive. The bank also provided a developer portal, through which service providers can become familiar with the interfaces offered by the bank, register and get support in the event of emerging questions. The presented interfaces are compliant with the PolishAPI standard version 2.1.1 developed by the Polish Bank Association to implement the PSD2 directive in Poland.

The number of individual clients actively using mobile banking increased by 21% year on year.

(in thousand)

	30.06.2019	30.06.2018
Number of individual users with an access to electronic banking Pekao24 as at the end of period ^(*)	2,124.4	1,934.4
Number of individual users actively using electronic banking Pekao24 as at the end of period ^(**)	2,002.2	1,635.5
Number of individual users with an access to mobile banking as at the end of period ^(***)	1,357.2	1,125.6

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

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

^(***) Unique users of the Bank's mobile applications and the mobile service light m.pekao24.pl who logged in to the mobile banking in the fourth quarter (when using different mobile channels, the customer counts only once).

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Business clients

In the first quarter of 2019 Bank Pekao S.A. provided a new special offers for entrepreneurs who did not have a payment terminal for the last year. Under the offer, the customer may receive up to 3 payment terminals without paying the lease for 18 months, release from the commission up to PLN 100,000 turnover, as well as additional free services, including terminal installation, service and staff training.

Bank Pekao S.A. launched, at the beginning of 2019, the process of distribution of payment terminals through a network of 265 branches that serve customers of the Business Segment. Now, the customer can sign a payment terminal agreement within a few minutes and leave the branch with the device, which then activates based on the received SMS code. As part of the new process, in the first half of 2019, over than 40% of all payment terminals were activated.

The number of payment terminals issued to business customers in the first half of 2019 was twice higher then period of 2018.

In the first half of 2019 Bank Pekao S.A. introduced a new special offer of "PLN 600 for a good start with Pekao" for business clients who did not have a company account in the bank for the last year. Within the promotion, the customer can get a refund of 3 x PLN 200 PLN for opening a Konto Przekorzystne Business, contract for a payment terminal, contract for a credit, credit or credit card agreement.

Bank Pekao S.A. launched a pilot of quick and easy opening of company account in the Pekao360 application. The functionality enables remote opening of a person running a business activity: a Konto Przekorzystne Business with a VAT account, a MasterCard Business multi-currency card (revolutionary card) or VISA Business, a Pekao24 electronic banking for the business customers and PeoPay, an optional opening of ancillary accounts in PLN, EUR, CHF, USD, GBP.

In the first half of 2019 in over 4.5 thousand payment terminals, a new innovative feature of contactless cashback was added. The service allows to withdraw cash during the shopping thanks to an item with the mobile payment function. The service is available to holders of Visa and MasterCard.

The Bank also implemented the function of handling contactless transactions in the currency conversion service (DCC). The DCC service allows to make transactions in the currency in which the payment card is issued, the conversion service can be used by both payment card users and Apple Pay, Google Pay and HCE mobile payments.

The "OK, GO Biznes!" - training and education portal has been made available to the bank's new business customers in cooperation with Harvard Business Review Poland, the portal offers the business customers 3 modules of online training for free of charge, obtaining the prestigious certificate of ICAN Institute, HBRP and Bank Pekao S.A. for completed training, 3-month free access to the digital subscription of the magazine Harvard Business Review Polska.

Electronic banking for business customers

SME customers of the Bank use the PekaoBiznes24 system (with extensive Internet banking and fully transactional mobile application) and the Pekao24 dla firm system (the Pekao24 system for entrepreneurs) with the PeoPay application. Both systems are an integral part of Konto Przekorzystne Biznes and Pakiety Mój Biznes (My Business Packages).

Within the Pekao24 electronic banking the business customers have access to the most modern in the country mobile banking application PeoPay which is both an application for banking operations and payments. The PeoPay application offers innovative solution in the market such as biometric technology for payments authorization, payments for online shopping in mobile phone without logging into Internet banking, BLIK and Apple Pay payment, scanning banking account number directly from invoice instead of rewrite it to the application. In addition, the application gives the opportunity to pay by mobile phone also abroad (or a foreign online store) directly from the account held in the foreign currency without any additional fees and commissions for currency conversion.

As at the end of June 2019, 194.4 thousand business users had an access to the electronic banking, and 140.4 thousand are active users.

As at the end of June 2019, 58.5 thousand business users had an access to the mobile banking application for SME clients, and 36.6 thousand were active users. The number of business users with an access to the mobile banking application increased by 20 thousand compared to the end of June 2018.

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Small and micro enterprises (SME)

In the first half of 2019, the Bank has been consistently implementing the growth strategy in the Small and Medium Enterprises segment. The dedicated Business Centres allow clients to receive the support of qualified Advisors supported by Product Specialists (in the scope of FX transaction, leasing and factoring service, or EU Funds).

The Bank offers to the customers modern products, solutions and specialist knowledge that supports their development at each stage of their activity.

The Bank has consistently continued improvement of employees' competencies, thanks to specialist knowledge and experience allow to more tailor the offer and product solutions to non-standard customer needs.

In the first half of 2019, the Bank carried out educational activities among companies from the SME sector, which aimed at increasing the knowledge about exchange rate risk and interest rate risk. The special subject was related to the reduction of risk in export companies starting their foreign expansion. Bank's Product Specialists attended prestigious events in different Polish cities as invited speakers.

The Bank focused on the activities aiming at improving client's satisfaction in the most significant areas, especially those related to further enhancements of the key processes, products and services of the Bank. In the lending area, the processes related to obtaining financing by clients were simplified and accelerated. In the deposit area facilities i.a. a dealing module and direct telephone contact with the dealing room contributed to a 20% increase in the share of deposits established in remote channels, compared to the end of 2018.

For customers of the SME sector, the Bank has expanded its product offer dedicated to clients of the corporate segment. Implemented a new product dedicated to investors from small and medium investment projects in the commercial real estate segment and specialist knowledge in the field of Project Finance, used to assess large transactions, will also allow effective support for clients in the area of small and medium-sized enterprises.

In the first half 2019, the Bank signed an agreement with the European Investment Bank (EIB). The obtained funds will allow refinancing projects related to increasing the energy efficiency of small and medium-sized enterprises in the Kujawsko-Pomorskie voivodeship.

Moreover, during the conference organized in Warsaw, the Bank presented the ninth edition of the "Report on the situation of micro and small enterprises". In 2019, the Report was prepared not only on the basis of the study of micro and small companies but also medium-sized enterprises employing up to 249 people. The special subject of this edition was the foreign expansion of Polish companies, especially exports. For the first time, the Report was presented in a digitized form - an interactive on-line tool that allows to compare results and study trends in the situation of companies from the last 9 years.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Corporate customers

Market position and main directions of the activities

Bank Pekao S.A., in accordance with the adopted strategy, remains the first choice Bank for corporate clients providing both the comprehensive services of a universal bank and all the other financial services available on the Polish market (including leasing, factoring and investment advisory in, among others, M&A area).

The Bank's services are used by every second large company in Poland. The Corporate Banking and MIB Division is currently servicing 12.5 thousand of entities, including c.a. 2.5 thousand foreign clients and over 2.5 thousand local government units and municipal companies.

The Bank maintains its position of a leading corporate bank and the leader in innovative product solutions for enterprises and institutions. A wide range of products, innovative solutions and an individual approach ensure comprehensive financial services to enterprises, institutions and public sector units.

The bank is undergoing a process of digital transformation which is aimed at adjusting still better the offer and service model to the needs of corporate clients and provide relationship managers with the necessary tools to identify these needs. The idea is to transform the Bank into on data-centric culture, while taking advantage of the Bank's competitive advantages resulting from the strong relationship of corporate business organization.

The Bank is available to clients at each stage of their business activity. The Bank supports the financial management processes of the production and sales network, automation of service processes, finances the development of products and services and provides advisory and funds for investments and international expansion. "Tailor-made" solutions of Bank Pekao S.A. for corporate banking are recognized both in Poland and internationally. Specialized knowledge and experience in the arrangement and financing of investments, trading in Treasury securities, custodian business and a depository bank, trade finance or real estate finance are the areas of corporate banking appreciated by clients and a group of independent, national and international experts.

Participation in the most challenging and most prestigious transactions, leading 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 strengthens a leading market position within the scope of the comprehensive transactional products offer for corporate clients. Apart from new PekaoBiznes24 Internet platform, which offers a very wide range of products and financial services and is the most commonly chosen electronic banking system for companies in Poland, the Bank provides also the Pekao Connect service – a high-tech solution integrating financial-accounting systems of client with the Bank system, which enables automation of payment orders process and receiving feedback information on banking operations.

Key achievements in the area of the Bank's transactional banking in the first half of 2019 include:

- an increase in the number and volume of domestic transfers by 13% and 8% year on year respectively,
- processing within the framework of Pekao Collect service (identification of Clients' mass payments) over 38 million transactions with the total volume of more than PLN 50 billion, i.e. an increase by 6% and 13% year on year respectively,
- an increase in volumes of foreign incoming and outgoing transfers by 7% and 18% year on year respectively and an increase in the number of foreign incoming and outgoing transfers by 10% and 29% year on year.

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In the first half of 2019, Bank Pekao was the first bank on the market providing corporate clients with an opportunity to use the Apple Pay service. Users of MasterCard corporate payment cards (excluding prepaid cards and debit cards in EUR) using Apple devices can add payment cards to the Wallet application and they can make card payments using application. In addition, a new login page was presented to PekaoBiznes24 customers. The latest global trends in the design of electronic banking systems provided inspiration for creation of a modernized login page. The new visualization is in line with the direction of further development of the Bank's electronic banking.

The new PekaoBiznes24 application for tablets was also implemented and the pilot phase of the modern version of the PekaoBiznes24 system was successfully completed. These are the next, very modern versions of the PekaoBiznes24 service, developed to provide multi-channel solutions. The advantages of the tablet versions are the convenience and ease of use, time saving and access regardless of the location, as well as the functionalities and analytical tools that facilitate the quick and effective management of the company's finances.

Trade finance

In the first half of 2019, the Bank recorded an increase in turnover in the area of financed receivables by over 15%, as compared to the same period of 2018. The exposure to products based on purchase of receivables increased by more than 10%. This increase was possible thanks to the continuous adjustment of the offer to clients' expectations, and also due to further development of the Open Financing Platform (OPF). The newly added "onboarding" functionality available on the platform gives the Bank an opportunity to send offers of financing and servicing claims to the companies that have not cooperated with the Bank so far and which are the suppliers of the Bank's clients. As a result, the Bank can offer a fully automated process of cooperation between the issuers of invoices and recipients, which will significantly shorten and improve the settlement process. In the first half of 2019, the Bank concluded the first purchase of receivables agreement using the "onboarding" functionality. The interested suppliers opened accounts and financed the first invoices only within a few days of taking advantage of the Bank's offer. In the first half of 2019, under the OPF, the Bank financed over 1.2 thousand invoices for a total amount of approximately PLN 52 million.

As compared to the same period of 2018, in the first half of 2019, the turnover in guarantees and sureties increased by over 11% and in import letters of credit - by over 4%.

The Bank's exposure related to the issued guarantees grew by approximately 7% as compared to the same period of 2018.

Bank Pekao S.A. continued cooperation with Bank Gospodarstwa Krajowego regarding participation in the Export Letters of Credit Program. This Program allows the Bank to confirm and discount export letters of credit from countries with higher risk, having executed consecutive deals supporting Polish companies in their expansion on foreign markets. Bank Pekao S.A. was the first of the signatories of the agreement that finalised the transaction of confirming the letter of credit under this Program.

Cooperation with international clients

The Department of International Banking and Export Financing has the mission to support export plans of the Polish companies present on foreign markets or considering expansion abroad. Companies operating in Poland are provided with the package of the most advantageous financial solutions adapted to the business model.

A key element of support, and at the same time a condition for strengthening the presence of domestic entities on foreign markets, is providing the clients with more attractive products offer for financing foreign contracts.

In the first half of 2019, the Bank signed a Cooperation Agreement with the PolChambers, associating more than 5 thousand companies on five continents. Thanks to this Agreement the Bank will gain an easier access to companies operating worldwide and will be able to provide them with a wide range of services, including a special offer for financing exports from Poland.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Investment banking, structured finance and commercial real estates

The Bank consistently supports the development of enterprises and infrastructure through long-term financing of investments in different segments of economy. It offers clients a wide range of services in the field of investment banking, structured financing and commercial real estate project financing, including financing of hotels. The Bank also finances projects aimed at redevelopment of brownfield sites in order to improve common space and also provides financing allowing Polish enterprises to carry out mergers and acquisitions, including cross-border acquisitions.

In the first half of 2019, the Bank participated, among others, in the following financing projects for corporate clients:

- syndicated financing for a leading company from the energy industry in total amount of PLN 10 billion, the Bank participated as a loan agent and lender,
- syndicated financing for a leading company from the e-commerce sector, total loan amount PLN 2 billion,
- significant participation in the placement of bonds issued under the bonds issue program in the amount of PLN 2 billion for a company from the mining industry,
- arranged issue of corporate bonds for the amount of ca. PLN 1.4 billion for a client from the energy industry; the Bank participated as the sole arranger of bonds issue,
- syndicated financing for an entity from the infrastructure sector, total loan amount ca. PLN 1.3 billion,
- syndicated financing for an entity from the pharmaceutical industry, total loan amount PLN 950 million,
- syndicated financing for an entity from the wood processing industry, total loan amount EUR 230 million,
- syndicated financing for the manufacturer of products made of wood, total loan amount ca. EUR 200 million,
- syndicated financing for an entity from the wood processing industry, total loan amount EUR 193 million,
- an agreement for a client from the energy industry for issuing bank guarantees to IRGIT in the amount of PLN 800 million,
- syndicated financing for the fuel producer; total amount: PLN 760 million,
- syndicated financing for an enterprise from the renewable energy industry; total loan amount: PLN 748 million,

In the first half of 2019, new loans for financing commercial real estate amounted to PLN 1,735 million and included, among others, the following transactions:

- participation in financing the construction of the biggest office building complex in Poland, the total loan amount EUR 350 million,
- loan for financing the construction in Warsaw by the Polish developers of office buildings market leader, total loan amount EUR 87 million,
- financing the construction of a shopping center by the leading Polish investor, total loan amount EUR 33 million,
- loan for financing the construction of a logistics park granted to a leading developer operating on the Polish market, in the amount of nearly PLN 110 million.

Issuance of debt instruments

In the area of arrangement and management of commercial debt securities, as at 30 June 2019, Bank Pekao S.A. had a 20% market share, including 21% market share in arrangement of corporate bonds issues, 24% in the segment of bank debt securities and 23% market share in arrangement of municipal bonds issues. The Bank's share in the issue of mid-term corporate bonds carried out on the Polish market in the six months of 2019 was 40%.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

In the first half of 2019, the mid-term debt securities (of enterprises, banks and municipal units) were issued through the Bank for a total amount of over PLN 7.6 billion, of which the following transactions deserve special attention:

- Issue of bonds for the leading company from the mining and steel sector operating in Poland and worldwide, for the total amount of PLN 2 billion, including 5-year bonds worth PLN 400 million and 10-year bonds worth PLN 1.6 billion,
- Issue of two series of bonds for the total amount of PLN 1.4 billion for the leading company from the power sector in Poland, including 7-year bonds worth PLN 400 million and 10-year bonds worth PLN 1.0 billion, Bank Pekao was the sole arranger and dealer in this transaction,
- Issue of 7-year bonds in the amount of PLN 1 billion for the largest provider of pay television in Poland and satellite platform in Europe.
- Issue of 5-year bonds in the amount of PLN 1 billion for one of the leading companies from the power sector in Poland;
- Bond issues for the companies operating in the developer sector, including two series of 3-year bonds for an international developer in the total amount of PLN 190 million, PLN 60 million for one of the leading Polish developers and the issue of 4-year bonds in the amount of PLN 160 million for one of the largest entities in Poland operating in the commercial real estate sector, the majority shareholder of which is State Treasury;
- Issue of one's own subordinated bonds in the 12NC7 format in the amount of PLN 350 million,
- Issue of mortgage bonds with maturity of up to 5.5 years in the amount of EUR 50 million for a mortgage bank belonging to the Group,
- Issues of seven series of bonds with maturity up to 3 years for a leasing company belonging to the international financial group for the total amount of PLN 360 million,
- Bond issues for municipalities in Poland for the total amount of nearly PLN 300 million.

Cooperation with international and domestic financial institutions

As at 30 June 2019, the Bank maintains 75 nostro accounts with 47 banks in 26 countries; it runs 220 loro accounts for 199 foreign clients (banks and other financial institutions) from 48 countries and 51 current accounts for 43 foreign financial institutions.

The Bank also intermediates in the execution of transactions on behalf of clients of other domestic banks, running 35 loro accounts for 13 Polish banks and maintaining 6 nostro accounts with 1 Polish bank.

Comprehensive service of the public sector finances

In the first half of 2019, Bank Pekao S.A. maintained the position of a leading bank in the area of ongoing service and financing of the Polish public sector. Bank Pekao S.A. is involved in cooperation with both metropolises and smaller municipalities as well as with communal companies, co-creating and developing Polish infrastructure.

The Bank provided financing in the amount of over PLN 2 billion for the public sector's development projects. The Bank's participation in financing different areas of municipal economy has contributed to a significant improvement in the life quality of local communities.

The most important transactions of the Bank concluded in the first half of 2019 are as follows:

- increasing the current bond issue program of Port Lotniczy Gdańsk Sp. z o.o. by PLN 363 million for implementation of the project aimed at developing a passenger terminal at the airport together with the construction of two office buildings as part of the Airport City Gdańsk – the first such project in Poland,
- signing an annex to the agreement of revenue bonds issue program of Gdańskie Autobusy i Tramwaje Sp. z o.o. for the amount of nearly PLN 160 million for implementation of the investment based on purchasing a new rolling stock and the investment in transport infrastructure,

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

- bond issue program of Gdańskie Autobusy i Tramwaje Sp. z o.o. for the amount of PLN 125 million to be used for pre-financing of the EU subsidy and VAT financing related to the investment in new rolling stock and transport infrastructure,
- bond issue program of Zarząd Komunalnych Zasobów Lokalowych Sp. z o.o. for the amount of PLN 117 million aimed at financing the construction of new municipal houses,
- refinancing the debt in the form of issue of bonds of the largest in Poland municipal companies providing waste collection services for the total amount of PLN 91,5 million.

In addition, the Bank carried out the municipal bonds issues for the total amount of over PLN 420 million to be used for financing the planned budget expenditures and for repayment of the previously incurred liabilities resulting from loans, credits and issued securities.

EU Funds and Public Programs

As part of the implementation of the strategy providing for development of cooperation with small and medium-sized companies, the Bank signed an agreement with the European Investment Bank worth almost PLN 150 million. The obtained funds will allow refinancing projects related to increasing the energy efficiency of small and medium-sized enterprises in the Kujawsko-Pomorskie voivodship. Within 5 years, Bank Pekao is planning to grant investment loans on preferential terms even to 100 small and medium enterprises in the region. The funds come from the EU funds for the years 2014-2020 (EFSI program) and Bank Pekao is the only bank with such an offer.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

6.2 Achievements of subsidiaries

Bank Pekao S.A. is one of the leading providers of banking services and groups together a number of financial institutions active in the 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 6.1.

Banking activity

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

Pekao Bank Hipoteczny, as a specialized mortgage bank, continued activities on the market of commercial properties, local government units, as well as loans for purchase, construction, refurbishment or modernization of housing loans to individuals.

As at the end of June 2019, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 2,342.3 million, a increase by PLN 593.4 million, i.e. 33.9% in comparison to end of June 2018. Loans granted to corporates and local governments represents 38.8% and 18.1% respectively and loans granted to individual clients represents 43.1% of loan portfolio. Loans granted in the first half of 2019 were dedicated to finance commercial real estate, housing loans to individuals represent 67.7%, 32.3% respectively.

In the first half of 2019, Pekao Bank Hipoteczny conducted two public covered bonds. The total value of liabilities due to covered bonds amounted to PLN 1,497.3 million as of 30 June, 2019.

In addition in 2018, Pekao Bank Hipoteczny conducted the issue of bonds for the amount to PLN 300.0 million. The bonds were issued as part of the issuer's bonds issue program up to the amount of PLN 1 billion.

The Pekao Bank Hipoteczny S.A. possess the The Covered Bond Label quality certificate, which confirms the quality of mortgage bonds issued and the highest standards for investors.

Assets management

Pekao Investment Management S.A. – Pekao IM

Pekao IM, in which Bank Pekao S.A. holds a 100% share, is an owner of Pekao Towarzystwo Funduszy Inwestycyjnych S.A.

Pekao TFI is the oldest investment fund in Poland providing customers with modern financial products and opportunity to invest on the Polish and the largest global capital markets. For many years, it creates savings programs, including programs offering additional savings for retirement under the third pillar, voluntary pension pillar. The Pekao TFI offer includes also a portfolio management service and Pracownicze Plany Kapitałowe (PPK). The company has been entered into the PPK register, and its offer is available on the portal mojeppk.pl.

As of 30 June, 2019, the net asset value of investment funds of Pekao TFI S.A. amounted to PLN 20,403.1 million, an increase of PLN 1,198.1 million, i.e. 6.2% as compared to the end of June 2018.

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 the first half of 2019, the Company concluded 7.9 thousand new agreements. The value of leased assets increased in comparison to the first half of 2018 by 65.0% and amounted to PLN 2,006.2 million, of which 73.2% were vehicles, 24.9% - plant and equipment, 0.4% - real estates and 1.5% - others. Within the scope of the program of co-operation between Pekao Leasing and Bank Pekao S.A. the value of assets leased to the customers that were also the Bank's clients amounted to PLN 1,759,4 million and was higher by 81.1% in comparison with the first half of 2018.

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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 2nd on the Polish factoring market, with 14.5% of market share.

Transactional advisory

Pekao Investment Banking S.A. – Pekao IB

Pekao IB operates as brokerage house, focusing on institutional and corporate clients service. The scope of services provided by Pekao IB 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 as well as other services related to mergers, demergers and corporates acquisition.

In first half of 2019, Pekao IB acted as an intermediary entity in a public tender of a company listed on the Warsaw Stock Exchange (WSE), as well as two share buyback conducted by the WSE-listed companies. Additionally, acted also as the Offeror in 30 bond issues and as market maker both on equities as well as on derivative instruments market, being one of the most active entity of this market. At the end of June 2019, Pekao IB was the market maker for 22 companies and 28 series of derivatives.

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 the Bank Pekao S.A., as a major customer, in the service of online banking, cards and call center products. The company within its operations serves customers through alternative channels of communication. The main channel of communication is phone calls - in the first half of 2019, CBB handled 6.6 million calls, (i.e. 5.2% increase in comparison with the same period of 2018).

The company runs with the Bank a number of projects aimed at developing communication with customers of Bank Pekao S.A. with usage 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. The company is the only entity that supports OFE funds using the services of an 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.

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 the first half of 2019, was the implementation of new services i.e. opening an account for a selfie (in PeoPay application).

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

6.3 Awards

The activity of Bank Pekao S.A. has been appreciated by clients, industry experts, the market and media for years, which translates into many awards and distinctions received both in Poland and on international arena. The measures aimed at providing clients with the highest quality products and services and the innovation of proposed solutions have gained professional recognition. The selected major awards and distinctions received in the first half of 2019.

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

For the fourth consecutive time, Bank Pekao S.A. was awarded with the title of the "Best Trade Finance Provider in Poland 2018" according to the survey organized by prestigious Euromoney magazine. The Bank received the titles of Market Leader in Poland and Best Services in Poland. Award is granted based on a survey in which the customers selected the best trade finance solutions in three banks where they use trade finance products. Bank Pekao S.A. again received the most votes among banks operating in Poland.

WSE: Bank Pekao S.A. as the largest organizer of bonds issues on Catalyst market

The Bank was awarded by the Management Board of the Warsaw Stock Exchange for the highest value non-treasury debt securities arranged and introduced in 2018 on the Catalyst market. In 2018 the value of issues issued through Bank Pekao is over PLN 17 billion. Bank Pekao S.A. has been the leader of the DCM market in Poland for over a dozen years.

The Best Investment Bank in Poland for the third time

Bank Pekao S.A. was ranked the "The Best Investment Bank in Poland" in the prestigious competition of the international Global Finance magazine.

The award was granted by a group of industry experts taking into account the reported deals completed in the last year. The opinion of financial circles, scope of provided advice and service and the institution's ability to structure transactions were also analysed in addition to the applications submitted for the competition. Other criteria included bank's market share, distribution network, pricing as well as the ability to respond to market needs, innovation and reputation.

The best bank financing mergers and acquisitions

Bank Pekao S.A. was once again honoured with the prestigious title of the Bank of the Year in the CEE M&A Awards 2019 competition.

Private Equity fund managers, international experts on mergers and acquisitions recognized the leading role of Bank Pekao S.A. in arranging acquisition financing for transactions that were completed in 2018 in Central and Eastern Europe.

The highest note for Private Banking services

Private Banking has already received the highest note for the third time - a prestigious five-star rating in private banking services, carried out by the Polish edition of the Forbes magazine. The quality of private banking offers is assessed by a representative group using private banking services, with special emphasis on solutions that correspond to market trends.

The title of „Instytucji Roku 2018" awarded by the MojeBankowanie.pl

The Bank received the title of the institution of the year in two categories:

- The best quality of business customer service,
- Friendly opening of a company account.

The Bank's activities aimed at achieving the position of an efficiency and quality expert on the market were appreciated.

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Contact Center employees of Bank Pekao S.A. from the Centrum Bankowości Bezpośredniej won in three out of eight categories in the competition „Telemarketer Roku”

Call Center employees once again won the competition "Telemarketer of the Year". In the 11th edition of the competition organized by the Polish Marketing Association SMB, Call Center employees received statuettes in three categories: Help Desk for clients, External Help Desk and video calling.

Bank Pekao S.A. took the second place in the "Banking" category of the Leader 2018

Gazeta Bankowa once again awarded prizes for the best technological implementations in 2018 and for the best products available on the market. The Bank was recognized by the jury, taking second place in the Leader contest 2018. The competition jury awarded the innovative method of setting up a savings and settlement account using selfies.

Second place for Bank Pekao S.A. in the Złoty Bankier competition 2019 in the category "Mortgage Loan"

In the Złoty Bankier 2019 plebiscite the Bank took the second place in the "Mortgage Loan" category. The jury of the competition appreciated attractive financing conditions, a flexible approach to setting maximum creditworthiness, as well as procedures increasing product availability (including the possibility of joint commitment by many borrowers).

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

6.4 Factors which will affect the results of the Group

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

In 2019 Polish GDP growth is expected to slow down to 4.5% from high dynamics posted in 2017 and 2018. Such developments will be mainly driven by external factors, in particular expected deterioration in global economic conditions, in particular weaker demand on the main export markets. Main risks of even slower growth are linked to potential further negative impact of the United Kingdom leaving the European Union (Brexit) and increase in trade tensions between the U.S. and its main trading partners (so-called trade wars). The scale of the slowdown will be curbed by the proposed fiscal package (higher budget spending and tax cuts).

In 2019 tax and regulatory environment invariably plays key role. In particular, this includes tax on certain financial institutions, high capital requirements, growing contributions to (BFG), costs of further adjustment to a number of regulatory solutions (MIFID II, RODO, PSD II, MREL, among others), as well as introduction in Poland of cap on asset management fees. Maintained strict tax and regulatory environment may constrain banks' credit expansion and impact their financial results.

Monetary policy has major impact on banks' results. With moderate inflationary pressure and expected economic slowdown, the probability of interest rate hike in Poland in 2019 is low, which limits the possibility of increasing interest margins of banks.

Household deposits growth pace in 2019 should remain relatively high, though may decelerate towards the end of the year and finish with slightly slower pace than at the end of 2018. This is due to, among others, somewhat weaker growth of wage bill in economy. In terms of corporate deposits a further increase in pace – from relatively low levels – can be expected. Announced fiscal stimulus is going to have a substantial impact (favourable for growth pace) on whole deposit base.

As for household loans, a slowdown can be expected in 2019. Somewhat weaker activity on housing market may have an impact on new mortgage loans' growth pace, while portfolio of FX mortgages is steadily diminishing (such loans are now virtually not being given in Poland) and existing loans portfolio repayments are growing in size. Moreover, slightly subdued consumer sentiment may translate into weaker growth of consumer loans (especially taking into consideration high activity and therefore base from 2018). These effects may be however partially offset by mentioned fiscal stimulus. Given the slowdown in GDP growth, risks in some of the economy's branches and persistent regulatory uncertainty, a rather flat growth pace of corporate loans can be expected.

In 2019 regulations on FX mortgages can have substantial impact. Presidential project, which has comparatively highest probability of implementation among propositions under analysis, proposes among others extended opportunities and lower requirements for getting aid by troubled credit holders, as well as introduction of special Conversion Fund with fees gathered from banks (the contribution may cost sector up to PLN 2.5 billion per year). The entry into force of this or one of the other considered regulations including the expected ruling of Court of Justice of the European Union may have a strong negative impact on the financial performance of banks with a significant portfolio of foreign currency denominated mortgages. However, taking into account the relatively minor share of these loans in the total assets of the Bank (almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007), Bank Pekao S.A. assesses that potentially taken solutions should not materially affect the financial standing of the Group.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

6.5 Description of major sources of risk and threats relating to the remaining months of 2019

Economic factors

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

Risk management

Effective risk management is a prerequisite for maintaining a high level of security of the funds entrusted to the Group, and for achieving a sustainable and balanced profit growth within the Group's risk appetite.

The key risks material for the Group include credit risk, liquidity and market risks and operational risk. Moreover, the Group identifies the following risks as material in its business activity: business, macroeconomic, reputation, compliance, excessive leverage, bancassurance, real estate, financial investment, model risks.

The Group has adopted a comprehensive and consolidated approach to risk management. It extends to all units of the Bank and subsidiaries. Risks are monitored and managed taking into account business profitability and the capital required to cover the losses resulting from these risks.

The Management Board of the Bank is responsible for achieving the strategic risk management goals, while the Supervisory Board, supported by the Risk Committee, oversees whether the Group's policy of taking various risks is compliant with the overall strategy and financial plan. The Credit Committee plays an important role in the credit risk management, the Asset, Liability and Risk Committee and Liquidity and Market Risk Committee in market and liquidity risk management, the Operational Risk Committee in the management of the operational risk and the Model Risk Committee in model risk management.

The rules of managing each of the risks are defined by internal procedures and the guidelines set up by the credit risk policy, investment and market risk policy and the operational risk strategy and policy accepted annually by the Management Board and approved by the Supervisory Board.

Detailed reports on credit, liquidity, market, operational and model risks are presented to the Management Board and the Supervisory Board on a regular basis.

The rules and instruments of managing each of the risks and information on the risk exposure are included in Note 7 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 June 2019 and in the document "Information in respect to capital adequacy of Bank Pekao S.A. Group as at 30 June 2019" published on the Bank's website.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Risks related to the remaining months of 2019

In the second half of 2019, the Bank will continue its strategy focused on keeping credit risk at adequate and safe level through prudent policy of credit portfolio development. Prudent standards in credit risk management in Bank Pekao S.A. stay unchanged with particular attention to potential threats coming from macroeconomic pillars and their effects on portfolio performance with timely actions undertaken along a strict monitoring of borrowers' risk profile. The same approach and focus is applied to the performance of the Bank's subsidiaries.

In the case of liquidity and market risks, Bank Pekao S.A. does not expect substantial threats in the second half of 2019. As regards liquidity risk, it should be underlined that the Bank is characterized by a well-diversified, stable deposits base with low concentration and manages a substantial liquidity buffer of eligible and marketable government securities. The cautious liquidity risk management policy enables to expect stable liquidity situation in the second half of 2019.

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

The Bank does not identify any new significant factors implying change of operational risk profile, which could occur in the second half of 2019.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

7 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 30 June, 2019 and 2018 respectively is presented in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 June 2019.

The Report on activities of Bank Pekao S.A. Group for the first half of 2019 includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements are discussed.

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

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of June 2019, the total assets of Bank Pekao S.A. constitutes 96.3% of the total assets of the whole Group.

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

ASSETS	30.06.2019		30.06.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	4,324.7	2.2%	8,014.2	4.4%	(46.0%)
Loans and advances to banks ^(*)	2,704.1	1.4%	3,480.7	1.9%	(22.3%)
Customers' financing ^(**)	146,538.5	74.4%	133,891.5	73.0%	9.4%
Securities ^(***)	35,216.9	17.9%	31,660.1	17.3%	11.2%
Property, plant and equipment and intangible assets	3,422.5	1.7%	2,857.7	1.5%	19.8%
Other assets	4,704.2	2.4%	3,599.3	2.0%	30.7%
Total assets	196,910.9	100.0%	183,503.5	100.0%	7.3%

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

(**) Including net investments in financial leases to customers and non-treasury debt securities.

(***) Including financial assets held for trading, other financial instruments at fair value through profit and loss and excluding non-treasury debt securities.

EQUITY AND LIABILITIES	30.06.2019		30.06.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	5.0	0.0%	6.0	0.0%	(16.7%)
Amounts due to other banks	6,578.8	3.3%	5,458.1	3.0%	20.5%
Amounts due to customers	149,814.8	76.1%	142,284.3	77.5%	5.3%
Debt securities issued	5,952.2	3.0%	3,882.3	2.1%	53.3%
Subordinated liabilities	2,363.3	1.2%	1,257.0	0.7%	88.0%
Repo transactions	40.0	0.0%	648.9	0.4%	(93.8%)
Lease liabilities	508.6	0.3%	-	x	x
Other liabilities	9,567.3	4.9%	8,515.4	4.6%	12.4%
Total equity, including	22,080.9	11.2%	21,451.5	11.7%	2.9%
non-controlling interests	11.7	x	11.0	x	6.4%
Total equity and liabilities	196,910.9	100.0%	183,503.5	100.0%	7.3%

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Customers' Financing Customer structure of loans and advances

(in PLN million)

	30.06.2019	30.06.2018	CHANGE
Loans and advances at nominal value	151,560.8	139,287.6	8.8%
Loans and investments in financial leases	140,398.1	127,908.1	9.8%
Retail	74,168.9	67,517.9	9.9%
Corporate	66,229.2	60,390.2	9.7%
Non-treasury debt securities	11,162.7	11,379.5	(1.9%)
Other ^(*)	1,296.5	1,002.6	29.3%
Impairment allowances	(6,318.8)	(6,398.7)	(1.2%)
Customers' financing	146,538.5	133,891.5	9.4%

^(*) Including interest and receivables in transit.

As at the end of June 2019, loans and advances at nominal value amounted to PLN 151,560.8 million, an increase of PLN 12,273.2 million, i.e. 8.8% in comparison to the end of June 2018.

As at the end of June 2019, the volume of retail loans amounted to PLN 74,168.9 million, an increase of PLN 6,651.0 million, i.e. 9.9% in comparison to the end of June 2018, thanks to dynamic growth of key products: consumer loans by 13% y/y and PLN mortgage loans by 11% y/y.

As at the end of June 2019, corporate loans and non-treasury debt securities amounted to PLN 77,391.1 million, an increase of PLN 5,622.2 million, i.e. 7.8% in comparison to the end of June 2018, thanks to strong dynamics in the medium-sized enterprise segment and leasing receivables.

Receivables and impairment losses^(*)

(in PLN million)

	30.06.2019	30.06.2018	CHANGE
Gross receivables	152,857.3	140,290.2	9.0%
Stage 1	124,777.6	110,707.4	12.7%
Stage 2	20,238.4	21,594.5	(6.3%)
Stage 3	7,841.3	7,988.3	(1.8%)
Impairment allowances	(6,318.8)	(6,398.7)	(1.2%)
Stage 1	(395.2)	(392.8)	0.6%
Stage 2	(683.9)	(745.8)	(8.3%)
Stage 3	(5,239.7)	(5,260.1)	(0.4%)
Total net receivables	146,538.5	133,891.5	9.4%

^(*) Including net investments in financial leases to customers, non-treasury debt securities, interest and receivables in transit and excluding reverse repo transactions.

As at the end of June 2019 the ratio of impaired receivables (stage 3) to the gross receivables amounted 5.1%.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Loans and advances to customers by currency^(*)

	30.06.2019		30.06.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	127,543.3	83.4%	116,814.4	83.3%	9.2%
Denominated in foreign currencies ^(**)	25,314.0	16.6%	23,475.8	16.7%	7.8%
Total	152,857.3	100.0%	140,290.2	100.0%	9.0%
Impairment allowances	(6,318.8)	,x	(6,398.7)	,x	(1.2%)
Total net	146,538.5	x	133,891.5	x	9.4%

(*) Including net investments in financial leases to customers, non-treasury debt securities, interest and receivables in transit and excluding reverse repo transactions.

(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of June 2019, their share was 83.4%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (80.0%), CHF (12.9%) and USD (6.3%).

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

	30.06.2019		30.06.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	15,882.4	10.4%	16,082.5	11.5%	(1.2%)
1 to 3 months	4,950.2	3.2%	4,059.5	2.9%	21.9%
3 months to 1 year	14,596.9	9.5%	12,038.8	8.6%	21.2%
1 to 5 years	50,149.2	32.8%	45,397.3	32.4%	10.5%
Over 5 years	61,440.8	40.2%	56,948.7	40.6%	7.9%
Past due	4,541.3	3.0%	4,760.8	3.4%	(4.6%)
Other	1,296.5	0.8%	1,002.6	0.7%	29.3%
Total	152,857.3	100.0%	140,290.2	100.0%	9.0%
Impairment allowances	(6,318.8)	x	(6,398.7)	x	(1.2%)
Total net	146,538.5	x	133,891.5	x	9.4%

(*) Including net investments in financial leases to customers, non-treasury debt securities, interest and receivables in transit and excluding reverse repo transactions.

As at the end of June 2019, loans and advances with maturity over 5 years represents 40.2% of total loans and advances (mainly attributed to mortgage loans, investment loans, and non-treasury debt securities).

Information on loan concentration is included in the Note 26 and 27 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 June 2019.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

External sources of financing

(in PLN million)

	30.06.2019	30.06.2018	CHANGE
Amounts due to Central Bank	5.0	6.0	(16.7%)
Amounts due to other banks	6,578.8	5,458.1	20.5%
Amounts due to customers	149,814.8	142,284.3	5.3%
Debt securities issued	5,952.2	3,882.3	53.3%
Subordinated liabilities	2,363.3	1,257.0	88.0%
Repo transactions	40.0	648.9	(93.8%)
Total external sources of financing	164,754.1	153,536.6	7.3%

Amounts due to customers amounted to PLN 149,814.8 million, an increase by 5.3% to significant extent contributed to dynamic increase in loans.

The deposit base is widely diversified and is 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.

Amounts due to customers and debt securities issued

(in PLN million)

	30.06.2019	30.06.2018	CHANGE
Corporate deposits	60,889.3	63,249.7	(3.7%)
Non-financial entities	44,477.8	45,243.5	(1.7%)
Non-banking financial entities	6,351.1	7,007.5	(9.4%)
Budget entities	10,060.4	10,998.7	(8.5%)
Retail deposits	88,366.5	78,487.3	12.6%
Other ^(*)	559.0	547.3	2.1%
Amounts due to customers^(**)	149,814.8	142,284.3	5.3%
Debt securities issued, of which	8,315.5	5,139.3	61.8%
Structured Certificates of Deposit (SCD)	891.1	422.8	>100%
Certificates of Deposit (CD)	1,006.0	980.1	2.6%
Subordinated bonds	2,350.0	1,250.0	88.0%
Pekao Bank Hipoteczny S.A. covered bonds	1,347.6	1,177.1	14.5%
Pekao Bank Hipoteczny S.A. bonds	283.4	-	x
Pekao Leasing Sp. z o.o. bonds	2,048.2	1,279.0	60.1%
Pekao Faktoring Sp. z o.o. bonds	352.2	-	x
Interest	37.0	30.3	22.1%
Amounts due to customers and debt securities issued^(**)	158,130.3	147,423.6	7.3%
Repo transactions	40.0	648.9	(93.8%)
Lease liabilities	508.6	-	x
Amounts due to customers and debt securities issued, total^(***)	158,678.9	148,072.5	7.2%
Investment funds of Pekao TFI S.A. (ex. Pioneer Pekao TFI)	20,403.1	19,205.0	6.2%
Bond and money market funds	16,397.8	14,615.7	12.2%
Balanced funds	2,207.8	2,497.3	(11.6%)
Equity funds	1,797.5	2,091.9	(14.1%)
including distributed through the Group's network	20,004.1	18,914.1	5.8%

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

(**) Excluding repo transactions and lease liabilities.

(***) Including repo transactions and lease liabilities.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

As at the end of June 2019, amounts due to the Group's customers and debt securities issued amounted to PLN 158,130.3 million, an increase of PLN 10,706.7 million, i.e. 7.3% in comparison to the end of June 2018.

The total volume of retail deposits, Structured Certificates of Deposit and other amounted to PLN 89,775.8 million as at the end of June 2019, an increase of PLN 10,359.5 million, i.e. 13.0% in comparison to the end of June 2018 and they increased their share in the structure of financing.

The total volume of corporate deposits, Certificates of Deposit, subordinated bonds, Pekao Bank Hipoteczny S.A. covered bonds and bonds, Pekao Leasing Sp. z o.o. bonds, Pekao Faktoring Sp. z o.o. bonds interest and other amounted to PLN 68,354.6 million as at the end of June 2019, an increase of PLN 347.3 million, i.e. 0.5% as compared to the end of June 2018.

Repo transactions amounted to PLN 40.0 million as at the end of June 2019, an decrease by PLN 608.9 million, i.e. 93.8% as compared to the end of June 2018.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 20,403.1 million as at the end of June 2019, an increase of PLN 1,198.1 million, i.e. 6.2% in comparison to the end of June 2018.

Amounts due to customers by currency^(*)

	30.06.2019		30.06.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	121,437.3	81.1%	116,317.3	81.7%	4.4%
Denominated in foreign currencies	28,377.4	18.9%	25,967.0	18.3%	9.3%
Total	149,814.8	100.0%	142,284.3	100.0%	5.3%

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

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of June 2019 amounted to 81.1%. The majority of amounts due to customers denominated in foreign currencies were in EUR (65.2%) and USD (28.6%).

Amounts due to customers by contractual maturities^(*)

	30.06.2019		30.06.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	100,182.6	67.1%	86,866.7	61.3%	15.3%
Term deposits	49,073.2	32.9%	54,870.3	38.7%	(10.6%)
Total deposits	149,255.8	100.0%	141,737.0	100.0%	5.3%
Interest accrued	194.0	x	180.7	x	7.4%
Funds in transit	365.0	x	366.6	x	(0.4%)
Total	149,814.8	x	142,284.3	x	5.3%

^(*) Excluding repo transactions and lease liabilities.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

7.2 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders of the first half of 2019 amounted to PLN 824.4 million.

Net profit was higher by 11.0% y/y on a comparable basis (excluding BFG fee and the one-off items i.a. restructuring provision in 2019 and costs of voluntary retirement program in 2018), mainly thanks to dynamic development of the commercial activities of the Group driving the growth of customers' financing by 9.4% y/y, as well as amounts due to customers by 5.3% (of which retail deposits by 12.6% y/y), strict operating costs control and prudent management of cost of risk.

Net profit was nominally lower by 11.6% (PLN 107.7 million) than net profit for the first half of 2018, due to twice higher BFG fee (by PLN 208.6 million).

The consolidated income statement – presentation form

(in PLN million)

	1 HALF OF 2019	1 HALF OF 2018	CHANGE
Net interest income	2,657.9	2,441.2	8.9%
Net fee and commission income	1,236.3	1,205.3	2.6%
Dividend income	21.6	19.8	9.1%
Trading result	66.9	88.7	(24.6%)
Net other operating income and expenses	34.1	25.7	32.7%
Net non-interest income	1,358.9	1,339.6	1.4%
Operating income	4,016.8	3,780.8	6.2%
Operating costs	(1,809.6)	(1,752.6)	3.3%
Gross operating profit	2,207.2	2,028.1	8.8%
Net impairment losses on financial assets and off-balance sheet commitments	(286.9)	(250.9)	14.3%
Net operating profit	1,920.3	1,777.3	8.0%
Net result on other provisions	(8.2)	(14.1)	(41.8%)
Bank Guarantee Fund fee	(413.6)	(205.0)	>100%
Tax on certain financial institutions	(297.3)	(276.9)	7.4%
Net result on investment activities	11.7	(3.9)	x
Profit before tax	1,212.9	1,277.3	(5.0%)
Income tax expense	(386.9)	(345.0)	12.1%
Net profit	826.0	932.3	(11.4%)
Attributable to equity holders of the Bank	824.4	932.1	(11.6%)
Attributable to non-controlling interest	1.6	0.2	>100%

Operating income

In the first half of 2019, the Group's operating income amounted to PLN 4,016.8 million and was higher by 6.2% y/y than operating income in the first half of 2018 mainly thanks to the acceleration of the dynamics of core revenues (an increase by 6.8% y/y). This acceleration was particularly reflected in the dynamics of the second quarter of 2019, when core revenues increased by 4.5% q/q and 7.4% y/y.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Total net interest income

(in PLN million)

	1 HALF OF 2019	1 HALF OF 2018	CHANGE
Interest income	3,266.6	2,994.5	9.1%
Interest expense	(608.7)	(553.3)	10.0%
of which on leasing	(7.0)	(0.8)	>100%
Net interest income	2,657.9	2,441.2	8.9%

Net interest income in the first half of 2019, amounted to PLN 2,657.9 million and was higher by PLN 216.7 million, i.e. 8.9% compared to the first half of 2018, mainly driven by higher volumes of loans and deposits as well as higher margin. Positive dynamics of commercial activity allowed to compensate the effect of a drop in interest rates on the bonds portfolio.

In the first half of 2019, the interest income amounted to PLN 3,266.6 million and was higher by PLN 272.1 million year on year thanks to higher income from loans and advances to customers by PLN 245.9 million, as a result of an increase in loan volumes by 8.8% year on year.

In the first half of 2019, the interest expense amounted to PLN 608.7 million and was higher by PLN 55.4 million year on year, mainly due to the increase in expenses related to debt securities issued due to the issuance of subordinated bonds in October 2018. Excluding the effect of the regulations on International Financial Reporting Standard No. 16, the growth rate of interest costs decreased to 8.9% y/y, below the growth rate of interest income.

The increase in interest expense on deposits in the amount of 1.5% y/y, significantly below the increase in deposit volumes (5.3% y/y), due to the change in the term structure towards current deposit and changes of segment structure towards retail deposit.

The interest margin achieved in the first half of 2019 amounted to 2.86% and was higher by 0.04 p.p.

Net non-interest income

(in PLN million)

	1 HALF OF 2019	1 HALF OF 2018	CHANGE
Fee and commission income	1,409.9	1,382.5	2.0%
Fee and commission expense	(173.7)	(177.2)	(2.0%)
Net fee and commission income	1,236.3	1,205.3	2.6%
Dividend income	21.6	19.8	9.1%
Trading result	66.9	88.7	(24.6%)
of which gains on disposal of AFS assets	18.8	51.1	(63.2%)
Net other operating income and expense	34.1	25.7	32.7%
Net non-interest income	1,358.9	1,339.5	1.4%

The Group's net fee and commission income in the first half of 2019, amounted to PLN 1,236.3 million and was higher by PLN 31.0 million, i.e. 2.6% compared to the first half of 2018, mainly due to higher commission on loans growing by 12.9% year on year, higher income on cards and higher income on margins on foreign exchange transactions with clients.

In the first half of 2019, other income amounted to PLN 122.6 million and was lower by PLN 11.7 million as compared to the first half of 2018, mainly due to lower gains on disposal of AFS assets.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

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

(in PLN million)

	1 HALF OF 2019	1 HALF OF 2018	CHANGE
Net fee and commission income	1,236.3	1,205.3	2.6%
on loans	243.2	215.4	12.9%
on cards	174.8	159.3	9.7%
on mutual funds	215.2	221.3	(2.8%)
on brokerage activate	30.0	46.7	(35.8%)
on margins on foreign exchange transactions with clients	243.6	224.2	8.7%
other	329.5	338.4	(2.6%)

Operating costs

The operating costs amounted to PLN 1,809.6 million in the first half of 2019. Excluding one-off items, operating costs would be higher by 1.3% y/y, significantly below inflation and despite the costs of ongoing investments in operational transformation and digitization. Nominally, the costs were higher by PLN 57.0 million, i.e. 3.3% compared to the costs achieved in the first half of 2018, mainly due to the restructuring provision for collective redundancies in the amount of PLN 85 million and due to twice higher financial supervision authority fee.

On January 1, 2019, the Group has adopted International Financial Reporting Standard No.16, as a result of which the operating cost structure changed by increasing depreciation costs while reducing other administrative expenses.

(in PLN million)

	1 HALF OF 2019	1 HALF OF 2018	CHANGE
Personnel expenses	(1,065.9)	(1,055.2)	1.0%
Other administrative expenses	(488.5)	(519.7)	(6.0%)
of which Financial supervision authority fee (KNF)	(25.0)	(12.5)	>100%
Depreciation and amortization	(255.2)	(177.7)	43.6%
Operating costs	(1,809.6)	(1,752.6)	3.3%

In the first half of 2019, cost / income ratio excluding the one off items amounted to 42.9% and was lower by 2.1 p.p. y/y, approaching the strategic target of 40% set for 2020.

As of June 30, 2019, the Group employed 16,613 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 17,307 employees as at the end of June 2018.

As of June 30, 2019, the Bank employed 14,436 employees as compared to 15,182 employees as at the end of June 2018.

Bank Guarantee Fund fee

Bank Guarantee Fund fee in the first half of 2019, amounted to PLN 413.6 million, an increase of PLN 208.6 million, i.e. in comparison with the first half of 2018 due to the increase the fee for contribution to resolution fund of banks.

Tax on certain financial institutions

Tax on certain financial institutions in the first half of 2019 amounted to PLN 297.3 million and was higher by PLN 20.4 million, i.e. 7.4% in comparison with the first half of 2018, due to an increase in Group's assets by 7.3%.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

7.3 The structure of the net profit

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

(in PLN million)

	1 HALF OF 2019	1 HALF OF 2018	CHANGE
Net profit of Bank Pekao S.A.	916.3	1 083.9	(15.5%)
Entities consolidated under full method			
Pekao Investment Management S.A.	60.7	41.0	48.0%
Pekao Leasing Sp. z o.o.	25.2	18.6	35.5%
Centralny Dom Maklerski Pekao S.A.	10.8	14.6	(26.0%)
Pekao Faktoring Sp. z o.o.	8.1	5.9	37.3%
Pekao Financial Services Sp. z o.o.	4.6	2.5	84.0%
Pekao Bank Hipoteczny S.A.	0.7	0.8	(12.5%)
Pekao Powszechno Towarzystwo Emerytalne S.A. w likwidacji	0.4	2.4	(83.3%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	0.3	2.7	(88.9%)
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji	0.2	0.2	0.0%
Dom Inwestycyjny Xelion Sp. z o.o.	0.1	2.5	(96.0%)
FPB-MEDIA Sp. z o.o.	0.0	(15.2)	x
Pekao Property S.A. w likwidacji ^(*)	(0.1)	0.1	x
Centrum Kart S.A.	(0.1)	(0.4)	(75.0%)
Pekao Investment Banking S.A.	(10,0)	6.1	x
Exclusions and consolidation adjustments ^(**)	(192.8)	(233.6)	(17.5%)
Net profit of the Group attributable to equity holders of the Bank	824.4	932.1	(11.6%)

^(*) On March 1, 2019 the Extraordinary General Meeting of Shareholders of Pekao Property S.A. took the resolution to dissolve the company and to open its liquidation from that date. Currently, the company will operate under the name Pekao Property SA. in liquidation.

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

The results of Bank Pekao S.A.

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

(in PLN million)

	1 HALF OF 2019	1 HALF OF 2018	CHANGE
Net interest income	2,588.7	2,380.1	8.8%
Net non-interest income	1,288.4	1,353.8	(4.8%)
Operating income	3,877.1	3,733.9	3.8%
Operating costs	(1,635.1)	(1,595.0)	2.5%
Gross operating profit	2,242.0	2,138.9	4.8%
Net impairment losses on financial assets and off-balance sheet commitments	(263.2)	(229.6)	14.6%
Net operating profit	1,978.8	1,909.3	3.6%
Net result on other provisions	(8.2)	(14.4)	(43.1%)
Bank Guarantee Fund fee	(411.0)	(203.9)	>100%
Tax on certain financial institutions	(297.3)	(276.9)	7.4%
Net result on investment activities	11.6	(5.6)	x
Profit before tax	1,273.9	1,408.5	(9.6%)
Net profit	916.3	1,083.9	(15.5%)

Net profit of the Bank for the first half of 2019 amounted to PLN 916.3 million and was lower by PLN 167.6 million, i.e. 15.5% than net profit achieved in the first half of 2018, due to increase of the fee for contribution to resolution fund of banks by PLN 226.6 million, with net operating profit higher by PLN 69.5 million i.e. 3.6% from net operating profit achieved in the first half of 2018.

The main Bank's financial information are as follows:

	30.06.2019	30.06.2018	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	143,262.9	134,248.8	6.7%
Amounts due to customers	150,296.6	142,804.3	5.2%
Structured Certificates of Deposit	891.1	422.8	>100%
Certificates of Deposit	1,006.0	980.1	2.6%
Subordinated bonds	2,350.0	1,250.0	88.0%
Repo transactions	40.0	648.9	(93.8%)
Total assets	189,574.3	178,781.5	6.0%
Investment funds distributed through the Bank's network	19,032.6	18,072.2	5.3%
Total capital ratio in %	18.8%	18.4%	0.4 p.p.

(*) Including loans and non-treasury debt securities.

As at the end of June 2019, loans and advances at nominal value amounted to PLN 143,262.9 million, an increase of PLN 9,014.1 million, i.e. 6.7% in comparison to the end of June 2018. As at the end of June 2019, the volume of retail loans amounted to PLN 73,140.0 million and the volume of corporate loans amounted to PLN 58,960.2 million.

As at the end of June 2019, the amounts due to customers, Structured Certificates of Deposit, Certificates of Deposit and subordinated bonds amounted to PLN 154,543.7 million, an increase of PLN 9,086.5 million, i.e. 6.2% in comparison to the end of June 2018.

The value of net assets of investment funds managed by Pekao TFI S.A. distributed through the Bank's network amounted to PLN 19,032.6 million as at the end of June 2019, an increase of PLN 960.4 million, i.e. 5.3% in comparison to the end of June 2018.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Results of the Bank's major related entities

Pekao Investment Management S.A. – Pekao IM

In the first half of 2019, consolidated net profit of Pekao IM amounted to **PLN 60.7 million** compared with PLN 41.0 million in the half of 2018. The higher result is related to the increase in net assets of investment funds managed by Pekao TFI S.A. by ca. 6.2% compared to the end of June 2018 as well as changes in the remuneration method for distributors of TFI units adjusted to MIFID II regulatory requirements.

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

In the first half of 2019, Pekao Leasing reported a net profit of **PLN 25.2 million** compared with PLN 18.6 million in the half of 2018. In the first half of 2019, Pekao Leasing signed over 7.9 thousand new agreements, i.e. 34.3% increase year on year, while the value of leased assets was higher by 65.0% year on year and amounted to PLN 2,006.2 million.

Centralny Dom Maklerski Pekao S.A. – CDM

In the first half of 2019, net profit of CDM amounted to **PLN 10.8 million** compared with PLN 14.6 million million profit earned in the first half quarter of 2018, influenced by lower turnover on the WSE, caused by less favourable situation on capital markets.

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

In the first half of 2019, Pekao Faktoring reported a net profit of **PLN 8.1 million** compared with PLN 5.9 million in the first half of 2018, influenced by an increasing factoring commitment (increase by 96.6% year on year) and favourable situation on factoring market.

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

In the first half of 2019, PFS reported a net profit in the amount of PLN 4.6 million (the Bank's share in the company's was **PLN 3.1 million**) compared with PLN 2.5 million in the first half of 2018. The results of the first half of 2019, was influenced by the acquisition of the PZU Centrum Operacji S.A. by Pekao FS on second quarter of 2018. This transaction possible to take over PTE PZU S.A. and TFI PZU S.A. within the scope of the transfer agent service and extending the scope of service to PZU Życie S.A.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In the first half of 2019, Pekao Bank Hipoteczny reported a net profit **PLN 0.7 million** compared with PLN 0.8 million in the first half of 2018. The result was influenced by the higher level of the fee for contribution to resolution fund of banks.

Pekao Powszechne Towarzystwo Emerytalne S.A. w likwidacji – Pekao PTE

In the first half of 2019, Pekao PTE reported net profit of **PLN 0,4 million** compared with PLN 2.4 million in the first half of 2018. Pekao PTE is in liquidation from June 1, 2018 and does not conduct activities.

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

In the first half of 2019, CBB reported a net profit in the amount of **PLN 0.3 million** compared with PLN 2.7 million in the first half of 2018, influenced by the smaller number of marketing and sales campaigns and the increasing pressure on telemarketers' salaries.

Dom Inwestycyjny Xelion Sp. z o.o. – DI Xelion

In the first half of 2019, DI Xelion reported a net profit in the amount of **PLN 0.1 million** compared with PLN 2.5 million in the first half of 2018, caused by less favourable situation on capital markets and changing customer preferences regarding the level of accepted risk.

Pekao Investment Banking S.A. – Pekao IB

In the first half of 2019, Pekao IB reported a loss of **PLN 10.0 million** compared with net profit of PLN 6.1 million in the first half of 2018. The result of the current period was influenced by less than year early number of investment advisory transactions.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

7.4 Net impairment losses

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	1 HALF OF 2019	1 HALF OF 2018	1 HALF OF 2019	1 HALF OF 2018
financial assets measured at amortized cost	(226.0)	(260.2)	(207.5)	(243.3)
financial assets measured at fair value through other comprehensive income	(18.3)	(1.0)	(17.9)	4.3
financial liabilities measured at amortized cost	(42.6)	10.3	(37.8)	9.4
Net impairment losses on financial assets and off-balance sheet commitments	(286.9)	(250.9)	(263.2)	(229.6)

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 286.9 million in the first half of 2019, an increase of PLN 36.0 million, i.e. 14.3% as compared with the first half of 2018. The costs of risk in the first half of 2019 amounted to 0.38% and were slightly higher by 3 bps y/y, consistent with strategic assumptions reflecting a prudent risk management policy.

The Bank's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 263.2 million in the first half of 2019, an increase of PLN 33.6 million i.e. 14.6% as compared with the first half of 2018.

7.5 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Total provisions	747.3	659.7	763.2	655.6
of which:				
provisions for off-balance sheet commitments	283.1	263.6	309.1	273.2
provisions for liabilities to employees	404.7	346.3	396.4	336.3
other provisions	59.5	49.8	57.7	46.1
Deferred tax liabilities	32.0	33.2	-	-
Deferred tax assets	1,151.9	1,138.9	841.3	884.3

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

7.6 Off-balance sheet items

Statement of Off-balance sheet items

(in PLN million)

	30.06.2019	30.06.2018	CHANGE
Contingent liabilities granted and received	69,998.8	65,555.5	6.8%
Liabilities granted:	49,693.0	47,161.6	5.4%
financial	37,543.3	34,218.3	9.7%
guarantees	12,149.7	12,943.3	(6.1%)
Liabilities received:	20,305.8	18,393.9	10.4%
financial	1,570.7	1,281.1	22.6%
guarantees	18,735.1	17,112.8	9.5%
Derivative financial instruments	265,093.8	207,563.8	27.7%
interest rate transactions	154,959.0	110,585.6	40.1%
transactions in foreign currency and in gold	106,711.2	94,623.9	12.8%
transactions based on commodities and equity securities	3,423.6	2,354.3	45.4%
Total off-balance sheet items	335,092.6	273,119.3	22.7%

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

7.7 Capital adequacy

Capital ratios are the basic measure 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.

Capital ratios, capital requirements and own funds have been calculated in accordance with the above mentioned CRR Regulation using national options defined in article 171a of The Banking Act, Act of 5 August 2015 on macro-prudential supervision over financial system and crisis management in financial system (Act on macro-prudential supervision), as well as regulations of minister in charge of the finance.

According to law, Group is required to maintain minimal values of capital ratios resulting from Pillar I level (CRR Regulation), capital requirement of Pillar II resulting from The Banking Act and combined buffer requirement resulting from Act on macro-prudential supervision.

Minimal value of capital ratios on Pillar I level are:

- Total capital ratio (TCR) in amount of 8%,
- Tier I capital ratio (T1) in amount of 6%,
- Common Equity Tier I capital ratio (CET 1) in amount of 4.5%.

For Group, capital requirement of Pillar II, resulting from individual requirement imposed on Pekao Bank Hipoteczny, by KNF, amounts to:

- 0.01% for total capital ratio,
- 0.0075% for capital Tier I.

Combined buffer requirement consists of:

- Capital conservation buffer in amount of 2.50%,
- Countercyclical capital buffer in amount of 0.01%¹,
- Other systemically important institution buffer in amount of 0.75%,
- Systemic risk buffer in amount of 2.90%².

In total, Group is required to maintain:

- Total capital ratio (TCR) in amount of 14.16%,
- Capital ratio Tier I (T1) in amount of 12.16%,
- Common Equity Tier (CET 1) in amount of 10.66%.

As of June 30, 2019 for Group, total capital ratio amounted to 17.3% and Tier I ratio amounted to 15.8% The capital ratios were significantly above the minimum required by the law.

¹ Countercyclical capital buffer was calculated as of 30.06.2019 at the level 0.0062%

² The systemic risk buffer rate is 3% of the total risk exposure amount for all exposures located only on the territory of the Republic of Poland

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

The table below presents the basic information concerning the Group capital adequacy as of 30 June 2019, 31 December, 2018 and 30 June, 2018 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	30.06.2019	31.12.2018	30.06.2018
Credit risk	9,682,610	9,300,015	8,995,214
Exceeding the exposure concentration limit and large exposures limit			
Market risk	68,573	63,294	35,895
Counterparty credit risk including CVA	104,991	86,875	136,476
Operational risk	495,469	564,145	564,145
Total capital requirement	10,351,643	10,014,329	9,731,730
OWN FUNDS			
Common Equity Tier I Capital	20,390,463	19,796,894	19,870,605
Tier II Capital	2,000,000	2,000,000	1,250,000
Own funds for total capital ratio	22,390,463	21,796,894	21,120,605
Common Equity Tier I Capital ratio (%)	15.8%	15.8%	16.3%
Total capital ratio TCR (%)	17.3%	17.4%	17.4%

Total Capital Ratio of the Group as at the end of June 2019 was lower by 0.1 p.p. compared to the end of June 2018 mainly due to higher capital requirement, partially compensated by higher own funds.

Increase in own funds for total capital ratio calculation by 6.0% resulted from including in Tier II capital the amount of PLN 0.75 billion from the issue of subordinated bonds, retention of 25% net profit for year 2018 and valuation of portfolio measured at fair value through equity.

Total capital requirement increased by 6.4% mainly due to higher credit risk capital requirement resulting mainly from increase in loan volumes.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

7.8 Reconciliation of income statement – presentation form and long form

Consolidated income statement for the first half of 2019

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF OF 2019
Net interest income		<u>2,657,944</u>
Net fee and commission income	Net fee and commission income	<u>1,236,261</u>
Dividend income	Dividend income	<u>21,652</u>
Trading result		<u>66,884</u>
	Net result on other financial instruments at fair value through profit and loss	48,726
	Result on fair value hedge accounting	(1,704)
	Gains (losses) on derecognition of debt securities not measured at fair value through profit or loss	18,837
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(189)
Net other operating income and expenses		<u>34,050</u>
Net non-interest income		1,358,847
Operating income		4,016,791
Operating costs		<u>(1,809,566)</u>
	Personnel expenses	(1,065,852)
	Other administrative expenses	(1,199,409)
	less – Bank Guarantee Fund fee	413,634
	less – Tax on certain financial institutions	297,284
	Depreciation and amortization	(255,223)
Gross operating profit		2,207,225
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	<u>(286,921)</u>
Net operating profit		1,920,304
Net result on other provisions	Net result on other provisions	<u>(8,196)</u>
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(413,634)
Tax on certain financial institutions	Tax on certain financial institutions	(297,284)
Net result on investment activities		<u>11,689</u>
	(Gains) losses on disposal of property plant and equipment and intangible assets	11,689
	Impairment losses on subsidiaries and associates	-
	(Gains) losses on the sale of shares in subsidiaries and associates	-
Profit before income tax		1,212,879
Income tax expense	Income tax expense	<u>(386,881)</u>
Net profit for the period	Net profit for the period	825,998
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	824,447
Attributable to non-controlling interest	Attributable to non-controlling interest	1,551

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

Consolidated income statement for the first half of 2018

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF OF 2018
Net interest income		2,441,227
Net fee and commission income	Net fee and commission income	1,205,327
Dividend income	Dividend income	19,780
Trading result		88,740
	Net result on other financial instruments at fair value through profit and loss	35,664
	Result on fair value hedge accounting	1,999
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	51,120
	(Gains) losses on disposal of financial liabilities	(43)
Net other operating income and expenses		25,720
Net non-interest income		1,339,567
Operating income		3,780,794
Operating costs		(1,752,647)
	Personnel expenses	(1,055,173)
	Other administrative expenses	(1,001,720)
	less – Bank Guarantee Fund fee	205,025
	less – tax on certain financial institution	276,894
	Depreciation and amortization	(177,673)
Gross operating profit		2,028,147
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	(250,893)
Net operating profit		1,777,254
Net result on other provisions	Net result on other provisions	(14,067)
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(205,025)
Tax on certain financial institution	Tax on certain financial institution	(276,894)
Net result on investment activities		(3,940)
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	(3,940)
	Impairment losses on subsidiaries and associates	-
	Gains (losses) on disposal of subsidiaries and associates	-
Profit before income tax		1,277,328
Income tax expense	Income tax expense	(345,026)
Net profit for the period	Net profit for the period	932,302
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	932,140
Attributable to non-controlling interest	Attributable to non-controlling interest	162

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

8 Quarterly Income Statement

8.1 Consolidated income statement – long form

Consolidated income statement for 2019 and 2018 - Provided for comparability purposes.

(in PLN thousand)

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Interest income	1,668,660	1,597,982	1,583,797	1,544,067	1,515,910	1,478,564
Interest expense	(311,112)	(297,586)	(289,047)	(286,078)	(280,373)	(272,874)
Net interest income	1,357,548	1,300,396	1,294,750	1,257,989	1,235,537	1,205,690
Fee and commission income	725,062	684,885	746,940	714,682	707,067	675,428
Fee and commission expense	(92,380)	(81,306)	(108,670)	(95,695)	(89,794)	(87,374)
Net fee and commission income	632,682	603,579	638,270	618,987	617,273	588,054
Dividend income	21,266	386	161	245	19,623	157
Result on financial assets and liabilities measured at fair value through profit or loss	31,063	17,663	12,249	26,507	16,539	19,125
Result on fair value hedge accounting	(728)	(976)	(2,435)	1,159	662	1,337
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	8,430	11,432	76,333	14,261	27,245	23,832
Operating income	2,050,261	1,932,480	2,019,328	1,919,148	1,916,879	1,838,195
Net impairment losses on financial assets and off-balance sheet commitments	(177,238)	(109,683)	(104,855)	(155,277)	(123,932)	(126,961)
Net result on financial activity	1,873,023	1,822,797	1,914,473	1,763,871	1,792,947	1,711,234
Administrative expenses	(993,200)	(1,272,061)	(921,453)	(922,069)	(980,579)	(1,076,314)
personnel expenses	(586,428)	(479,424)	(490,883)	(490,526)	(554,827)	(500,346)
other administrative expenses ⁽¹⁾	(406,772)	(792,637)	(430,570)	(431,543)	(425,752)	(575,968)
Depreciation and amortization	(126,576)	(128,647)	(101,076)	(92,672)	(89,893)	(87,780)
Net result on other provisions	(3,467)	(4,729)	406	(297)	(13,768)	(299)
Net other operating income and expenses	17,132	16,918	24,222	13,574	12,095	13,625
Operating costs	(1,106,111)	(1,388,519)	(997,901)	(1,001,464)	(1,072,145)	(1,150,768)
Gains (losses) on subsidiaries and associates	-	-	-	-	-	-
Gains (losses) on disposal of property, plant and equipment, and intangible assets	9,581	2,108	60,194	30,843	(6,863)	2,923
Profit before income tax	776,493	436,386	976,766	793,250	713,939	563,389
Income tax expense	(193,560)	(193,321)	(227,567)	(186,941)	(173,962)	(171,064)
Net profit for the period	582,933	243,065	749,199	606,309	539,977	392,325
Attributable to equity holders of the Bank	582,106	242,341	749,227	605,793	539,815	392,325
Attributable to non-controlling interest	827	724	(28)	516	162	-

⁽¹⁾ Other administrative expenses includes tax on certain financial institutions and Bank Guarantee Fund fee.

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

8.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2019 and 2018

(in PLN thousand)

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net profit	582,933	243,065	749,199	606,309	539,977	392,325
Other comprehensive income						
Item that are or may be reclassified subsequently to profit or loss:						
Change in fair value of financial assets measured at fair value through other comprehensive income	123,334	(9,750)	1,339	(43,433)	(51,033)	109,292
Profit or loss on fair value measurement	130,615	1,806	66,174	(29,511)	(23,939)	133,146
Profit or loss reclassification to income statement after derecognition	(7,281)	(11,556)	(64,835)	(13,922)	(27,094)	(23,854)
Change in fair value of cash flow hedges	27,302	64,768	94,773	(28,960)	(3,531)	(17,323)
Tax on items that are or may be reclassified subsequently to profit or loss	(28,621)	(10,453)	(18,261)	13,754	10,367	(17,474)
Items that will never be reclassified to profit or loss:						
Effects of the revaluation or sale of investments in equity instruments designated at fair value through other comprehensive	16,556	802	(11,786)	1,463	(13,940)	(5,431)
Remeasurements of the defined benefit liabilities	-	-	463	-	-	-
Tax on items that will never be reclassified to profit or loss	(3,146)	(152)	2,163	(279)	2,649	1,032
Other comprehensive income (net of tax)	135,425	45,215	68,691	(57,455)	(55,488)	70,096
Total comprehensive income	718,358	288,280	817,890	548,854	484,489	462,421
1. Attributable to equity holders of the Bank	717,531	287,556	817,925	548,338	484,327	462,421
2. Attributable to non-controlling interests	827	724	(35)	516	162	-

Report on the activities of Bank Pekao S.A. Group for the first half of 2019

8.3 Consolidated income statement – presentation form

Consolidated income statement for 2019 and 2018

	(in PLN thousand)					
	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	1,357,548	1,300,396	1,294,750	1,257,989	1,235,537	1,205,690
Net fee and commission income	632,682	603,579	638,270	618,987	617,273	588,054
Dividend income	21,266	386	161	245	19,623	157
Trading result	38,765	28,119	86,457	41,617	44,446	44,294
Net other operating income and expenses	17,132	16,918	23,912	13,884	12,095	13,625
Net non-interest income	709,845	649,002	748,800	674,733	693,437	646,130
Operating income	2,067,393	1,949,398	2,043,550	1,932,722	1,928,974	1,851,820
Operating costs	(950,881)	(858,685)	(847,710)	(843,295)	(901,896)	(850,751)
Gross operating profit	1,116,512	1,090,713	1,195,840	1,089,427	1,027,078	1,001,069
Net impairment losses on financial assets and off-balance sheet commitments	(177,238)	(109,683)	(104,855)	(155,277)	(123,932)	(126,961)
Net operating profit	939,274	981,030	1,090,985	934,150	903,146	874,108
Net result on other provisions	(3,467)	(4,729)	406	(297)	(13,768)	(299)
Bank Guarantee Fund fee	(20,472)	(393,162)	(30,655)	(30,512)	(29,983)	(175,042)
Tax on certain financial institutions	(148,423)	(148,861)	(144,164)	(140,934)	(138,593)	(138,301)
Net result on investment activities	9,581	2,108	60,194	30,843	(6,863)	2,923
Profit before income tax	776,493	436,386	976,766	793,250	713,939	563,389
Income tax expense	(193,560)	(193,321)	(227,567)	(186,941)	(173,962)	(171,064)
Net profit	582,933	243,065	749,199	606,309	539,977	392,325
Attributable to equity holders of the Bank	582,106	242,341	749,227	605,793	539,815	392,325
Attributable to non-controlling interest	827	724	(28)	516	162	-

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9 Human Resources Management

Human Capital as a key asset

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

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

Training and professional development

The Bank creates learning opportunities and provides access to various forms of training for its employees. Educational activities focus on realization of in-class training programs, on-the-job learning, coaching and Virtual Class system allowing for distance learning in form of Webinars.

In the first half of 2019, the main training priorities of the Bank were as follow:

- reinforcement of product and sales knowledge of the Bank's personnel,
- professional knowledge development of the Bank's employees,
- potential assessment 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 consumer loans and credits. In cooperation with PZU, a model training support for users of a new system supporting the sale of insurance products and consumer loans was carried out.

In the cooperation with Pekao TFI, PZU S.A. and other partners Bank reinforced induction training process for new employees.

Professional knowledge development of the Bank's employees

The Bank continued realization of training projects related with implementation of adopted business strategies. Additionally, training programs for employees with high potential and training for new employees were conducted.

In the first half of 2019, the Bank delivered in form of class room over 94 thousand of training hours (class room and virtual sessions), in which attended almost 7 thousand of employees confirming the Bank's determination in efficient implementation of required regulations and customer care. E-learning courses have been delivered on the similar level of more than 90 thousand hours.

In addition to class room training, the Bank realized a series of training in a form of e-learning, including dedicated projects on newly implemented internal regulations, i.e. Rules for managing confidential information and the Conflict of Interest Management Rules at Bank Pekao S.A.

Development programs and initiatives

In the first half of 2019, development programs and initiatives were provided for the Bank employees, aimed at providing support in the development of managerial and interpersonal skills.

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

The Bank performs the following processes related to this issue:

- Succession Plans, which have fundamental importance in ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk,
- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In the first half of 2019, more than 11 thousand of employees took part in the process,

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- Assessment Centre/Development Centre session – a diagnostic tool designed to identify employee's potential, used in recruitment, promotion and employee development processes. To participate in the Assessment and Development Center processes in the first half of 2019, a total of 369 employees were invited.

The management programs dedicated to key representatives of the management staff were continued. The main purpose of these programs was to provide knowledge, develop awareness and strengthen attitudes oriented to cooperation and team effectiveness. In the first half of the year, nearly 90 managers of the Bank participated in the program.

The Bank also offers the development initiatives focused on supporting the employees in their professional career development and improvement of their skills, knowledge, and competencies as well as a number of initiatives strengthening the employees' engagement.

Apprenticeship 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.

In order to realize the above mentioned objective the apprenticeship programs addressed to students were implemented. The apprenticeships last from 2 weeks to 3 months and give an opportunity to gain experience in different areas of banking, in all of the Bank's units.

Compensation policy

Compensation Policy of the Bank (hereinafter referred to as "the Policy") reflects the mission and values of the Bank's approach to remuneration systems, and defines basics of remuneration, structure management, corporate and organizational processes, confirms compliance requirements of the adopted remuneration system with generally binding law and defines the rules for monitoring of market practices and the approach to remuneration systems, which ensure sustainability of the Bank.

The valid Policy was updated and approved on December 7, 2017, by the Supervisory Board of Bank Pekao S.A. as a result of yearly reviews of remuneration rules.

Incentive systems

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

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

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. Starting from 2018, the possibility of a quarterly settlement of part of MBO bonus was implemented in the Bank. These payments are included in the bonus payment for achieving individual annual goals.

According to the provisions of the Corporate Collective Labour Agreement the basis of the system is a quarterly bonus which is discretionary and depends on evaluation of employee's performance, the level of commitment and the results achieved by the Bank in a given year, as well as the incentive bonus, which is granted for outstanding work achievements. Sales function employees receive an individual settlement of the objectives, including monitoring of the compliance and the quality of sales activities undertaken.

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.

The Bank provides its employees with additional medical care in domestic network of private medical clinics.

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Suitability Assessment Policy

The Bank adopted the Policy of the suitability assessment of the proposed and appointed Members of the Management and the Supervisory Board and Key Function Holders in Bank Pekao S.A. In the first half of 2019 the Supervisory Board of the Bank assessed the suitability of the candidates for function of Member of the Management Board including an individual assessment of their qualifications, reputation, and additional criteria for management according to the mentioned policy, as well as collective assessment.

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.

Corporate values

The Bank's employees in their daily relations are guided by the corporate values. The Bank's values defined in the Integrity Charter are: respect, reciprocity, transparency, fairness, confidence, and freedom (to act). These values provide a reference system for routine work and for problem situations which are not always addressed by external and internal regulations. The foundation of this "System of Values" is the work of Integrity Charter Ombudsmen who are independent, experienced, retired managers to whom the employees may report behaviors which clash with the corporate values. The Ombudsmen use the available tools (meetings, notices) when they undertake measures to restore respect for the corporate values in relations among employees wherever they have been disrupted. Their work directly supports the Bank's internal communication and defines certain standards of conduct and communication patterns for all the employees to follow. In the first half of 2019, the Integrity Charter Ombudsmen continued meetings with individuals Bank's employees in order to apply the corporate values in the employee relations.

Relations with Trade Union Organizations

The cooperation between the Bank and trade unions in the range of consultation, negotiations and other agreements were led pursuant to the rules defined in the labour law, with respect for both sides' interests and social dialog rules. In the first half of the year 2019, 18 meetings between the Bank and trade unions were taken place. The meetings and arrangements concerned mainly the restructuring of employment at the Bank. As a result, the Bank concluded an agreement defining the principles of collective redundancies with all trade unions operating at the Bank. The parties to the agreement, among others selection criteria for employees whose employment contracts will be terminated and whose terms and conditions of employment will be amended as part of collective redundancies, severance pay conditions and additional compensation and the scope of the assistance program for dismissed employees. It was also agreed that collective redundancies will cover not more than 900 employees in case of termination of employment contracts and not more than 620 employees in case of amendment of terms and conditions of employment until 31 October 2019.

The Bank in the mutual relations with Trade Unions followed the principle of good will to work the best solutions in the range of collective labour law for both Employees and for the Bank.

Relations with the Works Council

In the Bank the Works Council is chosen for a term of office 2015-2019. On June 21, 2019, the Works Council ended its term of office. The Bank will organize the elections to Works Council for the next term of office after receiving the 10% of written Employees' motions concerns the elections execution. The Works Committee as the Employees' representative is entitled to get information and to conduct the consultations with the employees on matters defined by the Worker Information and Consultation Act of April 7, 2006. The discussions with the Employee Council in first half of 2019, 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. Information from meetings of the Employee's Council with the Employer is published on the Intranet available to the all Bank's employees.

Workforce in number

As at the end of June 2019, the Group employed 16,613 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 16,714 employees as at the end of 2018. As at the end of June 2019, the Bank employed 14,436 employees as compared to 14,569 employees as at the end of 2018. The average age of the employees was 46.7 years, 69.6% of the employees are university graduates, women represent 76.1% of the total workforce.

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10 Other Information

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

The Bank has not published the forecast of the financial results for 2019.

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

According to information available to the Bank, as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the first half of 2019 and as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the first quarter 2019, the Members of the Bank's management and supervisory bodies did not held shares of Bank Pekao S.A.

10.3 Related party transactions

In the half of 2019 the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In the half of 2019 the Bank and its subsidiaries did not provide any sureties in respect of loans or advances or did not provide any guarantees to an entity or a subsidiary of such entity, which the total value would be significant.

Detailed information on related party transactions is included in Note 41 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 June 2019.

10.4 Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in Note 5 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 June 2019.

10.5 Seasonality or cyclical nature of the Bank's activity

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

10.6 Issuance, redemption and repayment of debt securities

Structured Certificates of Deposit

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 891.1 (principal value) as at the end of June 2019. There is 18 issuances of Structured Certificates of Deposit open in PLN with the maximum maturity date on August 16, 2021. The liabilities with the maturity date in 2019, 2020 and 2021 accounts for 39.3%, 55.2% and 5.5% 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 1,006.0 million (principal value) as at the end of June 2019. There are 5 issuances of Certificates of Deposit. The liabilities with the maturity dates up to 6 months and up to 1 year represent 53.3% and 46.7% of its total value respectively.

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Subordinated bonds

On 30 October 2017 the Bank issued 10 years subordinated bonds with a total nominal value of PLN 1.25 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 21 December 2017 – to increase the Bank's supplementary capital pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of 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. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018 the Bank issued 10 years subordinated bonds with a total nominal value of PLN 0.55 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 16 November 2018 – to increase the Bank's supplementary capital pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of 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. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018 the Bank issued 15 years subordinated bonds with a total nominal value of PLN 0.20 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 18 October 2018 – to increase the Bank's supplementary capital pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of 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. The bonds were introduced to trading on the ASO Catalyst market.

On 4 June 2019, the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.35 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of 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.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of the company's liabilities due to covered bonds amounted to PLN 1,347.6 million (principal value) as at the end of June, 2019. The liabilities under covered bonds with maturity date from 1 year up to 3 up to years account for 53,6% with maturity date from 3 up to 5 years account for 3,3% and with maturity date from 5 up to 10 years account for 43,1% of the total nominal value.

Pekao Bank Hipoteczny S.A. bonds

The total value of the company's liabilities under bonds with maturity date to 1 year amounted to PLN 283.4 million (principal value) as of 30 June 2019.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 2,048.2 million (principal value) as of 30 June 2019. The liabilities with the maturity date up to 1 months, up to 3 months and up to 1 year accounts for 11.2%, 16.0% and 72.9% of its total value respectively.

Pekao Bank Faktoring S.A. bonds

The total value of the company's liabilities under bonds with maturity date to 1 year amounted to PLN 352.2 million (principal value) as of 30 June 2019.

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10.7 Information on dividend and appropriation of profit achieved

The Management Board of Bank Pekao S.A. informed in the current report No. 19/2019 from 26 June 2019 that on 26 June 2019 the Ordinary General Meeting of the Bank adopted the resolution on the distribution of net profit of the Bank for the year 2018.

According to the Resolution:

The net profit of the Bank for the year 2018 in the amount of PLN 2,310,599,572.17 is divided in the following way:

- 74.97% of net profit of the Bank i.e. the amount of PLN 1,732,302,224.40 is allocated to dividend,
- PLN 578,297,347.77 is allocated to reserve capital.

The dividend value per share amounts to PLN 6.60. The date of determining the right to dividend (dividend day) set on 10 July 2019. The date of payment of the dividend set on 30 July 2019. Total number of Bank's shares entitled to dividend amounts to 262,470,034.

10.8 Pending litigations

Information on significant legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of liabilities and receivables of the Bank and its subsidiaries is included in Note 39 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 June 2019.

10.9 Subsequent events

Decision of the Polish Financial Supervision Authority on expressing consent to qualify series D subordinated bonds of Bank Pekao S.A. as Tier II capital instruments of the Bank

On 9 July 2019, in the current report No. 23/2019, the Management Board of Bank Pekao S.A. informed in reference to current report No. 12/2019 dated 9 May, 2019 and current report No. 13/2019 dated 22 May 2019, informs that on 8 July 2019 it received the decision of the Polish Financial Supervision Authority on expressing consent to qualify by the Bank 700 series D subordinated bonds with a nominal value of each bond amounting to PLN 500,000 and a total nominal value of PLN 350,000,000 and maturity dated of 4 June, 2031 ("Series D Bonds") as instruments in Tier II capital of the Bank, referred to in Article 63 of 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, on terms specified in the documents submitted by the Bank to the Office of the Polish Financial Supervision Authority, i.e. inter alia in Terms and Conditions of Series D Bonds.

Inclusion of funds raised from the issue of Series D Bonds to the Bank's Tier II capital will result in an increase in the total capital ratio (TCR) for the Bank and the Bank's capital group by approximately 0.3 percentage point.

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

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

- the Condensed Unconsolidated Interim Financial Statements of Bank Pekao S.A. for the period from 1 January 2019 to 30 June 2019 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 June 2019 and comparative figures have been prepared in accordance with applicable accounting policies and that they reflect in a true, fair and clear manner the Bank's and the Group's financial position and their results,
- the Report on the activities of Bank Pekao S.A. Group for the first half of 2019 provides a true picture of Bank Pekao S.A. Group's development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of the Condensed Unconsolidated Interim Financial Statements of Bank Pekao S.A. for the period from 1 January 2019 to 30 June 2019 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 June 2019 has been selected in pursuance of applicable provisions of law. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the review concerning condensed interim unconsolidated financial statements and condensed interim consolidated financial statements, in accordance with applicable provisions of law and professional standards.

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Signatures of all Members of the Bank's Management Board

06.08.2019 Date	Michał Krupiński Name/Surname	President of the Management Board Position/Function	Signature
06.08.2019 Date	Tomasz Kubiak Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Michał Lehmann Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Marek Lusztyń Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Tomasz Styczyński Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Marek Tomczuk Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Magdalena Zmitrowicz Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Grzegorz Olszewski Name/Surname	Member of the Management Board Position/Function	Signature
06.08.2019 Date	Piotr Wetmański Name/Surname	Member of the Management Board Position/Function	Signature