

Report on the activities of Bank Pekao S.A. Group for the first half of 2018



Warsaw, August 2018

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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 2018	1 HALF 2017	2017	2016
INCOME STATEMENT – SELECTED ITEMS <i>(in PLN million)</i>				
Operating income	3,780.8	3,511.5	7,350.4	7,347.2
Operating costs	(1,753.4)	(1,594.0)	(3,263.3)	(3,211.9)
Gross operating profit	2,027.4	1,917.5	4,087.1	4,135.3
Profit before income tax	1,277.3	1,197.2	3,153.0	2,896.5
Net profit for the period attributable to equity holders of the Bank	932.1	884.8	2,475.1	2,279.3
PROFITABILITY RATIOS				
Return on average equity (ROE)	8.2%	7.9%	11.0%	9.8%
Return on assets (ROA)	1.0%	1.0%	1.4%	1.4%
Net interest margin	2.8%	2.8%	2.8%	2.8%
Non-interest income / operating income	34.9%	34.8%	36.7%	39.6%
Cost / income	46.4%	45.4%	44.4%	43.7%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS <i>(in PLN million)</i>				
Total assets	183,503.5	170,530.1	185,465.6	174,214.9
Customers' financing ^(*)	133,891.5	125,749.7	132,300.4	122,663.2
Amounts due to customers ^(**)	142,284.3	134,290.2	145,397.8	136,379.7
Debt securities issued and subordinated liabilities	5,139.3	1,314.5	4,028.6	1,523.0
Equity	21,451.5	21,708.9	23,267.8	22,911.9
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ^(*) / total assets	73.0%	73.7%	71.3%	70.4%
Securities / total assets	17.3%	17.0%	20.8%	20.6%
Deposits ^(***) / total assets	80.3%	79.5%	80.6%	79.2%
Customers' financing ^(*) / deposits ^(***)	90.8%	92.7%	88.5%	88.9%
Equity / total assets	11.7%	12.7%	12.5%	13.2%
Total capital ratio	17.4%	18.0%	17.1%	17.6%
EMPLOYEES AND NETWORK				
Total number of employees	17,307	17,509	17,339	17,757
Number of outlets	851	918	851	928
Number of ATMs	1,716	1,757	1,745	1,761

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

(**) Excluding repo transactions.

(***) 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 2018

2 Highlights of Bank Pekao S.A.

The Bank has adopted International Financial Reporting Standard 9 “Financial Instruments” (IFRS 9) 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 2018	1 HALF 2017	2017	2016
INCOME STATEMENT – SELECTED ITEMS				<i>(in PLN million)</i>
Operating income	3,733.9	3,469.1	7,085.3	7,036.0
Operating costs	(1,595.0)	(1,478.8)	(3,024.5)	(2,991.4)
Gross operating profit	2,138.9	1,990.3	4,060.8	4,044.6
Profit before income tax	1,408.5	1,278.7	2,727.8	2,863.2
Net profit	1,083.9	980.2	2,088.1	2,278.4
PROFITABILITY RATIOS				
Return on average equity (ROE)	9.9%	9.0%	9.6%	10.1%
Return on assets (ROA)	1.2%	1.2%	1.2%	1.4%
Net interest margin	2.8%	2.8%	2.8%	2.8%
Non-interest income / operating income	29.4%	31.2%	34.0%	37.5%
Cost / income	42.7%	42.6%	42.7%	42.5%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS				<i>(in PLN million)</i>
Total assets	178,781.5	167,543.6	182,077.0	170,988.9
Customers' financing ^(*)	129,025.1	122,442.2	128,873.2	119,033.6
Amounts due to customers ^(**)	142,804.3	134,562.2	146,109.9	136,629.9
Debt securities issued and subordinated liabilities	2,675.9	86.1	2,727.2	300.9
Equity	20,584.2	21,174.4	22,258.5	22,282.6
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ^(*) / total assets	72.2%	73.1%	70.8%	69.6%
Securities / total assets	17.6%	17.2%	21.1%	20.8%
Deposits ^(***) / total assets	81.4%	80.4%	81.7%	80.1%
Customers' financing ^(*) / deposits ^(***)	88.7%	90.9%	86.6%	86.9%
Equity / total assets	11.5%	12.6%	12.2%	13.0%
Total capital ratio	18.4%	18.5%	18.4%	18.2%
EMPLOYEES AND NETWORK				
Total number of employees	15,182	15,663	15,316	15,882
Number of outlets	851	918	851	928
Number of ATMs	1,716	1,757	1,745	1,761

(*) Including non-quoted securities and excluding reverse repo transactions.

(**) Excluding repo transactions.

(***) 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 2018

3 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2018 amounted to PLN 932.1 million and was higher by PLN 25.8 million, i.e. 2.9% than pro-forma net profit^(*) for the first half of 2017.

Thanks to the effective commercial activity of the Group in the first half of 2018, a significant growth in loan volumes in the area of retail loans (an increase of 10.4% year on year) as well as in the area of corporate loans (an increase of 4.7% year on year) was reported. Such increase in lending was financed by higher retail deposits growing by 7.8% year on year and corporate deposits growing by 3.6% year on year as well as by higher Certificates of Deposit.

Total capital ratio (TCR) amounted to 17.4% as at the end of June 2018 and was lower (0.6 p.p.) compared to the end of June 2017.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 90.8% as at the end of June 2018. This, together with high level of capital, enables for further sound and stable development of the Group's activities.

Main P&L items

In the first half of 2018, the Group's operating income amounted to PLN 3,780.8 million and was higher by 5.8% year on year than pro-forma operating income in the first half of 2017, with the following trends:

- Total net interest income, dividend income and income from equity investments in the first half of 2018, amounted to PLN 2,461.0 million and was higher by PLN 188.5 million, i.e. 8.3% compared to pro-forma total net interest income, dividend income and income from equity investments achieved in the first half of 2017, mainly driven by higher volumes of loans and deposits as well as higher margin.
- Net non-interest income in the first half of 2018, amounted to PLN 1,319.8 million and was higher by PLN 17.5 million, i.e. 1.3% compared to pro-forma net non-interest income in the first half of 2017, with net fee and commission income (including fees on margins on foreign exchange transactions with clients) lower by 2.6% compared to the first half of 2017 mainly due to lower net fee and commission income on loans and cards.

The operating costs amounted to PLN 1,753.4 million in the first half of 2018. They were higher by PLN 127.8 million, i.e. 7.9% as compared with pro-forma operating costs in the first half of 2017, mainly due to higher personnel costs (mainly due to costs in the amount ca. of PLN 50 million, related to the Program Dobrowolnych Odejść – PDO addressed to Bank's employees obtaining pension right in 2018) and other administrative expenses (including mainly marketing related expenses). Operating costs excluding PDO expenses was higher by PLN 78.0 million, i.e. 4.8% as compared with pro-forma operating costs in the first half of 2017.

Guarantee funds charges in the first half of 2018, amounted to PLN 204.3 million, a decrease of PLN 19.4 million, i.e. 8.7% in comparison with the first half of 2017, due to lower annual contribution to the resolution fund of banks.

On February 1, 2016, tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In the first half of 2018, it amounted to PLN 276.9 million and was higher by PLN 24.2 million, i.e. 9.6% in comparison with the first half of 2017.

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 250.9 million in the first half of 2018, an increase of PLN 20.9 million, i.e. 9.1% as compared with the first half of 2017.

^(*) For comparability purpose of achieved results income statement data for the first half of 2017 was presented as pro-forma, i.e. includes full consolidation of results of Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) and Dom Inwestycyjny Xelion Sp. z o.o. acquired on December 11, 2017.

The Group decided to take advantage of the provisions of IFRS 9 that allow exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

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Volumes

As at the end of June 2018, loans and advances at nominal value amounted to PLN 139,287.6 million, an increase of PLN 8,661.7 million, i.e. 6.6% in comparison to the end of June 2017, with the volume of retail loans growing by 10.4% and corporate loans growing by 4.7%.

As at the end of June 2018, amounts due to the Group's customers and debt securities issued amounted to PLN 147,423.6 million, an increase of PLN 11,818.9 million, i.e. 8.7% in comparison to the end of June 2017 with retail deposits growing by 7.8% and corporate deposits decreasing by 3.6% year on year.

The value of net assets of investment funds managed by Pekao TFI S.A. (ex. Pioneer Pekao TFI S.A.) amounted to PLN 19,205.0 million as at the end of June 2018, an increase of PLN 1,782.3 million, i.e. 10.2% in comparison to the end of June 2017.

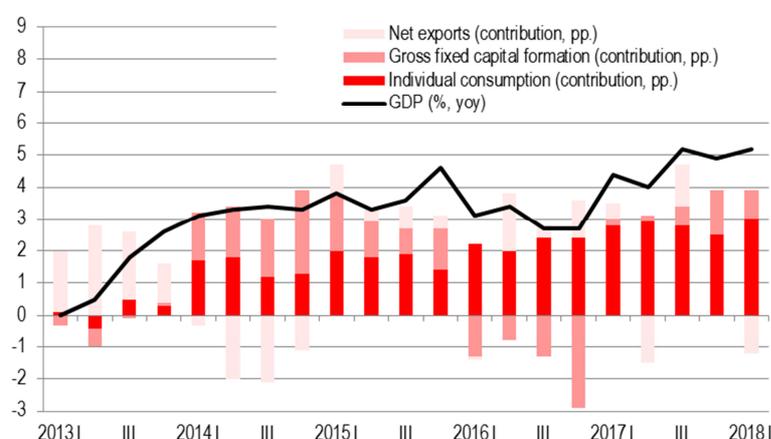
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4 External Activity Conditions

Economic growth

In the first quarter of 2018, the economic growth amounted to 5.2% year on year as compared with the Gross Domestic Product (GDP) growth of 4.9% year on year in the fourth quarter of 2017. Seasonally adjusted data indicate that in the first quarter of 2018, the GDP accelerated to 1.6% quarter on quarter from 1.0% quarter on quarter growth posted in the previous quarter. Domestic demand expanded by 6.8% year on year as compared with 5.1% year on year increase in the fourth quarter of 2017, while foreign trade contributed negatively to the annual growth rate. Households consumption continued growing robustly (up by 4.8% year on year), posting annual growth that nearly matched the outcome of the fourth quarter of 2017 (5.0% year on year). Private consumption growth was still supported by a rapid growth of households disposable income. Investment activity intensified further in the first quarter of 2018, but the scale of the revival was still moderate. In the first quarter of 2018, gross fixed capital formation advanced by 8.1% year on year after an increase of 5.4% year on year in the final quarter of last year. Solid growth of public investments was accompanied by mediocre private investments.

A successful beginning of the year for the Polish economy and encouraging readings of high-frequency data suggest that in 2018 economic growth will clearly exceed 4%. Domestic demand supported by expending households consumption and robust fixed investment growth remained as the main driver of the growth.

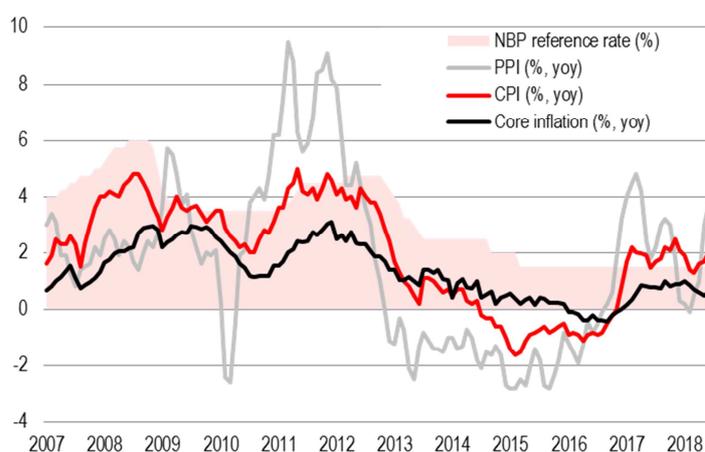


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Inflation and monetary policy

According to the Central Statistical Office (GUS) in June 2018, consumer prices increased by 2.0% year on year and for the seventh consecutive month was below the National Bank of Poland target of 2.5% (+/- 1 p.p.). In June consumer inflation was predominantly driven by an increase in transport prices (up by 8.6% year on year) and food and non-alcoholic beverages prices (up by 2.7% year on year) that contributed 0.73 p.p. and 0.62 p.p. respectively to the annual CPI growth. In the second quarter of 2018, consumer prices increased by 1.8% year on year after an increase of 1.5% year on year in the first quarter of 2018 in.

The Monetary Policy Council (MPC) kept the main policy rates unchanged in the first half of 2018. The National Bank of Poland (NBP) reference rate stood at 1.50% and the Lombard rate at 2.50%. 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.

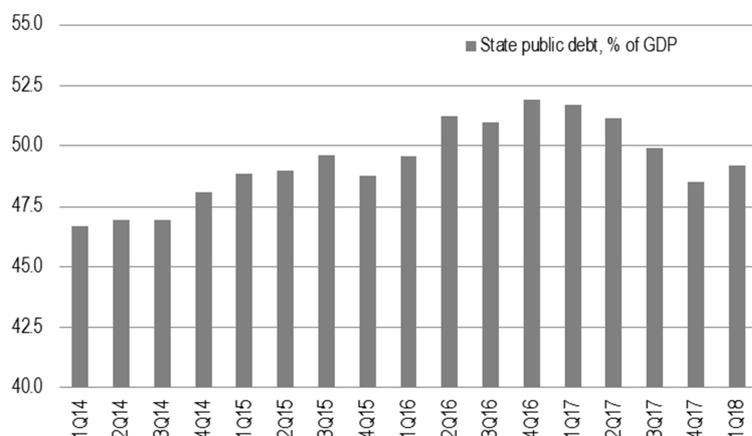


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Fiscal policy

After June 2018, the state public debt (cash basis) posted a surplus of PLN 9.5 billion, while the budget act envisages an annual deficit limit of PLN 41.5 billion. In the first six months of 2018, budget revenues totaled PLN 182.0 billion (51.2% of an annual plan) and were PLN 5.3 billion (3.0%) higher than in the corresponding period of 2017. In the same period budget expenditures amounted to PLN 172.2 billion (43.4% of the annual plan) and were PLN 1.6 billion (1.0%) higher than in the first six months of 2017. After May VAT collections were PLN 3.6 billion (4.5%) higher than in the first six months of 2017, proceeds from excise duty went up by PLN 1.7 billion (5.4%), revenues from PIT increased by PLN 3.8 billion (16.0%) and CIT collections by PLN 2.8 billion (18.1%). Low dynamics of budget expenditures was linked to substantially smaller subsidy to the Social Security Fund (FUS). In the first quarter of 2018 general government surplus amounted to PLN 13.0 billion. In the corresponding period of 2017 the surplus amounted to PLN 3.7 billion. On a 12-month cumulative basis the deficit narrowed to 1.2% of the GDP from 1.7% of the GDP in 2017.

At the end of the first quarter of 2018, the state public debt amounted to PLN 989.2 billion and was PLN 27.4 billion higher than at the end of 2017. In the corresponding period of 2017, the debt increased by PLN 9.6 billion. Domestic debt went up by PLN 17.3 billion in the first quarter of 2018, while foreign debt expanded by PLN 10.1 billion. In relation to the GDP the state public debt increased from 48.5% at the end of 2017 to 49.2% at the end of the first quarter of 2018. The general government debt increased from PLN 1,003.4 billion (50.6% of the GDP) at the end of 2017 to PLN 1,029.0 billion (51.2% of the GDP) at the end of the first quarter of 2018.

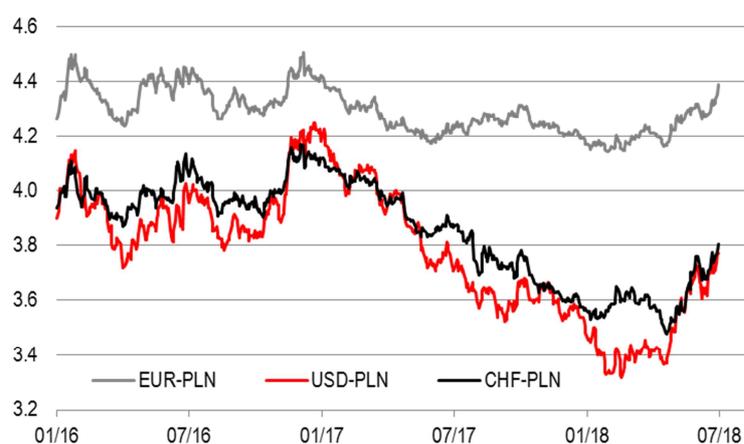


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Currency market

Currency market remained under an elevated volatility in the first half 2018. USD weakened to a three-year low against the EUR (1.25) in January and then was moving in the consolidation range of 1.2150-1.2500 by the end of the first quarter of 2018. The following months brought a solid greenback's rally against the basket of currencies on increasing risk of faster Fed's monetary policy tightening. In turn, a dovish European Central Bank's stance regarding interest rates normalization and the increase of political risk in the Southern Europe, affected the common currency. Consequently, the EUR-USD fell to the lowest level since July 2017 (1.15). EUR lost ca. 3.5% in the first six months of 2018 and was likely to remain under moderate pressure later in a year. Higher the Fed's and the ECB's interest rate divergence is likely to anchor the exchange rate in the range of 1.12-1.14 in the second half of 2018.

The zloty increased losses recorded in the first quarter of 2018 and weakened by ca. 4.5% against EUR in the first half of 2018 amid an unfavorable external environment. The exchange rate fell more against USD and CHF, 8% and 5.8% respectively, on increased global risk aversion, resulting capital flows towards "safe-havens". Local factors, including expectations for the NBP policy rate's stabilization in the long-term, affected PLN as well. Under such circumstances, PLN was the weakest since January 2017 (4.41/EUR) with an expectation to cut losses and return to the consolidation range of 4.26-4.31/EUR in the third quarter of 2018. Solid economic prospects and possible improvement of global mood should support a scenario of the appreciation of PLN to 4.20/EUR and below at the end of 2018.



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Banking sector

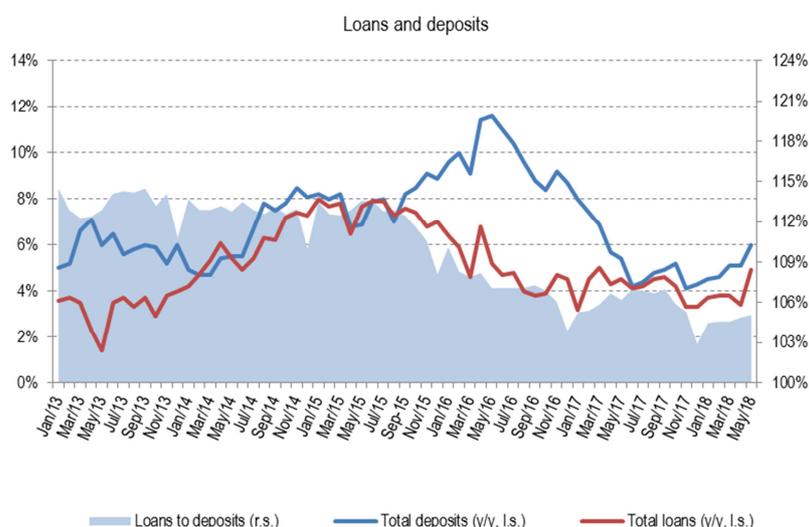
According to the Financial Supervision Authority (KNF) data, in the first five months of 2018 net profit of the banking sector amounted to PLN 6.4 billion and increased by 24.5% compared to the corresponding period of 2017. In January-May 2018 total net operating income of the banking sector increased by 6.2% compared to the same period last year. This was due to an increase in net interest income by 9.1%, a drop in net fee and commission income by 1.7% and an increase in other income by 4.8%.

The operating costs of banks increased in January-May by 5.1% year on year, and the cost of risk (provisions and impairment losses on assets) decreased by 1.9% year on year.

At the end of May 2018, total assets of the banking sector amounted to PLN 1,841 billion and were 5.9% higher compared to the end of May 2017. The total receivables from the non-financial sector increased by 5.3% year on year, and the total amount of deposits from this sector increased by 5.7%.

According to the NBP, at the end of June 2018, the nominal volume of loans to households was higher by 4.8% compared to the end of June 2017. Pace of growth increased slightly in relation to the levels which were observed at the turn of the year. This was largely effect of the FX movements – weakening of the zloty led to the increase in the zloty value of loans denominated in the foreign currency. The volume of loans and advances to enterprise increased by 5.8% year on year.

The volume of household deposits at the end of June 2018 increased by 6.3% in comparison to June 2017. Volume of corporate deposits grew at similar pace – 6.5 % year on year. In the case of the latter pace was notably higher than in previous months.



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5 Internal Factors

5.1 Description of the Group

The Group's structure is presented in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2018 to 30 June 2018.

5.2 Changes in the Group's structure

Change of the Company names

On January 16, 2018, the registry court entered into the KRS register changes of Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. Statute resulting from the Extraordinary General Meeting of the Company resolution No. 38/2017 on November 9, 2017, including change of the Company's name, which currently is Pekao Powszechne Towarzystwo Emerytalne Spółka Akcyjna (ex. Pekao Pioneer Powszechne Towarzystwo Emerytalne Spółka Akcyjna).

On February 15, 2018, the registry court made an entry in the Register of Entrepreneurs of the National Court Register amending the Statute of Pioneer Pekao Investment Management S.A. resulting from the resolution of the Extraordinary General Meeting of the Company adopted on December 20, 2017, including the change of the Company's name, which currently is Pekao Investment Management S.A.

Share Capital Increase

On June 4, 2018, the District Court registered the increase of share capital of Pekao Financial Services Sp. z o.o. related to the transaction of the takeover by the Company, pursuant to art. 529 § 1 point 4 of the Code of Commercial Companies (division by separation) of an organized part of the enterprise separated from PZU Centrum Operacji S.A. covering the activities of the transfer agent.

As a result, a new shareholder of the Company PZU SA was disclosed in the National Court Register, which took up shares in the increased share capital in the amount of 4,534 with the total value of PLN 2,267,000. At present, the share capital of the Company amounts to PLN 6,767,000. Bank Pekao S.A. holds 66.50% of votes and capital of the Company, while PZU S.A. holds 33.50%.

Transfer of management of Pekao OFE and DFE Pekao funds

On April 24, 2018, the Polish Financial Supervision Authority issued a consents for PTE PZU S.A. to take over the management of Pekao Otwarty Fundusz Emerytalny (Pekao OFE) and Dobrowolny Fundusz Emerytalny Pekao (DFE Pekao), previously managed by Pekao PTE S.A. As a result of this decision, from May 19, 2018, PTE PZU S.A. has taken over the management of Pekao OFE and DFE Pekao funds.

On June 1, 2018, the Extraordinary General Meeting of Pekao PTE S.A. adopted a resolution to dissolve the Company and to open its liquidation as of that date. Currently, the Company operates under the name Pekao PTE S.A. in liquidation.

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5.3 Changes in the Statutory Bodies of the Bank

Supervisory Board

As of June 30, 2018, the composition of the Supervisory Board of Bank Pekao S.A. has not changed in comparison with December 31, 2017 and it was as follows:

JUNE 30, 2018	DECEMBER 31, 2017
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 Głębiowska-Michalak Member of the Supervisory Board	Justyna Głębiowska-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

Management Board of the Bank

As of June 30, 2018, the composition of the Management Board of Bank Pekao S.A. has changed in comparison with December 31, 2017 and it was as follows:

JUNE 30, 2018	DECEMBER 31, 2017
Michał Krupiński President of the Management Board	Michał Krupiński President of the Management Board
Roksana Ciurysek-Gedir Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Andrzej Kopyrski Vice 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	

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

5.4 The Bank's shareholding structure

As at June 30, 2018, 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 2018		AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST QUARTER OF 2018	
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 Powszechnie Towarzystwo Emerytalne S.A.	13,357,769	5.09%	-	-
Other shareholders (below 5%)	146,592,092	55.85%	159,949,861	60.94%
Total	262,470,034	100.00%	262,470,034	100.00%

In the current report No. 8/2018, the Management Board of Bank Pekao S.A. informed that on June 8, 2018 the Bank has received notice from Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A. (hereinafter "NN PTE"), about a change in the total number 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 acquisition of the Bank's shares in transactions on the Warsaw Stock Exchange, settled on June 4, 2018, funds managed by NN PTE: Nationale-Nederlanden Otwarty Fundusz Emerytalny (hereinafter "OFE") and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (hereinafter "DFE") increased the ownership of the Bank's shares above 5% of votes at the General Meeting of the Bank.

After the settlement of the transaction on June 4, 2018, the securities accounts of OFE and DFE included 13,357,769 shares of the Bank, which account for 5.09% of the Bank's share capital. These shares entitle to 13,357,769 votes at the General Meeting of the Bank, which constitutes 5.09% of the total number of votes.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

5.5 Financial credibility ratings

5.5.1 Bank Pekao S.A. financial credibility ratings

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

As of June 30, 2018, Bank Pekao S.A. was assigned following financial credibility ratings:

FITCH RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating (IDR)	A-	A-
Short-term rating	F2	F2
Viability rating	a-	-
Support rating	5	-
Outlook	Negative	Stable
S&P GLOBAL RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating in foreign currencies	BBB+	BBB+
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-2
Stand-alone credit profile	bbb	-
Outlook	Stable	Positive
MOODY'S INVESTORS SERVICE (UNSOLICITED RATING)	BANK PEKAO S.A.	POLAND
Long-term foreign-currency deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa1	-
Long-term counterparty risk assessment	A1(cr)	-
Short-term counterparty risk assessment	Prime-1(cr)	-
Outlook	Stable	Stable

Among banks rated in Poland, Bank Pekao S.A. has the highest Baseline Credit Assessment as well as long- and short-term counterparty risk ratings assigned by Moody's Investors Service.

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

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

The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity. The national long-term rating of Pekao Bank Hipoteczny S.A. is at the level "AA+(pol)" with a Stable outlook. On June 9, 2017, agency confirmed the rating of covered bonds at the level of "A" and changed outlook from Evolving to Stable. During the latest revision on October 20, 2017, the Agency confirmed the rating of Pekao Bank Hipoteczny at the level of "A-" and changed outlook from Stable to Negative. On October 25, 2017, Fitch Ratings agency confirmed rating of the covered bonds at the level of "A" and changed outlook from Stable to Negative. Aforementioned ratings were confirmed on May 18, 2018 and in updated documentation o Pekao Bank Hipoteczny S.A. covered bonds from July 9, 2018.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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.

	30.06.2018	30.06.2017
Total number of outlets	851	918
Total number of own ATMs	1,716	1,757

As at the end of June 2018, the Bank maintained 5,805.0 thousand PLN-denominated current accounts, 368.8 thousand mortgage loan accounts and 652.5 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

	30.06.2018	30.06.2017
Total number of PLN current accounts ^(*)	5,805.0	5,533.1
of which packages	4,252.4	4,105.6
Number of mortgage loans accounts ^(**)	368.8	343.6
of which PLN mortgage loans accounts	336.1	309.7
Number of "Pożyczka Ekspresowa" loan accounts ^(***)	652.5	601.5

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

(**) Retail customers accounts.

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

Individual clients

Individual clients service

Since the beginning of 2018, Bank Pekao S.A. realizes the new strategy of development for 2018-2020 "Strength of the Polish Bison". The basis for the Bank's growth in the area of individual customer is a significant increase in account numbers thanks to, among others, a new offer and outstanding quality.

In January 2018, the Bank introduced to its offer a new Konto Przekorzystne account, which replaced previously existing line of Eurokonto accounts. Konto Przekorzystne account is the basic account of the Bank with full range of products and banking services such as: a high interest of Konto Oszczędnościowe saving account, multicurrency card, free of charge foreign currency accounts, modern mobile banking as well as refund of newly purchased or renewed OC car insurance in PZU. Customers aged over 26 with monthly income of minimum PLN 500 on individual account and one transaction made by payment card or the PeoPay mobile application in a month are provided with free account maintenance, service of payment card, two cash withdrawals a month from all domestic and abroad ATMs as well as from Bank Pekao S.A. network.

Customers aged up to 26 are offered a special version of Konto Przekorzystne account under which they are provided with free account maintenance, service of payment card and withdrawals from all domestic and abroad ATMs.

In addition, the Bank created OK, GO platform with free access to online training organized by ICAN Institute, publisher of Harvard Business Review Polska. The Bank started the next edition of nearly 1.2 thousand of educational events in schools and universities that promote personal finance management with the use of digital banking service.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Bank Pekao S.A. provides services for over 1.4 million of families. Since April 2018, the Bank participates in the program Karta Dużej Rodziny (Card for Large Families), which is a countrywide system of special discounts for families with three or more children. Cards owners since the beginning of June may use the Bank's services and products on favourable terms, among others, they receive 5% of refund for household expenses (up to PLN 600 in 2 years). Additionally, the Bank prepared special prices offer for Pożyczka Ekspresowa (Express Loans), mortgage loan, Elastyczna credit card and selected Partners of Program Galeria Rabatów (the Discount Program) offer special shopping discounts for large families.

Bank Pekao S.A. is a leading bank in providing services for foreigners with over 25% market share in this area. The largest group among foreigners using banking services in Poland are Ukrainian citizens, therein almost every fourth is a customer of Bank Pekao S.A. Among students, there is an even higher percentage: every third student from Ukraine holds an account at Bank Pekao S.A. The Bank's offer for the Ukrainian citizens was extended by infoline and the Bank's regulations in the Ukrainian language, FX conversion with a preferential rates and from July 2018, the Bank offers free of charge transfers to Ukraine and PeoPay mobile banking in Ukrainian language.

In the first half of 2018, the Bank opened 152 thousand of new ROR accounts, i.e. by 32% higher than in the first half of 2017.

Lending products

In the first half of 2018, the Bank consequently continued activities aimed at building leading position on consumer goods financing market. Increase of cash loans portfolio for individual clients amounted to 20% year on year. Sale of cash loans was supported by competitive offer of Pożyczka Ekspresowa (Express Loan), individual loan offers with the use of CRM tools as well as active use of electronic channels including the PeoPay mobile banking and the Pekao24 Internet banking system.

Loan offer within the framework of process „na klik” (“by click”) with fast and fully automated loan granting procedure in the Internet service and mobile applications on phone and tablet regularly attracted new customers. In the first half of 2018, the Bank granted loans within the framework of process “na klik” higher by 50% in comparison with the first half of 2017, nearly every third loan was granted in this process. In June 2018, the Bank achieved a record-high result in a sales volume. The loan offer “na klik” is available to over 1.6 million of customers who may receive funds on their account within 30 seconds after loan approval. In addition, the Bank's offer was extended by PZU insurance for customers applying for loan through the electronic channels.

The Bank conducted an advertising campaign of cash loan in the Internet, social media, countrywide radio channels, the largest shopping centers, public transportation and in the Bank's outlets and ATMs was launched.

In the first half of 2018, the Bank achieved a record-high result in a sale of mortgage loans, granting loans for the amount of nearly PLN 5.3 billion (increase by 10% year on year). Market share in sale of new loans amounted to over 20%. The record-high result was supported by the Bank's share in the sale of mortgage loans granted under the government program “Mieszkanie dla Młodych” (“Apartment for the Young”) supporting the persons aged up to 35 in acquisition of the first new apartment, and Bank Pekao S.A. for the consecutive time reached a record-high number of loans applications in this program at the level of 48% market share in the first half of 2018.

Mortgage loans offer of the Bank was adjusted on an ongoing basis to changing market conditions and clients' needs, among others, by enhancement of available lending purpose, modification and simplification of loan application, diversification of the offer and implementation of immovable and movable property insurance as well as OC insurance within the framework of the Bank's cooperation with PZU SA. At the same time, the Bank developed the program implemented in the second half of 2017 which enables the customers electronic submission of loan application with all necessary documentations through the Bank's infoline.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Savings and investment products

In January 2018, the Bank introduced to its offer a new saving account Konto Oszczędnościowe for individual clients with attractive interest rate and commission free cash withdrawals executed with the use of the PeoPay mobile application. Both, new customers and the existing ones, who did not have another saving account in the Bank, could take an advantage from promotional interest rate of 2.7% up to the amount of PLN 10 thousand for a period of 6 months. The offer of new saving account Konto Oszczędnościowe attracted significant customers' interest. In the first half of 2018, the Bank opened 79 thousand of Konto Oszczędnościowe accounts on which the customers deposited over PLN 800 million.

In the first half of 2018, individual customers deposits increased by PLN 3.3 billion and were higher by 5% in comparison to December 2017, while in comparison to the first half of 2017 increased by PLN 6.1 billion (9.7% year on year).

In the first half of 2018, the Bank introduced to its offer new investment products. Structured products offer with 100% capital protection at the end of investment was enhanced by Certificates of Deposits: Mocny Dolar, Mocny Dolar Plus, Mocny Dolar Plus 2 of financial companies. Investments assumptions are based on appreciation of USD vs. PLN which should be fostered in particular by expected increase of interest rates in USA and thus expected reversal of the upward trend in the EUR/USD rate. In the first half of 2018, completed issuance of the Bank's certificates of deposits brought to the customers a return on investment of over 10% within a two-year period.

Within the framework of investment funds, the Pekao Alternatywny Dynamiczny Absolutnej Stopy Zwrotu fund benefiting from the potential of global markets and investing in various assets was introduced.

As part of pension programs, IKZE in DFE (Dobrowolny Fundusz Emerytalny) PZU was introduced, which is another product facilitating saving for retirement and allowing the use of tax reliefs.

Insurance products

In the first half of 2018, in the area of bancassurance the Bank developed cooperation with PZU S.A. The Bank conducted trainings for 6.7 thousand employees of branches who received the KNF licenses to sell PZU insurance.

In the first half of 2018, there was implemented the group insurance „PZU-PAKIET PODRÓŻNY – BIZNES” for users of business payment cards issued by Bank Pekao S.A. and a General insurance agreement on risk on mortgage loans repayment was signed.

The Bank provided also possibility to purchase voluntary CPI PZU insurance which is offered when applying for a loan within the framework of process „na klik” in the Pekao24 system. The Bank's customers can take advantage of a new insurance of buildings or flats prepared by PZU S.A. In addition to the standard property insurance that may be used to secure the debts of the Bank's borrowers, the customers can choose between additional packages including home movables property, assistance and civil liability insurance.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Brokerage activity

Bank Pekao S.A. Group offers a wide range of capital market products and services through retail brokerage entities: Dom Maklerski Pekao (Dom Maklerski), a subsidiary Centralny Dom Maklerski Pekao S.A. (CDM) and since December 11, 2017 a subsidiary Dom Inwestycyjny Xelion Sp. z o.o. (Xelion).

As at the end of June 2018, the retail brokerage entities of the Group maintained 276.8 thousand investment accounts. The Group's brokerage entities were serving 169.6 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 2018, direct service of individual customers was conducted through nationwide network of 454 points of brokerage services.

As of June 30, 2018, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 21.9 billion.

In the first half of 2018, 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.

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

- sales offers of three Investment Certificates under Trzeci Program Emisji Strukturyzowanych Certyfikatów Depozytowych issued by Bank Pekao S.A., registering records for the total amount of PLN 200 million (Dom Maklerski),
- ten sales offers of Structured Certificates for the total amount of PLN 100 million (CDM),
- seven public bond offers, registering records for the total amount of nearly PLN 83 million including one offer suspended after the subscription period (Dom Maklerski, CDM).

Additionally, Dom Maklerski acted as the Offering entity for the issue of Investment Certificates of PZU FIZ Akord for the S and T series and cooperated as entity registering records in two tender offer for shares with Pekao Investment Banking S.A.

CDM introduced to its offer modern investment platform eTrader Pekao, which basic advantage is to gather all the most important elements of the client's investment process in one place - from access to stock quotes and information from the market, through analyzes and data on companies, to full transactional service. eTrader Pekao platform is equipped with advanced functions allowing for planning, analysis and control of investments, and the intuitive interface and wide personalization options ensures comfort of service. Users after signing subscription Agreement and activating the package have access to Warsaw Stock Exchange listings in real time. Moreover, they have access to foreign indices, currency pairs, ware and commodity listings, company announcements (ESPI/EBI), agencies information (PAP, ISBnews) and comments of CDM Analysis Office.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Business clients - micro enterprises

The Bank intends dynamically increase share in the segment of micro enterprises thanks to its availability, attractive offer and effective and fast processes. In the first half of 2018, the Bank implemented a new service model for micro enterprises (revenues up to PLN 5 million) and conducted activities aimed at optimization of products and processes in this area.

In June 2018, Bank Pekao S.A. changed the accounts offer for micro enterprises by implementing one account of Konto Przekorzystne Biznes instead of seven accounts. Within the framework of Konto Przekorzystne Biznes offer the customers are provided with multicurrency payment card, foreign currency accounts, the PeoPay modern mobile banking, refund of PLN 100 for the first social insurance payment as well as POS terminal with voucher worth PLN 100. All withdrawals from the Bank's ATMs, two withdrawals a month from other ATMs in Poland and cash payment up to PLN 100 thousand in the Bank's cash deposits machine are free of commissions. The new account also allows access to competitive exchange rates in online banking and the PeoPay mobile banking.

Konto Przekorzystne Biznes account is free of charge with the following conditions: payment of PLN 2 thousand at minimum on customer account or one receipt from POS terminal, social insurance/tax payment (ZUS/US) or one FX transaction, or payment of one leasing installment in a subsidiary Pekao Leasing Sp. z o.o. MasterCard Business multicurrency card issued to account is free of charge in case of execution of non-cash transactions of a minimum of PLN 300 a month. Konto Przekorzystne Biznes account and payment card is provided free of charge to non-profit organizations for the duration of the contract and start-ups for the first 12 months after signing the contract.

The Bank introduced also attractive foreign currency offer for business including free of charge accounts in 20 foreign currencies, all incoming foreign currency payments and 5 SEPA incoming payments a month. Multicurrency card issued to the account enables execution of transactions in PLN as well as in selected foreign currencies without FX conversion thanks to card's connection with corresponding currency accounts

Within the framework of the Bank's enterprises can be provided a POS terminal for 18 months without lease fees (12 months in accordance with the objectives of the program „Polska Bezgotówkowa” and additionally 6 months as part of the Bank Pekao S.A. special offer), decide on the terminal communication type and use free additional services such like terminal installation, staff training, service, logo printing.

Under the agreement signed in December 2017 with Europejski Fundusz Inwestycyjny (EFI) on loans with EFI guarantees for start-ups (companies operating in the market for up to 2 years) from the EaSI program (Europejski Program na Rzecz Zatrudnienia i Innowacji Społecznych), in the first quarter of 2018, the Bank introduced loans offer. As part of the portfolio lines, two agreements will be implemented: for investment loans up to PLN 100 thousand and for overdraft facilities up to PLN 20 thousand, which are secured by the EFI up to 80% of capital and interests.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Private Banking

In the first half of 2018, in Private Banking activities aimed at new clients acquisition and asset management optimization by existing customers were continued. As a result of these activities, nearly 170 new customers were acquired, and purchase value of investment products amounted to ca. PLN 700 million.

Within the frame of Investment Advisory service, as at the end of June 2018, total value of assets covered by the service amounted to PLN 3.1 billion.

The Bank consistently expands its product offer. In the first half of 2018, the customers were offered eight issues of structured certificates issued by UniCredit Bank AG based on indices valuation of Basic Resources and HealthCare as well as shares of Volkswagen AG and AXA SA. Structured certificate based on BMW AG shares ended with a positive result and the nominal value of investment was increased by a gross semi-annual coupon of 3.35%.

Investment products offer for the Private Banking customers was extended by new funds: Subfundusz Pekao Alternatywny Dynamiczny Absolutnej Stopy Zwrotu offered by Pekao TFI and available through the Bank and NN Kapitał Plus FIZ offered by NN Investment Partners TFI and available through CDM.

Private Banking Division plays an leadership role in the process of implementing the Investment Advisory service for the Retail Banking Division and Dom Maklerski and CDM, using its expertise in implementing this service for Private Banking customers.

Sales targets are supported by initiatives with participation of affluent customers both existing and potential as well as the Private Banking representatives during which the acquisition and relational activities are conducted. The event of a very special significance both in terms of image and client relations was the World Economic Forum in Davos, in which Bank Pekao S.A. participated for the first time. Another event contributing to strengthen the position of Private Banking as an expert in servicing wealthy and demanding clients, as well as being an excellent opportunity to acquire new clients and strengthen the relationships with existing ones was a meeting organized by the publisher of Forbes related to the announcement of the list of the 100 richest Poles.

The area of succession is one of the significant elements of development of Private Banking activities in 2018. In Poland, in the next few years, ca. 70% of family businesses will be managed by the next generation. The challenges for business owners when planning the succession are, among others, choice of succession model, management of expectations and ambitions of family members, and clarification of the principles of the succession process. Therefore a new project - Next Generation was launched that allows for a deeper analysis of the succession area with the participation of experts and successors, who have experience in transferring family businesses or plan such activities and expect professional support and advice.

A series of meetings of the Bank's Management Board members responsible for business divisions with clients in major Polish cities was continued. The aim of the meetings is on the one hand to listen to the needs and expectations of customers, and on the other hand, make the best use of the business potential of each region. So far, the meetings were held in Rzeszów, Poznań, Katowice, Warszawa and Kraków.

Moreover, the Private Banking representatives participated in Executive Golf Club tournament, which was a great opportunity for networking, i.e. making relationships in the group of both Polish and international business leaders.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Electronic banking for Individuals

The Bank's individual clients are provided with the Pekao24 Internet system that enables remotely to realize almost all operations available in the Bank's outlet. The Internet service and mobile application also offer access to brokerage accounts held by Dom Maklerski.

The Bank's customer may use the Pekao24 system also through mobile service available on phones. The system in addition to user-friendly navigation and intuitive interface, offers functions well known from mobile application on tablets and the Internet service – expenses reporting by category, possibility to use loan offer “na klik” (“by click”), foreign currency payments and FX conversion with a preferential rates. User can view currency rates and use a convenient calculator in order to determine quickly the currency conversion value. A new service provides also the possibility to reschedule the debt of Elastyczna credit card.

In October 2017, the Bank released 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: 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 590 thousand of terminals in Poland (NPB data as at the end of the fourth quarter of 2017) i.e. ca. 95% of total number of POS and in ca. 6 million terminals abroad as well as in majority of on-line shops in Poland and over 300 thousand on-line shops with Masterpass logo abroad.

In the first half of 2018, in the mobile service and the PeoPay application information on investment account and possibility to realize payment on ROR account are available. The customers were also provided with the possibility to review debit cards operations and set or change PIN code. In the payment calendar, the Bank's customers can easily check upcoming payments, including among others, regular transfers or repayment of the card and contact directly with the Bank's advisor via e-mail.

In the first half of 2018, in the PeoPay mobile banking was 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. In June 2018, Bank Pekao S.A. implemented in the PeoPay application BLIK codes enabling cash withdrawals from ATMs, payments in POS terminals and online. Moreover, in June 2018, the Bank as one of the first banks 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.

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

The Bank regularly expands the scope of services available through remote access channels. Within the process “na klik” (“by click”), the customers who were not able to use this offer, were provided with possibility to sign an agreement in the Pekao24 system on electronic banking services, which allows them to apply remotely for cash loan and credit card.

The customers were provided also with the possibility to manage debit card. New functionality allows to activate card, change transactional limits and temporarily cancel card. The customers were also offered eDokumenty service, which enables to view electronic version of documentation submitted by the Bank. All new functions are available in the Internet and mobile service and the PeoPay application.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

In the Pekao24 system, the Bank provided possibility to open a new Konto Oszczędnościowe saving account and for the customer using voluntary cash loan insurance – loan offer with preferential conditions.

The number of individual clients actively using mobile banking increased by 44% year on year.

(in thousand)

	30.06.2018	30.06.2017
Number of retail customers actively using electronic banking Pekao24 as at the end of period (*)	1,934.4	1,764.1
Number of retail customers with an access to mobile banking as at the end of period (**)	1,635.5	1,314.6
Number of retail customers actively using mobile banking as at the end of period (***)	1,125.6	782.8

(*) 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).

Small and micro enterprises (SME)

In SME segment Bank Pekao S.A. is planning a strong growth of loan volumes and acquisition of new customers. In order to achieve this goal in the Bank's structure SME Division was established and 61 dedicated Centra Biznesowe MŚP (SME Business Centers) were launched throughout Poland.

At the beginning of the year, an offer of new flexible service packages: Standard and Premium was implemented. MŚP Premium offer is addressed to the companies with the annual turnover over PLN 5 million, which need comprehensive services and matter of individual approach and price negotiations is crucial for them.

MŚP Standard and MŚP Premium packages consist of basic transactional service, including PLN and foreign currency accounts, electronic banking with FX currency exchange and deposit module, mobile banking and credit card. Other services, i.e. cash management, leasing, factoring and products supporting trade finance will be added depending on needs of corporate. Export companies will be additionally provided with trade finance services (LC, guarantee), while for the companies cooperating with wide range of customers and contractors, the Bank provides Pekao Collect service for mass payments identification.

The approach to granting loans and assessing creditworthiness is also changing. Each small and medium-sized company is treated individually, as is the case with large companies and corporations. In the first half of 2018, the customers were provided with new products: multipurpose credit line (loan in current account, non-revolving loan, guarantees and letter of credit within one credit process and one agreement), revolving loan supporting short term financing needs and e-financing which finances short-term receivables. These products improve SMEs' financial liquidity and support daily operations of the customers.

In the first half of 2018, Bank Pekao S.A. expanded the range of treasury products available to small and medium enterprises. In order to intensify cooperation with customers in this area the Bank created treasury specialists team, who supports sales of treasury products in business regions. One of the Bank's priorities is delivery of products protecting against currency risk and interest rate risks dedicated to SME clients.

Within the scope of leasing and factoring offer, the SME clients are also provided with a support of dedicated teams of leasing and factoring specialists.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

For the eighth time, Bank Pekao S.A. prepared "Raport o sytuacji mikro i małych firm" (Report on the situation of SME clients) report, i.e. companies employing up to 49 persons. The report is the result of telephone interviews conducted with 6.9 thousand of enterprises from all over the country. Respondents were asked to answer 71 questions related to, among others, assessment of the economic situation, financial situation of the company, employment as well as areas such as investments, exports and innovativeness. The main theme of this edition were digital technologies. Outcomes of the report were presented in March 2018 at Centrum Nauki Kopernik in Warsaw.

Electronic banking for SME 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).

In 2017, the Bank released another updated of 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, 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.

In June 2018, Bank Pekao S.A. implemented in the PeoPay application BLIK codes enabling cash withdrawals from ATMs, payments in POS terminals and online. Moreover, in June 2018, the Bank as one of the first banks in Poland provided Apple Pay service, which is available for devices with Android and iOS operational system.

As at the end of June 2018, 191.0 thousand business users had an access to the electronic banking, and 130.5 thousand are active users.

As at the end of June 2018, 38.8 thousand business users had an access to the mobile banking application for SME clients, and 25.4 thousand were active users. The number of business users with an access to the mobile banking application increased by 16.3 thousand compared to the end of June 2017

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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).

The Bank's services are used by every second large company in Poland. As at the end of the first half of 2018, the Corporate Banking and MIB Division serviced over 14.5 thousand of entities, including nearly 3 thousand foreign customers and 3 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. In the first half of 2018, the Bank signed partnership agreements with Bank Gospodarstwa Krajowego and Korporacja Ubezpieczeń Kredytów Eksportowych SA, which are aimed at supporting the foreign expansion of Polish enterprises.

The Bank is available to clients at every 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, top 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 the PekaoBiznes24 Internet platform, which offers the widest 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 - 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 2018 include:

- an increase in volume of domestic transfers by 10% year on year,
- an increase in the number and volume of cash deposits in closed form by nearly 15% and 29% year on year respectively,
- processing within the framework of Pekao Collect service (mass payments identification) a record-high number of transactions with the total volume of over PLN 86 billion, i.e. increase by nearly 3% and 15% year on year respectively,
- an increase in volumes of foreign incoming and outgoing payments by 6% and 11% year on year respectively.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Split Payment

In the first half of 2018, the Bank conducted activities aiming at Split Payment implementation, i.e. method of VAT split payment. In addition to adjustment adapting the Bank's systems with new type of accounts service, Transactional Banking Department experts organized training for over 1.2 thousand of companies. Moreover, the Bank conducted information campaign „Gotowy na Split Payment" („Ready for a Split Payment") in press and the Internet to familiarize entrepreneurs with the issue of split payment and provided a dedicated website www.gotowy.com.pl and a special infoline.

Split Payment regulations entered into force on July 1, 2018. Bank Pekao S.A. holds a leading position in Split Payments transactions with the largest market share of 21% (based on KIR data).

Trade finance

In the first half of 2018, in the area of trade finance the Bank recorded increase in export LCs by almost 8% and purchased receivables in eFinancing model by nearly 9% year on year.

In addition, Bank Pekao S.A. signed an agreement with Bank Gospodarstwa Krajowego on the Bank's participation in Program Akredytyw Eksportowych (Export LCs Program), which allows to confirm export LCs from the countries with the higher risk and support Polish entrepreneurs in expansion on foreign markets.

Cooperation with international clients

In accordance with the new strategy of Bank Pekao S.A., in March 2018 in the Bank's Head Office, Department to develop international business and support foreign expansion of the Polish companies was created. Supporting export plans of the Polish companies present on foreign markets or the companies consider expansion abroad is one of the main tasks of the Department.

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 customers with more attractive products offer for financing foreign contracts. Within the scope of a wide range of banking products, companies operating in Poland are provided in the Bank with the package of the most advantageous financial solutions adapted to the business model. Departament Bankowości Międzynarodowej i Wsparcia Eksportu (The Department of International Banking and Export Support) has the competence to carry out the entire process of arranging and organizing the financing of the customers foreign activities.

In the area of export support Bank Pekao S.A. cooperates with Korporacja Ubezpieczeń Kredytów Eksportowych SA - KUKKE (Export Credit Insurance Corporation Joint Stock Company - KUKKE) which offers instruments for international transactions risk mitigation. In the first half of 2018, the Bank signed with KUKKE framework agreement on join common for exporters. Under the agreement KUKKE grants insurance guarantees for debt payment within the scope of LCs opened by foreign banks – confirmed, post-financed or discounted by the Bank. The agreement strengthens the Bank's role as an expert in the field of cross-border solutions for clients operating internationally, as export LCs on non-commercial markets will expand the available solutions for financing foreign trade.

Investment banking, structured finance and commercial real estates

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

The Bank finances projects aimed at redevelopment of brownfield sites in order to improve common space. The Bank provides financing allowing the activity and development of enterprises operating on the Polish market, and at the same time, participates in transactions executed abroad by companies from Poland.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

The Bank has expertise and experience to service every, even the most complex and innovative type of transactions.

In the first half of 2018, the Bank participated, among others, in the following investment projects of institutional clients:

- financing of activities of one of the chemical sector leaders, the total amount of loan over PLN 3.5 billion,
- financing of infrastructure investment program, the total amount of loan PLN 700 million,
- granting of investment loan for a leader in the food sector, the total amount of loan PLN 495 million,
- refinancing of the restaurant industry leader, the total amount of loan PLN 280 million,
- financing of development of the food production and processing sector leader, the amount of loan over PLN 111 million,
- financing of acquisition of the company from pharmaceutical sector, the amount of loan PLN 61.5 million,
- granting of investment loan for financing research and development activities of the company from technology sector, the amount of loan nearly PLN 50 million.

In the first half of 2018, the value of new loan agreements on commercial real estate financing amounted to PLN 1.7 billion, and included, among others, the following transactions:

- financing of the construction of a warehouse complex near Kielce in the amount of over PLN 150 million,
- participation in syndicated financing granted to one of the leaders in the telecommunications services industry in the total amount PLN 930 million, the Bank's share in the amount of PLN 145 million,
- financing of the construction of an office building in Kraków in the amount of over PLN 140 million,
- financing of the construction of an office building in Kraków in the amount of nearly PLN 100 million,
- financing of construction of office-shopping complex in Warsaw in the amount of nearly PLN 90 million,
- financing of a leader in warehouse sector in Poland in the amount of over PLN 65 million.

Issuance of debt instruments

In the area of arrangement and management of commercial debt securities, Bank Pekao S.A. has nearly 17% market share (the 2nd place), as of June 30, 2018, including 20% market share in organization of corporate bonds issues and 28% market share in organization of municipal bonds issues.

In the first half of 2018, the Bank has nearly 32% market share in segment of mid-term bonds for enterprises issued in 2018.

In the first half of 2018, the Bank issued debt securities (corporates, banks and local governments) for the total amount of ca. PLN 5.9 billion, including in particular the following transactions:

- the issue of 10 series of bonds with maturity date up to 1-2 years for a company from leasing area for the total amount of PLN 530 million,
- the issue of 2 series of 7-year bonds for the leading producer of packaging for the total amount of EUR 90 million,
- the issue of medium-term bonds with maturity date up to 3-5 years for five companies from developers sector for the amount of nearly PLN 330 million,
- the issue of 6 series of bonds with maturity date up to 3-4 years for bank operating in Poland for the total amount of PLN 250 million,
- the issue of 4-year bonds for a company from developers sector for the amount of PLN 20 million.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Cooperation with international and domestic financial institutions

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

As of June 30, 2018, the Bank maintains 77 nostro accounts with 47 banks in 26 countries; it runs 223 loro accounts for 207 foreign clients (banks and other financial institutions) from 48 countries and 43 current accounts for 41 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 one Polish bank.

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

Implementing the strategy of the development of cooperation of Bank Pekao S.A. Capital Group. with small and medium-sized companies, a subsidiary Pekao Leasing Sp. z o.o. signed credit line agreement with Bank Rozwoju Rady Europy (Council of Europe Development Bank) in the amount of EUR 150 million. This is the third credit line agreement intended to support the small and medium enterprises segment. The purpose of the credit line is to finance projects related with creating and maintaining jobs for micro, small and medium-sized enterprises. Bank Pekao S.A. was the arranger of the transaction and the guarantor of the loan.

Comprehensive services for the public finance sector

According to the new strategy for intelligent growth in the most profitable segments, Bank Pekao S.A. consistently developed cooperation with municipal companies and public sector entities and operated in the area of servicing and financing of the public sector, in particular in financing of the Polish infrastructural projects.

The most important transactions in the first half of 2018 are as follows:

- bonds issue for the amount of PLN 276 million for refinancing municipal stadium in Wrocław. New structure of transaction was appreciated by the city government and consortium of banks financing previously this project has an intention to buy part of the bonds,
- signing an annex worth PLN 119 million, changing the structure and extending of the bond issue program of Port Lotniczy Ławica in Poznań in order to adjust financing to the client's investment needs.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

6.2 Achievements of subsidiaries

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

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

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

Pekao Bank Hipoteczny, as a specialized mortgage bank, continued activities on commercial properties market as well as financing purchase, construction, refurbishment or modernization of housing properties to individuals.

As at the end of June 2018, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 1,748.9 million and was lower by PLN 25.9 million, i.e. 1.5% in comparison with the end of 2017. Loans granted to individual clients represent 52.3% and to corporates and local governments represent 47.7% of loan portfolio. In the first half of 2018, the volume of new loans financing housing properties to individuals accounted to over 53% of total new loan.

In the first half of 2018, within the framework of a strategy focused on co-operation with Bank Pekao S.A., Pekao Bank Hipoteczny supports the Group with long-term financing as issuer of covered bonds.

The total value of liabilities due to covered bonds amounted to PLN 1,184.2 million as of June 30, 2018.

Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) – Pekao IM

Pekao IM, in which since December 11, 2017 Bank Pekao S.A. holds a 100% share, is an owner of Pekao Towarzystwo Funduszy Inwestycyjnych S.A. (Pekao TFI - ex. Pioneer 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. Service of portfolios management is also available in Pekao TFI offer.

As of June 30, 2018, the net asset value of investment funds of Pekao TFI S.A. amounted to PLN 19,205.0 million, an increase of PLN 1,782.3 million, i.e. 10.2% as compared to the end of June 2017.

Pekao Powszechne Towarzystwo Emerytalne S.A. w likwidacji (ex. Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.) – Pekao PTE

Pekao PTE activity was the management of an open-end pension fund Pekao OFE and voluntary pension fund Pekao DFE. Pekao OFE pools pension contributions and invests with the aim of their distribution to unit holders after they reach retirement age. Voluntary pension fund Pekao DFE allows collecting of additional funds with a number of advantages of this form of saving.

On April 24, 2018, the Polish Financial Supervision Authority issued a consent for PTE PZU S.A. to take over the management of Pekao Otwarty Fundusz Emerytalny (Pekao OFE) and Dobrowolny Fundusz Emerytalny Pekao (DFE Pekao), previously managed by Pekao PTE S.A. As a result of this decision, from May 19, 2018, PTE PZU S.A. has taken over the management of Pekao OFE and DFE Pekao funds.

On June 1, 2018, the Extraordinary General Meeting of Pekao PTE S.A. adopted a resolution to dissolve the Company and to open its liquidation as of that date. Currently, the Company operates under the name Pekao PTE S.A. in liquidation.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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

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

In the first half of 2018, the Company concluded 5,857 of new agreements. The value of leased assets increased in comparison to the same period of 2017 by 10.3% and amounted to PLN 1,216.0 million, of which 68.2% were vehicles, 24.8% - plant and equipment, 3.2% - real estates and 3.8% - 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 966.3 million and was higher by 5.2% in comparison with the end of the first half of 2017.

Pekao Faktoring Sp. z o.o. - Pekao Faktoring

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

Pekao Investment Banking S.A. – Pekao IB

Pekao Investment Banking S.A. 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 buy or sell orders of financial instruments, execution of these orders on the account of orders provider, offering financial instruments, advisory for corporates in the area of capital structure, corporate strategy or other issues related to such structure or strategy. Pekao IB offers also advisory and other services related to mergers, demergers and corporates acquisition.

In particular, in the first half of 2018, Pekao IB acted as the Tender Offer Agent and Advisor in three public tender offers and squeeze out of companies listed on the Warsaw Stock Exchange (WSE), as well as one share buyback conducted by the WSE-listed company. Additionally, Pekao IB acted as the Joint Global Coordinator and the Joint Bookrunner in one Secondary Public Offering (SPO) and as the Offeror in three bond issues.

PIB acts also as market maker both on equities as well as on derivative instruments market, being one of the most active entity of this market. As at the end of June 2018, Pekao IB was the market maker for 21 companies.

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

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

CBB supports the Bank Pekao S.A., as a major customer, in the service of online banking, cards and call center products. The company within its operations serves customers through alternative channels of communication, including phone calls, mailing, sms, chat and video chat. The main channel of communication is phone calls - in the first half of 2018, CBB handled 27.4 million minutes of calls, i.e. 6.7% increase in comparison with the same period of 2017.

The company runs with the Bank a number of projects aimed at developing communication with customers of Bank Pekao S.A. with usage of mobile banking. In the first half of 2018, infoline in the Ukrainian language was launched.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Pekao Financial Services Sp. o.o. – PFS

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

On June 4, 2018, the District Court registered the increase of share capital of Pekao Financial Services Sp. z o.o. related to the transaction of the takeover by the Company, pursuant to art. 529 § 1 point 4 of the Code of Commercial Companies (division by separation) of an organized part of the enterprise separated from PZU Centrum Operacji S.A. covering the activities of the transfer agent. At present, Bank Pekao S.A. holds 66.50% of votes and capital of the Company, while PZU S.A. holds 33.50%.

Among the clients served by the PFS there are companies with established market position. As at the end of June 2018, the company maintained its leading position in the market of OFE using the services of external Transfer Agent.

Centrum Kart S.A. - CK S.A.

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

In the first half of 2018, CK S.A. continued realization of 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 2018 included the implementation of ApplePay mobile application for the clients of Bank Pekao S.A. and payments in Blik system on the PeoPay application.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

6.3 Awards

Konto Przekorzystne account appreciated by journalist

In January 2018, Bank Pekao S.A. introduced to its offer for individual customers Konto Przekorzystne account. The Bank's offer received many positive press information that were published among others on websites: Najlepszekonto.pl, Bankobranie.blogspot.com, Bankier.pl, subiektywnieofinansach.pl.

The journalists appreciated attractive terms of account maintenance such as: free account, card, ATMs abroad and high rate of interest on Konto Oszczędnościowe saving account amounted to 2.7% as well as bonus for active banking up to PLN 200, including PLN 100 for OC PZU insurance and PLN 100 annually for monthly mobiles bills and innovative possibility to confirm PeoPay payments with fingerprint.

Konto Przekorzystne account of Bank Pekao S.A. on the 1st place in rankings

In February 2018, Bank Pekao S.A. launched advertising campaign of Konto Przekorzystne account under the slogan „Przestaw się na Przekorzyści”, which is broadcasting on the largest TV stations, the Internet and social media.

A new offer attracts the great interest of clients. In the first quarter of 2018, over 50 thousand accounts were opened. Good opinions of clients, journalists as well as the Bank's employees were also reflected in the rankings of personal accounts. In February, Konto Przekorzystne account took the highest place in the ranking of Total Money.pl, ebroker, Comperia, and Rekin Finansów.

The account was distinguished primarily for the lack of fees for account maintenance, card, ATMs withdrawals – with one simple condition – activity. A big advantage of the offer is also multicurrency payment card. Accompanying promotions of the offer - Konto Oszczędnościowe saving account with the interest rate of 2.7% and bonus for active banking up to PLN 200 were also taken into account. Konto Przekorzystne account is offering in two versions: for the customers aged up to 26 – the customer receives unconditionally free account maintenance, card and ATMs withdrawals in the country and abroad, and for the customer aged over 26 – the customer receives free account maintenance, service of payment card, two cash withdrawals from all domestic ATMs in the month and all withdrawals abroad fulfilling a simple conditions: monthly income of minimum PLN 500 on individual account and one transaction made by card or the PeoPay mobile application.

Bank Pekao S.A. for the eighth consecutive time among top employers

Bank Pekao S.A. was for the consecutive time awarded with certificate Top Employers and thus joined the group of unique employers in Poland. The award is granted to companies which are outstanding in terms of international HR standards and are focused on supporting the professional development of their employees, strengthening their competences and skills, transparent operation in accordance with the adopted values and principles.

Top Employers certificate is granted to companies which are outstanding in terms of personnel strategy. During survey there are assessed all important areas of HR management in organizations participated in project. Top Employers Institute experts, independent organization, that researches wide range of HR rules and practices among significant global employers and compares with international standards, assess the following areas: talents development strategy, HR planning, onboarding of new employees, training and development, management of results, leadership skills development, career development and succession planning, remunerations and creation of organizational culture.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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

Bank Pekao S.A. for the second consecutive time was awarded „The Best Investment Bank in Poland 2018” title by Global Finance international magazine. The Bank participates in the most important transactions of structured and leverage financing on the Polish market and is the leader on the market of bonds issuance for corporates and public sector financing.

In awarding the title, the international group of experts considered transactions realized with the Bank's participation in 2017, including number and volume, scope of advisory service and potential in the area of structured of transactions. Another criteria taking into consideration were the Bank's market shares, distribution channel, price terms as well as the ability to respond to market needs, innovation and market reputation.

Global Finance magazine awards were granted for the nineteenth time. Global Finance is one of the leading international magazines with over 30 years history. Among the readers of the magazine are heads of the companies, financial directors, analysts and managerial staff responsible for strategic investment decisions in 191 countries around the world.

Bank Pekao S.A. – Inspiration in Business 2018

Bank Pekao S.A. won the Inspiration in Business 2018 competition and received an award in the INNOVATION category for Pekao Connect services. The competition, organized by the Newseria Information Agency, was held under the patronage of the National Centre for Research and Development (NCBR) and the National Research Institute (NASK).

The award for the most interesting innovative product confirms the recognition for development of Bank Pekao S.A. corporate banking and the Bank's effectiveness in providing high quality tools for corporates. Pekao Connect is a group of solutions enabling simple and secure integration of companies' accounting-financial systems with the Bank as well as a concept based on providing clients with the tools supporting development of e-commerce, and thanks to implementation of the latest technologies it supports the so-called software robotization which is currently implemented on a massive scale by the leading companies.

Award of KDPW CCP for Bank Pekao S.A.

In February 2018, Bank Pekao S.A. received distinction during the Gala Rok Giełdowy 2017 organized in Centrum Giełdowe w Warszawie (stock exchange center in Warsaw) for the most active participants of Krajowy Depozyt Papierów Wartościowych (KDPW) and Clearing House CCP (Central Counterparty). During the ceremony the institutions, which in 2017 achieved the best results and clearly contributed to development of the Polish capital market were distinguished.

Bank Pekao S.A. was awarded a statuette in category Uczestnik Rozliczający 2017 (Clearing Participant 2017) – the highest total activity in organized trading in 2017. The Bank was also appreciated for wide range of products, perfect adjustment to regulatory requirements and active participation in projects developing clearing services. Bank Pekao S.A. as a direct participant of KDPW CCP settles transactions of foreign brokerage houses – remote members of the Warsaw Stock Exchange.

Distinction for Representatives of Bank Pekao S.A. Group provided by industry environment at IDM Conference „Rynek kapitałowy dla wspierania rozwoju innowacyjnej gospodarki”

In March 2018, the representatives of Bank Pekao S.A. Group actively participated in XVIII edition of Konferencja Izby Domów Maklerskich (Conference of Brokerage Houses Chamber). The event was held under the honorary patronage of President of the Republic of Poland Andrzej Duda and a special guest of the conference was Minister of Innovation and Development Jerzy Kwieciński. Dom Maklerski Pekao and Dom Inwestycyjny Xelion acted as Partners of the Conference and PZU Inwestycje acted as Strategic Partner of this event.

The conference organized in Bukowina Tatrzańska with participation of representatives of brokerage houses, banks, listed companies, government bodies, stock exchanges, clearing houses and business and local government organizations was held under the slogan „Rynek kapitałowy dla wspierania rozwoju innowacyjnej gospodarki” (“Capital market for supporting development of innovative economy”). At the conference the Ministry of Finance announced assumptions for the Strategy of capital market development, which is crucial for the future of the Polish capital market.

During the Conference, the Management Board of Brokerage Houses Chamber on behalf of the capital market environment distinguished the representatives of brokerage houses, who in 2017 were most actively involved in work for the capital market, substantively supporting the initiatives and projects of the organization. Among the honored were representatives of Dom Maklerski.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Infoline of Bank Pekao S.A. for the consecutive time the best in Poland

In the XVII edition of ARC Rynek i Opinia survey organized in May 2018, Infoline of Bank Pekao S.A. for the second consecutive time took the first place in the ranking of banking infolines and scored 96.5 points out of 100 possible points. The survey covered the waiting time for a call or e-mail response and the quality of conversations in both channels of contact. In all areas, the unquestionable leader is Contact Center operating as a subsidiary of Centrum Bankowości Bezpośredniej Sp. z o.o. (CBB), which was confirmed by awarding the title TOP Infolinia 2018.

In addition to the title TOP Infolinia 2018 for the Bank's infoline, during gala of the X edition of Telemarketer Roku 2018 competition, Contact Center employees received three statuettes (out of 8 possible) for the best telemarketers in Poland. The culmination of this year's edition was winning the Grand Prix by CBB for "the best system for improving the quality of conversations and the highest communication standards". The Telemarketer of the Year competition has been held for 10 years and is the most prestigious event in the Contact Center industry in Poland.

"Best Sub-Custodian in Poland for 2018" award for Bank Pekao S.A.

Bank Pekao S.A. for the sixth consecutive time won the title of the "Best Sub-Custodian in Poland 2018" awarding by the Global Finance magazine.

The customer's assessment determines the award obtaining while the criteria of the Global Finance magazine are: service quality, competitive fees, execution of non-standard queries, IT systems, operational activities in the area of securities transactions, BCP plans and knowledge in the area of regulations and domestic practice.

President of the Management of Bank Pekao S.A. Michał Krupiński – the Banking Manager of 2017

Michał Krupiński, President of the Management of Bank Pekao S.A. was the winner of the XXVI edition of „Bankowy Menedżer Roku 2017” in the category commercial banks, organized by „Gazeta Bankowa” magazine. The President, receiving the prize, stressed that it was the success of the whole team of Bank Pekao S.A. employees.

One of the criteria for selecting "the Banking Manager of the Year" was the Bank's innovativeness. After the repolonization process of Bank Pekao S.A. changes in innovations were most quickly noticed by customers. The Bank is among innovation leaders offering biometric payments with the use of FaceTime and ApplePay payments, which the Bank implemented as the first bank in Poland. Additional criteria in "the Banking Manager of the Year" competition were: effectiveness in management, determination in achieving goals, as well as achieved financial results. The competition jury also took into consideration the votes of competitors assessing nominated candidates. In the case of Michał Krupiński, record-high results, profit as well as a new strategy were appreciated. The significant impact of the activities on the development and strengthening of the Bank's position on the domestic and foreign market after the ownership changes were also recognized. Outstanding professional achievements were also one of the conditions that determined the award.

"Gazeta Bankowa" is selecting the Polish banking leaders since 25 years and honors people who have made a special contribution to strengthening values that are important for the state and the nation.

Bank Pekao S.A. the Best Bank in Poland 2017 in the EMEA Finance magazine ranking

Bank Pekao S.A. received the Europe Banking Award 2017 awarded by the prestigious EMEA Finance magazine, which is the recognition of the Bank as one of the best financial institutions in Europe. Bank Pekao S.A. was appreciated for the fact that faced with challenges resulting from the increased regulatory requirements and competitive pressure from both peer institutions and non-traditional players on the financial market, perfectly used the opportunities and favourable situation in Central and Eastern Europe.

The award proves that the Bank is constantly redefining itself, applying innovative tools and exceeding the expectations and requirements of customers, and thus is ready to meet the challenges.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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 2018, the activity and financial results of the banking sector remains under influence of tax and regulatory environment, including among others tax on certain financial institutions, high requirements in terms of banks' equity (including the newest accounting standards IFRS 9) and liquidity, contributions to the Bank Guarantee Fund (BFG) and costs of adjustment to a number of regulatory solutions (MIFID II, RODO, PSD II).

In the coming months of 2018, an acceleration of growth of corporate loans can be expected, due to recovery in investment outlays of companies (with first signs of stronger activity visible in last months of 2017 and at the beginning of 2018). Growth of household loans should stabilize at relatively low level due to diminishing portfolio of FX mortgages (no new sales), growing size of repayments of existing loans portfolio, favorable liquidity position of households.

Good situation on labour market (increasing employment and wages) and growing risks of alternative forms of saving (due to global liquidity changes stemming from the monetary policy movements in the US and euro zone) should be supportive for moderate recovery of household deposits' growth pace. The low reference base of 2017 should help maintain current pace of growth in case of corporate deposits.

Monetary policy should remain supportive for credit expansion, constraining growth potential of deposits at the same time. According to recent comments from members of the MPC, no interest rates hikes should be expected in 2018.

In 2018 the banks' results are negatively affected by the level of interest on reserve requirement, which is set by the MPC. Since the beginning of the year, this interest rate has been lowered to 0.50% (from 1.35%).

Right now the Polish Parliament is working on two draft bills related to the portfolio of mortgage loans denominated in foreign currencies. First project provides on returns for some receivables resulting from the loans agreements. It assumes, that in case of FX loans banks will have to return to the clients the difference between acceptable spread (the difference between the rate of buying and selling of the currency set by the law) and the one actually charged. Estimates point out, that if the law is passed the cost for the banking sector may amount to couple of billions of the zloty. Second project proposes special fund to help troubled borrowers. The contribution to the funds would cost banks up to PLN 3.2 billion per year. The entry into force of any of these solutions may have a strong negative impact on the financial performance of banks with 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 2018

6.5 Description of major sources of risk and threats relating to the remaining months of 2018

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, real estate, financial investment, model, macroeconomic, reputation, compliance, excessive leverage and bancassurance 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.

The rules of managing each of the risks are defined by internal procedures and the assumptions of the credit and investment policies and the operational risk strategy and policy accepted annually by the Management Board and approved by the Supervisory Board.

Detailed reports on credit, liquidity, market, 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 2018 to 30 June 2018 and in the document "Information in respect to capital adequacy of Bank Pekao S.A. Group as at 30 June 2018" published on the Bank's website.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Risks related to the remaining months of 2018

In the second half of 2018, 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 2018. 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 2018.

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 in the repricing mismatch embedded in the Bank's balance sheet. Taking into account external conditions and the Bank's exposure to interest rate risk, in the case of decrease of interest rates, deterioration of net interest income of the Bank can follow. However, the risk of materialization of such a scenario is assessed as low. Further stabilization of interest rates is forecasted in the near term. Then, interest rates are expected to increase.

The Bank does not identify any new significant factors implying change of operational risk profile, which could occur in the second half of 2018.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

7 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 30 June, 2018 and 2017 respectively is presented in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2018 to 30 June 2018.

The Report on activities of Bank Pekao S.A. Group for the first half of 2018 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 2018, the total assets of Bank Pekao S.A. constitutes 97.4% of the total assets of the whole Group.

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

ASSETS	30.06.2018		30.06.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	8,014.2	4.4%	6,735.0	3.9%	19.0%
Loans and advances to banks ⁽¹⁾	3,480.7	1.9%	3,288.8	1.9%	5.8%
Customers' financing ⁽²⁾	133,891.5	73.0%	125,749.7	73.7%	6.5%
Reverse repo transactions	-	x	-	x	x
Securities ⁽³⁾	31,660.1	17.3%	29,048.3	17.0%	9.0%
Investments in associates	0.0	0.0%	156.8	0.1%	(100.0%)
Property, plant and equipment and intangible assets	2,857.7	1.6%	1,993.2	1.2%	43.4%
Other assets	3,599.3	2.0%	3,558.3	2.2%	1.2%
Total assets	183,503.5	100.0%	170,530.1	100.0%	7.6%

⁽¹⁾ Including net investments in financial leases to banks.

⁽²⁾ Including net investments in financial leases to customers and non-quoted securities.

⁽³⁾ Including financial assets held for trading, other financial instruments at fair value through profit and loss and excluding non-quoted securities.

EQUITY AND LIABILITIES	30.06.2018		30.06.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	6.0	0.0%	6.0	0.0%	0.0%
Amounts due to other banks	5,458.1	3.0%	4,496.8	2.6%	21.4%
Amounts due to customers	142,284.3	77.5%	134,290.2	78.7%	6.0%
Debt securities issued	3,882.3	2.1%	1,314.5	0.8%	>100%
Subordinated liabilities	1,257.0	0.7%	-	x	x
Repo transactions	648.9	0.4%	311.1	0.2%	>100%
Other liabilities	8,515.4	4.6%	8,402.6	5.0%	1.3%
Total equity, including	21,451.5	11.7%	21,708.9	12.7%	(1.2%)
non-controlling interests	11.0	x	15.1	x	(27.2%)
Total equity and liabilities	183,503.5	100.0%	170,530.1	100.0%	7.6%

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	30.06.2018	30.06.2017	CHANGE
Loans and advances at nominal value⁽¹⁾	139,287.6	130,625.9	6.6%
Loans ⁽²⁾	127,908.1	118,851.0	7.6%
Retail	67,517.9	61,168.8	10.4%
Corporate	60,390.2	57,682.2	4.7%
Non - quoted securities	11,379.5	11,774.9	(3.4%)
Other ⁽³⁾	1,002.6	627.1	59.9%
Nominal value adjustment	x	318.7	x
Impairment allowances	(6,398.7)	(5,822.0)	9.9%
Customers' financing	133,891.5	125,749.7	6.5%
Reverse repo transactions	-	-	x
Gross total customers' financing⁽⁴⁾	139,287.6	130,625.9	6.6%

⁽¹⁾ Excluding reverse repo transactions.

⁽²⁾ Including net investments in financial leases to customers.

⁽³⁾ Including interest and receivables in transit.

⁽⁴⁾ Gross total customers' financing includes loans and advances at nominal value and reverse repo transactions.

As at the end of June 2018, loans and advances at nominal value amounted to PLN 139,287.6 million, an increase of PLN 8,661.7 million, i.e. 6.6% in comparison to the end of June 2017 with significant growth in key strategic areas.

As at the end of June 2018, the volume of retail loans amounted to PLN 67,517.9 million, an increase of PLN 6,349.1 million, i.e. 10.4% in comparison to the end of June 2017.

As at the end of June 2018, corporate loans amounted to PLN 60,390.2 million, an increase of PLN 2,708.0 million, i.e. 4.7% in comparison to the end of June 2017.

As at the end of June 2018, corporate loans and non - quoted securities amounted to PLN 71,769.7 million, an increase of PLN 2,312.6 million, i.e. 3.3% in comparison to the end of June 2017.

Receivables and impairment losses

(in PLN million)

	30.06.2018	30.06.2017	CHANGE
Gross receivables⁽¹⁾	140,290.2	131,571.7	6.6%
Stage 1	110,707.4	-	x
Stage 2	21,594.5	-	x
Stage 3	7,988.3	-	x
Impairment allowances	(6,398.7)	(5,822.0)	9.9%
Stage 1	(392.8)	-	x
Stage 2	(745.8)	-	x
Stage 3	(5,260.1)	-	x
Total net receivables	133,891.5	125,749.7	6.5%

⁽¹⁾ Including net investments in financial leases to customers, non-quoted securities, interest and receivables in transit and excluding reverse repo transactions.

As at the end of June 2018 the ratio of impaired receivables (stage 3) to the gross receivables amounted 5.7%.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Loans and advances to customers by currency^(*)

	30.06.2018		30.06.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	116,814.4	83.3%	108,954.9	82.8%	7.2%
Denominated in foreign currencies ^(**)	23,475.8	16.7%	22,616.8	17.2%	3.8%
Total	140,290.2	100.0%	131,571.7	100.0%	6.6%
Impairment allowances	(6,398.7)	x	(5,822.0)		9.9%
Total net	133,891.5	x	125,749.7		6.5%

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

(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of June 2018, their share was 83.3%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (72.0%), CHF (15.4%) and USD (11.2%).

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

	30.06.2018		30.06.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	16,082.5	11.5%	15,719.8	11.9%	2.3%
1 to 3 months	4,059.5	2.9%	4,059.0	3.1%	0.0%
3 months to 1 year	12,038.8	8.6%	12,909.6	9.8%	(6.7%)
1 to 5 years	45,397.3	32.4%	40,992.0	31.2%	10.7%
Over 5 years	61,709.5	44.0%	57,264.2	43.5%	7.8%
Other	1,002.6	0.7%	627.1	0.5%	59.9%
Total	140,290.2	100.0%	131,571.7	100.0%	6.6%
Impairment allowances	(6,398.7)	x	(5,822.0)	x	9.9%
Total net	133,891.5	x	125,749.7	x	6.5%

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

As at the end of June 2018, loans and advances with maturity over 5 years represents 44.0% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

External sources of financing

(in PLN million)

	30.06.2018	30.06.2017	CHANGE
Amounts due to Central Bank	6.0	6.0	0.0%
Amounts due to other banks	5,458.1	4,496.8	21.4%
Amounts due to customers	142,284.3	134,290.2	6.0%
Debt securities issued	3,882.3	1,314.5	> 100%
Subordinated liabilities	1,257.0	-	x
Repo transactions	648.9	311.1	> 100%
Total external sources of financing	153,536.6	140,418.6	9.3%

Amounts due to customers amounted to PLN 142,284.3 million, an increase by 6.0% 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.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

On October 30, 2017, the Bank issued 10 year subordinated bonds with a total nominal value of PLN 1,250.0 million with the maturity date on October 29, 2027. The funds from the issue were designated – after receiving the approval of the KNF on December 21, 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 and BondSpot.

Total customer savings

(in PLN million)

	30.06.2018	30.06.2017	CHANGE
Corporate deposits	63,249.7	61,033.8	3.6%
Non-financial entities	45,243.5	43,292.0	4.5%
Non-banking financial entities	7,007.5	7,594.7	(7.7%)
Budget entities	10,998.7	10,147.1	8.4%
Retail deposits	78,487.3	72,810.4	7.8%
Other ^(*)	547.3	446.0	22.7%
Amounts due to customers^(**)	142,284.3	134,290.2	6.0%
Debt securities issued, of which	5,139.3	1,314.5	> 100%
Structured Certificates of Deposit (SCD)	422.8	86.1	> 100%
Certificates of Deposit	980.1	-	x
Subordinated bonds	1,250.0	-	x
Pekao Bank Hipoteczny S.A. covered bonds	1,177.1	1,221.3	(3.6%)
Pekao Leasing Sp. z o.o. bonds	1,279.0	-	x
Interest	30.3	7.1	> 100%
Amounts due to customers and debt securities issued, total^(**)	147,423.6	135,604.7	8.7%
Repo transactions	648.9	311.1	> 100%
Investment funds of Pekao TFI S.A. (ex. Pioneer Pekao TFI)	19,205.0	17,422.7	10.2%
Bond and money market funds	14,615.7	12,420.9	17.7%
Balanced funds	2,497.3	2,589.8	(3.6%)
Equity funds	2,091.9	2,412.0	(13.3%)
including distributed through the Group's network	18,914.1	17,087.9	10.7%

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

(**) Excluding repo transactions.

As at the end of June 2018, amounts due to the Group's customers and debt securities issued amounted to PLN 147,423.6 million, an increase of PLN 11,818.9 million, i.e. 8.7% in comparison to the end of June 2017.

Retail deposits amounted to PLN 78,487.3 million as at the end of June 2018, an increase of PLN 5,676.9 million, i.e. 7.8% in comparison to the end of June 2017.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 79,416.3 million as at the end of June 2018, an increase of PLN 6,113.4 million, i.e. 8.3% in comparison to the end of June 2017.

Corporate deposits amounted to PLN 63,249.7 million as at the end of June 2018, an increase of PLN 2,215.9 million, i.e. 3.6% as compared to the end of June 2017.

The total volume of corporate deposits, Certificates of Deposit, subordinated bonds, Pekao Bank Hipoteczny S.A. covered bonds, Pekao Leasing Sp. z o.o. bonds, interest and other amounted to PLN 68,007.3 million as at the end of June 2018, an increase of PLN 5,705.5 million, i.e. 9.2% as compared to the end of June 2017.

Repo transactions amounted to PLN 648.9 million as at the end of June 2018, an increase by PLN 337.8 million, i.e. more than 100% in comparison to the end of June 2017.

The value of net assets of investment funds managed by Pekao TFI S.A. (ex. Pioneer Pekao TFI S.A.) amounted to PLN 19,205.0 million as at the end of June 2018, an increase of PLN 1,782.3 million, i.e. 10.2% in comparison to the end of June 2017.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Amounts due to customers by currency^(*)

	30.06.2018		30.06.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	116,317.3	81.7%	108,941.8	81.1%	6.8%
Denominated in foreign currencies	25,967.0	18.3%	25,348.4	18.9%	2.4%
Total	142,284.3	100.0%	134,290.2	100.0%	6.0%

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

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of June 2018 amounted to 81.7%. The majority of amounts due to customers denominated in foreign currencies were in EUR (61.1%) and USD (31.8%).

Amounts due to customers by contractual maturities^(*)

	30.06.2018		30.06.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	86,866.7	61.3%	78,534.3	58.7%	10.6%
Term deposits	54,870.3	38.7%	55,309.9	41.3%	(0.8%)
Total deposits	141,737.0	100.0%	133,844.2	100.0%	5.9%
Interest accrued	180.7	x	164.5		9.8%
Funds in transit	366.6	x	281.5		30.2%
Total	142,284.3	x	134,290.2		6.0%

^(*) Excluding repo transactions.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

7.2 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2018 amounted to PLN 932.1 million and was higher by PLN 47.3 million, i.e. 5.3% than net profit reported for the first half of 2017. For comparability purpose of achieved results income statement data for the first half of 2017 was presented in this chapter as pro-forma, i.e. includes full consolidation of results of Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) and Dom Inwestycyjny Xelion Sp. z o.o. acquired on December 11, 2017.

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2018 was higher by PLN 25.8 million, i.e. 2.9% than pro-forma net profit for the first half of 2017.

Thanks to the effective commercial activity of the Group in the first half of 2018, a significant growth in loan volumes in the area of retail loans (an increase of 10.4% year on year) as well as in the area of corporate loans (an increase of 4.7% year on year) was reported. Such increase in lending was financed by higher retail deposits growing by 7.8% year on year and corporate deposits growing by 3.6% year on year as well as by higher Certificates of Deposit.

Total capital ratio (TCR) amounted to 17.4% as at the end of June 2018 and was lower (0.6 p.p.) compared to the end of June 2017.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 90.8% as at the end of June 2018. This, together with high level of capital, enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

	1 HALF OF 2018	PRO-FORMA 1 HALF OF 2017	1 HALF OF 2017	(in PLN million) CHANGE VS. PRO-FORMA
Net interest income	2,441.2	2,253.1	2,251.2	8.4%
Dividend income and income from equity investments	19.8	19.4	40.0	0.0%
Total net interest income, dividend income and other income from equity investments	2,461.0	2,272.5	2,291.2	8.3%
Net fee and commission income	1,205.3	1,237.6	1,155.8	(2.6%)
Trading result	88.6	17.7	17.8	>100%
Net other operating income and expenses	25.9	47.0	46.7	(44.9%)
Net non-interest income	1,319.8	1,302.3	1,220.3	1.3%
Operating income	3,780.8	3,574.8	3,511.5	5.8%
Operating costs	(1,753.4)	(1,625.6)	(1,594.0)	7.9%
Gross operating profit	2,027.4	1,949.2	1,917.5	4.0%
Net impairment losses on financial assets and off-balance sheet commitments	(250.9)	(230.0)	(230.0)	9.1%
Net operating profit	1,776.5	1,719.2	1,687.5	3.3%
Net result on other provisions	(14.1)	(14.0)	(14.0)	0.7%
Guarantee funds charges	(204.3)	(223.7)	(223.7)	(8.7%)
Tax on certain financial institutions	(276.9)	(252.7)	(252.7)	9.6%
Net result on investment activities	(3.9)	0.1	0.1	x
Profit before tax	1,277.3	1,228.9	1,197.2	3.9%
Income tax expense	(345.0)	(322.4)	(312.2)	7.0%
Net profit	932.3	906.5	885.0	2.8%
Attributable to equity holders of the Bank	932.1	906.3	884.8	2.9%
Attributable to non-controlling interest	0.2	(0.2)	0.2	x

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Operating income

In the first half of 2018, the Group's operating income amounted to PLN 3,780.8 million and was higher by 5.8% year on year than pro-forma operating income in the first half of 2017.

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

(in PLN million)

	1 HALF OF 2018	PRO-FORMA 1 HALF OF 2017	1 HALF OF 2017	CHANGE VS. PRO-FORMA
Interest income	2,994.5	2,769.4	2,767.5	8.1%
Interest expense	(553.3)	(516.3)	(516.3)	7.2%
Net interest income	2,441.2	2,253.1	2,251.2	8.4%
Dividend income	19.8	19.4	19.4	2.0%
Income from equity investments	-	-	20.6	x
Total net interest income, dividend income and income from equity investments	2,461.0	2,272.5	2,291.2	8.3%

Total net interest income, dividend income and income from equity investments in the first half of 2018, amounted to PLN 2,461.0 million and was higher by PLN 188.5 million, i.e. 8.3% compared to pro-forma total net interest income, dividend income and income from equity investments achieved in the first half of 2017, mainly driven by higher volumes of loans and deposits as well as higher margin.

Net non-interest income

(in PLN million)

	1 HALF OF 2018	PRO-FORMA 1 HALF OF 2017	1 HALF OF 2017	CHANGE VS. PRO-FORMA
Fee and commission income	1,382.5	1,402.5	1,301.1	(1.4%)
Fee and commission expense	(177.2)	(164.9)	(145.3)	7.5%
Net fee and commission income	1,205.3	1,237.6	1,155.8	(2.6%)
Trading result	88.6	17.7	17.8	>100%
of which gains on disposal of AFS assets	50.9	5.9	5.9	>100%
Net other operating income and expense	25.9	47.0	46.7	(44.9%)
Net non-interest income	1,319.8	1,302.3	1,220.3	1.3%

Net non-interest income in the first half of 2018, amounted to PLN 1,319.8 million and was higher by PLN 17.5 million, i.e. 1.3% compared to pro-forma net non-interest income in the first half of 2017, with net fee and commission income (including fees on margins on foreign exchange transactions with clients) lower by 2.6% compared to the first half of 2017 mainly due to lower net fee and commission income on loans and cards.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

The Group's net fee and commission income in the first half of 2018, amounted to PLN 1,205.3 million and was lower by PLN 32.3 million, i.e. 2.6% in comparison with pro-forma net fee and commission income for the first half of 2017, mainly due to lower fees on loans (partially due to presentation shift) and higher commission expenses on cards, partially compensated by higher income on margins on foreign exchange transactions with clients and mutual funds

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 2018	PRO-FORMA 1 HALF OF 2017	1 HALF OF 2017	CHANGE VS. PRO-FORMA
Net fee and commission income	1,205.3	1,237.6	1,155.8	(2.6%)
on loans	215.4	243.5	243.5	(11.5%)
on cards	159.3	176.7	176.7	(9.8%)
on margins on foreign exchange transactions with clients	224.2	216.0	216.0	3.8%
on mutual funds	221.3	214.0	132.3	3.4%
other	385.1	387.4	387.3	(0.6%)

Operating costs

The operating costs amounted to PLN 1,753.4 million in the first half of 2018. They were higher by PLN 127.8 million, i.e. 7.9% as compared with pro-forma operating costs in the first half of 2017, mainly due to higher personnel costs (mainly due to costs in the amount ca. of PLN 50 million, related to the Program Dobrowolnych Odejść – PDO addressed to Bank's employees obtaining pension right in 2018) and other administrative expenses (including mainly marketing related expenses). Operating costs excluding PDO expenses was higher by PLN 78.0 million, i.e. 4.8% as compared with pro-forma operating costs in the first half of 2017.

(in PLN million)

	1 HALF OF 2018	PRO-FORMA 1 HALF OF 2017	1 HALF OF 2017	CHANGE VS. PRO-FORMA
Personnel expenses	(1,055.2)	(969.5)	(952.3)	8.8%
Other administrative expenses	(520.5)	(485.4)	(472.1)	7.2%
Depreciation and amortization	(177.7)	(170.7)	(169.6)	4.1%
Operating costs	(1,753.4)	(1,625.6)	(1,594.0)	7.9%

In the first half of 2018, cost / income ratio amounted to 46.4% in comparison with pro-forma cost / income ratio of 45.5% in the first half of 2017.

As of June 30, 2018, the Group employed 17,307 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 17,509 employees as at the end of June 2017.

As of June 30, 2018, the Bank employed 15,182 employees as compared to 15,663 employees as at the end of June 2017.

Guarantee funds charges

Guarantee funds charges in the first half of 2018, amounted to PLN 204.3 million, a decrease of PLN 19.4 million, i.e. 8.7% in comparison with the first half of 2017, due to lower annual contribution to the resolution fund of banks.

Tax on certain financial institutions

On February 1, 2016, tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In the first half of 2018, it amounted to PLN 276.9 million and was higher by PLN 24.2 million, i.e. 9.6% in comparison with the first half of 2017.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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 2018	1 HALF OF 2017	CHANGE
Net profit of Bank Pekao S.A.	1,083.9	980.2	10.6%
Entities consolidated under full method			
Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) ⁽¹⁾	41.0	x	x
Pekao Leasing Sp. z o.o.	18.6	17.2	8.1%
Centralny Dom Maklerski Pekao S.A.	14.6	17.4	(16.1%)
Pekao Investment Banking S.A.	6.1	2.1	> 100%
Pekao Faktoring Sp. z o.o.	5.9	5.4	9.3%
Centrum Bankowości Bezpośredniej Sp. z o.o.	2.7	1.7	58.8%
Dom Inwestycyjny Xelion sp. z o.o. ⁽¹⁾	2.5	x	x
Pekao Financial Services Sp. z o.o. ^(**)	2.5	3.0	(16.7%)
Pekao Powszechne Towarzystwo Emerytalne S.A. in liquidation (ex. Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.) ^(***)	2.4	0.6	> 100%
Pekao Bank Hipoteczny S.A.	0.8	2.6	(69.2%)
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji	0.2	0.2	0.0%
Pekao Property S.A.	0.1	0.2	(50.0%)
Centrum Kart S.A.	(0.4)	0.3	x
FPB "Media" Sp. z o.o. ^(****)	(15.2)	0.3	x
Entities valued under the equity method			
Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) ⁽¹⁾	x	19.1	x
Dom Inwestycyjny Xelion sp. z o.o. ⁽¹⁾	x	1.4	x
Exclusions and consolidation adjustments^(****)	(233.6)	(166.9)	40.0%
Net profit of the Group attributable to equity holders of the Bank	932.1	884.8	5.3%

⁽¹⁾ On December 11, 2017, the Bank and UniCredit S.p.A. (legal successor of Pioneer Global Asset Management S.p.A.) executed the final sale agreement regarding 14,746 shares in Pioneer Pekao Investment Management S.A. (PPIM) with registered office in Warsaw, constituting 51% stake in share capital and in the overall number of votes in the General Meeting of PPIM. In consequence, the Bank has become a stockholder holding 100% of PPIM shares. PPIM owns a 100% stake in Pioneer Pekao Investment Funds S.A. with registered office in Warsaw. In addition, on December 11, 2017, the Bank acquired 60,050 shares of Dom Inwestycyjny Xelion Sp. z o.o., constituting 50% of voting rights at the General Shareholder Meeting and 50% share in share capital. In consequence, the Bank is the only shareholder with 100% voting rights at the General Shareholders Meeting of Xelion and 100% in equity. Net profit of aforementioned Companies for the first half of 2017 was recognized under the equity method and net profit for the first half of 2018 under full method.

^(**) On June 4, 2018, the District Court registered the increase of share capital of Pekao Financial Services Sp. z o.o. related to the transaction of the takeover by the Company, pursuant to art. 529 § 1 point 4 of the Code of Commercial Companies (division by separation) of an organized part of the enterprise separated from PZU Centrum Operacji S.A. As a result, a new shareholder of the Company, PZU SA, was disclosed in the National Court Register, which took up shares in the increased share capital in the amount of 4,534 with the total value of PLN 2,267,000. At present, the share capital of the Company amounted to PLN 6,767,000. Bank Pekao S.A. holds 66.50% of votes and capital of the Company, while PZU S.A. holds 33.50%.

^(***) On October 17, 2017, after receiving regulatory consent, the Bank acquired 7,266 ordinary, registered stocks of Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. with the nominal value PLN 1,000 per stock representing 35% of voting rights at the General Stockholder Meeting of PTE and 35% share in equity. Following the transaction, the Bank is the only stockholder of PTE with 100% in equity and voting rights at the General Stockholders Meeting of PTE. On April 24, 2018, the Polish Financial Supervision Authority issued a consent for PTE PZU S.A. to take over the management of Pekao Otwarty Fundusz Emerytalny (Pekao OFE) and Dobrowolny Fundusz Emerytalny Pekao (DFE Pekao), previously managed by Pekao PTE S.A. As a result of this decision, from May 19, 2018, PTE PZU S.A. has taken over the management of Pekao OFE and DFE Pekao funds. The transaction was classified as an intra-group transaction and the result of this transaction was recognized in the Group's equity.

On June 1, 2018, the Extraordinary General Meeting of Pekao PTE S.A. adopted a resolution to dissolve the Company and to open its liquidation as of that date. Currently, the Company operates under the name Pekao PTE S.A. in liquidation.

^(****) The result of FPB "Media" Sp. z o.o. takes into account the effect of dismissing the Company's complaint against the Court's decision regarding the ownership of the property.

^(*****) Includes, among others, transactions within the Group (including dividends from subsidiaries for the previous years), gain related to acquisition of shares of Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) and Dom Inwestycyjny Xelion Spółka z o.o. and net profit attributable to non-controlling interest.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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 2018	1 HALF OF 2017	CHANGE
Net interest income	2,380.1	2,197.6	8.3%
Dividend income	255.1	187.8	35.8%
Total net interest income and dividend income	2,635.2	2,385.4	10.5%
Net non-interest income	1,098.7	1,083.7	1.4%
Operating income	3,733.9	3,469.1	7.6%
Operating costs	(1,595.0)	(1,478.8)	7.9%
Gross operating profit	2,138.9	1,990.3	7.5%
Net impairment losses on financial assets and off-balance sheet commitments	(229.6)	(226.1)	1.5%
Net operating profit	1,909.3	1,764.2	8.2%
Net result on other provisions	(14.4)	(11.7)	23.1%
Guarantee funds charges	(203.9)	(221.2)	(7.8%)
Tax on certain financial institutions	(276.9)	(252.7)	9.6%
Net result on investment activities	(5.6)	0.1	>100%
Profit before tax	1,408.5	1,278.7	10.2%
Net profit	1,083.9	980.2	10.6%

Net profit of the Bank for the first half of 2018 amounted to PLN 1,083.9 million and was higher by PLN 103.7 million, i.e. 10.6% than net profit achieved in the first half of 2017.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

The main Bank's financial information are as follows:

	30.06.2018	30.06.2017	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	134,248.8	127,180.5	5.6%
Amounts due to customers	142,804.3	134,562.2	6.1%
Structured Certificates of Deposit	422.8	86.1	> 100%
Certificates of Deposit	980.1	-	x
Subordinated bonds	1,250.0	x	x
Repo transactions	648.9	311.1	> 100%
Total assets	178,781.5	167,543.6	6.7%
Investment funds distributed through the Bank's network	18,072.2	16,175.8	11.7%
Total capital ratio in %	18.4%	18.5%	(0.1 p.p.)

(*) Including loans and non-quoted securities.

As at the end of June 2018, loans and advances at nominal value amounted to PLN 134,248.8 million, an increase of PLN 7,068.3 million, i.e. 5.6% in comparison to the end of June 2017. As at the end of June 2018, the volume of retail loans amounted to PLN 66,591.2 million and the volume of corporate loans amounted to PLN 56,278.1 million.

As at the end of June 2018, the amounts due to customers, Structured Certificates of Deposit, Certificates of Deposit and subordinated bonds amounted to PLN 145,457.2 million, an increase of PLN 10,808.9 million, i.e. 8.0% in comparison to the end of June 2017.

On October 30, 2017, the Bank issued 10- year subordinated bonds with a total nominal value of PLN 1,250.0 million with the maturity date on October 29, 2027. The funds from the issue were designated – after receiving the approval of the KNF on December 21, 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 and BondSpot.

The value of net assets of investment funds managed by Pekao TFI S.A. (ex. Pioneer Pekao TFI S.A.) distributed through the Bank's network amounted to PLN 18,072.2 million as at the end of June 2018, an increase of PLN 1,896.4 million, i.e. 11.7% in comparison to the end of June 2017.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Results of the Bank's major related entities

Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) – Pekao IM

In the first half of 2018, consolidated net profit of Pekao IM amounted to **PLN 41.0 million** compared with PLN 39.0 million in the first half of 2017 influenced by favorable situation on investment funds market resulting in an increase of net assets of investment funds managed by Pekao TFI SA by more than 10% compared to the end of June 2017.

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

In the first half of 2018, Pekao Leasing reported a net profit of **PLN 18.6 million** compared with PLN 17.2 million in the first half of 2017. In the first half of 2018, Pekao Leasing signed over 5.9 thousand new agreements, i.e. 8.6% increase year on year, while the value of leased assets was higher by 10.3% year on year and amounted to PLN 1,216.0 million.

Centralny Dom Maklerski Pekao S.A. – CDM

In the first half of 2018, net profit of CDM amounted to **PLN 14.6 million** compared with PLN 17.4 million profit earned in the first half of 2017, influenced by lower turnover on the WSE, caused by less favourable situation on capital markets.

Pekao Investment Banking S.A. – PIB

In the first half of 2018, PIB reported net profit of **PLN 6.1 million** compared with PLN 2.1 million in the first half of 2017. The good result of the first half 2018 is an effect of the realization of large transactions in this period.

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

In the first half of 2018, Pekao Faktoring reported a net profit of **PLN 5.9 million** compared with PLN 5.4 million in the first half of 2017 influenced by an increasing factoring commitment (increase by 14.5% year on year) and favourable situation on factoring market.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

7.4 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Total provisions	659.7	574.6	655.6	571.4
of which:				
provisions for off-balance sheet commitments	263.6	213.1	273.2	217.8
provisions for liabilities to employees	346.3	326.8	336.3	322.9
other provisions	49.8	34.7	46.1	30.7
Deferred tax liabilities	33.2	4.5	-	-
Deferred tax assets	1,138.9	920.5	884.3	696.0

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

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	1 HALF OF 2018	1 HALF OF 2017	1 HALF OF 2018	1 HALF OF 2017
financial assets measured at amortized cost	(260.2)	(236.7)	(243.3)	(233.5)
financial assets measured at fair value through other comprehensive income	(1.0)	-	4.3	-
financial liabilities measured at amortized cost	10.3	6.7	9.4	7.4
Net impairment losses on financial assets and off-balance sheet commitments	(250.9)	(230.0)	(229.6)	(226.1)

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 250.9 million in the first half of 2018, an increase of PLN 20.9 million, i.e. 9.1% as compared with the first half of 2017.

The Bank's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 229.6 million in the first half of 2018, an increase of PLN 3.5 million i.e. 1.6% as compared with the first half of 2017.

7.6 Off-balance sheet items

(in PLN million)

	30.06.2018	30.06.2017	CHANGE
Contingent liabilities granted and received	65,555.5	56,346.8	16.3%
Liabilities granted:	47,161.6	43,058.2	9.5%
financial	34,218.3	32,010.8	6.9%
guarantees	12,943.3	11,047.4	17.2%
Liabilities received:	18,393.9	13,288.6	38.4%
financial	1,281.1	977.1	31.1%
guarantees	17,112.8	12,311.5	39.0%
Derivative financial instruments	207,563.8	200,439.8	3.6%
interest rate transactions	110,585.6	87,272.9	26.7%
transactions in foreign currency and in gold	94,623.9	112,299.7	(15.7%)
transactions based on commodities and equity securities	2,354.3	867.2	> 100%
Total off-balance sheet items	273,119.3	256,786.6	6.4%

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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 1.875%,
- Countercyclical capital buffer,
- Other systemically important institution buffer in amount of 0.5%,
- Systemic risk buffer in amount of 3%.

In total, Group is required to maintain:

- Total capital ratio (TCR) in amount of 13.39%,
- Capital ratio Tier I (T1) in amount of 11.38%,
- Common Equity Tier (CET 1) in amount of 9.88%.

As of June 31, 2018 for Group, total capital ratio amounted to 17.4% and Tier I ratio amounted to 16.3%. The capital ratios were significantly above the minimum required by the law.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

The table below presents the basic information concerning the Group capital adequacy as of June 30, 2018, December 31, 2017 and June 30, 2017 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	30.06.2018	31.12.2017	30.06.2017
Credit risk	8,995,214	8,833,498	8,320,561
Exceeding the exposure concentration limit and large exposures limit		-	-
Market risk	35,895	48,154	40,336
Counterparty credit risk including CVA	136,476	139,865	149,649
Operational risk	564,145	560,851	489,678
Total capital requirement	9,731,730	9,582,368	9,000,224
OWN FUNDS			
Common Equity Tier I Capital	19,870,605	19,252,010	20,196,937
Tier II Capital	1,250,000	1,250,000	-
Own funds for total capital ratio	21,120,605	20,502,010	20,196,937
Common Equity Tier I Capital ratio (%)	16.3%	16.1%	18.0%
Total capital ratio TCR (%)	17.4%	17.1%	18.0%

Total Capital Ratio of the Group as at the end of June 2018 was lower by 0.6 p.p. compared to the end of June 2017 mainly due to higher capital requirement, partially compensated by higher own funds.

Increase in own funds for total capital ratio calculation resulted from including in Tier II capital the amount of PLN 1.25 billion from the issue of subordinated bonds.

Total capital requirement increased by 8.1%, mainly due to higher credit risk capital requirement resulting from, among others, increase in loan volumes and the KNF recommendation on application of credit conversion factor (CCF) 0%.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

7.8 Reconciliation of income statement – presentation form and long form

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	COMMENTS
Net interest income		<u>2,441,227</u>	
Dividend income		<u>19,780</u>	
	Dividend income	19,780	
Total net interest income and dividend income		2,461,007	
Net fee and commission income	Net fee and commission income	<u>1,205,327</u>	
Trading result		<u>88,568</u>	
	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 derecognition of debt securities not measured at fair value through profit or loss	50,948	
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(43)	
Net other operating income and expenses		<u>25,892</u>	
	Net other operating income and expenses	25,720	
	Gains (losses) on derecognition of loans and other financial receivables not measured at fair value through profit or loss	172	
Net non-interest income		1,319,787	
Operating income		3,780,794	
Operating costs		<u>(1,753,376)</u>	
	Personnel expenses	(1,055,173)	
	Other administrative expenses	(1,001,720)	
	less – Guarantee funds charges	204,296	
	less – Tax on certain financial institutions	276,894	
	Depreciation and amortization	(177,673)	
Gross operating profit		2,027,418	
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	<u>(250,893)</u>	
Net operating profit		1,776,525	
Net result on other provisions	Net result on other provisions	<u>(14,067)</u>	
Guarantee funds charges	Guarantee funds charges	<u>(204,296)</u>	
Tax on certain financial institutions	Tax on certain financial institutions	<u>(276,894)</u>	
Net result on investment activities		<u>(3,940)</u>	
	(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	<u>(345,026)</u>	
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 2018

Consolidated income statement for the first half of 2017

(in PLN thousand)

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

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

8 Quarterly Income Statement

8.1 Consolidated income statement – long form

Consolidated income statement for 2018 and 2017

(in PLN thousand)

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Interest income	1,515,910	1,478,564	1,459,134	1,414,047	1,392,566	1,374,967
Interest expense	(280,373)	(272,874)	(268,968)	(261,926)	(256,384)	(259,940)
Net interest income	1,235,537	1,205,690	1,190,166	1,152,121	1,136,182	1,115,027
Fee and commission income	707,067	675,428	703,574	658,913	659,104	641,974
Fee and commission expense	(89,794)	(87,374)	(86,381)	(78,829)	(76,818)	(68,492)
Net fee and commission income	617,273	588,054	617,193	580,084	582,286	573,482
Dividend income	19,623	157	131	223	19,269	149
Result on financial assets and liabilities measured at fair value through profit or loss	16,539	19,125	22,873	11,246	858	8,015
Result on fair value hedge accounting	662	1,337	650	919	1,334	1,713
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	27,245	23,832	x	x	x	x
Gains (losses) on disposal of financial assets and liabilities	x	x	159,337	21,882	5,118	824
Operating income	1,916,879	1,838,195	1,990,350	1,766,475	1,745,047	1,699,210
Net impairment losses on financial assets and off-balance sheet commitments	(123,932)	(126,961)	(152,797)	(138,579)	(114,848)	(115,126)
Net result on financial activity	1,792,947	1,711,234	1,837,553	1,627,896	1,630,199	1,584,084
Administrative expenses	(980,579)	(1,076,314)	(922,856)	(884,976)	(865,632)	(1,036,360)
personnel expenses	(554,827)	(500,346)	(504,800)	(493,184)	(482,349)	(469,969)
other administrative expenses ⁽¹⁾	(425,752)	(575,968)	(418,056)	(391,792)	(383,283)	(566,391)
Depreciation and amortization	(89,893)	(87,780)	(93,701)	(84,070)	(85,225)	(84,342)
Net result on other provisions	(13,768)	(299)	(14,053)	(7,968)	(8,467)	(5,535)
Net other operating income and expenses	12,095	13,625	24,926	39,630	12,153	35,739
Operating costs	(1,072,145)	(1,150,768)	(1,005,684)	(937,384)	(947,171)	(1,090,498)
Gains (losses) on subsidiaries and associates	-	-	421,755	11,105	10,444	10,110
Gains (losses) on disposal of property, plant and equipment, and intangible assets	(6,863)	2,923	181	375	(59)	125
Profit before income tax	713,939	563,389	1,253,805	701,992	693,413	503,821
Income tax expense	(173,962)	(171,064)	(199,674)	(165,406)	(158,214)	(154,029)
Net profit for the period	539,977	392,325	1,054,131	536,586	535,199	349,792
Attributable to equity holders of the Bank	539,815	392,325	1,054,131	536,220	535,069	349,709
Attributable to non-controlling interest	162	-	-	366	130	83

⁽¹⁾ Other administrative expenses includes tax on certain financial institutions and guarantee funds charges.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

8.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2018 and 2017

(in PLN thousand)

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net profit for the period	539,977	392,325	1,054,131	536,586	535,199	349,792
attributable to equity holders of the Bank	539,815	392,325	1,054,131	536,220	535,069	349,709
attributable to non-controlling interest	162	-	-	366	130	83
Other comprehensive income						
<i>Items that are or may be reclassified subsequently to profit or loss:</i>						
Change in fair value of financial assets measured at fair value through other comprehensive income	(51,033)	109,292	x	x	x	x
Change in fair value of available-for-sale financial assets	x	x	(39,359)	2,986	94,566	172,399
Change in fair value of cash flow hedges	(3,531)	(17,323)	(26,332)	25,287	(27,607)	(4,491)
Tax on items that are or may be reclassified subsequently to profit or loss	10,367	(17,474)	12,482	(5,373)	(12,721)	(31,903)
<i>Items that will never be reclassified to profit or loss:</i>						
Investment in equity instruments designated at fair value through other comprehensive income	(13,940)	(5,431)	x	x	x	x
Remeasurement of the defined benefit liabilities	-	-	8,557	-	-	-
Share in remeasurements of the defined benefit liabilities of associates	-	-	-	-	-	-
Tax on items that will never be reclassified to profit or loss	2,649	1,032	(1,625)	-	-	-
Other comprehensive income (net of tax)	(55,488)	70,096	(46,277)	22,900	54,238	136,005
Total comprehensive income	484,489	462,421	1,007,854	559,486	589,437	485,797
attributable to equity holders of the Bank	484,327	462,421	1,007,854	559,120	589,307	485,714
attributable to non-controlling interest	162	-	-	366	130	83

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

8.3 Consolidated income statement – presentation form

Consolidated income statement for 2018 and 2017

(in PLN thousand)

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	1,235,537	1,205,690	1,190,166	1,152,121	1,136,182	1,115,027
Dividend income and income from equity investments	19,623	157	7,909	11,328	29,713	10,259
Total net interest income, dividend income and other income from equity investments	1,255,160	1,205,847	1,198,075	1,163,449	1,165,895	1,125,286
Net fee and commission income	617,273	588,054	617,193	580,084	582,286	573,482
Trading result	44,274	44,294	39,085	31,934	7,283	10,486
Net other operating income and expenses	12,267	13,625	168,043	41,106	11,609	35,125
Net non-interest income	673,814	645,973	824,321	653,124	601,178	619,093
Operating income	1,928,974	1,851,820	2,022,396	1,816,573	1,767,073	1,744,379
Operating costs	(901,896)	(851,480)	(854,489)	(814,899)	(800,246)	(793,716)
Gross operating profit	1,027,078	1,000,340	1,167,907	1,001,674	966,827	950,663
Net impairment losses on financial assets and off-balance sheet commitments	(123,932)	(126,961)	(152,797)	(138,480)	(114,848)	(115,126)
Net operating profit	903,146	873,379	1,015,110	863,194	851,979	835,537
Net result on other provisions	(13,768)	(299)	(14,053)	(7,968)	(8,467)	(5,535)
Guarantee funds charges	(29,983)	(174,313)	(22,609)	(22,715)	(22,509)	(201,152)
Tax on certain financial institutions	(138,593)	(138,301)	(138,801)	(130,795)	(127,531)	(125,154)
Net result on investment activities	(6,863)	2,923	414,158	276	(59)	125
Profit before income tax	713,939	563,389	1,253,805	701,992	693,413	503,821
Income tax expense	(173,962)	(171,064)	(199,674)	(165,406)	(158,214)	(154,029)
Net profit	539,977	392,325	1,054,131	536,586	535,199	349,792
Attributable to equity holders of the Bank	539,815	392,325	1,054,131	536,220	535,069	349,709
Attributable to non-controlling interest	162	-	-	366	130	83

Note: The fourth quarter of 2017 net profit includes gain on measurement to fair value of previously held shares, related to the acquisition of remaining shares in Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) and Dom Inwestycyjny Xelion Spółka z o.o. in the amount of PLN 414 million.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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 2018, 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,
- education of middle and top managers,
- realization of mandatory training required under internal and external regulations.

Reinforcement of product and sales knowledge of the Bank's personnel

The Bank realized training projects supporting personnel in proper distribution of banking products, including bancassurance products. In the cooperation with PZU, Bank Pekao S.A. carried out around 3 thousands of licensing examinations in scope of selling insurance products.

The Bank created and implemented training program in scope of new Bank's product Konto Przekorzystne. Trainings were conducted as eLearning training and local trainings in branches.

The Bank also implemented training in scope of standards of contacts with retail clients. In the cooperation with Pekao TFI there were conducted series of videolearnings about current stock market situation. The Bank also conducted eLearning training in scope of new Bank's products.

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 2018, the Bank delivered in form of class room over 123 thousands of training hours (class room and virtual sessions), in which attended over 10 thousands of employees confirming the Bank's determination in efficient implementation of required regulations and customer care.

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 regulations, i.e. General Data Protection Regulation.

Development programs and initiatives

In the first half of 2018, 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.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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

- Managers development process, in the first half of 2018, nearly 130 persons took part in this process,
- Annual process of the professional development, potential and performance assessment, used to manage and develop talents in the Bank, which was attended by 40 persons, identified as part of the recruitment process, addressed to all employees of the Bank,
- Succession Plans, which are the key outcomes of the above mentioned processes and have fundamental importance in ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk,
- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In the first half of 2018, 12,939 employees took part in the process.

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

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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 and the Bank's results in a given year.

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.

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 2017, the Supervisory Board of the Bank assessed the suitability of the candidates for function of Member of the Supervisory and the Management Board including an assessment of their qualifications, reputation, and additional criteria for management according to the mentioned policy.

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 2018, 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 co-operation between the Bank and the trade unions in the fields of consultation, negotiation, and agreements was carried out according to the rules and procedures defined by the Labour Law and with respect to the interest of the parties and the principles of social dialogue. In first half of 2018, 8 meetings were held with attendance of the Bank and the Unions.

Relations with the Works Council

A Works Council of Bank Pekao S.A. Employees operates in the Bank. The Council is a representative of the employees, authorized to get information and carry out consultation with the employees on matters defined by the Worker Information and Consultation Act of April 7, 2006. The discussions with the Employee Council in first half of 2018, 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 are published on the Intranet available to the all Bank's employees.

Workforce in number

As at the end of June 2018, the Group employed 17,307 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 17,339 employees as at the end of 2017.

As at the end of June 2018, the Bank employed 15,182 employees as compared to 15,316 employees as at the end of 2017. The average age of the employees was 46.8 years, 68.2% of the employees are university graduates (66.7% in 2017), women represent 77.9% of the total workforce.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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 2018.

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 2018 and as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the first quarter 2018, 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 first half of 2018, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In the first half of 2018, 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 43 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2018 to 30 June 2018.

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 2018 to 30 June 2018.

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 422.8 million (principal value) as at the end of June 2018. There is 7 issuances of Structured Certificates of Deposit open in PLN with the maximum maturity date on February 21, 2020. The liabilities with the maturity date in 2018, 2019 and 2020 accounts for 39.0%, 40.3% and 20.7% of its total value respectively.

Certificates of Deposit

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 980.1 million (principal value) as at the end of June 2018. There are 5 issuances of Certificates of Deposit. The liabilities with the maturity date up to 6 months and up to 1 year account for 89.8% and 10.2% of its total value respectively.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Subordinated bonds

On October 30, 2017, the Bank issued 10 year subordinated bonds with a total nominal value of PLN 1,250.0 million with the maturity date on October 29, 2027. The funds from the issue were designated – after receiving the approval of the KNF on December 21, 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 and BondSpot.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of the company's liabilities due to covered bonds amounted to PLN 1,177.1 million (principal value) as at the end of June, 2018. The liabilities under covered bonds with maturity date up to 1 year account for 19.7%, with maturity date from 1 up to 3 years account for 35.0%, with maturity date from 3 up to 5 years account for 36.9% and with maturity date from 5 up to 10 years account for 8.4% of the total nominal value.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 1,354.0 million (principal value) as of June 30, 2018. The liabilities with the maturity date up to 1 months, up to 3 months, up to 6 months, up to 1 year, and up to 3 years accounts for 12.9% , 26.5% , 40.3%, 5.5% and 14.8% of its total value respectively.

10.7 Appropriation of profit achieved in 2017

Bank Pekao S.A. informed in the current report No. 11/2018, that on June 21, 2018, the Ordinary General Meeting of the Bank made the resolution on the distribution of net profit of Bank Pekao S.A. for the year 2017. According to the resolution the net profit of Bank Pekao S.A. for 2017 in the amount of PLN 2,088,128,692.79 divided in such way that:

- 99.30% of net profit of the Bank, i.e. the amount PLN 2,073,513,268.60 allocated to dividend,
- the amount PLN 14,615,424.19 allocated to reserve capital.

10.8 Information on dividend

Bank Pekao S.A. informed in the current report No. 11/2018, that on June 21, 2018, the Ordinary General Meeting of the Bank made the resolution on the distribution of net profit of Bank Pekao S.A. for the year 2017 according to which the amount PLN 2,073,513,268.60 (99.30% of net profit of the Bank) was allocated as dividend, i.e. PLN 7.90 per one share. The date of determining the right to the dividend set on July 6, 2018 and the date of payment of the dividend set on July 20, 2018. Total number of the Bank's shares entitled to dividend amounts 262,470,034.

10.9 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 41 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2018 to 30 June 2018.

10.10 Subsequent events

Court litigation after the balance sheet day

On July 19, 2018, the Bank was delivered a statement of claim brought by a legal person for the payment of EUR 17,521,646 (which at the average NBP rate of July 19, 2018 translated to PLN 75,610,347.81) resulting from an improper performance of the agreement. The Bank is in the process of preparing the answer to the claim and estimating the probability of funds outflow risk.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

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 2018 to 30 June 2018 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2018 to 30 June 2018 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 2018 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 2018 to 30 June 2018 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2018 to 30 June 2018 has been selected in pursuance of applicable provisions of law. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the review concerning condensed interim unconsolidated financial statements and condensed interim consolidated financial statements, in accordance with applicable provisions of law and professional standards.

Report on the activities of Bank Pekao S.A. Group for the first half of 2018

Signatures of all Members of the Bank's Management Board

07.08.2018	Michał Krupiński	President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.08.2018	Roksana Ciurysek-Gedir	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.08.2018	Andrzej Kopyrski	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.08.2018	Tomasz Kubiak	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.08.2018	Michał Lehmann	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.08.2018	Marek Lusztyn	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.08.2018	Tomasz Styczyński	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.08.2018	Marek Tomczuk	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature