

Report of Bank Pekao S.A. Group for the third quarter of 2019



Warsaw, November 2019

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019



Warsaw, November 2019

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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.

	3 QUARTERS OF 2019	3 QUARTERS OF 2018	2018	2017
INCOME STATEMENT – SELECTED ITEMS				
	<i>(in PLN million)</i>			
Operating income	6,110.9	5,713.5	7,757.1	7,350.4
Operating costs	(2,672.3)	(2,595.9)	(3,444.4)	(3,263.3)
Gross operating profit	3,438.6	3,117.6	4,312.7	4,087.1
Profit before income tax	2,070.1	2,070.6	3,047.3	3,153.0
Net profit for the period attributable to equity holders of the Bank	1,480.7	1,537.9	2,287.2	2,475.1
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	8.7%	9.1%	10.2%	11.0%
Return on average equity (ROE) - linearly adjusted for BGF charges	9.1%	9.3%	10.2%	11.0%
Return on assets (ROA)	1.0%	1.1%	1.3%	1.4%
Net interest margin	2.9%	2.8%	2.8%	2.8%
Non-interest income / operating income	33.7%	35.3%	35.6%	37.5%
Cost / income	43.7%	45.4%	44.4%	44.4%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS				
	<i>(in PLN million)</i>			
Total assets	198,804.4	183,298.5	191,089.8	185,465.6
Customers' financing ^(*)	149,298.4	137,428.8	140,032.3	132,300.4
Amounts due to customers ^(**)	152,691.8	142,854.7	149,143.4	145,397.8
Debt securities issued and subordinated liabilities	8,333.2	6,010.0	7,243.3	4,028.6
Equity	22,823.9	22,000.3	22,808.2	23,267.8
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ^(*) / total assets	75.1%	75.0%	73.3%	71.3%
Securities / total assets	16.3%	15.6%	15.0%	20.8%
Deposits ^(***) / total assets	81.0%	81.2%	81.8%	80.6%
Customers' financing ^(*) / deposits ^(***)	92.7%	92.3%	89.5%	88.5%
Equity / total assets	11.5%	12.0%	11.9%	12.5%
Total capital ratio	17.2%	17.0%	17.4%	17.1%
EMPLOYEES AND NETWORK				
Total number of employees	16,237	16,906	16,714	17,339
Total number of outlets	809	852	818	843
Number of ATMs	1,663	1,709	1,708	1,745

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

(**) Excluding repo transactions and lease liabilities.

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

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

Income statement data included in the table above and other notes to the Report on activities were presented according to income statement in a presentation form, which differs from the long form of the income statement presented in the Financial statements of the Group. Reconciliation of income statement in the presentation form and the long form is in the point 6.8 of the Report on activities.

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2 Highlights of Bank Pekao S.A.

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

	3 QUARTERS OF 2019	3 QUARTERS OF 2018	2018	2017
INCOME STATEMENT – SELECTED ITEMS <i>(in PLN million)</i>				
Operating income	5,853.4	5,529.8	7,396.9	7,085.3
Operating costs	(2,413.4)	(2,356.7)	(3,119.0)	(3,024.5)
Gross operating profit	3,440.0	3,173.1	4,278.0	4,060.8
Profit before income tax	2,111.3	2,153.2	3,020.8	2,727.8
Net profit	1,566.5	1,650.8	2,310.6	2,088.1
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	9.6%	10.2%	10.7%	9.6%
Return on average equity (ROE) - linearly adjusted for BGF charges	10.0%	10.4%	10.7%	9.6%
Return on assets (ROA)	1.1%	1.2%	1.3%	1.2%
Net interest margin	2.9%	2.8%	2.8%	2.8%
Non-interest income / operating income	32.6%	34.8%	34.2%	36.7%
Cost / income	41.2%	42.6%	42.2%	42.7%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS <i>(in PLN million)</i>				
Total assets	191,648.3	177,494.5	184,347.2	182,077.0
Customers' financing ^(*)	141,373.3	131,400.0	133,085.1	128,873.2
Amounts due to customers ^(**)	153,258.8	143,371.6	149,784.4	146,109.9
Debt securities issued and subordinated liabilities	4,342.9	2,417.9	3,745.1	2,727.2
Equity	21,956.3	21,094.3	21,821.9	22,258.5
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ^(*) / total assets	73.8%	74.0%	72.2%	70.8%
Securities / total assets	17.0%	16.0%	15.5%	21.1%
Deposits ^(***) / total assets	82.2%	82.1%	83.3%	81.7%
Customers' financing ^(*) / deposits ^(***)	89.7%	90.1%	86.7%	86.6%
Equity / total assets	11.5%	11.9%	11.8%	12.2%
Total capital ratio	18.8%	18.0%	18.7%	18.4%
EMPLOYEES AND NETWORK				
Total number of employees	14,298	14,674	14,569	15,316
Total number of outlets	809	852	818	843
Number of ATMs	1,663	1,709	1,708	1,745

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

(**) Excluding repo transactions and lease liabilities.

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

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

3 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders of the three quarters of 2019 amounted to PLN 1,480.7 million.

Net profit was higher by 10.7% y/y on a comparable basis (excluding Bank Guarantee Fund (BGF) fee and the one-off items i.a. restructuring provision and provision for the return of commission in the event of early repayment of consumer loan in 2019 and costs of voluntary retirement program in 2018), mainly thanks to dynamic development of the commercial activities of the Group, the growth of customers' financing by 8.6% y/y, as well as amounts due to customers by 6.9% (of which retail deposits by 12.4% y/y), strict operating costs control and prudent management of cost of risk.

Net profit was nominally lower by 3.7% (PLN 57.2 million) than net profit for the three quarters of 2018, due to twice higher BGF fee (by PLN 198.7 million), which was compensated by an increase in operating income.

The Group maintained the solid capital base (TCR amounted to 17.2% as at the end of September 2019) and the safe liquidity profile reflected by net loans to deposits ratio at 92.7%. This, together with high level of capital, enables for further solid and stable development of the Group's activities.

Main P&L items

In the three quarters of 2019, the Group's operating income amounted to PLN 6,110.9 million and was higher by 7.0% y/y than operating income in the three quarters of 2018 mainly thanks to the acceleration of the dynamics of core revenues (an increase by 7.3% y/y). This acceleration was particularly reflected in the dynamics of the third quarter of 2019, when core revenues increased by 8.4% y/y.

- Net interest income in the three quarters of 2019, amounted to PLN 4,049.4 million and was higher by PLN 350.2 million, i.e. 9.5% compared to the three quarters of 2018, mainly driven by higher volumes of loans and deposits as well as higher margin. Positive dynamics of commercial activities allowed to compensate the effect of a drop in interest rates on the bonds portfolio, and keep the net interest margin unchanged compared to second quarter of 2019.
- The Group's net fee and commission income in the three quarters of 2019, amounted to PLN 1,879.0 million and was higher by PLN 54.7 million, i.e. 3.0% compared to the three quarters of 2018, mainly due to higher commission on loans growing by 12.1% year on year, higher income on cards and higher income on foreign exchange transactions with clients.
- In the three quarters of 2019, other income amounted to PLN 182.5 million and was lower by PLN 7.5 million as compared to the three quarters of 2018, mainly due to lower gains on disposal of AFS assets.

The operating costs amounted to PLN 2,672.3 million in the three quarters of 2019. Excluding one-off items, operating costs would be higher by 1.6% y/y, significantly below inflation and despite the costs of ongoing investments in operational transformation and digitization. Nominally, the costs were higher by PLN 76.4 million, i.e. 2.9% compared to the costs achieved in the three quarters of 2018, mainly due to the restructuring provision for collective redundancies in the amount of PLN 85 million and due to twice higher financial supervision authority fee.

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 463.4 million in the three quarters of 2019, an increase of PLN 57.3 million, i.e. 14.1% as compared with the three quarters of 2018. The costs of risk in the three quarters of 2019 amounted to 0.41% and were slightly higher by 3 bps y/y, consistent with strategic assumptions reflecting a prudent risk management policy.

Bank Guarantee Fund fee in the three quarters of 2019, amounted to PLN 434.2 million, an increase of PLN 198.7 million, i.e. in comparison with the three quarters of 2018 due to the increase fee for contribution to resolution fund of banks. Tax on certain financial institutions in the three quarters of 2019 amounted to PLN 442.9 million and was higher by PLN 25.1 million, i.e. 6.0% in comparison with the three quarters of 2018, due to an increase in Group's assets by 8.5%.

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Volumes

As at the end of September 2019, loans and advances at nominal value amounted to PLN 154,516.4 million, an increase of PLN 11,481.0 million, i.e. 8.0% in comparison to the end of September 2018. The volume of retail loans grew by 9.4% y/y thanks to dynamic growth of key products: consumer loans by 10% y/y and PLN mortgage loans by 10% y/y. The volume of corporate loans including non-treasury debt securities grew by 6,7% y/y thanks to strong dynamics in the medium-sized enterprise segment (17% y/y) and significant increasing leasing receivables.

As at the end of September 2019, amounts due to the Group's customers and debt securities issued amounted to PLN 161,025.0 million, an increase of PLN 12,160.3 million, i.e. 8.2% in comparison to the end of September 2018, with volume of retail deposits growing by 12.4% y/y and systematically increasing share in the financing structure.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 20,808.7 million as at the end of September 2019, an increase of PLN 1,274.4 million, i.e. 6.5% in comparison to the end of September 2018.

Key financial ratios

In the three quarters of 2019, the average return on equity (ROE) amounted to 9.1%^(*) (lower by 0.2 p.p./y/y, due to the negative impact of the increase of BGF fees in the amount of -0.8 p.p. and the costs of restructuring provision in the amount of -0.4 p.p.).

In the three quarters of 2019, cost / income ratio excluding the one off items amounted to 42.3% and was lower by 2.3 p.p. y/y, approaching the strategic target of 40% set for 2020.

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

	3 QUARTERS OF 2019	3 QUARTERS OF 2018	STRATEGIC GOAL ON 2020
Growth of customers' financing	9%	6%	7-8%
Growth of commercial revenues	12%	9%	10%
Dynamic of operating costs ^(**)	1.6%	3.7%	below inflation
Cost / income ^(**)	42.3%	44.6%	< 40%
Cost of risk	0.41%	0.38%	< 0.50%
Return on average equity (ROE) ^(*)	9.1%	9.3%	12.5% ^(***)

(*) Linearly adjusted for BGF charges.

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

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

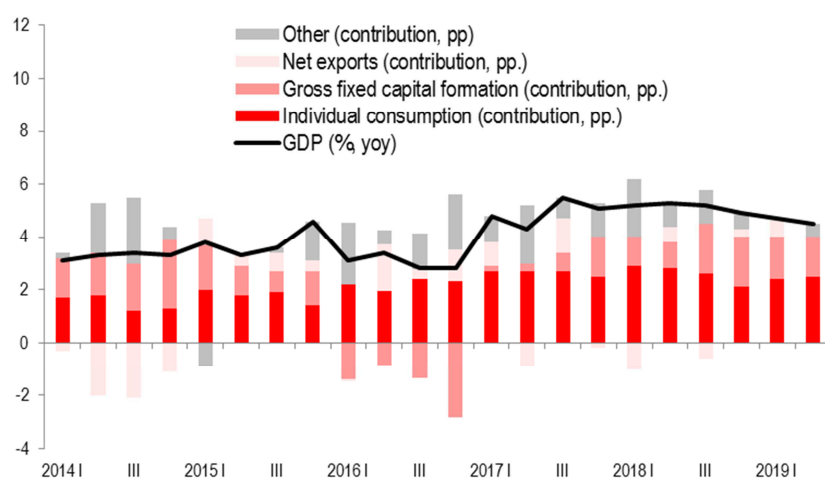
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4 External Activity Conditions

Economic growth

In the second quarter of 2019 the economic growth amounted to 4.5% year on year as compared with the GDP growth of 4.7% year on year in the first quarter of 2019. Seasonally adjusted data indicate that in the second quarter of 2019 Polish growth slowed to 0.8% quarter on quarter from 1.4% quarter on quarter growth posted in the previous quarter. Domestic demand expanded by 4.9% year on year as compared with 4.2% year on year increase in the first quarter of 2019, while foreign trade had a neutral impact on the annual GDP growth rate. Households consumption advanced by 4.4% year on year vs. 3.9% year on year increase in the first quarter of 2019. Growth of households income from labour and positive consumer confidence were accompanied by a payment of lump-sum pension (so-called "13th pension"). Gross fixed capital formation growth moderated to single-digit levels i.e. 9.0% year on year after an increase of 12.6% year on year in the previous quarter.

The second half of 2019 should bring still solid economic growth. Despite exports slowdown, observed already in the second quarter of the year amid deteriorating external conditions, households growth is expected to remain robust thanks to fiscal stimulus package (extension of the government program Family 500+ for the first child in the family, lower PIT burden).

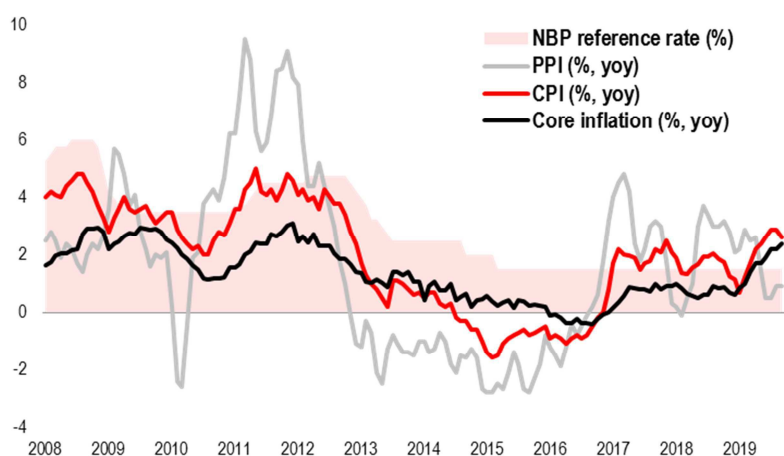


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Inflation and monetary policy

According to the Central Statistical Office (GUS) data in September 2019 CPI inflation amounted to 2.6% year on year and remained above the National Bank of Poland (NBP) target of 2.5% (+/- 1.0 percentage point). In September consumer inflation was predominantly driven by an increase in food prices (up by 6.8% year on year) and higher costs linked to housing (up by 1.6% year on year) that contributed 1.51 p.p. and 0.40 p.p. respectively to the annual CPI growth. In the third quarter of 2019 consumer prices went up by 2.8% year on year after rising by 2.4% year on year in the second quarter of 2019.

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

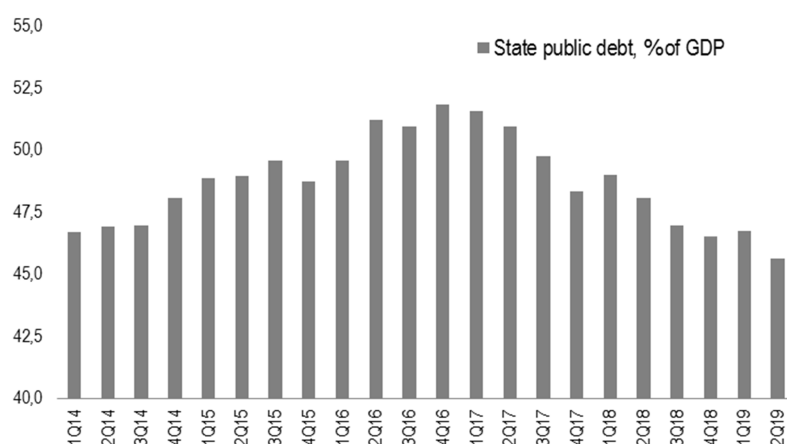


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Fiscal policy

After three quarters of 2019 the state budget posted a deficit of PLN 1.8 billion, while the budget act envisages an annual deficit limit of PLN 28.5 billion. Budget revenues totaled PLN 296.0 billion and were PLN 19.1 billion higher than in the corresponding period of 2018, whereas budget expenditures amounted to PLN 297.8 billion and were PLN 28.1 billion higher than in the first nine months of 2018. After September VAT revenues were 7.0% higher than in the first nine months of 2018 and excise duty collections increased by 0.8%. The analyzed period of 2019 brought an increase of direct taxes collections – CIT revenues jumped up by 17.7% year on year (PLN 4.6 billion) and PIT revenues increased by 12.7% year on year (PLN 5.4 billion). Substantial increase in expenditures was among others linked to higher subsidy to the Social Security Fund, among others due to a lump-sum pension payment (so-called 13th pension).

At the end of the second quarter of 2019 the state public debt amounted to PLN 997.9 billion and was PLN 7.4 billion lower than at the end of the first quarter of the year. Domestic debt increased by PLN 1.7 billion, while foreign debt went down by PLN 9.1 billion. In relation to GDP the state public debt declined to 45.6% at the end of the second quarter from 46.8% at the end of the previous quarter. At the end of the second quarter of 2019 the debt of general government sector stood at PLN 1,055.7 billion i.e. 48.3% of GDP.

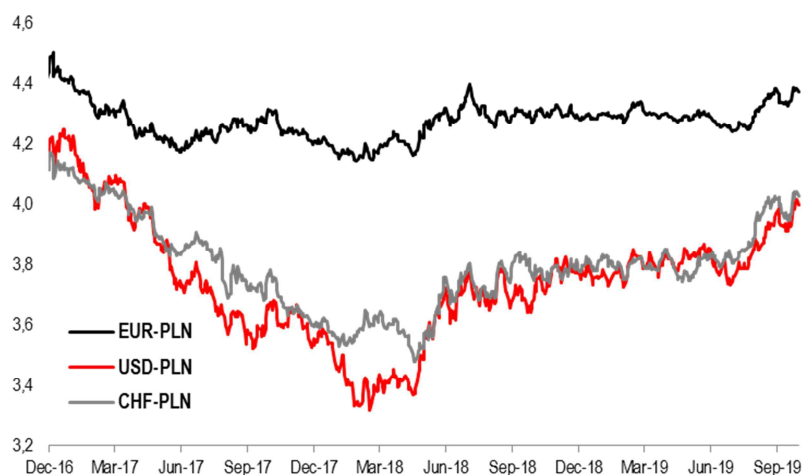


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The exchange rate

Several risk factors, including the US and China trade war and increased likelihood of no-deal Brexit, increased global risk aversion in the third quarter of 2019. Concerns about the global economy, including higher risk of recession in Germany, stimulated elevated investors' uncertainty. Major central banks maintained a "dovish" stance in their monetary policies. Strong monetary expansion by the European Central Bank, including deposit rate cut and a new round of asset purchases, confirmed fears of a deep slowdown in the Eurozone. Under such circumstances, capital was seeking assets considered as "safe havens" (T-bonds of countries with the highest rating and currencies like US dollar, Japanese yen and Swiss franc. The euro fell by 4.2%, 3.9% and 2.2%, respectively, against these currencies in the period of July-September 2019. As a consequence EUR-USD declined from 1.14 to the lowest level since May 2017 (slightly below 1.09). We expect the exchange rate to consolidate in the range of 1.08-1.10 by the end of 2019 with a risk of further decline below lower bound if the Federal Reserve trims expectations for further interest rate cuts, while the ECB delivers more monetary stimuli.

Polish zloty remained under pressure during the third quarter of 2019. Global tendencies were a key driver for the exchange rate development, while internal factors, like quite fair economic outlook and a balanced state budget for 2020, remained in the shadows. The dollar's outperformance against peers traditionally affected demand for emerging market currencies. In such environment, Hungarian forint and the Czech koruna fell by c.a. 8% against the greenback in that period. The zloty lost 7.4% against the dollar, 5.2% against the franc and 2.9% against the euro. The exchange rate set a fourteen month low close to 4.40/EUR and weakened to the lowest level since March 2017 against the dollar (4.02) at the end of September 2019. The zloty suffered also from investors' concerns about the verdict of the Court of Justice of the European Union on the CHF loans. We expect global mood improvement later and consequently a slowdown in a downward tendency of the PLN. We expect the zloty to appreciate towards 4.32/EUR in the fourth quarter 2019.



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Banking sector

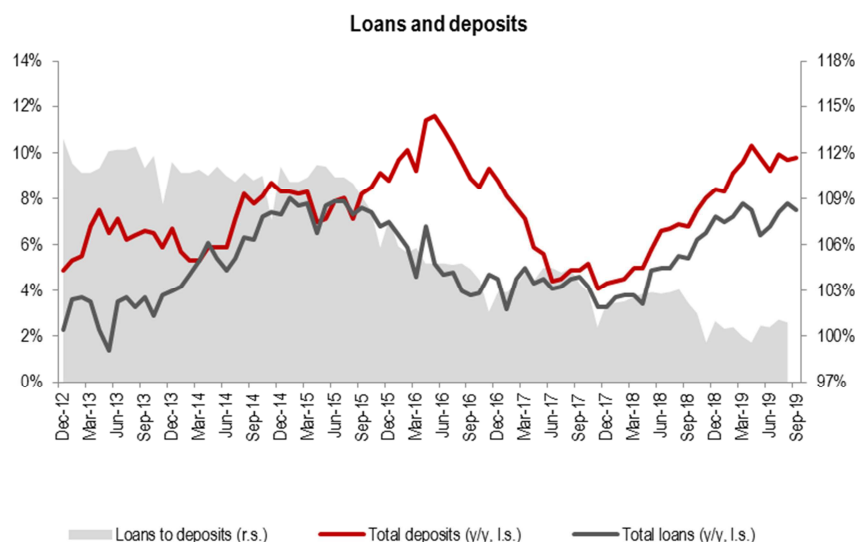
According to the Financial Supervision Authority (KNF) data, in the period of January-August 2019 net profit of the banking sector amounted to PLN 10.6 billion and increased by 2.1% in comparison to corresponding period of 2018.

Total net operating income of banks in described period grew by 8.2% year on year. Net interest income was still the main driver, rising by 8.6% year on year, additionally supported by strong growth of other income (+18% year on year). At the same time, net fees and commission income continued to show relatively weak pace of growth (+2.0% year on year). Operating costs (together with depreciation and amortization) turned out 6.5% higher, which was to a large extent caused by substantially higher regulatory costs accounted for in first quarter of the year. Moreover, a strong increase was recorded in terms of cost of risk (+21% year on year).

At the end of August 2019 total assets of the banking sector amounted to PLN 2,007 billion and increased by 8.7% year on year compared to the end of August 2018. Total receivables from the non-financial sector increased by 6.9% year on year and total deposits from this sector increased by 10.2% year on year.

According to the National Bank of Poland (NBP), at the end of September 2019 the nominal volume of households' loans increased by 7.2% year on year compared to year before. The pace maintained a pace similar to that at the end of 2018 and was still quite high in comparison to previous years. In case of enterprises sector the growth remains weaker, after September reaching 3.2% year on year (vs. 6.4% year on year at the end of 2018).

The growth pace of household deposits volume remains on high levels. After September 2019 it reached +11.1% year on year (vs. +9.8% year on year at the end of 2018). In recent months, enterprises' deposits have also shown solid dynamics, after September increasing by 7.7% year on year (vs. 4.3% year on year at the end of 2018).



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5 Important Events and Achievements

5.1 Description of the Group

The Group's structure is presented in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2019.

5.2 Changes in the Group' structure

Opening of liquidation of the company

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

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

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

The division of Centralny Dom Maklerski Pekao S.A.

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

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

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

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

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

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

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5.3 Changes in the Statutory Bodies of the Bank

Supervisory Board

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

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

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Management Board of the Bank

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

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

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

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

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

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

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

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5.4 The Bank's share capital and share ownership structure

As at 30 September, 2019, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and remained unchanged until the date of submitting the report. The share capital of the Bank consisted of 262,470,034 shares of the following series:

- 137,650,000 Series A bearer shares with a par value of PLN 1.00 per share,
- 7,690,000 Series B bearer shares with a par value of PLN 1.00 per share,
- 10,630,632 Series C bearer shares with a par value of PLN 1.00 per share,
- 9,777,571 Series D bearer shares with a par value of PLN 1.00 per share,
- 373,644 Series E bearer shares with a par value of PLN 1.00 per share,
- 621,411 Series F bearer shares with a par value of PLN 1.00 per share,
- 603,377 Series G bearer shares with a par value of PLN 1.00 per share,
- 359,840 Series H bearer shares with a par value of PLN 1.00 per share,
- 94,763,559 Series I bearer shares with a par value of PLN 1.00 per share.

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

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

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE THIRD QUARTER OF 2019		AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2019	
Powszechny Zakład Ubezpieczeń S.A.	52,494,007	20.00%	52,494,007	20.00%
Polski Fundusz Rozwoju S.A.	33,596,166	12.80%	33,596,166	12.80%
UniCredit S.p.A.	16,430,000	6.26%	16,430,000	6.26%
BlackRock, Inc.	13,359,626	5.09%	-	-
Other shareholders (below 5%)	146,590,235	55.85%	159,949,861	60.94%
Total	262,470,034	100.00%	262,470,034	100.00%

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

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

On 6 September, 2019, in current Report No. 26/2019, the Management Board of Bank Pekao S.A. informed that on 5 September, 2019, he had received a notification from BlackRock, Inc. regarding exceeding the threshold of 5% of the total number of votes in the Bank, taking into account also securities lending and contracts for difference (CFD). The total sum of the number of votes and its percentage share in the total number of votes is 13 359 626 votes from shares, representing 5.09% of the Bank's share capital and the total number of votes in the Bank.

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

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

5.5 Financial credibility ratings

5.5.1 Bank Pekao S.A. financial credibility ratings

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

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

FITCH RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating (IDR)	BBB+	A-
Short-term rating	F2	F2
Viability rating	bbb+	-
Support rating	5	-
Support rating factor	No floor	-
Outlook	Stable	Stable
National Long-Term Rating	AA(pol) (stable outlook)	-
National Short-Term Rating	F1+(pol)	-
S&P GLOBAL RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating in foreign currencies	BBB+	A-
Long-term rating in domestic currency	BBB+	A
Short-term rating in foreign currencies	A-2	A-2
Short-term rating in domestic currency	A-2	A-1
Stand-alone credit profile	bbb+	-
Outlook	Positive	Stable
S&P GLOBAL RATINGS (RESOLUTION COUNTERPARTY RATING)	BANK PEKAO S.A.	POLAND
Long - term RCR in foreign currencies	A-	-
Short - term RCR in foreign currencies	A-2	-
Long - term RCR in domestic currency	A-	-
Short - term RCR in domestic currency	A-2	-
MOODY'S INVESTORS SERVICE (UNSOLICITED RATING)	BANK PEKAO S.A.	POLAND
Long-term foreign-currency deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa1	-
Long-term counterparty risk assessment	A1(cr)	-
Short-term counterparty risk assessment	Prime-1(cr)	-
Outlook	Stable	Stable
Long-term Counterparty Risk Rating (CRR)	A1	-
Short-term Counterparty Risk Rating (CRR)	Prime-1	-

On 7 October, 2019 the rating agency Fitch Ratings ("Fitch") informed the Bank about maintaining all the Bank's ratings on unchanged level.

Additionally, rating agency assigned two additional ratings reflecting the Bank's creditworthiness relative to Polish peers', as follows: National Long-Term Rating: assigned at "AA(pol)", Outlook: "Stable", National Short-Term Rating: assigned at "F1+(pol)".

In Fitch opinion the IDRs of the Bank are driven by the Bank's intrinsic strength, as reflected in its VR. The Stable Outlook on the Bank reflects the expectations of little change to its intrinsic creditworthiness in the near term.

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Bank's VR reflects its strong capitalisation and liquidity, solid profitability as well as good asset quality underpinned by conservative risk appetite. It also reflects its stable and well diversified business model with a solid domestic franchise in both retail and corporate banking.

Fitch highlights, that since coming under its current ownership in 2017, Bank's growth appetite has increased. The Bank is also investing in technology and optimising its operational and cost efficiency, through further centralisation of back office functions and simplification of processes which allow for headcount reduction and improved customer experience. These initiatives should strengthen Bank's franchise, with only limited change to its wellseasoned and resilient business model. Underwriting standards are expected to remain conservative and commensurate with the Bank's business model and country risks. Asset quality is solid, reflecting the Bank's moderate business risk, well-diversified credit risk (by industry and single name), adequate coverage of impaired loans and prudent underwriting standards.

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

At the end of September 2019 Fitch Ratings agency assigned the "A-" rating to the covered bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A. The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity. The Fitch Ratings rating agency assigned to Pekao Bank Hipoteczny S.A. BBB + long-term assessment with a "stable" perspective.

On 7 October, 2019 the rating agency Fitch informed the Pekao Bank Hipoteczny S.A. about maintaining all the Bank's ratings on unchanged levels.

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5.6 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.

	30.09.2019	30.09.2018
Total number of outlets	809	852
own outlets	736	772
partner branches	73	80
Total number of own ATMs	1,663	1,709

The number of accounts

As at the end of September 2019, the Bank maintained 6,157.9 thousand PLN-denominated current accounts, 391.1 thousand mortgage loan accounts and 709.1 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

(in thousand)

	30.09.2019	30.09.2018
Total number of PLN current accounts ^(*)	6,157.9	5,876.4
of which packages	4,479.1	4,309.0
Number of mortgage loans accounts ^(**)	391.1	373.9
of which PLN mortgage loans accounts	359.5	341.4
Number of "Pożyczka Ekspresowa" loan accounts ^(***)	709.1	669.6

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

(**) Retail customers accounts.

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

Individual clients

Individual clients service

As part of the "Power of the Polish Bison" ("Siła Polskiego Żubra") strategy, the Bank uses its potential to acquire new customers, in the third quarter of 2019 the Bank opened a record number of 134 thousand new accounts for individual clients which translated into a 18% increase compared to the third quarter of 2018.

The sale of the Konto Przekorzystne and the a revolutionary card, which guarantees low exchange rates in payments abroad was supported by the marketing campaigns conducted on television, cinemas, public transport, social media and the Internet, and also by building an attractive image of the Bank as part of a new communication platform "Bierz życie za rogi" created at the beginning of the year. In the third quarter of 2019, thanks to the innovative process of opening an account using biometrics and strong acquisition in online channels, the share of sales initiated in remote channels amounted about 20%.

Bank Pekao S.A. strengthened the leading position among banks focused on young customers. In the third quarter of 2019, every second account was opened by people up to 26 years old. The largest growth in the number of clients concerned young people aged 13-17 and the number of new clients acquired was twice higher as compared to the third quarter of 2018.

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The Bank actively promoted the possibility to submit applications in Family 500+ and Dobry Start 300+ Government Programs through the Bank's Internet service. The customers submitted over 560 thousand online applications through the Pekao24 system. The Bank is among the top banks with the highest number of applications received electronically under this Program with a market share of nearly 13% in the number of applications submitted. Bank customers who have submitted an application in electronic banking had the opportunity to open a 3.00% interest-bearing Mój Skarb savings account for their children, receive PLN 50 for opening Konto Przekorzystnego for young people, and take advantage of the attractive, rebates from Partners of Galeria Rabatów Program.

Another edition of the OK, GO online development program offer with free access to selected online training organized by the ICAN Institute, the publisher of Harvard Business Review Polska, has been prepared for young customers who open the Przekorzystne Account.

Bank Pekao S.A. is a leading bank in providing services for foreigners, the largest group among foreigners using banking services in Poland are Ukrainian citizens for whom the Bank has prepared a wide range of products and services, including infoline in Ukrainian, the Bank's regulations in Ukrainian, PeoPay mobile banking and m.Pekao24.pl, Konto Przekorzystne, multicurrency card with the option of free withdrawals from ATMs abroad, including Ukraine.

The Bank adjusted the housing loan offer to changing market conditions on an on-going basis and consistently focused activities supporting the optimization of housing loan granting and servicing. The bank has introduced solutions thanks to which the loan agreement - based on the collected data - is generated automatically. The Bank provided a tool supporting sales talks with customers, enabling quick transfer of information on the amount of the loan installment.

In the third quarter of 2019, the sale of mortgage loans amounted to PLN 2.5 billion, which translates into growth of the loan portfolio by 10.2% year on year. The Bank's share in the housing loan market, despite the ending of the government program "Mieszkanie dla Młodych" (MdM) remains at around 18% and the Bank holds the position of vice-leader.

In the "Newsweek Friendly Bank 2019" ranking, the Bank took first place in the "Mortgage Banking" category. For the second year in a row, the Bank received the highest scores in terms of quality customer service in the housing loan category.

In the third quarter of 2019, the Bank continued activities initiated as part of the strategy for the years 2018-2020 "Siła Polskiego Żubra" in the area of consumer loans. The consistent implementation of the adopted strategy translated into a significant increase in income and the value of the loan portfolio increased by 10.1% y/y.

The sale of cash loans was supported by a competitive offer, individual loan offers using CRM tools and a gradual increase in the availability of credit offers as part of the "click" processes. A fast and fully automatic process that allows to get a loan without leaving home in 30 seconds after accepting the contract is available to customers via the internet service and the PeoPay mobile application. The sales of loans in "on click" electronic processes supported by numerous marketing campaigns, systematically increases. In 2019 in electronic channels the Bank granted 31% more loans than in the corresponding period of 2018.

The Bank's activities were also focused on the implementation of new processes that were aimed at increasing the efficiency of operations. New solutions in the automation of the credit process for cash loans were implemented both in mobile channels and in the Bank's branches. The new system of servicing credit applications in branches has shortened three times the process of granting and waiting time for the payment of the loan. The implemented solutions also ensure the highest quality of loans granted.

Saving, investment products and brokerage activity

In the third quarter of 2019, deposits of individual clients at Bank Pekao S.A. increased by PLN 1.8 billion. The growth dynamics of individual customer deposits amounted to 13% y/y and was higher than the market dynamics. The Bank actively promoted the Konto Oszczędnościowe and Konto Oszczędnościowe Premium with a promotional interest rate of 3.00% per annum for 6 months from the date of opening of the account and 'Mój Skarb' savings account for children, also with an interest rate of 3.00% for 6 months. The most significant impact on the growth of savings volumes were regular inflows to the accounts of retail clients.

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In the third quarter of 2019, the Bank expanded its offer of structured products with a new issue of certificates: EUR/PLN 6 Accumulator focused on stabilizing exchange rates, American basket 4 (USD) enabling investing in USD, assuming a drop in prices of selected American market companies, Strong PLN EURPLN 2 creating the opportunity to take advantage of the zloty strengthening against the euro.

The offer of structured certificates provided by external issuers dedicated to Private Banking clients has been extended, among others by:

- structured certificates autocall with conditional capital protection based on: AVIVA PLC (denominated in PLN and USD, issued by UniCredit Bank AG) and the STOXX Europe 600 Basic Resources index (in PLN, issued by Raiffeisen Centrobank),
- Autocall structured certificates with full capital protection on maturity based on: EURO STOXX® Select Dividend 30 index (in PLN, issued by UniCredit Bank AG), STOXX® Europe 600 Telecommunications index (in PLN, issued by UniCredit Bank AG) and index STOXX® Global Select Dividend 100 (in PLN, issued by Raiffeisen Centrobank),
- reverse convertible certificates based on: PKN Orlen S.A. (in PLN, issued by Raiffeisen Centrobank).

Brokerage activity

In the third quarter of 2019, there were continued the works related to the consolidation of brokerage activities in the Bank Pekao S.A. Group. The ongoing project has been aimed at strengthening the Group's market position by building a strong, integrated investment competence center and improving the quality and comprehensiveness of services. The availability of brokerage and banking services in one place allows clients to use the full range of investment products and services at the highest level, as well as to gain access to modern technological solutions introduced by the Bank. On August 30, 2019, Dom Maklerski Pekao took over the Organized Part of the Enterprise of CDM Pekao S.A. As a result of the consolidation process, the CDM customer service was transferred to Dom Maklerski Pekao.

At the end of September 2019, DM Pekao held 261 thousand investment accounts, servicing 168 thousand accounts with active access through the remote channels, in particular via internet and mobile systems. Direct customer service, as at the end of September 2019, was conducted within a nationwide network of 380 branches providing brokerage services.

The assets of retail clients of brokerage entities of the Pekao S.A. Group as at September 30, 2019, amounted to PLN 21.2 billion.

In the third quarter of 2019, the activities of Dom Maklerski focused on servicing clients on the secondary market, acquiring new investors, developing tools and services, as well as the product offer, in particular services provided in remote channels. Among others, a new website presenting the brokerage offer was made available on the Bank Pekao SA internet platform at the beginning of September 2019.

In the third quarter of 2019, Dom Maklerski Pekao participated in the following transactions:

- offers of three series of Structured Deposit Certificates within the Third Issue Program for bank securities issued by Bank Pekao S.A., accepting subscriptions totaling PLN 136 million and USD 1.7 million,
- one public offer (Akord), accepting subscriptions totaling over PLN 21 million,
- seven public offers to sell Structured Certificates issued by UniCredit Bank AG (5 issues in PLN, 2 in USD), in which subscriptions totaled approximately PLN 74.3 million and USD 4.46 million,
- three public offers to sell Structured Certificates issued by Raiffeisen Centrobank AG, in which subscriptions totaled approximately PLN 28 million.

Dom Maklerski was also the Offeror for the issue of PZU FIZ Akord Investment Certificates for the AD series.

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Electronic banking for Individuals

Bank Pekao S.A. as one of the first banks in Poland, made Apple Pay service available and is the only one that allows customers to link Apple Pay with their personal account via PeoPay mobile banking even without a card.

In the third quarter of 2019, the Bank expanded its contactless payment offer with a Garmin and Fitbit mobile device by offering access to Garmin Pay and Fitbit Pay electronic wallets.

The bank systematically expanded the range of functions that can be implemented through remote access channels. The most important projects implemented in the third quarter of 2019 in the electronic banking system for individual clients included, among others:

- providing the possibility to submit applications for family benefits under the Family 500+ and Dobry Start 300+ programs,
- implementation of the PekaolD service, secure and intuitive digital identity confirmation in electronic banking system, based on the MojeID service provided by the National Clearing House. Thanks to the PekaolD service, customers of the Bank can, for example, extend their contract with a mobile network operator, energy provider or take out a life insurance policy without leaving home,
- adapting to the requirements of the PSD2 directive the method of logging into electronic banking Pekao24 and the PeoPay mobile application by implementing additional verification of customer identity, the so-called strong authentication,
- providing a new, free method of transfer authorization using push notifications in PeoPay, which allows you to quickly and conveniently accept transactions without having to rewrite SMS codes.

The number of individual clients actively using mobile banking increased by 35% year on year.

(in thousand)

	30.09.2019	30.09.2018
Number of individual users with an access to electronic banking Pekao24 as at the end of period ^(*)	2,208.0	1,997.9
Number of individual users actively using electronic banking Pekao24 as at the end of period ^(**)	2,163.8	1,722.0
Number of individual users with an access to mobile banking as at the end of period ^(***)	1,593.8	1,179.3

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

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

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

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Business customers

Bank Pekao S.A. as the first in Poland implemented a simple, convenient and short process of opening an online account for micro-entrepreneurs, without the need to visit a branch. Individuals conducting business activity can open a company account remotely, on a computer. Identity verification is carried out online by taking your own 'selfie' photo and ID card photo. The service is available 24 hours a day, 7 days a week. In the third quarter of 2019, business customers were given the opportunity to contact the bank via: chat, video and voice connection to the bank's helpline via the internet.

In the third quarter of 2019, entrepreneurs who did not have an account at the Bank for the last year could still benefit from special offers where the customer could receive a refund of 3 x PLN 200 each, including for opening a Konto Przekorzystne Biznes, contract for a payment terminal, contract for a credit, loan or credit card contract and to deposit money via the PeoPay app in approx. 4 thousand Euronet and Planet Cash deposit machines.

In the third quarter of 2019, the Bank provided customers with a payment terminal, the opportunity to participate in the commendation program www.zyskujzpekao.pl, under which the entrepreneur can receive a prize in the form of vouchers for Biedronka stores worth PLN 150, while each new, recommended entrepreneur can receive a prize in the form of a voucher worth PLN 100 in exchange for an agreement with the bank regarding the use of the card acceptance service.

In 2019, the Bank launched a new payment terminal distribution process in 265 branches, which allows the customer within a few minutes of signing the contract to pick up the payment terminal at the Bank branch and activate it based on the SMS code received from the Bank. As part of the new process, in the third quarter of 2019 about 40% of all payment terminals. The total number of payment terminals issued to business customers since the beginning of 2019 was 68% higher compared to the same period of 2018.

Electronic banking for business customers

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

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

As at the end of September 2019, 193.8 thousand business users had an access to the electronic banking, and 143.5 thousand were active users.

As at the end of September 2019, 65.3 thousand business users had an access to the mobile banking application for SME clients, and 43.7 thousand were active users. The number of business users with an access to the mobile banking application increased by 22 thousand compared to the end of September 2018.

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Small and micro enterprises (SME)

The Bank has been consistently implementing the growth strategy in the Small and Medium Enterprises segment. The dedicated Business Centres allow clients to receive the support of qualified Advisors supported by Product Specialists (in the scope of FX transaction, leasing and factoring service, or EU Funds), thanks to which there was a significant increase in the number of new clients by 47% compared to the third quarter 2018 year.

The Bank offers to the customers modern products, solutions and expertise knowledge that supports their development at each stage of their activity. The Bank has consistently continued improvement of employees' competencies, thanks to specialist knowledge and experience allow to more tailor the offer and product solutions to non-standard customer needs.

The Bank carried out educational activities among companies from the SME sector, which aimed at increasing the knowledge about exchange rate risk and interest rate risk. The special subject was related to the reduction of risk in export companies starting their foreign expansion. Bank's Product Specialists attended prestigious events. The "SMEspresso Business Breakfast" educational campaign was carried out throughout the country, as part of which entrepreneurs could meet with the Bank's experts and broaden their knowledge of banking products and new market trends. The topics related to the new Employee Capital Plans (PPK) program were very popular.

The Bank focuses on activities aimed at increasing customer satisfaction through further improvement and optimization of key processes, products and services, including service at branches. Activities were focused both on the implementation of statutory requirements and ongoing operations. In the credit area, the processes related to obtaining financing by customers were simplified and accelerated, the form used in the credit process was changed, and an automatic loan decision generating tool was implemented.

Access to the dealing module and direct telephone contact with the dealing room have contributed to a significant increase in the popularity of remote channels among customers - currently almost 75% of negotiated deposits are established in these channels. For the SME sector customers, the offer has also been expanded to include products that until now were dedicated exclusively to corporate clients - the Pekao Connect service was actively promoted to increase the convenience and security of electronic banking services.

In the area of treasury transactions, in the third quarter of 2019 the volume of ongoing currency exchange transactions increased by more than 12%, strong increases were also recorded in the volume of derivative transactions hedging the exchange rate risk and derivatives hedging the interest rate risk.

In July 2019, the Bank's business customers were given the option of concluding FX Forward Transactions for collateral. After fulfilling the requirements of MIFID II, signing the Cash Collateral Agreement and placing a deposit in the amount of 10% of the transaction value in PLN, the Customer may conclude an FX Forward transaction. This solution is actively used to activate the department's clients in the area of hedging exchange rate risk.

In the third quarter of 2019, for customers from the area of small and medium-sized enterprises, the Bank introduced the PrzekOrzysty loan for financing renewable energy sources. The loan is dedicated for financing photovoltaics, it is secured by a free BGK Biznesmax guarantee, thanks to which customers receive a preferential loan rate, and for the first three years of loan repayment also a 5% interest refund.

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Corporate customers

Market position and main directions of the activities

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

The Bank's services are used by every second large company in Poland. The Corporate Banking and MIB Division is currently servicing 12.7 thousand of entities, including c.a. 3.0 thousand foreign clients and over 2.6 thousand local government units and municipal companies.

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

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

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

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

Transactional services

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

Key achievements in the area of the Bank's transactional banking in the three quarters of 2019 include:

- an increase in the number and volume of domestic transfers by 13% and 8.5% year on year respectively,
- processing within the framework of Pekao Collect service (identification of Clients' mass payments) over 111 million transactions with the total volume of more than PLN 146 billion, i.e. an increase by 6% and 11% year on year respectively,
- an increase in volumes of foreign incoming and outgoing transfers by 3% and 11% year on year respectively and an increase in the number of foreign incoming and outgoing transfers by 8% and 23% year on year.

In the third quarter of 2019, the Bank expanded its contactless payment offer with Garmin and Fitbit mobile devices. Users of corporate MasterCard payment cards (excluding prepaid cards) using these devices can conveniently and securely make card payments using them.

In addition, the method of logging into the PekaoBiznes24 electronic banking system has been adapted to the requirements of the PSD2 Directive by introducing additional verification of customer identity, i.e. strong authentication to provide an even higher level of security.

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Trade finance

In the third quarter of 2019, the Bank continued an increase trend regarding the turnover in the area of financed receivables under eFinancing. Continued was possible thanks to the further development of the Open Financing Platform (OPF), in particular by constantly adapting the offer to customer expectations, fully automating the cooperation process between the Bank, invoice issuers and recipients as well as shortening and improving the settlement process.

The implementation of the new functionality "onboarding" allowed the Bank to send financing and debt service offers to companies that did not cooperate with the Bank, and which are suppliers of the Bank's clients, contributed to acquiring 30 new clients from the SME segment.

In third quarter of 2019, thanks to OPF, the Bank financed over 1.8 thousand invoices for a total amount of approximately PLN 39 million.

In the period from January to September 2019, the turnover in documentary transactions (letter of credit and collection) increased by over 34% compared to the same period of 2018, and the Bank's exposure under issued guarantees increased by about 7% compared to the same period of 2018.

Cooperation with international clients

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

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

In the third quarter, the Bank developed offers for short- and long-term financing of international operations. Loans granted support the expansion of Polish enterprises on European markets and developing countries. As part of the transactions being developed, the Bank cooperated, among others with KUKE, using the framework agreement concluded in 2018.

Investment banking, structured finance and commercial real estates

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

The Bank remains a leader in the organization of acquisition financing for Private Equity funds.

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

- increasing of financing for a leading retail network by PLN 1.8 billion,
- syndicated financing for a leading entity in the fuel industry in the total amount of USD 500 million, the Bank's share as an agent, keeping the book of stays and transaction organizer,
- signing a reverse factoring agreement up to PLN 750 million with an entity from the mining industry,
- granting an investment loan for a leading entity in the clothing industry for a total amount of approximately PLN 290 million,
- granting a term loan for a leading entity from the hotel industry in the total amount of EUR 41 million,
- granting an investment and working capital loan for a company from the agri-food industry in the total amount of approximately EUR 38 million.

In third quarters of 2019, new loans for commercial real estate financing amounted to PLN 844 million with, among others, the following transactions:

- participation in financing the construction of a skyscraper in the center of Warsaw. The total amount of EUR 140 million,

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- granting a loan to finance the construction of office buildings in Krakow by the leader of the Polish developer market. The total amount of PLN 180 million,
- loan for financing the construction of a logistics park granted to a leading developer operating on the Polish market, in the amount of nearly PLN 140 million.

Issuance of debt instruments

In the area of arrangement and management of commercial debt securities, as at 31 August 2019, Bank Pekao S.A. had a 20% market share, including 21% market share in arrangement of corporate bonds issues, 24% in the segment of bank debt securities and 23% market share in arrangement of municipal bonds issues.

The Bank's share in the issue of mid-term corporate bonds carried out on the Polish market in the eight months of 2019 was 39%.

In the third quarters of 2019, the mid-term debt securities (of enterprises, banks and municipal units) were issued through the Bank for a total amount of over PLN 1.65 billion, of which the following transactions deserve special attention:

- issue of five series of bonds for a total amount of PLN 850 million for a company from the leasing industry,
- issue of two series of bonds for a total amount of PLN 400 million for a company from the factoring industry,
- issue of two series of bonds in the total amount of PLN 300 million for a mortgage bank,
- issue of 3-year bonds for a housing developer in the amount of PLN 41 million.

Cooperation with international and domestic financial institutions

As at 30 September 2019, the Bank maintains 76 nostro accounts with 48 banks in 26 countries, it runs 223 loro accounts for 202 foreign clients (banks and other financial institutions) from 48 countries and 51 current accounts for 43 foreign financial institutions.

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

Comprehensive service of the public sector finances

In the third quarter of 2019, Bank Pekao S.A. continued cooperation by rendering an ongoing service and providing financing to entities from the Polish public sector, including self-government units, municipal companies and institutions of higher education.

The most important transactions of the Bank concluded in the third quarter of 2019 are as follows:

- extending and increasing the amount of overdraft facility in the amount of PLN 70 million for a municipal heat energy company from the south of Poland,
- granting a guarantee line in the amount of PLN 20 million for one of the companies from the Military Property Agency,
- extending repayment of overdraft facility in the amount of PLN 10 million for one of the largest in Poland municipal companies providing waste collection services,
- granting a credit line for guarantees and letters of credit for an institution of higher education in Warsaw up to PLN 7 million.

In addition, the Bank adjusted active agreements of bond issue programs, concluded with public sector clients, to the changes in law regulations concerning recording of bonds and related obligations.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

5.7 Factors which will affect the results of the Group

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

In 2019, a moderate economic slowdown is visible in Poland, and the GDP growth rate in the whole year may come at 4.5% compared to high readings in 2017 and 2018. A further slowdown is expected in 2020 (to approx. 3.7%). The main stimulating factor is still domestic demand, while the external environment is less favourable, in particular the global economic downturn, including a slower pace of demand growth on main export markets. Additional risks for growth are related to geopolitical factors, including the potential impact of the UK's exit from the European Union (Brexit) and a further increase in trade tensions between the United States and its main partners (trade conflicts). The scale of slowdown in the country will be reduced by the planned fiscal stimulus package (increase in social transfers and lower taxes).

Monetary policy has major impact on banks' results. With moderate inflationary pressure and deteriorating global economic conditions, the probability of interest rate hike in Poland over the next year is low, which limits the possibility of increasing interest margins of banks.

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

Currently, the issue of foreign currency mortgages is one of the most important factors in the institutional environment. Considering no systemic solution in this matter, the banking system will be most affected by court decisions in individual cases. In this context, the ruling of the EU Court of Justice (CJEU) from 3 October 2019 is particularly important, as it may lead to a higher number of borrowers seeking judicial resolution. This may have a strong negative impact on the performance of banks, especially those with a large portfolio of such loans. According to most estimates, the total costs for the sector may reach several dozen billion zlotys, but they are difficult to estimate and will be spread over time. Much will depend on, among others, the actual number of lawsuits (how many borrowers will decide to take legal action), the interpretation of national courts in individual cases (in relation to the opinion of the CJEU), the reactions of national supervisory institutions or the actions of the banks themselves. Moreover, it cannot be ruled out that the issue of CHF loans will find a final solution by way of legislation.

The growth pace of household deposits should remain relatively high, at the end of 2019 reaching a level similar to that observed at the end of 2018. With a high deposit base and a slightly slower growth of the wage bill in the economy, the rate may be slightly lower in subsequent quarters. As far as corporate deposits are concerned, an improvement in the dynamics can be expected from the relatively low levels of 2018. In the case of the entire deposit base, the announced fiscal package will play an important role (beneficial for the pace).

In terms of loans to households, in subsequent quarters we may observe a gradual, albeit moderate, slowdown in growth. Slightly lower activity on the housing market may affect the dynamics of new mortgage loans, with a further shrinking of the foreign currency loan portfolio (such loans are practically no longer granted in Poland) and growing scale of repayments on existing portfolios. Moreover, somewhat subdued consumer sentiment may translate into weaker growth of consumer loans (especially taking into consideration high activity in recent years). However, these effects may be mitigated by the aforementioned fiscal package. With GDP growth slowing down, risks in some sectors of the economy and regulatory uncertainties remaining, a moderate slowdown in corporate lending can be expected.

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6 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 30 September, 2019 and 2018 respectively is presented in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2019.

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

6.1 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 September 2019, the total assets of Bank Pekao S.A. constitutes 96.4% of the total assets of the whole Group.

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

ASSETS	30.09.2019		30.09.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	6,357.6	3.2%	5,720.3	3.1%	11.1%
Loans and advances to banks ^(*)	2,222.6	1.1%	4,762.6	2.6%	(53.3%)
Customers' financing ^(**)	149,298.4	75.1%	137,428.8	75.0%	8.6%
Securities ^(***)	32,320.0	16.3%	28,546.6	15.6%	13.2%
Property, plant and equipment and intangible assets	3,399.6	1.7%	2,826.3	1.5%	20.3%
Other assets	5,206.2	2.6%	4,013.9	2.2%	29.7%
Total assets	198,804.4	100.0%	183,298.5	100.0%	8.5%

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

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

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

EQUITY AND LIABILITIES	30.09.2019		30.09.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	5.0	0.0%	5.0	0.0%	0.0%
Amounts due to other banks	6,138.2	3.1%	4,689.3	2.6%	30.9%
Amounts due to customers	152,691.8	76.8%	142,854.7	77.9%	6.9%
Debt securities issued	5,949.9	3.0%	4,742.6	2.6%	25.5%
Subordinated liabilities	2,383.3	1.2%	1,267.4	0.7%	88.0%
Repo transactions	546.2	0.3%	913.0	0.5%	(40.2%)
Lease liabilities	482.8	0.2%	-	x	x
Other liabilities	7,783.3	3.9%	6,826.2	3.7%	14.0%
Total equity, including	22,823.9	11.5%	22,000.3	12.0%	3.7%
non-controlling interests	12.4	x	11.5	x	7.8%
Total equity and liabilities	198,804.4	100.0%	183,298.5	100.0%	8.5%

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Customers' Financing Customer structure of loans and advances

(in PLN million)

	30.09.2019	30.09.2018	CHANGE
Loans and advances at nominal value	154,516.4	143,035.4	8.0%
Loans and investments in financial leases	143,846.5	131,890.3	9.1%
Retail	75,822.4	69,311.2	9.4%
Corporate	68,024.1	62,579.1	8.7%
Non-treasury debt securities	10,669.9	11,145.1	(4.3%)
Other ^(*)	1,233.4	1,000.5	23.3%
Impairment allowances	(6,451.4)	(6,607.1)	(2.4%)
Customers' financing	149,298.4	137,428.8	8.6%

^(*) Including interest and receivables in transit.

As at the end of September 2019, loans and advances at nominal value amounted to PLN 154,516.4 million, an increase of PLN 11,481.0 million, i.e. 8.0% in comparison to the end of September 2018.

As at the end of September 2019, the volume of retail loans amounted to PLN 75,822.4 million, an increase of PLN 6,511.2 million, i.e. 9.4% in comparison to the end of September 2018, thanks to dynamic growth of key products: consumer loans by 10% y/y and PLN mortgage loans by 10% y/y.

As at the end of September 2019, corporate loans and non-treasury debt securities amounted to PLN 78,694.0 million, an increase of PLN 4,969.8 million, i.e. 6.7% in comparison to the end of September 2018, thanks to strong dynamics in the medium-sized enterprise segment and leasing receivables.

Receivables and impairment losses^(*)

(in PLN million)

	30.09.2019	30.09.2018	CHANGE
Gross receivables	155,749.8	144,035.9	8.1%
Stage 1	126,896.2	114,200.4	11.1%
Stage 2	20,971.2	21,423.4	(2.1%)
Stage 3	7,882.4	8,412.1	(6.3%)
Impairment allowances	(6,451.4)	(6,607.1)	(2.4%)
Stage 1	(401.9)	(399.6)	0.6%
Stage 2	(721.2)	(740.2)	(2.6%)
Stage 3	(5,328.3)	(5,467.3)	(2.5%)
Total net receivables	149,298.4	137,428.8	8.6%

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

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

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Loans and advances to customers by currency^(*)

	30.09.2019		30.09.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	128,902.6	82.8%	120,332.6	83.5%	7.1%
Denominated in foreign currencies ^(**)	26,847.2	17.2%	23,703.3	16.5%	13.3%
Total	155,749.8	100.0%	144,035.9	100.0%	8.1%
Impairment allowances	(6,451.4)	x	(6,607.1)	x	(2.4%)
Total net	149,298.4	x	137,428.8	x	8.6%

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

(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of September 2019, their share was 82.8%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (79.2%), CHF (12.4%) and USD (6.7%).

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

	30.09.2019		30.09.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	17,776.3	11.4%	15,499.5	10.8%	14.7%
1 to 3 months	5,823.3	3.7%	4,612.6	3.2%	26.2%
3 months to 1 year	13,940.2	9.0%	13,584.1	9.4%	2.6%
1 to 5 years	49,905.7	32.0%	45,757.4	31.8%	9.1%
Over 5 years	62,785.2	40.3%	58,379.1	40.5%	7.5%
Past due	4,285.8	2.8%	5,202.7	3.6%	(17.6%)
Other	1,233.3	0.8%	1,000.5	0.7%	23.3%
Total	155,749.8	100.0%	144,035.9	100.0%	8.1%
Impairment allowances	(6,451.4)	x	(6,607.1)	x	(2.4%)
Total net	149,298.4	x	137,428.8	x	8.6%

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

As at the end of September 2019, loans and advances with maturity over 5 years represents 40.3% of total loans and advances (mainly attributed to mortgage loans, investment loans, and non-treasury debt securities).

Information on loan concentration is included in the Note 26 and 27 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2019.

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External sources of financing

(in PLN million)

	30.09.2019	30.09.2018	CHANGE
Amounts due to Central Bank	5.0	5.0	0.0%
Amounts due to other banks	6,138.2	4,689.3	30.9%
Amounts due to customers	152,691.8	142,854.7	6.9%
Debt securities issued	5,949.9	4,742.6	25.5%
Subordinated liabilities	2,383.3	1,267.4	88.0%
Repo transactions	546.2	913.0	(40.2%)
Total external sources of financing	167,714.4	154,472.0	8.6%

Amounts due to customers amounted to PLN 152,691.8 million, an increase by 6.9% to significant extent contributed to dynamic increase in loans.

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

Amounts due to customers and debt securities issued

(in PLN million)

	30.09.2019	30.09.2018	CHANGE
Corporate deposits	62,013.8	62,043.0	(0.0%)
Non-financial entities	44,579.4	45,840.6	(2.8%)
Non-banking financial entities	6,189.7	5,489.2	12.8%
Budget entities	11,244.7	10,713.2	5.0%
Retail deposits	90,265.6	80,325.8	12.4%
Other ^(*)	412.4	485.9	(15.1%)
Amounts due to customers^(**)	152,691.8	142,854.7	6.9%
Debt securities issued, of which	8,333.2	6,010.0	38.7%
Structured Certificates of Deposit (SCD)	924.2	468.1	97.4%
Certificates of Deposit (CD)	1,027.0	677.0	51.7%
Subordinated bonds	2,350.0	1,250.0	88.0%
Pekao Bank Hipoteczny S.A. covered bonds	1,348.7	1,519.6	(11.2%)
Pekao Bank Hipoteczny S.A. bonds	189.4	300.0	(36.9%)
Pekao Leasing Sp. z o.o. bonds	1,972.1	1,766.6	11.6%
Pekao Faktoring Sp. z o.o. bonds	475.1	-	x
Interest	46.7	28.7	62.7%
Amounts due to customers and debt securities issued^(**)	161,025.0	148,864.7	8.2%
Repo transactions	546.2	913.0	(40.2%)
Lease liabilities	482.8	-	x
Amounts due to customers and debt securities issued, total^(***)	162,054.0	149,777.7	8.2%
Investment funds of Pekao TFI S.A. (ex. Pioneer Pekao TFI)	20,808.7	19,534.3	6.5%
Bond and money market funds	16,930.5	15,088.0	12.2%
Balanced funds	2,166.5	2,451.5	(11.6%)
Equity funds	1,711.7	1,994.9	(14.2%)
including distributed through the Group's network	20,429.8	19,252.0	6.1%

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

(**) Excluding repo transactions and lease liabilities.

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

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As at the end of September 2019, amounts due to the Group's customers and debt securities issued amounted to PLN 161,025.0 million, an increase of PLN 12,160.3 million, i.e. 8.2% in comparison to the end of September 2018.

The total volume of retail deposits, Structured Certificates of Deposit and other amounted to PLN 91,567.7 million as at the end of September 2019, an increase of PLN 10,329.4 million, i.e. 12.7% in comparison to the end of September 2018 and they increased their share in the structure of financing.

The total volume of corporate deposits, Certificates of Deposit, subordinated bonds, Pekao Bank Hipoteczny S.A. covered bonds and bonds, Pekao Leasing Sp. z o.o. bonds, Pekao Faktoring Sp. z o.o. bonds interest and other amounted to PLN 69,457.3 million as at the end of September 2019, an increase of PLN 1,830.9 million, i.e. 2.7% as compared to the end of September 2018.

Repo transactions amounted to PLN 546.2 million as at the end of September 2019, a decrease by PLN 366.8 million, i.e. 40.2% as compared to the end of September 2018.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 20,808.7 million as at the end of September 2019, an increase of PLN 1,274.4 million, i.e. 6.5% in comparison to the end of September 2018.

Amounts due to customers by currency^(*)

	30.09.2019		30.09.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	124,917.6	81.8%	115,179.3	80.6%	8.5%
Denominated in foreign currencies	27,774.2	18.2%	27,675.4	19.4%	0.4%
Total	152,691.8	100.0%	142,854.7	100.0%	6.9%

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

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of September 2019 amounted to 81.8%. The majority of amounts due to customers denominated in foreign currencies were in EUR (63.9%) and USD (28.9%).

Amounts due to customers by contractual maturities^(*)

	30.09.2019		30.09.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	103,596.9	68.0%	80,132.0	56.3%	29.3%
Term deposits	48,682.4	32.0%	62,236.8	43.7%	(21.8%)
Total deposits	152,279.2	100.0%	142,368.8	100.0%	7.0%
Interest accrued	185.0	x	181.0	x	2.2%
Funds in transit	227.6	x	304.9	x	(25.4%)
Total	152,691.8	x	142,854.7	x	6.9%

^(*) Excluding repo transactions and lease liabilities.

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6.2 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders of the three quarters of 2019 amounted to PLN 1,480.7 million.

Net profit was higher by 10.7% y/y on a comparable basis (BGF fee and the one-off items i.a. restructuring provision and provision for the return of commission in the event of early repayment of consumer loan in 2019 and costs of voluntary retirement program in 2018), mainly thanks to dynamic development of the commercial activities of the Group, the growth of customers' financing by 8.6% y/y, as well as amounts due to customers by 6,9% (of which retail deposits by 12.4% y/y), strict operating costs control and prudent management of cost of risk.

Net profit was nominally lower by 3.7% (PLN 57.2 million) than net profit for the three quarters of 2018, due to twice higher BGF fee (by PLN 198.7 million), which was compensated by an increase in operating income.

The consolidated income statement – presentation form

(in PLN million)

	3 QUARTERS OF 2019	3 QUARTERS OF 2018	CHANGE
Net interest income	4,049.4	3,699.2	9.5%
Net fee and commission income	1,879.0	1,824.3	3.0%
Dividend income	22.2	20.0	11.0%
Trading result	105.3	130.7	(19.4%)
Net other operating income and expenses	55.0	39.3	39.9%
Net non-interest income	2,061.5	2,014.3	2.3%
Operating income	6,110.9	5,713.5	7.0%
Operating costs	(2,672.3)	(2,595.9)	2.9%
Gross operating profit	3,438.6	3,117.6	10.3%
Net impairment losses on financial assets and off-balance sheet commitments	(463.4)	(406.1)	14.1%
Net operating profit	2,975.2	2,711.4	9.7%
Net result on other provisions	(40.7)	(14.4)	>100%
Bank Guarantee Fund fee	(434.2)	(235.5)	84.4%
Tax on certain financial institutions	(442.9)	(417.8)	6.0%
Net result on investment activities	12.7	26.9	(52.8%)
Profit before tax	2,070.1	2,070.6	(0.0%)
Income tax expense	(587.2)	(532.0)	10.4%
Net profit	1,482.9	1,538.6	(3.6%)
Attributable to equity holders of the Bank	1,480.7	1,537.9	(3.7%)
Attributable to non-controlling interest	2.2	0.7	> 100%

Operating income

In the three quarters of 2019, the Group's operating income amounted to PLN 6,110.9 million and was higher by 7.0% y/y than operating income in the three quarters of 2018 mainly thanks to the acceleration of the dynamics of core revenues (an increase by 7.3% y/y). This acceleration was particularly reflected in the dynamics of the third quarter of 2019, when core revenues increased by 8.4% y/y.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

Total net interest income

(in PLN million)

	3 QUARTERS OF 2019	3 QUARTERS OF 2018	CHANGE
Interest income	4,970.3	4,538.5	9.5%
Interest expense	(920.9)	(839.3)	9.7%
of which on leasing	(10.3)	(1.1)	>100%
Net interest income	4,049.4	3,699.2	9.5%

Net interest income in the three quarters of 2019, amounted to PLN 4,049.4 million and was higher by PLN 350.2 million, i.e. 9.5% compared to the three quarters of 2018, mainly driven by higher volumes of loans and deposits as well as higher margin. Positive dynamics of commercial activities allowed to compensate the effect of a drop in interest rates on the bonds portfolio and keep the net interest margin unchanged compared to second quarter of 2019.

In the three quarters of 2019, the interest income amounted to PLN 4,970.3 million and was higher by PLN 431.8 million year on year thanks to higher income from loans and advances to customers by PLN 368.9 million, as a result of an increase in loan volumes by 8.0% year on year.

In the three quarters of 2019, the interest expense amounted to PLN 920.9 million and was higher by PLN 81.6 million year on year, mainly due to the increase in expenses related to debt securities issued due to the issuance of subordinated bonds in October 2018. Excluding the effect of the regulations on International Financial Reporting Standard No. 16, the growth rate of interest costs decreased to 8.7% y/y, below the growth rate of interest income.

The interest margin achieved in the three quarters of 2019 amounted to 2.86% and was higher by 0.03 p.p.

Net non-interest income

(in PLN million)

	3 QUARTERS OF 2019	3 QUARTERS OF 2018	CHANGE
Fee and commission income	2,153.6	2,097.2	2.7%
Fee and commission expense	(274.6)	(272.9)	0.6%
Net fee and commission income	1,879.0	1,824.3	3.0%
Dividend income	22.2	20.0	11.0%
Trading result	105.3	130.7	(19.4%)
of which gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	39.5	65.3	(39.5%)
Net other operating income and expense	55.0	39.3	39.9%
Net non-interest income	2,061.5	2,014.3	2.3%

The Group's net fee and commission income in the three quarters of 2019, amounted to PLN 1,879.0 million and was higher by PLN 54.7 million, i.e. 3.0% compared to the three quarters of 2018, mainly due to higher commission on loans growing by 12.1% year on year, higher income on cards and higher income on foreign exchange transactions with clients.

In the three quarters of 2019, other income amounted to PLN 182.5 million and was lower by PLN 7.5 million as compared to the three quarters of 2018, mainly due to lower gains on disposal of AFS assets.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

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

(in PLN million)

	3 QUARTERS OF 2019	3 QUARTERS OF 2018	CHANGE
Net fee and commission income	1,879.0	1,824.3	3.0%
on loans	376.3	335.8	12.1%
on cards	265.4	244.7	8.5%
on mutual funds	325.6	336.6	(3.3%)
on brokerage activate	41.9	58.6	(28.5%)
on margins on foreign exchange transactions with clients	369.0	339.3	8.8%
other	500.8	509.3	(1.7%)

Operating costs

The operating costs amounted to PLN 2,672.3 million in the three quarters of 2019. Excluding one-off items, operating costs would be higher by 1.6% y/y, significantly below inflation and despite the costs of ongoing investments in operational transformation and digitization. Nominally, the costs were higher by PLN 76.4 million, i.e. 2.9% compared to the costs achieved in the three quarters of 2018, mainly due to the restructuring provision for collective redundancies in the amount of PLN 85 million and due to twice higher financial supervision authority fee.

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

(in PLN million)

	3 QUARTERS OF 2019	3 QUARTERS OF 2018	CHANGE
Personnel expenses	(1,568.1)	(1,545.7)	1.4%
Other administrative expenses	(725.4)	(779.9)	(7.0%)
of which Financial supervision authority fee (KNF)	(25.2)	(18.4)	37.0%
Depreciation and amortization	(378.8)	(270.3)	40.1%
Operating costs	(2,672.3)	(2,595.9)	2.9%

In the three quarters of 2019, cost / income ratio excluding the one off items amounted to 42.3% and was lower by 2.3 p.p. y/y, approaching the strategic target of 40% set for 2020.

As of September 30, 2019, the Group employed 16,237 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 16,906 employees as at the end of September 2018.

As of September 30, 2019, the Bank employed 14,298 employees as compared to 14,674 employees as at the end of September 2018.

Result on other provisions

Result on other provisions in the three quarters of 2019 amounted to PLN 40.7 million and was higher by PLN 26.3 million than in the three quarters of 2018 mainly due to the creation of a provision for the return of commission for early repayment of loans for a total amount of PLN 29,1 million, based on the judgment of the Court of Justice of the European Union in case C-383/18 concerning preliminary questions regarding the consumer's right to reduce the total cost of credit in the event of early repayment of consumer credit.

Bank Guarantee Fund fee

Bank Guarantee Fund fee in the three quarters of 2019, amounted to PLN 434.2 million, an increase of PLN 198.7 million, i.e. in comparison with the three quarters of 2018 due to the increase fee for contribution to resolution fund of banks.

Tax on certain financial institutions

Tax on certain financial institutions in the three quarters of 2019 amounted to PLN 442.9 million and was higher by PLN 25.1 million, i.e. 6.0% in comparison with the three quarters of 2018, due to an increase in Group's assets by 8.5%.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

6.3 The structure of the net profit

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

(in PLN million)

	3 QUARTERS OF 2019	3 QUARTERS OF 2018	CHANGE
Net profit of Bank Pekao S.A.	1,566.5	1,650.8	(5.1%)
Entities consolidated under full method			
Pekao Investment Management S.A.	93.3	61.5	51.7%
Pekao Leasing Sp. z o.o.	43.3	30.5	42.0%
Pekao Faktoring Sp. z o.o.	13.5	9.3	45.2%
Centralny Dom Maklerski Pekao S.A. ⁽¹⁾	12.0	20.8	(42.3%)
Pekao Financial Services Sp. z o.o.	6.7	4.0	67.5%
Pekao Bank Hipoteczny S.A.	2.0	2.1	(4.8%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	0.9	3.6	(75.0%)
Pekao Powszechnie Towarzystwo Emerytalne S.A. w likwidacji	0.6	2.8	(78.6%)
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji	0.3	0.3	0.0%
Dom Inwestycyjny Xelion Sp. z o.o.	0.2	3.6	(94.4%)
FPB "MEDIA" Sp. z o.o. w upadłości ⁽²⁾	0.0	(15.2)	x
Pekao Property S.A. w likwidacji ⁽³⁾	(0.1)	0.1	x
Centrum Kart S.A.	(0.1)	(0.2)	(50.0%)
Pekao Investment Banking S.A.	(12.5)	3.1	x
Exclusions and consolidation adjustments ⁽⁴⁾	(245.9)	(239.2)	(17.6%)
Net profit of the Group attributable to equity holders of the Bank	1,480.7	1,537.9	(3.7%)

⁽¹⁾ On 25 June, 2019, the Ordinary General Meeting of Centralny Dom Maklerski Pekao S.A. (CDM Pekao S.A.) and the Extraordinary General Meeting of CBB Sp. z o.o. and on 26 June, 2019, the Ordinary General Meeting of the Bank adopted resolutions accepting the division of (CDM Pekao S.A.).

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

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

⁽²⁾ On 11 April, 2019, the District Court for the Capital City of Warsaw, 10th Economic Department for bankruptcy and restructuring, declared the bankruptcy of FPB-Media Sp. z o.o. The decision on the declaration of bankruptcy became valid on 8 May, 2019. FPB Media is a 100% subsidiary of Pekao Property S.A. in liquidation. Currently, the company operates under the name FPB Media Sp. z o.o. in bankruptcy.

⁽³⁾ On March 1, 2019, the Extraordinary General Meeting of Shareholders of Pekao Property S.A. took the resolution to dissolve the company and to open its liquidation from that date. Currently, the company will operate under the name Pekao Property S.A. in liquidation.

⁽⁴⁾ Includes, among others, transactions within the Group (including dividends from subsidiaries for the previous years), and net profit attributable to non-controlling interest.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

The results of Bank Pekao S.A.

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

(in PLN million)

	3 QUARTERS OF 2019	3 QUARTERS OF 2018	CHANGE
Net interest income	3,942.3	3,606.9	9.3%
Net non-interest income	1,911.1	1,923.0	(0.6%)
Operating income	5,853.4	5,529.8	5.9%
Operating costs	(2,413.4)	(2,356.7)	2.4%
Gross operating profit	3,440.0	3,173.1	8.4%
Net impairment losses on financial assets and off-balance sheet commitments	(425.9)	(377.9)	12.7%
Net operating profit	3,014.1	2,795.2	7.8%
Net result on other provisions	(40.6)	(14.7)	> 100%
Bank Guarantee Fund fee	(431.6)	(234.4)	84.1%
Tax on certain financial institutions	(442.9)	(417.8)	6.0%
Net result on investment activities	12.3	25.0	(50.8%)
Profit before tax	2,111.3	2,153.2	(1.9%)
Net profit	1,566.5	1,650.8	(5.1%)

Net profit of the Bank for the three quarters of 2019 amounted to PLN 1,566.5 million and was lower by PLN 84.3 million, i.e. 5.1% than net profit achieved in the three quarters of 2018, due to increase of the fee for contribution to resolution fund of banks by PLN 226,6 million, with net operating profit higher by PLN 218.9 million i.e. 7.8% from net operating profit achieved in the three quarters of 2018.

The main Bank's financial information are as follows:

	30.09.2019	30.09.2018	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	146,500.4	136,822.1	7.1%
Amounts due to customers	153,258.8	143,371.6	6.9%
Structured Certificates of Deposit	924.2	468.1	97.4%
Certificates of Deposit	1,027.0	677.0	51.7%
Subordinated bonds	2,350.0	1,250.0	88.0%
Repo transactions	546.2	913.0	(40.2%)
Total assets	191,648.3	177,494.5	8.0%
Investment funds distributed through the Bank's network	19,496.4	18,311.0	6.5%
Total capital ratio in %	18.8%	18.0%	0.8 p.p.

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

As at the end of September 2019, loans and advances at nominal value amounted to PLN 146,500.4 million, an increase of PLN 9,678.3 million, i.e. 7.1% in comparison to the end of September 2018. As at the end of September 2019, the volume of retail loans amounted to PLN 74,717.2 million and the volume of corporate loans amounted to PLN 61,113.3 million.

As at the end of September 2019, the amounts due to customers, Structured Certificates of Deposit, Certificates of Deposit and subordinated bonds amounted to PLN 157,560.0 million, an increase of PLN 11,793.3 million, i.e. 8.1% in comparison to the end of September 2018.

The value of net assets of investment funds managed by Pekao TFI S.A. distributed through the Bank's network amounted to PLN 19,496.4 million as at the end of September 2019, an increase of PLN 1,185.4 million, i.e. 6.5% in comparison to the end of September 2018.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

Results of the Bank's major related entities

Pekao Investment Management S.A. – Pekao IM

In the three quarters of 2019, consolidated net profit of Pekao IM amounted to **PLN 93.3 million** compared with PLN 61.5 million in the three quarters of 2018. The higher result is related to the increase in net assets of investment funds managed by Pekao TFI S.A. by ca. 4.4% compared to the end of September 2018 as well as changes in the remuneration model for distributors of TFI units adjusted to MIFID II regulatory requirements.

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

In the three quarters of 2019, Pekao Leasing reported a net profit of **PLN 43.3 million** compared with PLN 30.5 million in the three quarters of 2018. In the three quarters of 2019, Pekao Leasing signed over 12.1 thousand new agreements, i.e. 31.8% increase year on year, while the value of leased assets was higher by 55.2% year on year and amounted to PLN 3,086.7 million.

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

In the three quarters of 2019, Pekao Faktoring reported a net profit of **PLN 13.5 million** compared with PLN 9.3 million in the three quarters of 2018, influenced by an increasing factoring commitment (increase by 77.3% y / y - Pekao Faktoring took 1st place in turnover on the Polish factoring market) and favorable situation on the factoring market.

Centralny Dom Maklerski Pekao S.A. – CDM

As of August 30, 2019, CDM Pekao was removed from the national court register. The net results of the Group in the three quarters of 2019 include the net profit of CDM earned by August 31, 2019 in the amount of **PLN 12.0 million**. The financial result for September 2019 is included in the result of Dom Maklerski Pekao (organizational unit of the Bank).

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

In the three quarters of 2019, PFS reported a net profit in the amount of PLN 6.7 million (the Bank's share in the company's was **PLN 4.4 million**) compared with PLN 4.0 million in the three quarters of 2018. The results of the three quarters of 2019, were influenced by the acquisition of the PZU Centrum Operacji S.A. by Pekao FS on second quarter of 2018. This transaction allows take over PTE PZU S.A. and TFI PZU S.A. within the scope of the transfer agent services and extend the scope of service to PZU Życie S.A.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In the three quarters of 2019, Pekao Bank Hipoteczny reported a net profit **PLN 2.0 million** compared with PLN 2.1 million in the three quarters of 2018. The result was influenced by the higher level of the fee for contribution to resolution fund of banks.

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

In the three quarters of 2019, Pekao PTE reported net profit of **PLN 0.6 million** compared with PLN 2.8 million in the three quarters of 2018. Pekao PTE is in liquidation from June 1, 2018 and does not conduct activities.

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

In the three quarters of 2019, CBB reported a net profit in the amount of **PLN 0.9 million** compared with PLN 3.6 million in the three quarters of 2018, influenced by the smaller number of marketing and sales campaigns and the increasing pressure on telemarketers' salaries.

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

In the three quarters of 2019, DI Xelion reported a net profit in the amount of **PLN 0.2 million** compared with PLN 3.6 million in the three quarters of 2018, influenced by unfavorable situation on capital markets and the change in the method of remuneration of TFI distributors adapted to the MIFID II regulatory requirements and the change in customer preferences regarding the level of accepted risk.

Pekao Investment Banking S.A. – Pekao IB

In the three quarters of 2019, Pekao IB reported a loss of **PLN 12.5 million** compared with net profit of PLN 3.1 million in the three quarters of 2018. The result of the current period was influenced by lower number of advisory transactions and lower revenues from brokerage activities provided to institutional clients.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

6.4 Net impairment losses

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	3 QUARTERS OF 2019	3 QUARTERS OF 2018	3 QUARTERS OF 2019	3 QUARTERS OF 2018
financial assets measured at amortized cost	(406.3)	(403.9)	(379.8)	(375.9)
financial assets measured at fair value through other comprehensive income	(15.5)	2.5	(14.9)	7.5
financial liabilities measured at amortized cost	(41.6)	(4.7)	(31.2)	(9.5)
Net impairment losses on financial assets and off-balance sheet commitments	(463.4)	(406.1)	(425.9)	(377.9)

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 486.4 million in the three quarters of 2019, an increase of PLN 57.3 million, i.e. 14.1% as compared with the three quarters of 2018. The costs of risk in the three quarters of 2019 amounted to 0.41% and were slightly higher by 3 bps y/y, consistent with strategic assumptions reflecting a prudent risk management policy.

The Bank's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 425.9 million in three quarters of 2019, an increase of PLN 48.0 million i.e. 12.7% as compared with the three quarters of 2018.

6.5 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
Total provisions	752.6	589.8	764.1	591.2
of which:				
provisions for off-balance sheet commitments	283.1	209.9	303.8	223.4
provisions for liabilities to employees	380.0	333.6	372.3	324.2
other provisions	89.5	46.3	88.0	43.6
Deferred tax liabilities	30.9	33.2	-	-
Deferred tax assets	1,166.0	1,230.2	849.9	964.3

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

6.6 Off-balance sheet items

Statement of Off-balance sheet items

(in PLN million)

	30.09.2019	30.09.2018	CHANGE
Contingent liabilities granted and received	69,307.5	65,306.3	6.1%
Liabilities granted:	51,858.2	46,619.4	11.2%
financial	39,863.2	34,580.6	15.3%
guarantees	11,995.0	12,038.8	(0.4%)
Liabilities received:	17,449.3	18,686.9	(6.6%)
financial	1,490.0	900.3	65.5%
guarantees	15,959.3	17,786.6	(10.3%)
Derivative financial instruments	286,912.2	235,063.6	22.1%
interest rate transactions	166,519.3	136,747.8	21.8%
transactions in foreign currency and in gold	117,407.7	95,486.5	23.0%
transactions based on commodities and equity securities	2,985.2	2,829.3	5.5%
Total off-balance sheet items	356,219.7	300,369.9	18.6%

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

6.7 Capital adequacy

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

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

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

Minimal value of capital ratios on Pillar I level are:

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

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

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

Combined buffer requirement consists of:

- Capital conservation buffer in amount of 2.50%,
- Countercyclical capital buffer in amount of 0.01%¹,
- Other systemically important institution buffer in amount of 0.75%,
- Systemic risk buffer in amount of 2.89%².

In total, Group is required to maintain:

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

As of September 30, 2019 for Group, total capital ratio amounted to 17.2% and Tier I ratio amounted to 15.5%. The capital ratios were significantly above the minimum required by the law.

¹ Countercyclical capital buffer was calculated as of 30.09.2019 at the level 0.0088%

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

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

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

(in PLN thousand)

CAPITAL REQUIREMENT	30.09.2019	31.12.2018	30.09.2018
Credit risk	9,918,006	9 300 015	9,179,444
Exceeding the exposure concentration limit and large exposures limit			
Market risk	71,066	63 294	55,941
Counterparty credit risk including CVA	140,138	86 875	123,354
Operational risk	496,854	564 145	564,145
Total capital requirement	10,626,064	10,014,329	9,922,885
OWN FUNDS			
Common Equity Tier I Capital	20,523,790	19,796,894	19,855,913
Tier II Capital	2,350,000	2,000,000	1,250,000
Own funds for total capital ratio	22,873,790	21,796,894	21,105,913
Common Equity Tier I Capital ratio (%)	15.5%	15.8%	16.0%
Total capital ratio TCR (%)	17.2%	17.4%	17.0%

Total Capital Ratio of the Group as at the end of September 2019 was higher by 0,2 p.p. compared to the end of September 2018 mainly due to higher own funds.

Increase in own funds for total capital ratio calculation by 8.4% mainly resulted from including in Tier II capital the amount of PLN 1.1 billion from the issue of subordinated bonds after KNF approval and retention of 25% net profit for year 2018.

Total capital requirement increased by 7.1% mainly due to higher credit risk capital requirement resulting mainly from increase of loan volume.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

6.8 Reconciliation of income statement – presentation form and long form

Consolidated income statement for the three quarters of 2019

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	3 QUARTERS OF 2019
Net interest income		4,049,374
Net fee and commission income	Net fee and commission income	1,879,038
Dividend income	Dividend income	22,187
Trading result		105,256
	Net result on other financial instruments at fair value through profit and loss	69,478
	Result on fair value hedge accounting	(3,676)
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	39,454
Net other operating income and expenses		55,033
Net non-interest income		2,061,514
Operating income		6,110,888
Operating costs		(2,672,303)
	Personnel expenses	(1,568,116)
	Other administrative expenses	(1,602,413)
	less – Bank Guarantee Fund fee	434,164
	less – Tax on certain financial institutions	442,863
	Depreciation and amortization	(378,801)
Gross operating profit		3,438,585
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	(463,384)
Net operating profit		2,975,201
Net result on other provisions	Net result on other provisions	(40,772)
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(434,164)
Tax on certain financial institutions	Tax on certain financial institutions	(442,863)
Net result on investment activities		12,700
	(Gains) losses on disposal of property plant and equipment and intangible assets	12,700
	(Gains) losses on the sale of shares in subsidiaries and associates	-
Profit before income tax		2,070,102
Income tax expense	Income tax expense	(587,210)
Net profit for the period	Net profit for the period	1,482,892
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	1,480,661
Attributable to non-controlling interest	Attributable to non-controlling interest	2,231

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

Consolidated income statement for the three quarters of 2018

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	3 QUARTERS OF 2018
Net interest income		3,699,216
Net fee and commission income	Net fee and commission income	1,824,314
Dividend income	Dividend income	20,025
Trading result		130,667
	Net result on other financial instruments at fair value through profit and loss	62,171
	Result on fair value hedge accounting	3,158
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	65,338
	(Gains) losses on disposal of financial liabilities	-
Net other operating income and expenses		39,294
Net non-interest income		2,014,300
Operating income		5,713,516
Operating costs		(2,595,942)
	Personnel expenses	(1,545,699)
	Other administrative expenses	(1,433,263)
	less – Bank Guarantee Fund fee	235,537
	less – tax on certain financial institution	417,828
	Depreciation and amortization	(270,345)
Gross operating profit		3,117,574
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	(406,170)
Net operating profit		2,711,404
Net result on other provisions	Net result on other provisions	(14,364)
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(235,537)
Tax on certain financial institution	Tax on certain financial institution	(417,828)
Net result on investment activities		26,903
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	26,903
	Impairment losses on subsidiaries and associates	-
	Gains (losses) on disposal of subsidiaries and associates	-
Profit before income tax		2,070,578
Income tax expense	Income tax expense	(531,967)
Net profit for the period	Net profit for the period	1,538,611
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	1,537,933
Attributable to non-controlling interest	Attributable to non-controlling interest	678

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

7 Quarterly Income Statement

7.1 Consolidated income statement – long form

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

(in PLN thousand)

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Interest income	1,703,631	1,668,660	1,597,982	1,583,797	1,544,067	1,515,910	1,478,564
Interest expense	(312,201)	(311,112)	(297,586)	(289,047)	(286,078)	(280,373)	(272,874)
Net interest income	1,391,430	1,357,548	1,300,396	1,294,750	1,257,989	1,235,537	1,205,690
Fee and commission income	743,649	725,062	684,885	746,940	714,682	707,067	675,428
Fee and commission expense	(100,872)	(92,380)	(81,306)	(108,670)	(95,695)	(89,794)	(87,374)
Net fee and commission income	642,777	632,682	603,579	638,270	618,987	617,273	588,054
Dividend income	535	21,266	386	161	245	19,623	157
Result on financial assets and liabilities measured at fair value through profit or loss	20,752	31,063	17,663	12,249	26,507	16,539	19,125
Result on fair value hedge accounting	(1,972)	(728)	(976)	(2,435)	1,159	662	1,337
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	19,592	8,430	11,432	76,333	14,261	27,245	23,832
Operating income	2,073,114	2,050,261	1,932,480	2,019,328	1,919,148	1,916,879	1,838,195
Net impairment losses on financial assets and off-balance sheet commitments	(176,463)	(177,238)	(109,683)	(104,855)	(155,277)	(123,932)	(126,961)
Net result on financial activity	1,896,651	1,873,023	1,822,797	1,914,473	1,763,871	1,792,947	1,711,234
Administrative expenses	(905,268)	(993,200)	(1,272,061)	(921,453)	(922,069)	(980,579)	(1,076,314)
personnel expenses	(502,264)	(586,428)	(479,424)	(490,883)	(490,526)	(554,827)	(500,346)
other administrative expenses ⁽¹⁾	(403,004)	(406,772)	(792,637)	(430,570)	(431,543)	(425,752)	(575,968)
Depreciation and amortization	(123,578)	(126,576)	(128,647)	(101,076)	(92,672)	(89,893)	(87,780)
Net result on other provisions	(32,576)	(3,467)	(4,729)	406	(297)	(13,768)	(299)
Net other operating income and expenses	20,983	17,132	16,918	24,222	13,574	12,095	13,625
Operating costs	(1,040,439)	(1,106,111)	(1,388,519)	(997,901)	(1,001,464)	(1,072,145)	(1,150,768)
Gains (losses) on subsidiaries and associates	-	-	-	-	-	-	-
Gains (losses) on disposal of property, plant and equipment, and intangible assets	1,011	9,581	2,108	60,194	30,843	(6,863)	2,923
Profit before income tax	857,223	776,493	436,386	976,766	793,250	713,939	563,389
Income tax expense	(200,329)	(193,560)	(193,321)	(227,567)	(186,941)	(173,962)	(171,064)
Net profit for the period	656,894	582,933	243,065	749,199	606,309	539,977	392,325
Attributable to equity holders of the Bank	656,214	582,106	242,341	749,227	605,793	539,815	392,325
Attributable to non-controlling interest	680	827	724	(28)	516	162	-

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

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

7.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2019 and 2018

(in PLN thousand)

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net profit	656,894	582,933	243,065	749,199	606,309	539,977	392,325
Other comprehensive income							
Item that are or may be reclassified subsequently to profit or loss:							
Change in fair value of financial assets measured at fair value through other comprehensive income	54,837	123,334	(9,750)	1,339	(43,433)	(51,033)	109,292
Profit or loss on fair value measurement	69,776	130,615	1,806	66,174	(29,511)	(23,939)	133,146
Profit or loss reclassification to income statement after derecognition	(14,939)	(7,281)	(11,556)	(64,835)	(13,922)	(27,094)	(23,854)
Change in fair value of cash flow hedges	59,352	27,302	64,768	94,773	(28,960)	(3,531)	(17,323)
Tax on items that are or may be reclassified subsequently to profit or loss	(21,696)	(28,621)	(10,453)	(18,261)	13,754	10,367	(17,474)
Items that will never be reclassified to profit or loss:							
Effects of the revaluation or sale of investments in equity instruments designated at fair value through other comprehensive	(7,795)	16,556	802	(11,786)	1,463	(13,940)	(5,431)
Remeasurements of the defined benefit liabilities	-	-	-	463	-	-	-
Tax on items that will never be reclassified to profit or loss	1,481	(3,146)	(152)	2,163	(279)	2,649	1,032
Other comprehensive income (net of tax)	86,179	135,425	45,215	68,691	(57,455)	(55,488)	70,096
Total comprehensive income	743,073	718,358	288,280	817,890	548,854	484,489	462,421
1. Attributable to equity holders of the Bank	742,393	717,531	287,556	817,925	548,338	484,327	462,421
2. Attributable to non-controlling interests	680	827	724	(35)	516	162	-

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

7.3 Consolidated income statement – presentation form

Consolidated income statement for 2019 and 2018

	(in PLN thousand)						
	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	1,391,430	1,357,548	1,300,396	1,294,750	1,257,989	1,235,537	1,205,690
Net fee and commission income	642,777	632,682	603,579	638,270	618,987	617,273	588,054
Dividend income	535	21,266	386	161	245	19,623	157
Trading result	38,372	38,765	28,119	86,457	41,617	44,446	44,294
Net other operating income and expenses	20,983	17,132	16,918	23,912	13,884	12,095	13,625
Net non-interest income	702,667	709,845	649,002	748,800	674,733	693,437	646,130
Operating income	2,094,097	2,067,393	1,949,398	2,043,550	1,932,722	1,928,974	1,851,820
Operating costs	(862,737)	(950,881)	(858,685)	(847,710)	(843,295)	(901,896)	(850,751)
Gross operating profit	1,231,360	1,116,512	1,090,713	1,195,840	1,089,427	1,027,078	1,001,069
Net impairment losses on financial assets and off-balance sheet commitments	(176,463)	(177,238)	(109,683)	(104,855)	(155,277)	(123,932)	(126,961)
Net operating profit	1,054,897	939,274	981,030	1,090,985	934,150	903,146	874,108
Net result on other provisions	(32,576)	(3,467)	(4,729)	406	(297)	(13,768)	(299)
Bank Guarantee Fund fee	(20,530)	(20,472)	(393,162)	(30,655)	(30,512)	(29,983)	(175,042)
Tax on certain financial institutions	(145,579)	(148,423)	(148,861)	(144,164)	(140,934)	(138,593)	(138,301)
Net result on investment activities	1,011	9,581	2,108	60,194	30,843	(6,863)	2,923
Profit before income tax	857,223	776,493	436,386	976,766	793,250	713,939	563,389
Income tax expense	(200,329)	(193,560)	(193,321)	(227,567)	(186,941)	(173,962)	(171,064)
Net profit	656,894	582,933	243,065	749,199	606,309	539,977	392,325
Attributable to equity holders of the Bank	656,214	582,106	242,341	749,227	605,793	539,815	392,325
Attributable to non-controlling interest	680	827	724	(28)	516	162	-

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

8 Other Information

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

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

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

8.3 Related party transactions

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

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

Detailed information on related party transactions is included in Note 41 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2019.

8.4 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 of 9 months ended on 30 September 2019.

8.5 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.

8.6 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 924.2 (principal value) as at the end of September 2019. There is 19 issuances of Structured Certificates of Deposit open in PLN with the maximum maturity date on August 16, 2021. The liabilities with the maturity date in 2019, 2020 and 2021 accounts for 26.2%, 67.8% and 6.0% of its total value respectively.

Certificates of Deposit

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 1,027.0 million (principal value) as at the end of September 2019. There are 7 issuances of Certificates of Deposit. The liabilities with the maturity dates up to 6 months and up to 1 year represent 55.5% and 44.5% of its total value respectively.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019

Subordinated bonds

On 30 October 2017 the Bank issued 10 years subordinated bonds with a total nominal value of PLN 1.25 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 21 December 2017 – to increase the Bank's supplementary capital pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018 the Bank issued 10 years subordinated bonds with a total nominal value of PLN 0.55 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 16 November 2018 – to increase the Bank's supplementary capital pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018 the Bank issued 15 years subordinated bonds with a total nominal value of PLN 0.20 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 18 October 2018 – to increase the Bank's supplementary capital pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 4 June 2019, the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.35 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 8 July 2019 – 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.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of the company's liabilities due to covered bonds amounted to PLN 1,348.7 million (principal value) as at the end of September, 2019. The liabilities under covered bonds with maturity date from 1 year up to 3 up to years account for 53.8% with maturity date from 3 up to 5 years account for 6.7% and with maturity date from 5 up to 10 years account for 39.5% of the total nominal value.

Pekao Bank Hipoteczny S.A. bonds

The total value of the company's liabilities under bonds with maturity date to 1 year amounted to PLN 189.4 million (principal value) as of 30 September 2019.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 1,972.1 million (principal value) as of 30 September 2019. The liabilities with the maturity date up to 1 months, up to 3 months and up to 1 year accounts for 13.3%, 19.6% and 67.1% of its total value respectively.

Pekao Bank Faktoring S.A. bonds

The total value of the company's liabilities under bonds with maturity date to 1 year amounted to PLN 475.1 million (principal value) as of 30 September 2019.

8.7 Pending litigations

Information on significant legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of liabilities and receivables of the Bank and its subsidiaries is included in Note 39 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2019.

8.8 Subsequent events

No significant events occurred after the balance sheet date which were not reflected in the financial statements.

Interim Condensed Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2019



Warsaw, November 2019

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

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Consolidated income statement

(in PLN thousand)

	NOTE	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019	III QUARTER 2018 PERIOD FROM 01.07.2018 TO 30.09.2018	3 QUARTERS 2018 PERIOD FROM 01.01.2018 TO 30.09.2018
Interest income	9	1 703 631	4 970 273	1 544 067	4 538 541
Financial assets measured at amortized cost		1 474 538	4 288 584	1 330 570	3 889 933
Financial assets measured at fair value through other comprehensive income		158 718	485 575	166 448	531 622
Financial assets measured at fair value through profit or loss		70 375	196 114	47 049	116 986
Interest expense	9	(312 201)	(920 899)	(286 078)	(839 325)
Net interest income		1 391 430	4 049 374	1 257 989	3 699 216
Fee and commission income	10	743 649	2 153 596	714 682	2 097 177
Fee and commission expense	10	(100 872)	(274 558)	(95 695)	(272 863)
Net fee and commission income		642 777	1 879 038	618 987	1 824 314
Dividend income	11	535	22 187	245	20 025
Result on financial assets and liabilities measured at fair value through profit or loss	12	20 752	69 478	26 507	62 171
Result on fair value hedge accounting	28	(1 972)	(3 676)	1 159	3 158
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	19 592	39 454	14 261	65 338
OPERATING INCOME		2 073 114	6 055 855	1 919 148	5 674 222
Net impairment losses on financial assets and off-balance sheet commitments	14	(176 463)	(463 384)	(155 277)	(406 170)
NET RESULT ON FINANCIAL ACTIVITY		1 896 651	5 592 471	1 763 871	5 268 052
Administrative expenses	15	(905 268)	(3 170 529)	(922 069)	(2 978 962)
Personnel expenses		(502 264)	(1 568 116)	(490 526)	(1 545 699)
Other administrative expenses		(403 004)	(1 602 413)	(431 543)	(1 433 263)
Depreciation and amortization	16	(123 578)	(378 801)	(92 672)	(270 345)
Net result on other provisions		(32 576)	(40 772)	(297)	(14 364)
Net other operating income and expenses	17	20 983	55 033	13 574	39 294
OPERATING COSTS		(1 040 439)	(3 535 069)	(1 001 464)	(3 224 377)
Gains (losses) on subsidiaries and associates		-	-	-	-
Gains (losses) on disposal of property, plant and equipment and intangible assets	18	1 011	12 700	30 843	26 903
PROFIT BEFORE INCOME TAX		857 223	2 070 102	793 250	2 070 578
Income tax expense	19	(200 329)	(587 210)	(186 941)	(531 967)
NET PROFIT		656 894	1 482 892	606 309	1 538 611
1. Attributable to equity holders of the Bank		656 214	1 480 661	605 793	1 537 933
2. Attributable to non-controlling interests		680	2 231	516	678
Earnings per share (in PLN per share)					
basic for the period	20	2.50	5.64	2.31	5.86
diluted for the period	20	2.50	5.64	2.31	5.86

Notes to the financial statements presented on pages 19 - 116 constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019	III QUARTER 2018 PERIOD FROM 01.07.2018 TO 30.09.2018	3 QUARTERS 2018 PERIOD FROM 01.01.2018 TO 30.09.2018
Net profit		656 894	1 482 892	606 309	1 538 611
Other comprehensive income					
Item that are or may be reclassified subsequently to profit or loss:					
Change in fair value of financial assets measured at fair value through other comprehensive income:		54 837	168 421	(43 432)	14 827
Profit or loss on fair value measurement		69 776	202 197	(29 511)	79 696
Profit or loss reclassification to income statement after derecognition		(14 939)	(33 776)	(13 921)	(64 869)
Change in fair value of cash flow hedges	28	59 352	151 422	(28 960)	(49 814)
Tax on items that are or may be reclassified subsequently to profit or loss	19	(21 696)	(60 770)	13 754	6 647
Items that will never be reclassified to profit or loss:					
Effects of the revaluation or sale of investments in equity instruments designated at fair value through other comprehensive		(7 795)	9 563	1 463	(17 908)
Remeasurements of the defined benefit liabilities		-	-	-	-
Tax on items that will never be reclassified to profit or loss	19	1 481	(1 817)	(279)	3 402
Other comprehensive income (net of tax)		86 179	266 819	(57 454)	(42 846)
Total comprehensive income		743 073	1 749 711	548 855	1 495 765
1. Attributable to equity holders of the Bank		742 393	1 747 480	548 339	1 495 087
2. Attributable to non-controlling interests		680	2 231	516	678

Notes to the financial statements presented on pages 19 - 116 constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	30.09.2019	31.12.2018
ASSETS			
Cash and due from Central Bank	22	6 357 556	13 026 584
Loans and advances to banks	23	2 222 527	2 268 422
Financial assets held for trading	24	1 944 985	762 712
Derivative financial instruments (held for trading)	25	2 310 117	1 451 662
Loans and advances to customers	26	132 184 789	123 970 055
1. Measured at amortised cost		130 311 302	122 156 323
2. Measured at fair value through profit or loss		256 352	302 630
3. Measured at fair value through other comprehensive income		1 617 135	1 511 102
Receivables from finance leases	27	6 432 198	5 326 667
Hedging instruments	28	451 871	313 565
Investments (placement) securities	29	41 056 627	38 586 995
1. Measured at fair value through profit or loss		111 276	65 408
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		25 407 321	27 032 827
4. Designated at fair value through other comprehensive income (equity instruments)		242 460	232 861
5. Measured at amortised cost		15 295 570	11 255 899
Assets held for sale	30	45 895	11 550
Investments in associates		-	-
Intangible assets	31	1 525 994	1 526 746
Property, plant and equipment	32	1 875 115	1 419 942
Investment properties		10 950	11 168
Income tax assets		1 166 899	1 132 416
1. Current tax assets		887	1 345
2. Deferred tax assets		1 166 012	1 131 071
Other assets		1 218 877	1 281 321
TOTAL ASSETS		198 804 400	191 089 805
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	22	5 037	5 067
Amounts due to other banks	34	6 138 182	5 615 631
Financial liabilities held for trading	24	741 373	102 429
Derivative financial instruments (held for trading)	25	2 545 380	1 913 046
Amounts due to customers	35	153 720 835	149 491 059
Hedging instruments	28	722 726	905 056
Debt securities issued	36	5 949 884	5 230 814
Subordinated liabilities	37	2 383 275	2 012 485
Income tax liabilities		233 064	244 534
1. Current tax liabilities		202 125	211 826
2. Deferred tax liabilities		30 939	32 708
Provisions	38	752 575	635 085
Other liabilities		2 788 142	2 126 382
TOTAL LIABILITIES		175 980 473	168 281 588
Equity			
Share capital		262 470	262 470
Other capital and reserves		20 775 049	20 865 916
Retained earnings and net profit for the period		1 774 001	1 668 340
Total equity attributable to equity holders of the Bank		22 811 520	22 796 726
Non-controlling interests		12 407	11 491
TOTAL EQUITY		22 823 927	22 808 217
TOTAL LIABILITIES AND EQUITY		198 804 400	191 089 805

Notes to the financial statements presented on pages 19 - 116 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2019 to 30 September 2019

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 01.01.2019	262 470	20 865 916	9 137 221	1 982 459	9 137 113	202 663	406 460	1 668 340	22 796 726	11 491	22 808 217
Comprehensive income	-	266 819	-	-	195	266 624	-	1 480 661	1 747 480	2 231	1 749 711
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	171	(171)	-	-	-	-	-
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	136 421	-	-	-	136 421	-	-	136 421	-	136 421
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	7 746	-	-	24	7 722	-	-	7 746	-	7 746
Revaluation of hedging financial instruments (net of tax)	-	122 652	-	-	-	122 652	-	-	122 652	-	122 652
Net profit for the period	-	-	-	-	-	-	-	1 480 661	1 480 661	2 231	1 482 892
Appropriation of retained earnings	-	593 566	-	-	587 318	-	6 248	(2 325 868)	(1 732 302)	(1 214)	(1 733 516)
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)	(1 214)	(1 733 516)
Profit appropriation to other reserves	-	593 566	-	-	587 318	-	6 248	(593 566)	-	-	-
Other	-	(951 252)	-	-	(936 782)	-	(14 470)	950 868	(384)	(101)	(485)
Coverage of negative impact of IFRS 9 implementation	-	(951 218)	-	-	(936 748)	-	(14 470)	951 218	-	-	-
Other	-	(34)	-	-	(34)	-	-	(350)	(384)	(101)	(485)
Equity as at 30.09.2019	262 470	20 775 049	9 137 221	1 982 459	8 787 844	469 287	398 238	1 774 001	22 811 520	12 407	22 823 927

Notes to the financial statements presented on pages 19 - 116 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2018 to 31 December 2018

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK									NON – CONTROLLING INTERESTS	TOTAL EQUITY
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATIO N RESERVES	OTHER				
Equity as at 01.01.2018	262 470	20 561 177	9 137 221	1 982 459	9 099 775	(56 528)	398 250	2 444 167	23 267 814	-	23 267 814
Initial application of IFRS 9	-	236 085	-	-	-	236 085	-	(965 681)	(729 596)	-	(729 596)
Equity as at 01.01.2018 - restated	262 470	20 797 262	9 137 221	1 982 459	9 099 775	179 557	398 250	1 478 486	22 538 218	-	22 538 218
Comprehensive income	-	25 851	-	-	1 070	24 781	-	2 287 160	2 313 011	643	2 313 654
Remeasurements of the defined benefit liabilities (net of tax)	-	381	-	-	-	381	-	-	381	(7)	374
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	13 093	-	-	-	13 093	-	-	13 093	-	13 093
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(24 040)	-	-	1 070	(25 110)	-	-	(24 040)	-	(24 040)
Revaluation of hedging financial instruments (net of tax)	-	36 417	-	-	-	36 417	-	-	36 417	-	36 417
Net profit for the period	-	-	-	-	-	-	-	2 287 160	2 287 160	650	2 287 810
Appropriation of retained earnings	-	23 793	-	-	15 583	-	8 210	(2 097 306)	(2 073 513)	-	(2 073 513)
Dividend paid	-	-	-	-	-	-	-	(2 073 513)	(2 073 513)	-	(2 073 513)
Profit appropriation to other reserves	-	23 793	-	-	15 583	-	8 210	(23 793)	-	-	-
Other	-	19 010	-	-	20 685	(1 675)	-	-	19 010	10 848	29 858
Changes in non-controlling interests	-	(3 491)	-	-	(3 513)	22	-	-	(3 491)	10 848	7 357
Transfer of management of Pekao OFE and DFE Pekao funds	-	22 680	-	-	22 680	-	-	-	22 680	-	22 680
Other	-	(179)	-	-	1 518	(1 697)	-	-	(179)	-	(179)
Equity as at 31.12.2018	262 470	20 865 916	9 137 221	1 982 459	9 137 113	202 663	406 460	1 668 340	22 796 726	11 491	22 808 217

Notes to the financial statements presented on pages 19 - 116 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2018 to 30 September 2018

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK											
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL							
Equity as at 01.01.2018	262 470	20 561 177	9 137 221	1 982 459	9 099 775	(56 528)	398 250	2 444 167	23 267 814	-	23 267 814	
Initial application of IFRS 9	-	236 085	-	-	-	236 085	-	(956 518)	(720 433)	-	(720 433)	
Equity as at 01.01.2018 - restated	262 470	20 797 262	9 137 221	1 982 459	9 099 775	179 557	398 250	1 487 649	22 547 381	-	22 547 381	
Comprehensive income	-	(42 006)	-	-	840	(42 846)	-	1 537 933	1 495 927	678	1 496 605	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-	
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	12 009	-	-	-	12 009	-	-	12 009	-	12 009	
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(13 666)	-	-	840	(14 506)	-	-	(13 666)	-	(13 666)	
Revaluation of hedging financial instruments (net of tax)	-	(40 349)	-	-	-	(40 349)	-	-	(40 349)	-	(40 349)	
Net profit for the period	-	-	-	-	-	-	-	1 537 933	1 537 933	678	1 538 611	
Appropriation of retained earnings	-	23 793	-	-	15 583	-	8 210	(2 097 306)	(2 073 513)	-	(2 073 513)	
Dividend paid	-	-	-	-	-	-	-	(2 073 513)	(2 073 513)	-	(2 073 513)	
Profit appropriation to other reserves	-	23 793	-	-	15 583	-	8 210	(23 793)	-	-	-	
Other	-	18 989	-	-	20 664	(1 675)	-	-	18 989	10 848	29 837	
Changes in non-controlling interests	-	(3 491)	-	-	(3 513)	22	-	-	(3 491)	10 848	7 357	
Transfer of management of Pekao OFE and DFE Pekao funds	-	22 680	-	-	22 680	-	-	-	22 680	-	22 680	
Other	-	(200)	-	-	1 497	(1 697)	-	-	(200)	-	(200)	
Equity as at 30.09.2018	262 470	20 798 038	9 137 221	1 982 459	9 136 862	135 036	406 460	928 276	21 988 784	11 526	22 000 310	

Notes to the financial statements presented on pages 19 – 116 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019	III QUARTER 2018 PERIOD FROM 01.07.2018 TO 30.09.2018	3 QUARTERS 2018 PERIOD FROM 01.01.2018 TO 30.09.2018
Cash flow from operating activities – indirect method					
Net profit for the period		656 214	1 480 661	605 793	1 537 933
Adjustments for:		(689 278)	(4 195 753)	(2 469 659)	(9 722 364)
Depreciation and amortization	16	123 578	378 801	92 672	270 345
(Gains) losses on investing activities		(19 430)	(49 932)	(44 985)	(82 506)
Net interest income	9	(1 391 430)	(4 049 374)	(1 257 989)	(3 699 216)
Dividend income	11	(535)	(22 187)	(245)	(20 025)
Interest received		1 645 518	5 059 437	1 685 271	4 780 782
Interest paid		(344 522)	(922 299)	(285 358)	(811 729)
Income tax		200 329	587 210	186 941	531 967
Income tax paid		(171 857)	(546 922)	(160 455)	(623 129)
Change in loans and advances to banks		63 692	(84 081)	292 148	293 116
Change in financial assets held for trading		286 961	(1 183 472)	784 559	1 182 914
Change in derivative financial instruments (assets)		(533 549)	(858 455)	172 989	285 953
Change in loans and advances to customers		(2 876 052)	(8 355 728)	(3 639 364)	(7 372 825)
Change in receivables from finance leases		(402 777)	(1 105 531)	(193 125)	(516 731)
Change in investment (placement) securities		(186 573)	(283 469)	(11 887)	(493 463)
Change in other assets		116 742	(521 099)	(664 276)	(418 610)
Change in amounts due to banks		(615 133)	1 441 895	(632 392)	(238 773)
Change in financial liabilities held for trading		200 753	638 944	(55 491)	(99 036)
Change in derivative financial instruments (liabilities)		268 036	632 334	330 332	(249 103)
Change in amounts due to customers		3 415 205	4 379 161	833 818	(2 427 277)
Change in debt securities issued		34 672	34 029	(23 069)	(19 043)
Change in subordinated liabilities		19 956	20 790	10 387	10 212
Payments for short-term leases and leases of low-value assets		(5 008)	(19 736)	-	-
Change in provisions		5 283	117 490	(69 915)	(73 712)
Change in other liabilities		(523 137)	516 441	179 775	67 525
Net cash flows from operating activities		(33 064)	(2 715 092)	(1 863 866)	(8 184 431)
Cash flow from investing activities					
Investing activity inflows		8 270 455	120 220 594	31 571 506	106 829 392
Sale of investment securities		8 265 294	120 180 971	31 275 226	106 069 521
Sale of intangible assets and property, plant and equipment		4 626	17 436	2 818	17 403
Dividend received	11	535	22 187	19 085	20 025
Transfer of management funds		-	-	-	22 680
Other investing inflows		-	-	274 377	699 763
Investing activity outflows		(5 003 280)	(122 556 141)	(29 092 331)	(95 568 560)
Acquisition of investment securities		(4 879 551)	(122 299 153)	(29 035 215)	(95 423 319)
Acquisition of intangible assets and property, plant and equipment		(123 729)	(256 988)	(57 116)	(145 241)
Net cash flows from investing activities		3 267 175	(2 335 547)	2 479 175	11 260 832

Notes to the financial statements presented on pages 19 - 116 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019	III QUARTER 2018 PERIOD FROM 01.07.2018 TO 30.09.2018	3 QUARTERS 2018 PERIOD FROM 01.01.2018 TO 30.09.2018
Cash flows from financing activities					
Financing activity inflows	40	3 677 849	7 994 422	2 827 560	5 922 819
Due to loans and advances received from banks		1 896 674	2 624 491	565 838	1 826 914
Issue of debt securities		1 781 175	5 019 931	2 261 722	4 095 905
Issue of subordinated bonds		-	350 000	-	-
Financing activity outflows		(5 295 388)	(9 739 377)	(4 162 366)	(6 082 778)
Repayment of loans and advances received from banks	40	(1 730 084)	(3 547 658)	(712 179)	(1 891 377)
Redemption of debt securities	40	(1 794 646)	(4 331 949)	(1 376 674)	(2 117 888)
Dividends and other payments to shareholders		(1 732 302)	(1 732 302)	(2 073 513)	(2 073 513)
Payments for the principal portion of the lease liabilities	40	(38 356)	(127 468)	-	-
Net cash flows from financing activities		(1 617 539)	(1 744 955)	(1 334 806)	(159 959)
Total net cash flows		1 616 572	(6 795 594)	(719 497)	2 916 442
including effect of exchange rate fluctuations on cash and cash equivalents held		69 138	52 249	(41 820)	57 508
Net change in cash and cash equivalents		1 616 572	(6 795 594)	(719 497)	2 916 442
Cash and cash equivalents at the beginning of the period		6 827 100	15 239 266	10 980 979	7 345 040
Cash and cash equivalents at the end of the period	40	8 443 672	8 443 672	10 261 482	10 261 482

Notes to the financial statements presented on pages 19 – 116 constitute an integral part of the consolidated financial statements.

Unconsolidated income statement

(in PLN thousand)

	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019	III QUARTER 2018 PERIOD FROM 01.07.2018 TO 30.09.2018	3 QUARTERS 2018 PERIOD FROM 01.01.2018 TO 30.09.2018
Interest income	1 637 893	4 782 410	1 496 223	4 411 880
Financial assets measured at amortized cost	1 406 941	4 095 932	1 282 419	3 760 710
Financial assets measured at fair value through other comprehensive income	159 179	486 914	166 457	533 314
Financial assets measured at fair value through profit or loss	71 773	199 564	47 347	117 856
Interest expense	(284 334)	(840 097)	(269 499)	(805 023)
Net interest income	1 353 559	3 942 313	1 226 724	3 606 857
Fee and commission income	627 550	1 802 319	611 712	1 771 804
Fee and commission expense	(98 628)	(270 427)	(93 827)	(262 234)
Net fee and commission income	528 922	1 531 892	517 885	1 509 570
Dividend income	46 018	246 617	168	255 204
Result on financial assets and liabilities measured at fair value through profit or loss	16 512	57 341	25 890	58 205
Result on fair value hedge accounting	(1 972)	(3 676)	1 159	3 158
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	19 044	38 514	14 015	64 621
OPERATING INCOME	1 962 083	5 813 001	1 785 841	5 497 615
Net impairment losses on financial assets and off-balance sheet commitments	(162 786)	(425 938)	(148 340)	(377 933)
NET RESULT ON FINANCIAL ACTIVITY	1 799 297	5 387 063	1 637 501	5 119 682
Administrative expenses	(832 297)	(2 944 267)	(849 022)	(2 762 916)
Personnel expenses	(436 845)	(1 372 002)	(425 856)	(1 356 300)
Other administrative expenses	(395 452)	(1 572 265)	(423 166)	(1 406 616)
Depreciation and amortization	(112 036)	(343 536)	(84 141)	(246 053)
Net result on other provisions	(32 502)	(40 663)	(303)	(14 700)
Net other operating income and expenses	14 187	40 397	10 061	32 207
OPERATING COSTS	(962 648)	(3 288 069)	(923 405)	(2 991 462)
Gains (losses) on subsidiaries and associates	-	-	-	(11 069)
Gains (losses) on disposal of property, plant and equipment, and intangible assets	766	12 337	30 631	36 070
PROFIT BEFORE INCOME TAX	837 415	2 111 331	744 727	2 153 221
Income tax expense	(187 140)	(544 796)	(177 773)	(502 394)
NET PROFIT	650 275	1 566 535	566 954	1 650 827
Earnings per share (in PLN per share)				
basic for the period	2.48	5.97	2.16	6.29
diluted for the period	2.48	5.97	2.16	6.29

Unconsolidated statement of comprehensive income

(in PLN thousand)

	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019	III QUARTER 2018 PERIOD FROM 01.07.2018 TO 30.09.2018	3 QUARTERS 2018 PERIOD FROM 01.01.2018 TO 30.09.2018
Net profit	650 275	1 566 535	566 954	1 650 827
Other comprehensive income				
Item that are or may be reclassified subsequently to profit or loss:				
Change in fair value of financial assets measured at fair value through other comprehensive income	57 091	170 715	(42 553)	11 118
Profit or loss on fair value measurement	71 783	203 852	(28 877)	75 271
Profit or loss reclassification to income statement after derecognition	(14 692)	(33 137)	(13 676)	(64 153)
Change in fair value of cash flow hedges	59 352	151 422	(28 960)	(49 814)
Tax on items that are or may be reclassified subsequently to profit or loss	(22 124)	(61 206)	13 587	7 352
Items that will never be reclassified to profit or loss:				
Investment in equity instruments designated at fair value through other comprehensive income	(7 779)	9 563	1 281	(17 944)
Remeasurements of the defined benefit liabilities	-	-	-	-
Tax on items that will never be reclassified to profit or loss	1 478	(1 817)	(244)	3 409
Other comprehensive income (net of tax)	88 018	268 677	(56 889)	(45 879)
Total comprehensive income	738 293	1 835 212	510 065	1 604 948

Unconsolidated statement of financial position

(in PLN thousand)

	30.09.2019	31.12.2018
ASSETS		
Cash and due from Central Bank	6 356 523	12 972 575
Loans and advances to banks	2 600 717	2 508 553
Financial assets held for trading	2 186 356	890 339
Derivative financial instruments (held for trading)	2 325 397	1 455 976
Loans and advances to customers	130 691 713	122 349 115
1. Measured at amortised cost	128 650 992	120 349 597
2. Measured at fair value through profit or loss	256 352	302 630
3. Measured at fair value through other comprehensive income	1 784 369	1 696 888
Hedging instruments	451 871	313 565
Investment (placement) securities	41 058 257	38 333 179
1. Measured at fair value through profit or loss	90 722	65 408
2. Designated at fair value through profit or loss	-	-
3. Measured at fair value through other comprehensive income (debt securities)	25 450 265	26 904 574
4. Designated at fair value through other comprehensive income (equity instruments)	242 460	232 830
5. Measured at amortised cost	15 274 810	11 130 367
Assets held for sale	45 895	11 550
Investments in subsidiaries	1 626 449	1 682 756
Investments in associates	-	-
Intangible assets	645 669	633 165
Property, plant and equipment	1 798 205	1 384 203
Investment properties	10 950	11 168
Income tax assets	849 927	840 988
1. Current tax assets	-	-
2. Deferred tax assets	849 927	840 988
Other assets	1 000 363	960 044
TOTAL ASSETS	191 648 292	184 347 176
EQUITY AND LIABILITIES		
Liabilities		
Amounts due to Central Bank	5 037	5 067
Amounts due to other banks	3 444 415	2 921 955
Financial liabilities held for trading	741 373	102 429
Derivative financial instruments (held for trading)	2 552 647	1 919 394
Amounts due to customers	154 296 471	150 132 028
Hedging instruments	722 726	905 056
Debt securities issued	1 959 580	1 732 596
Subordinated liabilities	2 383 275	2 012 485
Income tax liabilities	198 442	187 938
1. Current tax liabilities	198 442	187 938
2. Deferred tax liabilities	-	-
Provisions	764 097	654 960
Other liabilities	2 623 796	1 951 270
TOTAL LIABILITIES	169 691 859	162 525 178
Equity		
Share capital	262 470	262 470
Other capital and reserves	20 127 428	20 185 676
Retained earnings and net profit for the period	1 566 535	1 373 852
TOTAL EQUITY	21 956 433	21 821 998
TOTAL LIABILITIES AND EQUITY	191 648 292	184 347 176

Unconsolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2019 to 30 September 2019

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY	
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES			OTHER
Equity as at 01.01.2019	262 470	20 185 676	9 137 221	1 982 459	8 627 858	205 011	233 127	1 373 852	21 821 998
Comprehensive income	-	268 677	-	-	-	268 677	-	1 566 535	1 835 212
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	138 279	-	-	-	138 279	-	-	138 279
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	7 746	-	-	-	7 746	-	-	7 746
Revaluation of hedging financial instruments (net of tax)	-	122 652	-	-	-	122 652	-	-	122 652
Net profit for the period	-	-	-	-	-	-	-	1 566 535	1 566 535
Appropriation of retained earnings	-	578 298	-	-	578 298	-	-	(2 310 600)	(1 732 302)
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)
Profit appropriation	-	578 298	-	-	578 298	-	-	(578 298)	-
Other	-	(905 223)	-	-	(905 223)	-	-	936 748	31 525
Coverage of negative impact of IFRS 9 implementation	-	(936 748)	-	-	(936 748)	-	-	936 748	-
Transfer of a part of CDM assets and liabilities to the Bank (Note 2)	-	31 525	-	-	31 525	-	-	-	31 525
Equity as at 30.09.2019	262 470	20 127 428	9 137 221	1 982 459	8 300 933	473 688	233 127	1 566 535	21 956 433

Unconsolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2018 to 31 December 2018

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 01.01.2018	262 470	19 907 935	9 137 221	1 982 459	8 612 550	(57 422)	233 127	2 088 129	22 258 534	
Initial application of IFRS 9	-	240 203	-	-	-	240 203	-	(936 748)	(696 545)	
Equity as at 01.01.2018 - restated	262 470	20 148 138	9 137 221	1 982 459	8 612 550	182 781	233 127	1 151 381	21 561 989	
Comprehensive income	-	22 922	-	-	692	22 230	-	2 310 600	2 333 522	
Remeasurements of the defined benefit liabilities (net of tax)	-	327	-	-	-	327	-	-	327	
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	10 102	-	-	-	10 102	-	-	10 102	
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(23 924)	-	-	692	(24 616)	-	-	(23 924)	
Revaluation of hedging financial instruments (net of tax)	-	36 417	-	-	-	36 417	-	-	36 417	
Net profit for the period	-	-	-	-	-	-	-	2 310 600	2 310 600	
Appropriation of retained earnings	-	14 616	-	-	14 616	-	-	(2 088 129)	(2 073 513)	
Dividend paid	-	-	-	-	-	-	-	(2 073 513)	(2 073 513)	
Profit appropriation	-	14 616	-	-	14 616	-	-	(14 616)	-	
Equity as at 31.12.2018	262 470	20 185 676	9 137 221	1 982 459	8 627 858	205 011	233 127	1 373 852	21 821 998	

Unconsolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2018 to 30 September 2018

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 01.01.2018	262 470	19 907 935	9 137 221	1 982 459	8 612 550	(57 422)	233 127	2 088 129	22 258 534	
Initial application of IFRS 9	-	240 203	-	-	-	240 203	-	(936 748)	(696 545)	
Equity as at 01.01.2018 - restated	262 470	20 148 138	9 137 221	1 982 459	8 612 550	182 781	233 127	1 151 381	21 561 989	
Comprehensive income	-	(45 039)	-	-	840	(45 879)	-	1 650 827	1 605 788	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	9 005	-	-	-	9 005	-	-	9 005	
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(13 695)	-	-	840	(14 535)	-	-	(13 695)	
Revaluation of hedging financial instruments (net of tax)	-	(40 349)	-	-	-	(40 349)	-	-	(40 349)	
Net profit for the period	-	-	-	-	-	-	-	1 650 827	1 650 827	
Appropriation of retained earnings	-	14 616	-	-	14 616	-	-	(2 088 129)	(2 073 513)	
Dividend paid	-	-	-	-	-	-	-	(2 073 513)	(2 073 513)	
Profit appropriation	-	14 616	-	-	14 616	-	-	(14 616)	-	
Equity as at 30.09.2018	262 470	20 117 715	9 137 221	1 982 459	8 628 006	136 902	233 127	714 079	21 094 264	

Unconsolidated cash flow statement

(in PLN thousand)

	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019	III QUARTER 2018 PERIOD FROM 01.07.2018 TO 30.09.2018	3 QUARTERS 2018 PERIOD FROM 01.01.2018 TO 30.09.2018
Cash flow from operating activities – indirect method				
Net profit for the period	650 275	1 566 535	566 954	1 650 827
Adjustments for:	(613 647)	(4 470 750)	(1 391 240)	(7 610 131)
Depreciation and amortization	112 036	343 536	84 141	246 053
(Gains) losses on investing activities	(18 638)	(48 628)	(44 529)	(100 413)
Net interest income	(1 353 559)	(3 942 313)	(1 226 724)	(3 606 857)
Dividend income	(46 018)	(246 617)	(168)	(255 204)
Interest received	1 593 053	4 895 208	1 636 202	4 754 704
Interest paid	(318 047)	(858 856)	(267 337)	(783 294)
Income tax	187 140	544 796	177 773	502 394
Income tax paid	(155 114)	(460 357)	(140 156)	(561 671)
Change in loans and advances to banks	31 499	68 723	157 488	225 747
Change in financial assets held for trading	697 865	(1 297 216)	776 408	1 112 600
Change in derivative financial instruments (assets)	(548 804)	(869 421)	174 121	284 568
Change in loans and advances to customers	(3 567 411)	(8 508 947)	(2 669 298)	(5 385 959)
Change in investment (placement) securities	(119 992)	(200 440)	(10 351)	(491 769)
Change in other assets	(28 979)	(615 213)	(650 821)	(421 083)
Change in amounts due to banks	(566 976)	495 716	(645 553)	(255 273)
Change in financial liabilities held for trading	200 753	638 944	(55 491)	(99 036)
Change in derivative financial instruments (liabilities)	267 690	633 253	335 308	(246 289)
Change in amounts due to customers	3 497 460	4 296 649	830 826	(2 622 525)
Change in debt securities issued	24 001	21 922	(11 521)	(12 526)
Change in subordinated liabilities	19 956	20 790	10 387	10 212
Payments for short-term leases and leases of low-value assets	(1 517)	(8 092)	-	-
Change in provisions	910	109 137	(64 447)	(62 820)
Change in other liabilities	(520 955)	516 676	212 502	158 310
Net cash flows from operating activities	36 628	(2 904 215)	(824 286)	(5 959 304)
Cash flow from investing activities				
Investing activity inflows	7 647 778	119 686 387	31 524 526	106 955 778
Sale of investment securities	7 598 155	119 424 015	31 250 539	105 994 733
Sale of intangible assets and property, plant and equipment	3 605	15 755	1 612	8 866
Dividend received	46 018	246 617	168	255 204
Other investing inflows	-	-	272 207	696 975
Investing activity outflows	(4 449 162)	(121 979 576)	(29 064 976)	(95 489 798)
Acquisition of investment securities	(4 348 396)	(121 799 232)	(29 015 236)	(95 373 380)
Acquisition of intangible assets and property, plant and equipment	(100 766)	(180 344)	(49 740)	(116 418)
Net cash flows from investing activities	3 198 616	(2 293 189)	2 459 550	11 465 980

Unconsolidated cash flow statement (cont.)

(in PLN thousand)

	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019	III QUARTER 2018 PERIOD FROM 01.07.2018 TO 30.09.2018	3 QUARTERS 2018 PERIOD FROM 01.01.2018 TO 30.09.2018
Cash flows from financing activities				
Financing activity inflows	885 588	1 704 357	585 972	1 126 875
Due to loans and advances received from banks	185 006	218 881	-	-
Issue of debt securities	700 582	1 135 476	585 972	1 126 875
Issue of subordinated bonds	-	350 000	-	-
Financing activity outflows	(2 506 938)	(2 960 308)	(3 004 387)	(3 711 208)
Repayment of loans and advances received from banks	(88 843)	(195 884)	(88 282)	(197 488)
Redemption of debt securities	(648 747)	(909 718)	(842 592)	(1 440 207)
Dividends and other payments to shareholders	(1 732 302)	(1 732 302)	(2 073 513)	(2 073 513)
Payments for the principal portion of the lease liabilities	(37 046)	(122 404)	-	-
Net cash flows from financing activities	(1 621 350)	(1 255 951)	(2 418 415)	(2 584 333)
Total net cash flows	1 613 894	(6 453 355)	(783 151)	2 922 343
including effect of exchange rate fluctuations on cash and cash equivalents held	69 120	52 662	(54 623)	71 323
Net change in cash and cash equivalents	1 613 894	(6 453 355)	(783 151)	2 922 343
Cash and cash equivalents at the beginning of the period	7 165 521	15 232 770	10 999 201	7 293 707
Cash and cash equivalents at the end of the period	8 779 415	8 779 415	10 216 050	10 216 050

Notes to financial statements

(in PLN thousand)

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

1. General information

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

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

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

The interim condensed consolidated financial statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 September 2019 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and the associates accounted for using equity method.

The financial statements have been prepared on a going concern basis on the assumption that the Group will continue its business operations substantially unchanged in scope for a period of at least one year from the balance sheet date.

The share ownership structure of the Bank is presented in the Note 5.4 of the Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019.

2. Group structure

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.09.2019	31.12.2018
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	-	100.00
Pekao Leasing Sp. z o.o.	Warsaw	Leasing services	100.00	100.00
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	Warsaw	Pension fund management	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	66.50	66.50
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A. (in liquidation), including:	Warsaw	Real estate development	100.00	100.00
<i>FPB - Media Sp. z o.o. (in bankructcy)</i>	<i>Warsaw</i>	<i>Real estate development</i>	<i>100.00</i>	<i>100.00</i>
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediary	100.00	100.00
Pekao Investment Management S.A., including:	Warsaw	Holding	100.00	100.00
<i>Pekao TFI S.A.</i>	<i>Warsaw</i>	<i>Asset management</i>	<i>100.00</i>	<i>100.00</i>

As at 30 September 2019 and 31 December 2018 all subsidiaries of the Bank have been consolidated.

Notes to financial statements (cont.)

(in PLN thousand)

Associates

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.09.2019	31.12.2018
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00

As at 30 September 2019, the Group held no shares in entities under joint control.

Division of Centralny Dom Maklerski Pekao S.A.

On 30 August 2019 the company Centralny Dom Maklerski Pekao S.A. (hereinafter 'CDM') was divided in accordance with the procedure specified in Art. 529 § 1.1 of the Commercial Companies Code, i.e. through:

- a transfer to the Bank of a part of the assets and liabilities and the rights and obligations of CDM in the form of the organised part of the enterprise of CDM connected with the provision of brokerage services, and
- a transfer to Centrum Bankowości Bezpośredniej (hereinafter 'CBB') of a part of the assets and liabilities and the rights and obligations of CDM in the form of the organised part of the enterprise of CDM connected with the provision of call center services.

Following the division, on 30 August 2019, the CDM was struck off from the National Court Register by the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register. Consequently, pursuant to Art. 530 § 1 of the Commercial Companies Code, the CDM was wound up without going into liquidation on the date on which it was struck off the National Court Register and, in accordance with Article 531 § 1 of the Commercial Companies Code, the CDM division has become legally effective.

The transfer transaction of CDM assets was recognized in accordance with adopted accounting policies, applied for business combinations under common control. The Bank recognized transferred assets and liabilities of the CDM at their book values. Pursuant to the transaction, neither goodwill nor gain on a bargain purchase was recognized. The difference between the value of transferred assets and liabilities, and the value of the Bank's investment in CDM in the amount of PLN 31 525 thousand was recognized in the equity of the Bank. The transfer transaction of CDM assets had no impact on the Group.

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

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

3. Business combinations

In the period of three quarters of 2019 there were no business combinations in the Group.

Notes to financial statements (cont.)

(in PLN thousand)

4. Statement of compliance

The interim condensed consolidated financial statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September of 2019 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) as adopted by the European Union and other applicable regulations.

These financial statements do not include all information required for annual financial statements, and shall be read in conjunction with the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018, including changes caused by the implementation of International Financial Reporting Standard 16 'Leases' (IFRS 16) as of 1 January 2019 (described in Note 5.1). The consolidated financial statements of Bank Pekao S.A. Group as at and for the year ended 31 December 2018 are available at the Bank's website www.pekao.com.pl.

In accordance with the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2018, item 757) the Bank is required to publish the financial report for the nine months period ended 30 September 2019, i.e. current interim period.

The interim condensed consolidated financial statements have been prepared in Polish Zloty, and all amounts are stated in PLN thousand, unless indicated otherwise.

These interim condensed consolidated financial statements were authorized for issue by the Management Board on 5 November 2019.

5. Significant accounting policies

5.1 Basis of preparation of Consolidated Financial Statements

General information

Interim Condensed Consolidated Financial Statements of the Group for the period of 9 months ended on 30 September of 2019 have been prepared based on the following valuation methods:

- at fair value for derivatives, financial assets and liabilities held for trading, financial assets designated as measured at fair value through profit and loss at initial recognition, equity instruments, financial assets classified to business model whose objective is achieved by both collecting contractual cash flows and selling financial assets that do not meet SPPI criteria and financial assets that do not meet SPPI criteria,
- at amortized cost for financial assets, classified to business model whose objective is to hold financial assets in order to collect contractual cash and meeting SPPI criteria at the same time, for other financial liabilities,
- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

In the period of nine months ended on 30 September of 2019 the Group did not amend its accounting policies in respect to valuation of assets and liabilities and profit measurement, except for the changes related to application of International Financial Reporting Standard 16 'Leases' (hereinafter 'IFRS 16') as described below. The accounting policies applied by the Group in these condensed consolidated interim financial statements, except for the changes resulting from IFRS 16, are the same as those applied in the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2018. Those accounting policies have been applied uniformly to all presented reporting periods and by all entities of the Group.

Notes to financial statements (cont.)

(in PLN thousand)

IFRS 16

The application of IFRS 16 resulted in changes to the Group's accounting policy regarding the recognition, measurement and presentation of lease agreements. The Group decided to recognize right-of-use assets in the item of the statement of financial position 'Property, plant and equipment' and lease liabilities - in the item of the statement of financial position 'Amounts due to customers' or 'Amounts due to banks'.

The Group recognizes the lease contract as a component of the right-to-use assets and the corresponding lease liability on the date when the subject of the lease is available for use. Each lease payment is allocated between the liability and accrued interest on the liability. Interest expense is recognized in the income statement over the lease term to obtain a constant periodic interest rate on the remaining balance of the lease liability. The right-of-use asset is depreciated on a straight-line basis over the shorter of two periods: the useful life of the asset or the lease term.

On the date when the lease commences, the Group, as the lessee, measures the lease liability in the present value of lease payments outstanding as at that date. The leasing liability includes the current value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if the rate can be readily determined, or the Group's incremental borrowing rate.

The right-to-use assets are measured at cost, including:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee, and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located, whether the lessee incurs the obligation for those costs.

Short-term lease payments and payments for leases of low-value assets are recognized as an expense in the income statement on a straight-line basis. Short-term lease contracts are lease contracts that have a lease term of 12 months or less. Low-value assets include mainly lease of space (land) for ATMs.

In accordance with the transitional provisions included in IFRS 16, the Group decided to apply IFRS 16 retrospectively with the recognition of the potential, cumulative effect of the first application in the item 'Retained earnings' as at 1 January 2019.

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2019, had no material impact on the Group's financial statements, with the exception of IFRS 16 (Note 5.2).

The financial statements does not take into consideration interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 5.3 and Note 5.4). In the Group's opinion, amendments to Standards and interpretations will not have a material impact on the consolidated financial statements of the Group,

Notes to financial statements (cont.)

(in PLN thousand)

5.2 New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective on or after 1 January 2019

IFRS 16 'Leases'

As at the date of first application of IFRS 16, i.e. as at 1 January 2019, the Group recognized new right-of-use assets of the Bank's Head Office, the Bank's branches buildings, perpetual usufruct rights and IT infrastructure. For these lease contracts, previously classified as operating leases in accordance with IAS 17, the Group recognized leases as leasing liabilities measured at the present value of remaining lease payments discounted using the Group's incremental borrowing rates and recognized the right-to-use assets in the amount equal to leasing liabilities, adjusted by the amount of any prepayments or accrued lease payments relating to these leases, recognized in the statement of financial position prior to the date of first application.

The impact of first application of IFRS 16 as at 1 January 2019 is presented in the table below.

IMPACT OF FIRST APPLICATION OF IFRS 16 AS AT 01.01.2019	
Property, plant and equipment	613 854
Other assets	(35 807)
Amounts due to customers	578 047

The first application of IFRS 16 had no impact on the item 'Retained earnings'.

The incremental borrowing rates calculated by the Group and applied to the leasing liabilities on 1 January 2019 were in the range (depending on the duration of the contract):

- for contracts in PLN: from 2.03% to 4.20%,
- for contracts in EUR: from 0.16% to 2.39%,
- for contracts in USD: from 3.31% to 4.11%,
- for contracts in GBP: from 1.41% to 2.78%.

The reconciliation of operating lease liabilities disclosed in accordance with IAS 17 *Leases* and the lease liabilities recognized on the date of the first application of IFRS 16 is presented in the table below.

RECONCILIATION OF LEASING LIABILITIES	
Operating lease liabilities disclosed as at 31 December 2018	391 298
Discount effect using the above disclosed incremental borrowing rates on the date of first application	(21 101)
Financial lease liabilities recognized as at 31 December 2018	7 142
Recognition of new assets in the form of perpetual usufruct rights and IT infrastructure	218 324
(Less): short-term leases recognized on a straight-line basis as expense	(10 203)
(Less): low-value leases recognized on a straight-line basis as expense	(271)
Leasing liabilities recognized as at 1 January 2019	585 189

Applying IFRS 16 for the first time, the Group applied the following practical expedients permitted by the new standard:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- exclusion of the initial direct costs from the measurement of the right-of-use assets,
- a lessee may use hindsight in determining the lease term, if the contract contains options to extend or terminate the lease.

Notes to financial statements (cont.)

(in PLN thousand)

Other standards, interpretations and amendments to published standards that have been approved and published by the European Union and entered into force from or after 1 January 2019.

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 (amendment) 'Financial Instruments'	Amendments to IFRS 9 - Prepayment Features with Negative Compensation – modify the existing requirements regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.	The standard's amendments did not have a material impact on the financial statements in the period of its first application.
IAS 28 (amendment) 'Investments in Associates and Joint Ventures'	Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures - were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.	The standard's amendments did not have a material impact on the financial statements in the period of its first application.
IFRIC 23 'Uncertainty over Income Tax Treatments'	It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.	The interpretation did not have a material impact on the financial statements in the period of its first application.
IAS 19 (amendment) 'Employee Benefits'	Amendments to IAS 19 'Employee Benefits' - Plan Amendment, Curtailment or Settlement – require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	The standard's amendments did not have a material impact on the financial statements in the period of its first application.
Improvements to IFRS 2015-2017	Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording. The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3), a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11), a company accounts for all income tax consequences of dividend payments in the same way (IAS 12), and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).	The standards amendments did not have a material impact on the financial statements in the period of its first application.

5.3 New standards, interpretations and amendments to published standards that have been issued by the International Accounting Standards Board (IASB) and have been approved by the European Union but are not yet effective

There are no new standards, interpretations and amendments to published standards that have been issued by the International Accounting Standards Board (IASB) and have been approved by the European Union, but are not yet effective.

Notes to financial statements (cont.)

(in PLN thousand)

5.4 New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and not yet approved by the European Union

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 17 'Insurance Contracts'	The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2021.	The Group claims that the new standard will not have a material impact on the financial statements in the period of its first application.
IFRS 3 (amendment) 'Business combinations'	The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Date of application: annual periods beginning on or after 1 January 2020.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IAS 1 (amendment) 'Presentation of financial statements' and IAS 8 (amendment) 'Accounting policies, changes in accounting estimates and errors'	The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Date of application: annual periods beginning on or after 1 January 2020.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IFRS 9 (amendment) 'Financial instruments' and IFRS 7 (amendment) 'Financial instruments: disclosures'	The amendments require qualitative and quantitative disclosures to enable users of financial statements to understand how an entity's hedging relationships are affected by the uncertainty arising from interest rate benchmark reform. Date of application: annual periods beginning on or after 1 January 2020.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.

6. Accounting estimates

The preparation of interim financial statements in accordance with IFRS requires the Management Board of the Bank to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

The estimates at balance sheet day reflect market conditions on that date (e.g. market prices, interest rates, exchange rates).

Although the estimates are based on the best knowledge concerning current conditions and activities of the Group, the actual results may differ from those estimates.

During the nine months period ended 30 September 2019 the most significant estimates are as follows:

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

The principles of estimating fair value of derivative instruments and unquoted debt securities measured at fair value did not change in relation to 31 December 2018.

Notes to financial statements (cont.)

(in PLN thousand)

7. Risk management

7.1 Credit risk

The process of credit risk management, credit risk mitigation methods and rating models did not change significantly compared to those described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018. The selected quantitative data in these areas are presented below.

Rating models

The tables below present the loan portfolio quality for exposures encompassed by internal rating models.

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for individual client segment (excluding impaired loans)

		30.09.2019											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
MORTGAGE LOANS													
1	0.00% <= PD < 0.06%	9 235 361	1 539 375			-	10 774 736	303 893	198			304 091	18.7%
2	0.06% <= PD < 0.19%	4 242 433	1 269 250			-	5 511 683	343 609	179			343 788	9.9%
3	0.19% <= PD < 0.35%	22 122 058	4 405 156			28	26 527 242	357 033	23 638			380 671	45.4%
4	0.35% <= PD < 0.73%	8 617 078	2 939 694			-	11 556 772	213 679	36 258			249 937	19.9%
5	0.73% <= PD < 3.50%	736 095	1 238 570			-	1 974 665	112 347	31 635			143 982	3.6%
6	3.50% <= PD < 14.00%	35 280	665 806			-	701 086	10 038	64 247			74 285	1.3%
7	14.00% <= PD < 100.00%	363	721 681			-	722 044	95	7 044			7 139	1.2%
Total		44 988 668	12 779 532			28	57 768 228	1 340 694	163 199			1 503 893	100.0%
CONSUMER LOANS													
1	0.00% <= PD < 0.09%	726 370	127 088			-	853 458	4	-			4	7.2%
2	0.09% <= PD < 0.18%	1 560 189	141 716			-	1 701 905	7	-			7	14.3%
3	0.18% <= PD < 0.39%	2 790 260	133 230			24	2 923 514	62	-			62	24.4%
4	0.39% <= PD < 0.90%	2 684 727	87 238			11	2 771 976	243	-			243	23.3%
5	0.90% <= PD < 2.60%	1 798 896	116 591			115	1 915 602	26	-			26	16.1%
6	2.60% <= PD < 9.00%	791 097	215 608			37	1 006 742	30	19			49	8.5%
7	9.00% <= PD < 30.00%	222 699	230 906			182	453 787	6	202			208	3.8%
8	30.00% <= PD < 100.00%	13 920	269 027			58	283 005	-	1			1	2.4%
Total		10 588 158	1 321 404			427	11 909 989	378	222			600	100.0%
LIMITS													
1	0.00% <= PD < 0.02%	1 114	5 907			-	7 021	33 583	329 533			363 116	35.1%
2	0.02% <= PD < 0.11%	9 698	42 168			-	51 866	43 419	278 954			322 373	35.5%
3	0.11% <= PD < 0.35%	12 198	66 668			-	78 866	9 605	66 232			75 837	14.7%
4	0.35% <= PD < 0.89%	4 727	48 245			-	52 972	1 895	19 521			21 416	7.1%
5	0.89% <= PD < 2.00%	2 172	27 909			-	30 081	550	8 173			8 723	3.7%
6	2.00% <= PD < 4.80%	1 050	17 906			-	18 956	203	6 377			6 580	2.4%
7	4.80% <= PD < 100.00%	232	10 299			2	10 533	179	5 273			5 452	1.5%
Total		31 191	219 102			2	250 295	89 434	714 063			803 497	100.0%
Total individual client segment		55 608 017	14 320 038			457	69 928 512	1 430 506	877 484			2 307 990	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for individual client segment (excluding impaired loans)

		31.12.2018											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES				NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO		
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		TOTAL	
				INDIVIDUAL ASSESSMEN	GROUP ASSESSME					INDIVIDUAL ASSESSMENT			GROUP ASSESSMENT
MORTGAGE LOANS													
1	0.00% <= PD < 0.06%	8 666 275	1 780 996			-	10 447 271	287 264	2 208			289 472	19.4%
2	0.06% <= PD < 0.19%	3 938 029	1 370 048			-	5 308 077	309 139	2 864			312 003	10.2%
3	0.19% <= PD < 0.35%	19 489 854	4 889 979			33	24 379 866	303 131	27 983			331 114	44.7%
4	0.35% <= PD < 0.73%	7 122 393	3 187 017			-	10 309 410	179 126	29 801			208 927	19.0%
5	0.73% <= PD < 3.50%	687 410	1 546 084			-	2 233 494	100 814	29 487			130 301	4.3%
6	3.50% <= PD < 14.00%	34 579	586 560			-	621 139	9 470	60 148			69 618	1.2%
7	14.00% <= PD < 100.00%	554	668 569			-	669 123	19	5 094			5 113	1.2%
Total		39 939 094	14 029 253			33	53 968 380	1 188 963	157 585			1 346 548	100.0%
CONSUMER LOANS													
1	0.00% <= PD < 0.09%	655 592	142 190			-	797 782	194	-			194	7.1%
2	0.09% <= PD < 0.18%	1 453 915	189 229			-	1 643 144	335	-			335	14.7%
3	0.18% <= PD < 0.39%	2 531 257	208 958			15	2 740 230	53	-			53	24.5%
4	0.39% <= PD < 0.90%	2 440 988	126 235			94	2 567 317	42	-			42	23.0%
5	0.90% <= PD < 2.60%	1 676 831	124 991			39	1 801 861	209	-			209	16.1%
6	2.60% <= PD < 9.00%	818 889	182 305			207	1 001 401	339	-			339	9.0%
7	9.00% <= PD < 30.00%	204 291	194 604			112	399 007	-	201			201	3.6%
8	30.00% <= PD < 100.00%	19 002	205 128			75	224 205	-	7			7	2.0%
Total		9 800 765	1 373 640			542	11 174 947	1 172	208			1 380	100.0%
LIMITS													
1	0.00% <= PD < 0.02%	2 883	5 200			-	8 083	94 494	329 639			424 133	38.9%
2	0.02% <= PD < 0.11%	17 450	37 825			-	55 275	78 153	205 964			284 117	30.5%
3	0.11% <= PD < 0.35%	20 790	57 233			-	78 023	18 333	61 019			79 352	14.2%
4	0.35% <= PD < 0.89%	9 281	51 406			-	60 687	3 861	20 794			24 655	7.7%
5	0.89% <= PD < 2.00%	4 260	31 919			-	36 179	1 082	9 613			10 695	4.2%
6	2.00% <= PD < 4.80%	2 023	22 260			1	24 284	657	6 170			6 827	2.8%
7	4.80% <= PD < 100.00%	566	12 891			1	13 458	368	5 005			5 373	1.7%
Total		57 253	218 734			2	275 989	196 948	638 204			835 152	100.0%
Total individual client segment		49 797 112	15 621 627			577	65 419 316	1 387 083	795 997			2 183 080	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for corporate client segment (excluding impaired loans)

		30.09.2019											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
CORPORATES													
1	0.00% <= PD < 0.15%	283 347	54			-	283 401	955 286	113			955 399	2.3%
2	0.15% <= PD < 0.27%	2 090 248	8 217			-	2 098 465	4 995 139	27 079			5 022 218	13.0%
3	0.27% <= PD < 0.45%	3 921 223	96 280			-	4 017 503	4 509 175	73 838			4 583 013	15.8%
4	0.45% <= PD < 0.75%	5 085 811	208 134			1 948	5 295 893	6 057 386	123 942			6 181 328	21.0%
5	0.75% <= PD < 1.27%	5 841 877	542 006			-	6 383 883	5 418 991	435 868			5 854 859	22.4%
6	1.27% <= PD < 2.25%	2 973 208	335 454			-	3 308 662	2 156 160	107 748			2 263 908	10.2%
7	2.25% <= PD < 4.00%	774 586	513 537			-	1 288 123	1 934 882	222 495			2 157 377	6.3%
8	4.00% <= PD < 8.50%	1 177 711	2 062 459			-	3 240 170	640 395	570 150			1 210 545	8.2%
9	8.50% <= PD < 100.00%	58 474	277 415			-	335 889	30 510	64 584			95 094	0.8%
Total		22 206 485	4 043 556			1 948	26 251 989	26 697 924	1 625 817			28 323 741	100.0%
SMEs													
1	0.00% <= PD < 0.06%	13 979	442			-	14 421	33 862	10			33 872	1.0%
2	0.06% <= PD < 0.14%	210 667	10 242			2	220 911	243 708	2 612			246 320	9.9%
3	0.14% <= PD < 0.35%	832 574	53 808			12	886 394	357 422	18 812			376 234	26.8%
4	0.35% <= PD < 0.88%	905 859	85 775			-	991 634	267 178	23 824			291 002	27.4%
5	0.88% <= PD < 2.10%	597 040	77 155			-	674 195	114 648	26 716			141 364	17.3%
6	2.10% <= PD < 4.00%	283 208	50 602			82	333 892	47 396	12 730			60 126	8.4%
7	4.00% <= PD < 7.00%	116 074	40 568			-	156 642	16 708	3 155			19 863	3.8%
8	7.00% <= PD < 12.00%	69 110	43 673			-	112 783	4 971	6 487			11 458	2.6%
9	12.00% <= PD < 22.00%	29 009	34 824			-	63 833	3 460	518			3 978	1.4%
10	22.00% <= PD < 100.00%	21 098	42 071			-	63 169	1 032	841			1 873	1.4%
Total		3 078 618	439 160			96	3 517 874	1 090 385	95 705			1 186 090	100.0%
Total corporate client segment		25 285 103	4 482 716			2 044	29 769 863	27 788 309	1 721 522			29 509 831	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for corporate client segment (excluding impaired loans)

		31.12.2018											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
CORPORATES													
1	0.00% <= PD < 0.15%	502 738	8 300			-	511 038	2 225 560	13 187			2 238 747	5.2%
2	0.15% <= PD < 0.27%	1 953 673	47 758			-	2 001 431	2 827 794	27 452			2 855 246	9.3%
3	0.27% <= PD < 0.45%	3 651 157	56 875			-	3 708 032	3 237 748	81 099			3 318 847	13.4%
4	0.45% <= PD < 0.75%	4 942 251	128 214			-	5 070 465	6 380 043	431 920			6 811 963	22.6%
5	0.75% <= PD < 1.27%	3 632 780	810 592			-	4 443 372	5 656 673	1 212 310			6 868 983	21.6%
6	1.27% <= PD < 2.25%	3 559 709	393 069			-	3 952 778	2 938 157	395 343			3 333 500	13.9%
7	2.25% <= PD < 4.00%	1 008 324	503 834			-	1 512 158	925 159	206 145			1 131 304	5.0%
8	4.00% <= PD < 8.50%	1 028 128	893 421			-	1 921 549	1 955 801	355 943			2 311 744	8.1%
9	8.50% <= PD < 100.00%	82 765	132 909			-	215 674	187 655	67 344			254 999	0.9%
Total		20 361 525	2 974 972			-	23 336 497	26 334 590	2 790 743			29 125 333	100.0%
SMEs													
1	0.00% <= PD < 0.06%	18 000	1 438			-	19 438	47 119	1 561			48 680	1.1%
2	0.06% <= PD < 0.14%	276 547	14 475			-	291 022	327 770	3 449			331 219	10.4%
3	0.14% <= PD < 0.35%	862 656	50 491			-	913 147	509 977	23 439			533 416	24.3%
4	0.35% <= PD < 0.88%	976 510	106 473			5	1 082 988	359 443	47 227			406 670	25.1%
5	0.88% <= PD < 2.10%	758 679	115 372			-	874 051	185 520	24 774			210 294	18.2%
6	2.10% <= PD < 4.00%	354 590	74 735			10	429 335	83 199	19 184			102 383	8.9%
7	4.00% <= PD < 7.00%	198 485	57 209			-	255 694	43 733	9 355			53 088	5.2%
8	7.00% <= PD < 12.00%	119 256	49 008			-	168 264	15 205	5 952			21 157	3.2%
9	12.00% <= PD < 22.00%	48 522	43 415			-	91 937	5 936	4 039			9 975	1.7%
10	22.00% <= PD < 100.00%	29 227	75 943			18	105 188	6 365	2 439			8 804	1.9%
Total		3 642 472	588 559			33	4 231 064	1 584 267	141 419			1 725 686	100.0%
Total corporate client segment		24 003 997	3 563 531			33	27 567 561	27 918 857	2 932 162			30 851 019	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for local government units segment (excluding impaired loans)

		30.09.2019											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOCAL GOVERNMENT UNITS													
1	0.00% <= PD < 0.04%	778	-	-	-	778	60 012	-	-	-	60 012	2.5%	
2	0.04% <= PD < 0.06%	305 245	-	-	-	305 245	27 367	-	-	-	27 367	13.7%	
3	0.06% <= PD < 0.13%	162 444	-	-	-	162 444	33 592	-	-	-	33 592	8.1%	
4	0.13% <= PD < 0.27%	450 765	-	-	-	450 765	199 118	-	-	-	199 118	26.9%	
5	0.27% <= PD < 0.50%	603 873	-	-	-	603 873	7 819	-	-	-	7 819	25.2%	
6	0.50% <= PD < 0.80%	467 308	-	-	-	467 308	29 137	-	-	-	29 137	20.5%	
7	0.80% <= PD < 1.60%	47 618	-	-	-	47 618	20 313	-	-	-	20 313	2.8%	
8	1.60% <= PD < 100.00%	7 708	-	-	-	7 708	-	-	-	-	-	0.3%	
Total		2 045 739	-	-	-	2 045 739	377 358	-	-	-	377 358	100.0%	

		31.12.2018											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOCAL GOVERNMENT UNITS													
1	0.00% <= PD < 0.04%	650	-	-	-	650	10 032	-	-	-	10 032	0.4%	
2	0.04% <= PD < 0.06%	344 709	-	-	-	344 709	55 820	-	-	-	55 820	14.8%	
3	0.06% <= PD < 0.13%	337 260	-	-	-	337 260	15 505	-	-	-	15 505	13.0%	
4	0.13% <= PD < 0.27%	347 994	-	-	-	347 994	162 257	-	-	-	162 257	18.8%	
5	0.27% <= PD < 0.50%	636 686	-	-	-	636 686	45 007	-	-	-	45 007	25.1%	
6	0.50% <= PD < 0.80%	686 002	-	-	-	686 002	8 875	-	-	-	8 875	25.6%	
7	0.80% <= PD < 1.60%	33 108	-	-	-	33 108	11 000	-	-	-	11 000	1.6%	
8	1.60% <= PD < 100.00%	17 730	-	-	-	17 730	25	-	-	-	25	0.7%	
Total		2 404 139	-	-	-	2 404 139	308 521	-	-	-	308 521	100.0%	

For specialized lending, the Group adopts slotting criteria approach within internal rating method which uses supervisory categories in the process of assigning risk weigh category.

Notes to the financial statements (cont.)

(in PLN thousand)

For specialized lending, the Group adopts slotting criteria approach within internal rating method which uses supervisory categories in the process of assigning risk weight category.

The distribution of the portfolio exposure to specialized lending (excluding impaired loans)

30.09.2019												
SUPERVISORY CATEGOR Y	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURE TO SPECIALIZED LENDING												
High	1 463 500	-			-	1 463 500	72 929	-			72 929	21.2%
Good	3 133 882	1 014			-	3 134 896	1 327 828	30 986			1 358 814	62.0%
Satisfactory	431 770	672 529			-	1 104 299	53 762	-			53 762	16.0%
Low	-	57 655			-	57 655	-	-			-	0.8%
Total	5 029 152	731 198			-	5 760 350	1 454 519	30 986			1 485 505	100.0%

31.12.2018												
SUPERVISORY CATEGOR Y	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURE TO SPECIALIZED LENDING												
High	1 351 575	53 798			-	1 405 373	243 336	-			243 336	19.7%
Good	3 875 730	-			-	3 875 730	1 628 766	-			1 628 766	65.8%
Satisfactory	706 146	90 611			-	796 757	395 251	-			395 251	14.3%
Low	-	13 556			-	13 556	-	5 000			5 000	0.2%
Total	5 933 451	157 965			-	6 091 416	2 267 353	5 000			2 272 353	100.0%

Notes to the financial statements (cont.)

(in PLN thousand)

Portfolio of exposures not covered by the rating model (excluding impaired loans), broken down by delays in repayment

	30.09.2019											
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURES NOT COVERED BY THE RATING MODEL												
Not past due	27 777 598	755 797			242	28 533 637	14 754 946	171 210			14 926 156	98.0%
Past due, of which:	538 682	312 718			3	851 403	21 976	12 428			34 404	2.0%
- up to 1 month	533 278	67 986			-	601 264	21 948	5 769			27 717	1.4%
- between 1 month and 2 months	3 082	90 731			3	93 816	-	5 593			5 593	0.2%
- between 2 month and 3 months	2 322	154 001			-	156 323	28	1 066			1 094	0.4%
Total	28 316 280	1 068 515			245	29 385 040	14 776 922	183 638			14 960 560	100.0%

	31.12.2018											
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURES NOT COVERED BY THE RATING MODEL												
Not past due	24 351 772	614 705			252	24 966 729	7 649 566	215 018			7 864 584	97.1%
Past due, of which:	568 456	360 519			1	928 976	27 842	10 062			37 904	2.9%
- up to 1 month	568 454	68 050			1	636 505	27 822	8 042			35 864	2.1%
- between 1 month and 2 months	-	112 828			-	112 828	-	714			714	0.3%
- between 2 month and 3 months	2	179 641			-	179 643	20	1 306			1 326	0.5%
Total	24 920 228	975 224			253	25 895 705	7 677 408	225 080			7 902 488	100.0%

Notes to the financial statements (cont.)

(in PLN thousand)

Portfolio of impaired exposures, broken down by delays in repayment

30.09.2019												
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
IMPAIRED EXPOSURES												
Not past due			1 257 691	286 694	24 439	1 568 824			268 326	6 732	275 058	22.0%
Past due, of which:			3 811 029	2 399 962	67 966	6 278 957			266 598	4 014	270 612	78.0%
- up to 1 month			32 265	158 307	171	190 743			107	444	551	2.3%
- between 1 month and 3 months			55 567	243 527	120	299 214			-	453	453	3.6%
- between 3 months and 1 year			268 306	429 617	223	698 146			264 535	1 934	266 469	11.5%
- between 1 year and 5 years			745 738	867 920	2 891	1 616 549			1 956	1 034	2 990	19.3%
- above 5 years			2 709 153	700 591	64 561	3 474 305			-	149	149	41.3%
Total			5 068 720	2 686 656	92 405	7 847 781			534 924	10 746	545 670	100.0%

31.12.2018												
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
IMPAIRED EXPOSURES												
Not past due			1 308 260	242 608	15 026	1 565 894			274 600	6 713	281 313	22.1%
Past due, of which:			3 800 001	2 398 499	71 676	6 270 176			225 579	2 737	228 316	77.9%
- up to 1 month			87 771	188 345	7 596	283 712			200 912	671	201 583	5.8%
- between 1 month and 3 months			176 815	200 735	63	377 613			19 202	389	19 591	4.8%
- between 3 months and 1 year			334 112	374 010	362	708 484			355	709	1 064	8.5%
- between 1 year and 5 years			1 306 983	870 098	5 245	2 182 326			5 017	799	5 816	26.2%
- above 5 years			1 894 320	765 311	58 410	2 718 041			93	169	262	32.6%
Total			5 108 261	2 641 107	86 702	7 836 070			500 179	9 450	509 629	100.0%

Notes to the financial statements (cont.)

(in PLN thousand)

Division of loans and advances to customers for covered and not covered by internal rating models

PORTFOLIO	30.09.2019		
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCE	NET CARRYING AMOUNT
Exposures with no impairment	136 889 504	(1 081 078)	135 808 426
Rated portfolio for individual client segment	69 928 512	(533 546)	69 394 966
Mortgage loans	57 768 228	(258 910)	57 509 318
Consumer loans	11 909 989	(266 581)	11 643 408
Limits	250 295	(8 055)	242 240
Rated portfolio for corporate client segment	29 769 863	(228 360)	29 541 503
Corporates	26 251 989	(178 638)	26 073 351
SMEs	3 517 874	(49 722)	3 468 152
Rated portfolio for local government units segment	2 045 739	(3 116)	2 042 623
Specialized lending exposures	5 760 350	(67 121)	5 693 229
Exposures not covered by the rating model	29 385 040	(248 935)	29 136 105
Impaired exposures	7 847 781	(5 295 572)	2 552 209
Total loans and advances to customers (*)	144 737 285	(6 376 650)	138 360 635

PORTFOLIO	31.12.2018		
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCE	NET CARRYING AMOUNT
Exposures with no impairment	127 378 137	(1 023 186)	126 354 951
Rated portfolio for individual client segment	65 419 316	(515 724)	64 903 592
Mortgage loans	53 968 380	(259 517)	53 708 863
Consumer loans	11 174 947	(247 538)	10 927 409
Limits	275 989	(8 669)	267 320
Rated portfolio for corporate client segment	27 567 561	(170 223)	27 397 338
Corporates	23 336 497	(106 569)	23 229 928
SMEs	4 231 064	(63 654)	4 167 410
Rated portfolio for local government units segment	2 404 139	(3 258)	2 400 881
Specialized lending exposures	6 091 416	(81 702)	6 009 714
Exposures not covered by the rating model	25 895 705	(252 279)	25 643 426
Impaired exposures	7 836 070	(5 197 270)	2 638 800
Total loans and advances to customers (*)	135 214 207	(6 220 456)	128 993 751

(*) Loans and advances to customers measured at amortised cost, measured at fair value through other comprehensive income and receivables from finance leases.

Notes to the financial statements (cont.)

(in PLN thousand)

Division of off-balance sheet exposures to customers (loan commitments and financial guarantee contracts) for covered and not covered by internal rating models

PORTFOLIO	30.09.2019	
	NOMINAL AMOUNT	IMPAIRMENT ALLOWANCE
Exposures with no impairment	48 641 244	(131 313)
Rated portfolio for individual client segment	2 307 990	(5 242)
Mortgage loans	1 503 893	(2 755)
Consumer loans	600	(52)
Limits	803 497	(2 435)
Rated portfolio for corporate client segment	29 509 831	(71 688)
Corporates	28 323 741	(68 741)
SMEs	1 186 090	(2 947)
Rated portfolio for local government units segment	377 358	(81)
Specialized lending exposures	1 485 505	(3 818)
Exposures not covered by the rating model	14 960 560	(50 484)
Impaired exposures	545 670	(149 895)
Total off- balance sheet exposures to customers	49 186 914	(281 208)

PORTFOLIO	31.12.2018	
	NOMINAL AMOUNT	IMPAIRMENT ALLOWANCE
Exposures with no impairment	43 517 461	(128 203)
Rated portfolio for individual client segment	2 183 080	(4 484)
Mortgage loans	1 346 548	(2 205)
Consumer loans	1 380	(58)
Limits	835 152	(2 221)
Rated portfolio for corporate client segment	30 851 019	(79 838)
Corporates	29 125 333	(75 629)
SMEs	1 725 686	(4 209)
Rated portfolio for local government units segment	308 521	(87)
Specialized lending exposures	2 272 353	(10 973)
Exposures not covered by the rating model	7 902 488	(32 821)
Impaired exposures	509 629	(112 495)
Total off- balance sheet exposures to customers	44 027 090	(240 698)

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of loans and advances to banks according to Fitch ratings

30.09.2019	CARRYING AMOUNT					TOTAL	%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)		
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST							
AA+ to AA-	7 329	-	-	-	-	7 329	0.3%
A+ to A-	1 387 706	359	-	94	-	1 388 159	62.4%
BBB+ to BBB-	321 439	-	-	-	-	321 439	14.5%
BB+ to BB-	9 537	-	-	-	-	9 537	0.4%
B+ to B-	1 259	-	-	-	-	1 259	0.1%
No rating	495 452	3	-	-	-	495 455	22.3%
Total gross carrying amount	2 222 722	362	-	94	-	2 223 178	100.0%
Impairment allowance	(651)	-	-	-	-	(651)	
Total net carrying amount	2 222 071	362	-	94	-	2 222 527	

31.12.2018	CARRYING AMOUNT					TOTAL	%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)		
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST							
AA+ to AA-	89 431	-	-	-	-	89 431	3.9%
A+ to A-	1 141 105	614	-	108	-	1 141 827	50.1%
BBB+ to BBB-	733 081	-	-	-	-	733 081	32.2%
BB+ to BB-	2 150	-	-	-	-	2 150	0.1%
No rating	302 854	-	8 987	-	-	311 841	13.7%
Total gross carrying amount	2 268 621	614	8 987	108	-	2 278 330	100.0%
Impairment allowance	(921)	-	(8 987)	-	-	(9 908)	
Total net carrying amount	2 267 700	614	-	108	-	2 268 422	

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of exposures to debt securities according to Fitch ratings

30.09.2019	CARRYING AMOUNT					TOTAL	%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)		
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
DEBT SECURITIES MEASURED AT AMORTISED COST							
A+ to A-	9 702 999	-	-	-	-	9 702 999	63.1%
BBB+ do BBB-	236 105	-	-	-	-	236 105	1.5%
No rating	5 067 605	331 787	32 715	-	-	5 432 107	35.4%
Gross carrying amount	15 006 709	331 787	32 715	-	-	15 371 211	100.0%
Impairment allowance	(26 063)	(16 863)	(32 715)	-	-	(75 641)	
Carrying amount	14 980 646	314 924	-	-	-	15 295 570	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME							
AAA	3 495 488	-	-	-	-	3 495 488	13.8%
A+ to A-	16 946 825	-	-	-	-	16 946 825	66.7%
BBB+ to BBB-	1 447 650	-	-	-	-	1 447 650	5.7%
BB+ do BB-	83 916	-	-	-	-	83 916	0.3%
No rating	3 419 631	13 811	-	-	-	3 433 442	13.5%
Carrying amount	25 393 510	13 811	-	-	-	25 407 321	100.0%
Impairment allowance (*)	(25 616)	(670)	-	-	-	(26 286)	
DEBT SECURITIES HELD FOR TRADING							
A+ to A-						1 903 615	98.1%
BBB+ to BBB-						6 263	0.3%
No rating						31 231	1.6%
Carrying amount						1 941 109	100.0%

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount.

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of exposures to debt securities according to Fitch ratings

31.12.2018	CARRYING AMOUNT					TOTAL	%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)		
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
DEBT SECURITIES MEASURED AT AMORTISED COST							
A+ to A-	5 362 693	-	-	-	-	5 362 693	47.4%
BBB+ do BBB-	676 434	-	-	-	-	676 434	6.0%
No rating	5 244 564	-	31 547	-	-	5 276 111	46.6%
Gross carrying amount	11 283 691	-	31 547	-	-	11 315 238	100.0%
Impairment allowance	(27 792)	-	(31 547)	-	-	(59 339)	
Carrying amount	11 255 899	-	-	-	-	11 255 899	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME							
AAA	952 874	-	-	-	-	952 874	3.5%
A+ to A-	14 392 599	-	-	-	-	14 392 599	53.2%
BBB+ to BBB-	693 351	-	-	-	-	693 351	2.6%
No rating	10 994 003	-	-	-	-	10 994 003	40.7%
Carrying amount	27 032 827	-	-	-	-	27 032 827	100.0%
Impairment allowance (*)	(28 307)	-	-	-	-	(28 307)	
DEBT SECURITIES HELD FOR TRADING							
A+ to A-						679 689	90.0%
BBB+ to BBB-						4 169	0.6%
No rating						71 355	9.4%
Carrying amount						755 213	100.0%

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount.

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of exposures to derivative financial instruments according to Fitch ratings

30.09.2019	DERIVATIVES HELD FOR TRADING			HEDGING DERIVATIVES			TOTAL	%PORTFOLIO
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES		
AAA	351 537	806 667	-	10 898	329 917	-	1 499 019	54.3%
AA+ to AA-	51 917	-	-	32 748	-	-	84 665	3.1%
A+ to A-	65 649	2 056	-	49 590	-	-	117 295	4.2%
BBB+ to BBB-	200 378	6	37 034	25 706	-	-	263 124	9.5%
BB+ to BB-	2 094	-	-	-	-	-	2 094	0.1%
B+ to B-	-	-	-	-	-	-	-	-
No rating	112 365	186 713	493 701	3 012	-	-	795 791	28.8%
Total	783 940	995 442	530 735	121 954	329 917	-	2 761 988	100.0%

31.12.2018	DERIVATIVES HELD FOR TRADING			HEDGING DERIVATIVES			TOTAL	%PORTFOLIO
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES		
AAA	251 167	297 401	-	27 308	244 370	-	820 246	46.5%
AA+ to AA-	47 748	-	-	-	-	-	47 748	2.7%
A+ to A-	163 280	540	-	14 170	-	-	177 990	10.1%
BBB+ to BBB-	184 064	-	17 060	11 791	-	-	212 915	12.1%
BB+ to BB-	117	-	-	-	-	-	117	-
B+ to B-	1 894	-	-	-	-	-	1 894	0.1%
No rating	126 081	116 021	246 289	15 926	-	-	504 317	28.5%
Total	774 351	413 962	263 349	69 195	244 370	-	1 765 227	100.0%

Notes to financial statements (cont.)

(in PLN thousand)

The tables below present the changes in impairment allowances and gross carrying amount of financial assets not measured at fair value through profit or loss by class of financial assets:

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO BANKS AND CENTRAL BANKS MEASURED AT AMORTISED COST (*)						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2019	12 113 231	614	8 987	108	-	12 122 940
Transfer to Stage 1	103	(103)	-	-	-	-
Transfer to Stage 2	(76)	90	-	(14)	-	-
Transfer to Stage 3	(4)	(30)	-	34	-	-
New / Purchased / Granted financial assets	1 630 392	-	-	-	-	1 630 392
Financial assets derecognised, other than write-offs (repayments)	(7 997 568)	(191)	-	(40)	-	(7 997 799)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(43 476)	(18)	(8 987)	6	-	(52 475)
GROSS CARRYING AMOUNT AS AT 30.09.2019	5 702 602	362	-	94	-	5 703 058
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	1 834	-	8 987	-	-	10 821
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	11	-	(11)	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	2 313	-	-	-	-	2 313
Financial assets derecognised, other than write-offs (repayments)	(1 435)	(95)	-	(36)	-	(1 566)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(1 231)	(10)	-	-	-	(1 241)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(500)	96	(8 987)	47	-	(9 344)
IMPAIRMENT ALLOWANCE AS AT 30.09.2019	981	2	-	-	-	983

(*) Receivables from the Central Bank include a current account and deposits.

Notes to financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO BANKS AND CENTRAL BANKS MEASURED AT AMORTISED COST (*)						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2018	5 175 069	1 071	21 014	113	-	5 197 267
Transfer to Stage 1	161	(160)	-	(1)	-	-
Transfer to Stage 2	(187)	196	-	(9)	-	-
Transfer to Stage 3	(17)	(45)	-	62	-	-
New / Purchased / Granted financial assets	8 712 604	-	-	-	-	8 712 604
Financial assets derecognised, other than write-offs (repayments)	(1 750 421)	(414)	-	(46)	-	(1 750 881)
Financial assets written off (**)	-	-	(5 079)	-	-	(5 079)
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(23 978)	(34)	(6 948)	(11)	-	(30 971)
GROSS CARRYING AMOUNT AS AT 31.12.2018	12 113 231	614	8 987	108	-	12 122 940
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	425	-	21 127	-	-	21 552
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	1 633	-	-	-	-	1 633
Financial assets derecognised, other than write-offs (repayments)	(378)	-	-	-	-	(378)
Financial assets written off (**)	-	-	(5 079)	-	-	(5 079)
Changes in level of credit risk (excluding the transfers between the Stages)	(363)	2	-	-	-	(361)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	517	(2)	(7 061)	-	-	(6 546)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	1 834	-	8 987	-	-	10 821

(*) Receivables from the Central Bank include a current account and deposits.

(**) Including the value of contractual interest subject to partial write-off in the amount of PLN 5 079 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2019	100 388 050	20 213 176	5 063 110	2 542 099	87 565	128 294 000
Transfer to Stage 1	4 621 916	(4 598 669)	(6 417)	(16 830)	-	-
Transfer to Stage 2	(6 121 892)	6 244 863	(2 907)	(120 064)	-	-
Transfer to Stage 3	(427 180)	(485 818)	270 423	642 575	-	-
New / Purchased / Granted financial assets	30 448 392	(7)	-	-	5 168	30 453 553
Financial assets derecognised, other than write-offs (repayments)	(19 473 442)	(1 884 579)	(368 729)	(223 968)	(352)	(21 951 070)
Financial assets written off (*)	-	-	(222 801)	(269 097)	(103)	(492 001)
Modifications not resulting in derecognition	(2 835)	-	-	-	-	(2 835)
Other, in this changes resulting from exchange rates	(174 294)	169 554	265 605	46 286	2 873	310 024
GROSS CARRYING AMOUNT AS AT 30.09.2019	109 258 715	19 658 520	4 998 284	2 601 001	95 151	136 611 671
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	358 389	659 536	3 265 624	1 800 673	53 455	6 137 677
Transfer to Stage 1	117 959	(110 204)	(477)	(7 278)	-	-
Transfer to Stage 2	(37 793)	88 363	(721)	(49 849)	-	-
Transfer to Stage 3	(71 839)	(133 864)	17 794	187 909	-	-
New / Purchased / Granted financial assets	133 366	-	-	-	2 150	135 516
Financial assets derecognised, other than write-offs (repayments)	(49 350)	(24 839)	(38 067)	(40 744)	(744)	(153 744)
Financial assets written off (*)	-	-	(222 801)	(269 097)	(103)	(492 001)
Changes in level of credit risk (excluding the transfers between the Stages)	(91 504)	211 249	106 205	182 958	(10 962)	397 946
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	14 394	12 501	193 289	41 797	12 994	274 975
IMPAIRMENT ALLOWANCE AS AT 30.09.2019	373 622	702 742	3 320 846	1 846 369	56 790	6 300 369

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 223 178 thousand.

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit impaired in the period ended 30 September 2019 amounted to PLN 2 543 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2018	89 734 902	20 981 569	7 423 047	3 327 030	81 046	121 547 594
Transfer to Stage 1	3 294 387	(3 278 870)	(7 079)	(8 438)	-	-
Transfer to Stage 2	(6 143 253)	6 247 851	(34 349)	(70 249)	-	-
Transfer to Stage 3	(809 369)	(564 304)	693 622	680 051	-	-
New / Purchased / Granted financial assets	29 903 625	(1)	-	-	2 116	29 905 740
Financial assets derecognised, other than write-offs (repayments)	(16 531 169)	(3 211 797)	(725 496)	(297 910)	(2 692)	(20 769 064)
Financial assets written off (*)	-	-	(2 259 977)	(1 222 760)	(17)	(3 482 754)
Modifications not resulting in derecognition	-	-	(1 002)	-	1 002	-
Other, in this changes resulting from exchange rates	938 927	38 728	(25 656)	134 375	6 110	1 092 484
GROSS CARRYING AMOUNT AS AT 31.12.2018	100 388 050	20 213 176	5 063 110	2 542 099	87 565	128 294 000
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	353 983	648 652	5 441 071	2 793 536	37 157	9 274 399
Transfer to Stage 1	98 214	(93 714)	(808)	(3 692)	-	-
Transfer to Stage 2	(23 913)	59 078	(4 844)	(30 321)	-	-
Transfer to Stage 3	(22 079)	(71 886)	24 721	69 244	-	-
New / Purchased / Granted financial assets	147 555	-	-	-	-	147 555
Financial assets derecognised, other than write-offs (repayments)	(81 783)	(43 871)	(73 716)	(39 730)	-	(239 100)
Financial assets written off (*)	-	-	(2 259 977)	(1 222 760)	(17)	(3 482 754)
Changes in level of credit risk (excluding the transfers between the Stages)	(105 917)	165 377	269 352	220 270	2 569	551 651
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(7 671)	(4 100)	(130 175)	14 126	13 746	(114 074)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	358 389	659 536	3 265 624	1 800 673	53 455	6 137 677

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 3 072 340 thousand.

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit impaired in the period ended 31 December 2018 amounted to PLN 11 863 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
RECEIVABLES FROM FINANCE LEASES						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2019	5 160 123	105 171	45 151	99 008	-	5 409 453
Transfer to Stage 1	2 977	(2 977)	-	-	-	-
Transfer to Stage 2	(284 518)	284 629	(73)	(38)	-	-
Transfer to Stage 3	(4 435)	(27 435)	31 255	615	-	-
New / Purchased / Granted financial assets	2 372 366	-	-	-	-	2 372 366
Financial assets derecognised, other than write-offs (repayments)	(1 218 013)	(35 400)	(883)	(373)	-	(1 254 669)
Financial assets written off	-	-	(5 014)	(13 557)	-	(18 571)
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(100)	-	-	-	-	(100)
GROSS CARRYING AMOUNT AS AT 30.09.2019	6 028 400	323 988	70 436	85 655	-	6 508 479
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	4 029	1 877	15 467	61 413	-	82 786
Transfer to Stage 1	55	(55)	-	-	-	-
Transfer to Stage 2	(2 336)	2 765	(409)	(20)	-	-
Transfer to Stage 3	(76)	(469)	298	247	-	-
New/Purchased/Granted financial assets	10 742	-	-	-	-	10 742
Financial assets derecognised, other than write-offs (repayments)	(9 257)	(1 898)	(706)	(223)	-	(12 084)
Financial assets written off	-	-	(5 014)	(13 557)	-	(18 571)
Changes in level of credit risk (excluding the transfers between the Stages)	1	379	5 911	7 117	-	13 408
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	-	5	(14)	9	-	-
IMPAIRMENT ALLOWANCE AS AT 30.09.2019	3 158	2 604	15 533	54 986	-	76 281

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
RECEIVABLES FROM FINANCE LEASES						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2018	4 090 628	208 808	51 859	173 772	-	4 525 067
Transfer to Stage 1	115 788	(114 500)	-	(1 288)	-	-
Transfer to Stage 2	(60 029)	61 582	(842)	(711)	-	-
Transfer to Stage 3	(22 808)	(28 999)	19 743	32 064	-	-
New / Purchased / Granted financial assets	1 797 962	33 545	2 377	2 114	-	1 835 998
Financial assets derecognised, other than write-offs (repayments)	(1 013 470)	(24 226)	(8 070)	(8 269)	-	(1 054 035)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	252 052	(31 039)	(19 916)	(98 674)	-	102 423
GROSS CARRYING AMOUNT AS AT 31.12.2018	5 160 123	105 171	45 151	99 008	-	5 409 453
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	4 343	3 125	26 965	142 779	-	177 212
Transfer to Stage 1	2 493	(1 858)	-	(635)	-	-
Transfer to Stage 2	(157)	268	(60)	(51)	-	-
Transfer to Stage 3	(34)	(421)	36	419	-	-
New / Purchased / Granted financial assets	2 436	1 544	8 223	11 392	-	23 595
Financial assets derecognised, other than write-offs (repayments)	(2 827)	(2 792)	(1 637)	(2 937)	-	(10 193)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	-	-	-	-	-	-
Changes in models and risk parameters	3	-	-	3 770	-	3 773
Other, in this changes resulting from exchange rates	(2 228)	2 011	(18 060)	(93 324)	-	(111 601)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	4 029	1 877	15 467	61 413	-	82 786

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 01.01.2019	1 511 102	-	-	-	-	1 511 102
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(624 153)	624 153	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	226 077	-	-	-	-	226 077
Financial assets derecognised, other than write-offs (repayments)	(132 452)	-	-	-	-	(132 452)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	16 602	(4 194)	-	-	-	12 408
CARRYING AMOUNT AS AT 30.09.2019	997 176	619 959	-	-	-	1 617 135
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	14 590	-	-	-	-	14 590
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(7 798)	7 798	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	988	-	-	-	-	988
Financial assets derecognised, other than write-offs (repayments)	-	-	-	-	-	-
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(1 952)	18 083	-	-	-	16 131
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	356	136	-	-	-	492
IMPAIRMENT ALLOWANCE AS AT 30.09.2019	6 184	26 017	-	-	-	32 201

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 01.01.2018	1 555 964	-	-	-	-	1 555 964
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	401 500	-	-	-	-	401 500
Financial assets derecognised, other than write-offs (repayments)	(489 874)	-	-	-	-	(489 874)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	43 512	-	-	-	-	43 512
CARRYING AMOUNT AS AT 31.12.2018	1 511 102	-	-	-	-	1 511 102
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	18 159	-	-	-	-	18 159
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	1 457	-	-	-	-	1 457
Financial assets derecognised, other than write-offs (repayments)	(1 782)	-	-	-	-	(1 782)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(3 244)	-	-	-	-	(3 244)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	-	-	-	-	-	-
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	14 590	-	-	-	-	14 590

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2019	11 283 691	-	31 547	-	-	11 315 238
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(331 787)	331 787	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	7 365 685	-	-	-	-	7 365 685
Financial assets derecognised, other than write-offs (repayments)	(3 433 680)	(30 213)	-	-	-	(3 463 893)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	153 013	-	1 168	-	-	154 181
GROSS CARRYING AMOUNT AS AT 30.09.2019	15 036 922	301 574	32 715	-	-	15 371 211
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	27 792	-	31 547	-	-	59 339
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(9 449)	9 449	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	3 112	-	-	-	-	3 112
Financial assets derecognised, other than write-offs (repayments)	(2 260)	7 414	-	-	-	5 154
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	6 777	-	-	-	-	6 777
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	91	-	1 168	-	-	1 259
IMPAIRMENT ALLOWANCE AS AT 30.09.2019	26 063	16 863	32 715	-	-	75 641

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2018	11 527 804	-	30 031	-	-	11 557 835
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	2 904 447	-	-	-	-	2 904 447
Financial assets derecognised, other than write-offs (repayments)	(3 242 441)	-	-	-	-	(3 242 441)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	93 881	-	1 516	-	-	95 397
GROSS CARRYING AMOUNT AS AT 31.12.2018	11 283 691	-	31 547	-	-	11 315 238
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	27 667	-	30 031	-	-	57 698
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	2 155	-	-	-	-	2 155
Financial assets derecognised, other than write-offs (repayments)	(1 929)	-	-	-	-	(1 929)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	1 297	-	-	-	-	1 297
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(1 398)	-	1 516	-	-	118
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	27 792	-	31 547	-	-	59 339

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 01.01.2019	27 032 827	-	-	-	-	27 032 827
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(13 142)	13 142	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	114 916 399	-	-	-	-	114 916 399
Financial assets derecognised, other than write-offs (repayments)	(117 377 184)	-	-	-	-	(117 377 184)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	835 279	-	-	-	-	835 279
CARRYING AMOUNT AS AT 30.09.2019	25 394 179	13 142	-	-	-	25 407 321
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	28 307	-	-	-	-	28 307
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(388)	388	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	4 818	-	-	-	-	4 818
Financial assets derecognised, other than write-offs (repayments)	(2 534)	-	-	-	-	(2 534)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(4 189)	282	-	-	-	(3 907)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(398)	-	-	-	-	(398)
IMPAIRMENT ALLOWANCE AS AT 30.09.2019	25 616	670	-	-	-	26 286

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the securities.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 01.01.2018	38 031 871	-	-	-	-	38 031 871
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	131 261 992	-	-	-	-	131 261 992
Financial assets derecognised, other than write-offs (repayments)	(142 945 930)	-	-	-	-	(142 945 930)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	684 894	-	-	-	-	684 894
CARRYING AMOUNT AS AT 31.12.2018	27 032 827	-	-	-	-	27 032 827
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	24 311	-	-	-	-	24 311
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	14 818	-	-	-	-	14 818
Financial assets derecognised, other than write-offs (repayments)	(7 049)	-	-	-	-	(7 049)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(3 799)	-	-	-	-	(3 799)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	26	-	-	-	-	26
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	28 307	-	-	-	-	28 307

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the securities.

Notes to financial statements (cont.)

(in PLN thousand)

Forbearance measures

The identifying process of forbore exposures has not changed in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

Share of forbore exposures in the Group's loan portfolio

	30.09.2019					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	108 885 093	18 955 778	1 677 438	754 632	38 361	130 311 302
Forborne exposures gross	365 381	118 663	2 401 666	450 920	22 050	3 358 680
Loss allowance	(4 856)	(9 784)	(1 439 022)	(261 922)	(15)	(1 715 599)
Forborne exposures net	360 525	108 879	962 644	188 998	22 035	1 643 081
Loans and advances measured at fair value through other comprehensive income, including:	997 176	619 959	-	-	-	1 617 135
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						256 352
Forborne exposures						1 020
Leasing exposures measured at amortised cost, including:	6 025 242	321 385	54 903	30 669	-	6 432 199
Forborne exposures gross	1 517	6 376	27 950	5 663	-	41 506
Impairment allowance	-	(46)	(4 333)	(3 981)	-	(8 360)
Forborne exposures net	1 517	6 330	23 617	1 682	-	33 146

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to financial statements (cont.)

(in PLN thousand)

Share of forborne exposures in the Group's loan portfolio

	31.12.2018					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	100 029 662	19 553 639	1 797 467	741 445	34 110	122 156 323
Forborne exposures gross	482 174	161 514	2 612 229	429 879	22 829	3 708 625
Loss allowance	(6 454)	(6 786)	(1 490 977)	(235 467)	(178)	(1 739 862)
Forborne exposures net	475 720	154 728	1 121 252	194 412	22 651	1 968 763
Loans and advances measured at fair value through other comprehensive income, including:	1 511 102	-	-	-	-	1 511 102
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						302 630
Forborne exposures						2 063
Leasing exposures measured at amortised cost, including:	5 155 746	103 294	29 684	37 595	-	5 326 319
Forborne exposures gross	2 513	3 151	22 052	5 305	-	33 021
Impairment allowance	(3)	(34)	(4 622)	(2 488)	-	(7 147)
Forborne exposures net	2 510	3 117	17 430	2 817	-	25 874

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to financial statements (cont.)

(in PLN thousand)

CHF loans to individuals

Since 2003 Bank Pekao S.A. has not granted CHF loans for individuals. Almost the entire current portfolio of CHF loans for individuals has been taken over by the Bank in the process of division by a spin-off of Bank BPH S.A. (loans granted before August 2006).

The table below presents the structure and quality of CHF loans for individuals.

Structure of CHF loans to individuals

	30.09.2019					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	208 102	2 748 692	55 905	167 829	775	3 181 303
denominated in CHF	208 102	2 737 594	55 905	167 158	775	3 169 534
indexed to CHF	-	11 098	-	671	-	11 769
Impairment allowances, of which:	(231)	(31 936)	(23 649)	(89 760)	(305)	(145 881)
denominated in CHF	(231)	(31 866)	(23 649)	(89 479)	(305)	(145 530)
indexed to CHF	-	(70)	-	(281)	-	(351)
Carrying amount, of which:	207 871	2 716 756	32 256	78 069	470	3 035 422
denominated in CHF	207 871	2 705 728	32 256	77 679	470	3 024 004
indexed to CHF	-	11 028	-	390	-	11 418

	31.12.2018					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	212 732	2 861 362	53 780	162 975	742	3 291 591
denominated in CHF	212 732	2 847 160	53 780	161 856	742	3 276 270
indexed to CHF	-	14 202	-	1 119	-	15 321
Impairment allowances, of which:	(218)	(31 655)	(19 054)	(81 343)	(292)	(132 562)
denominated in CHF	(218)	(31 613)	(19 054)	(80 950)	(292)	(132 127)
indexed to CHF	-	(42)	-	(393)	-	(435)
Carrying amount, of which:	212 514	2 829 707	34 726	81 632	450	3 159 029
denominated in CHF	212 514	2 815 547	34 726	80 906	450	3 144 143
indexed to CHF	-	14 160	-	726	-	14 886

As of 30 September 2019 the average LTV for CHF loans to individuals granted by the Group amounted to 44.2% (44.9% as at 31 December 2018), with an average LTV for the whole portfolio of 61.0% (62.8% as at 31 December 2018).

Issue related to the ruling of the Court of Justice of the European Union regarding a loan indexed to CHF granted by another bank

In April 2018, the District Court in Warsaw submitted a request to the Court of Justice of the European Union (hereinafter the 'CJEU') for a preliminary ruling regarding the effects of any abusive provisions of the individual loan agreement indexed to CHF granted by one of the banks.

Notes to financial statements (cont.)

(in PLN thousand)

On 3 October 2019, the CJEU issued a ruling regarding the above-mentioned request. The CJEU interpreted the provisions of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts under the canvas of a loan agreement indexed to CHF. The CJEU has indicated the effects of the recognition of possible abusiveness of conversion clauses by the national court, without at the same time examining the possible abusiveness of contractual provisions. The CJEU did not prejudge that whether the national court determine any abusive nature, the court should annul the entire contract automatically. The assessment in this respect remains to be decided by the national court, while the CJEU has not ruled out the possibility of filling the gap resulting from the abusiveness of conversion clauses by means of national disposable provisions.

The CJEU ruling is a general guideline for Polish courts, but it does not automatically apply to all cases related to loans denominated in foreign currency, neither indexed to CHF, nor even more denominated to CHF. Final decisions taken by Polish courts will be made on the basis of EU provisions interpreted in accordance with the judgment of the CJEU, taking into account the provisions of national law and an analysis of the individual circumstances of each case.

With time, the jurisprudence of Polish courts regarding the loans in question will be more and more clearly defined, but at present it is not possible to assess its detailed directions.

The Bank will monitor the impact of the CJEU judgment on the direction of decisions taken by Polish courts, as well as market practice and behavior of borrowers, and will assess the probability of cash outflows in relation to the mortgage loans in question.

As at 30 September 2019, the Bank had 130 open court cases against the Bank regarding loans in CHF with a total value of PLN 40 million, including 1 case related to a loan indexed to CHF.

Following IAS 37, the Bank assesses the probability of cash outflows arising from the above-mentioned disputes on an ongoing basis.

Offsetting financial assets and financial liabilities

The disclosures in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting agreements or similar agreements, irrespective of whether they are offset in the statement of financial position.

The netting agreements concluded by the Group are:

- ISDA agreements and similar master netting agreements on derivatives,
- GMRA agreements on repo and reverse-repo transactions.

The netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the one of the counterparty. At the balance day, there were no cases of offsetting financial assets and financial liabilities for these netting agreements.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives,
- repo and reverse-repo transactions.

Such collateral is subject to standard industry terms. The collateral in the form of cash stems from an ISDA Credit Support Annex (CSA).

The securities received/given as collateral on repo and reverse-repo transaction can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

Notes to financial statements (cont.)

(in PLN thousand)

Financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements and which may be potentially offset in the statement of financial position.

30.09.2019	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	2 703 908	(2 007 000)	(342 969)	353 939
Reverse-repo transactions	750 794	(748 821)	(581)	1 392
Total	3 454 702	(2 755 821)	(343 550)	355 331

30.09.2019	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	3 215 915	(2 334 852)	(785 377)	95 686
Repo transactions	206 798	(206 798)	-	-
Total	3 422 713	(2 541 650)	(785 377)	95 686

31.12.2018	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	1 703 422	(1 358 792)	(163 164)	181 466
Total	1 703 422	(1 358 792)	(163 164)	181 466

31.12.2018	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL LIABILITIES				
Derivatives	2 772 953	(1 827 670)	(837 802)	107 481
Total	2 772 953	(1 827 670)	(837 802)	107 481

The carrying amount of financial assets and financial liabilities disclosed in the above tables have been measured in the statement of financial position on the following bases:

- derivatives – fair value,
- assets and liabilities resulting from repo and reverse-repo transactions – amortized cost.

Notes to financial statements (cont.)

(in PLN thousand)

Reconciliation of the carrying amount of financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements to the amounts presented in the statement of financial position.

30.09.2019	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	2 252 037	Derivative financial instruments (held for trading)	2 310 117	58 080	25
	451 871	Hedging instruments	451 871	-	28
Reverse-repo transactions	750 794	Loans and advances to banks	2 222 527	1 471 733	23
FINANCIAL LIABILITIES					
Derivatives	2 493 189	Derivative financial instruments (held for trading)	2 545 380	52 191	25
	722 726	Hedging instruments	722 726	-	28
Repo transactions	206 798	Amounts due to other banks	6 138 182	5 931 384	34

31.12.2018	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 389 857	Derivative financial instruments (held for trading)	1 451 662	61 805	25
	313 565	Hedging instruments	313 565	-	28
FINANCIAL LIABILITIES					
Derivatives	1 867 897	Derivative financial instruments (held for trading)	1 913 046	45 149	25
	905 056	Hedging instruments	905 056	-	28

Notes to financial statements (cont.)

(in PLN thousand)

7.2 Market risk

Market risk of the trading book

The model of market risk measurement has not changed in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

The table below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk in the period from 1 January to 30 September 2019 and in 2018.

	30.09.2019	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	53	6	238	1 161
interest rate risk	1 834	873	1 382	2 055
Trading portfolio	1 849	885	1 478	2 623

	31.12.2018	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	117	9	171	1 232
interest rate risk	1 154	472	1 083	1 733
Trading portfolio	1 140	526	1 081	2 362

Interest rate risk of the banking book

The banking book interest rate risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018. However, adjustments resulting from the implementation of the EBA 'Guidelines on the management of interest rate risk arising from non-trading activities' (EBA/GL/2018/02 of July 19, 2018) have been introduced.

In the scenarios used for measuring the interest rate risk in the banking book, a maturity-dependent post-shock interest rate floor has been applied, starting with -100 basis points for short periods and increasing by 5 basis points per year to 0% for periods of 20 years and more.

In case of EVE measurement, aggregation of the results for individual currencies have been adjusted: currently total sensitivities on currencies on which the Bank realizes loss in a given interest rate change scenario and half of sensitivities in currencies on which the Bank realizes profit are summed up.

The table below presents the sensitivity levels of the contractual interest income (NII) to the interest rate change by 100 b.p. and of economic value of the Bank's equity (EVE) to the interest rate change by 200 b.p. (standard regulatory shock excluding the risk profile of own funds) as at 30 September 2019 and as at 31 December 2018.

SENSITIVITY IN %	30.09.2019	31.12.2018
NII	(7.78)	(8.64)
EVE	(1.87)	(0.95)

Notes to financial statements (cont.)

(in PLN thousand)

Currency risk

The foreign currency exchange risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

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

Value at Risk

CURRENCY	30.09.2019	31.12.2018
Currencies total (*)	497	63

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

Currency position

30.09.2019	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	24 676 864	21 998 238	12 930 530	15 561 430	47 726
USD	5 142 346	8 236 671	10 920 145	7 850 403	(24 583)
CHF	3 287 225	553 547	1 478 250	4 212 624	(696)
GBP	311 608	1 048 726	935 460	196 237	2 105
JPY	15 589	292 068	559 783	283 125	179
NOK	267 095	55 329	6 825	218 072	519
CZK	51 723	47 816	298 381	302 297	(9)
SEK	66 106	55 659	24 846	34 913	380
Other currencies	102 763	165 949	209 139	144 026	1 927
Total	33 921 319	32 454 003	27 363 359	28 803 127	27 548

31.12.2018	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	24 632 826	20 844 996	10 064 928	13 837 183	15 575
USD	5 489 616	8 284 208	11 109 318	8 301 417	13 309
CHF	3 416 822	575 102	2 966 698	5 813 214	(4 796)
GBP	275 460	975 366	827 920	126 347	1 667
HUF	3 219	190 119	243 818	57 151	(233)
NOK	209 725	46 549	190 749	353 895	30
CZK	53 790	71 006	246 324	229 050	58
SEK	89 258	45 553	9 862	53 484	83
Other currencies	95 077	174 994	183 285	99 929	3 439
Total	34 265 793	31 207 893	25 842 902	28 871 670	29 132

Notes to financial statements (cont.)

(in PLN thousand)

7.3 Liquidity risk

The liquidity risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

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

Adjusted liquidity gap

30.09.2019	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	38 408 684	8 488 961	24 345 786	65 061 747	62 499 222	198 804 400
Equity and liabilities	11 460 361	6 820 877	23 408 932	18 668 031	138 446 199	198 804 400
Off-balance sheet assets/liabilities (net)	(5 883 013)	(748 720)	(397 101)	3 349 090	3 327 063	(352 681)
Periodic gap	21 065 310	919 364	539 753	49 742 806	(72 619 914)	(352 681)
Cumulated gap	-	21 984 674	22 524 427	72 267 233	(352 681)	-

31.12.2018	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	40 715 921	5 075 145	27 701 793	58 785 842	58 811 104	191 089 805
Equity and liabilities	15 151 534	6 926 374	21 669 415	19 301 852	128 040 630	191 089 805
Off-balance sheet assets/liabilities (net)	(5 208 969)	(726 064)	(289 272)	2 794 211	2 768 679	(661 415)
Periodic gap	20 355 418	(2 577 293)	5 743 106	42 278 201	(66 460 847)	(661 415)
Cumulated gap	-	17 778 125	23 521 231	65 799 432	(661 415)	-

Structure of financial liabilities by contractual maturity

30.09.2019	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES (*)						
Amounts due to banks (**)	2 407 749	113 411	826 134	2 259 528	598 810	6 205 632
Amounts due to customers	119 458 028	12 171 058	20 738 868	743 554	1 021 595	154 133 103
Debt securities issued	459 795	471 451	3 203 255	1 199 271	259 363	5 593 135
Subordinated liabilities	37 167	-	37 209	281 126	2 682 561	3 038 063
Financial liabilities held for trading	52 567	-	10 399	631 432	46 975	741 373
Total	122 415 306	12 755 920	24 815 865	5 114 911	4 609 304	169 711 306
OFF-BALANCE SHEET COMMITMENTS (*)						
Financial liabilities granted	39 863 179	-	-	-	-	39 863 179
Guarantees issued	11 994 991	-	-	-	-	11 994 991
Total	51 858 170	-	-	-	-	51 858 170

(*) Exposure amounts from balance liabilities, financing-related off-balance sheet commitments granted and guarantee liabilities granted have been allocated to earliest tenors, for which an outflow of assets from the Group is possible based on contracts entered into by the Group. However, outflows expected by the Group are actually significantly lower than those indicated by the specification presented above. The above is a consequence of considerable diversification of amounts due to customers and stages of life of individual contracts. Risk monitoring and management in relation to the outflow of assets are provided by the Group on continuous basis. The Group estimates also more probable flows that are reflected in Tables 'Adjusted liquidity gap'.

(**) Including Central Bank.

Notes to financial statements (cont.)

(in PLN thousand)

Structure of financial liabilities by contractual maturity

31.12.2018	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES (*)						
Amounts due to banks (**)	1 570 449	73 595	760 790	2 823 741	469 919	5 698 494
Amounts due to customers	116 699 233	11 421 810	20 661 983	523 031	603 951	149 910 008
Debt securities issued	377 147	1 042 779	1 730 684	1 868 403	258 681	5 277 694
Subordinated liabilities	-	-	67 102	294 264	2 429 522	2 790 888
Financial liabilities held for trading	-	-	-	57 421	45 008	102 429
Total	118 646 829	12 538 184	23 220 559	5 566 860	3 807 081	163 779 513
OFF-BALANCE SHEET COMMITMENTS (*)						
Financial liabilities granted	32 954 143	-	-	-	-	32 954 143
Guarantees issued	12 614 778	-	-	-	-	12 614 778
Total	45 568 921	-	-	-	-	45 568 921

(*) Exposure amounts from balance liabilities, financing-related off-balance sheet commitments granted and guarantee liabilities granted have been allocated to earliest tenors, for which an outflow of assets from the Group is possible based on contracts entered into by the Group. However, outflows expected by the Group are actually significantly lower than those indicated by the specification presented above. The above is a consequence of considerable diversification of amounts due to customers and stages of life of individual contracts. Risk monitoring and management in relation to the outflow of assets are provided by the Group on continuous basis. The Group estimates also more probable flows that are reflected in Tables 'Adjusted liquidity gap'.

(**) Including Central Bank.

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

The following are the liabilities and financial cash flows associated with off-balance sheet derivative transactions settled, respectively in net and gross amounts.

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

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

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

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

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.09.2019	297 010	35 561	236 911	1 100 872	775 805	2 446 159
31.12.2018	93 469	49 950	566 715	783 578	402 470	1 896 182

Notes to financial statements (cont.)

(in PLN thousand)

Cash flows related to off-balance sheet derivative transactions settled in gross amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.09.2019						
Inflows	19 084 013	6 142 916	11 169 051	10 670 482	1 502 592	48 569 054
Outflows	19 510 577	6 128 547	11 203 280	10 835 478	1 750 767	49 428 649
31.12.2018						
Inflows	23 455 395	5 399 366	9 380 505	5 504 825	2 237 288	45 977 379
Outflows	24 236 650	5 401 374	9 801 035	5 567 894	2 422 687	47 429 640

7.4 Operational risk

There have been no significant changes in the operational risk management process in relation to the one described in consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

7.5 Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the consolidated statement of financial position of the Group

The measurement of fair value of financial instruments, for which market values from active markets are available, is based on market quotations of a given instrument (mark-to-market).

The measurement of fair value of Over-the-counter ('OTC') derivatives and instruments with limited liquidity (i.e. for which no market quotations are available), is made on the basis of other instruments quotations on active markets by replication thereof using a number of valuation techniques, including the estimation of present value of future cash flows (mark-to-model).

As of 30 September 2019 and 31 December 2018, the Group classified the financial assets and liabilities measured at fair value into three categories based on the following hierarchy:

- Level 1: mark-to-market, applies to securities quoted on active markets,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument, applies to illiquid government, municipal, corporate and central bank debt securities, linear and non-linear derivative instruments of interest rate markets (including forward transactions on debt securities), equity, commodity and foreign currency exchange markets, except for those cases that meet the criteria of Level 3,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors, applicable to loans and advances, corporate and municipal debt securities and for linear and non-linear derivative instruments of interest rate, equity, commodity and foreign currency exchange markets for which unobservable parameters (e.g. credit risk factors) are recognized as significant.

The measurement at fair value is performed directly by an organizational unit within Risk Management Division, independent of front-office units. The methodology of fair value measurement, including the changes of its parameterization, is subject to approval of Assets and Liabilities Committee (ALCO). The adequacy of measurement methods is subject to on-going analysis and periodical reviews in the framework of model risk management. The same Risk Management Division unit performs the assessment of adequacy and significance of risk factors and assignment of valuation models to appropriate method class, according to established hierarchy of classification.

Notes to financial statements (cont.)

(in PLN thousand)

Assets and liabilities measured at fair value in breakdown by fair value hierarchy levels

30.09.2019	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	14 329 011	8 892 021	9 120 485	32 341 517
Financial assets held for trading	1 847 747	93 955	3 283	1 944 985
Derivative financial instruments, including:	3	2 308 233	1 881	2 310 117
Banks	-	782 059	1 881	783 940
Customers	3	1 526 174	-	1 526 177
Hedging instruments, including:	-	451 871	-	451 871
Banks	-	121 954	-	121 954
Customers	-	329 917	-	329 917
Securities measured at fair value through other comprehensive income	12 481 261	6 017 408	7 151 112	25 649 781
Securities measured at fair value through profit or loss	-	20 554	90 722	111 276
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 617 135	1 617 135
Loans and advances to customers measured at fair value through profit or loss	-	-	256 352	256 352
Liabilities:	741 373	3 268 106	-	4 009 479
Financial liabilities held for trading	741 373	-	-	741 373
Derivative financial instruments, including:	-	2 545 380	-	2 545 380
Banks	-	862 386	-	862 386
Customers	-	1 682 994	-	1 682 994
Hedging instruments, including:	-	722 726	-	722 726
Banks	-	674 412	-	674 412
Customers	-	48 314	-	48 314

31.12.2018	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	12 629 955	10 024 499	9 018 313	31 672 767
Financial assets held for trading	639 815	96 787	26 110	762 712
Derivative financial instruments, including:	1	1 450 431	1 230	1 451 662
Banks	-	773 121	1 230	774 351
Customers	1	677 310	-	677 311
Hedging instruments, including:	-	313 565	-	313 565
Banks	-	69 195	-	69 195
Customers	-	244 370	-	244 370
Securities measured at fair value through other comprehensive income	11 990 139	8 163 716	7 111 833	27 265 688
Securities measured at fair value through profit or loss	-	-	65 408	65 408
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 511 102	1 511 102
Loans and advances to customers measured at fair value through profit or loss	-	-	302 630	302 630
Liabilities:	102 429	2 818 102	-	2 920 531
Financial liabilities held for trading	102 429	-	-	102 429
Derivative financial instruments, including:	-	1 913 046	-	1 913 046
Banks	-	681 122	-	681 122
Customers	-	1 231 924	-	1 231 924
Hedging instruments, including:	-	905 056	-	905 056
Banks	-	882 460	-	882 460
Customers	-	22 596	-	22 596

Notes to financial statements (cont.)

(in PLN thousand)

Change in fair value of financial assets measured at fair value according to Level 3 by the Group

3 QUARTERS 2019	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Opening balance	26 110	1 230	1 511 102	302 630	65 408	7 111 833
Increases, including:	489 171	2 266	246 640	-	25 314	1 646 881
Reclassification	-	2 007	-	-	-	561 486
Transactions made in 2019	-	-	223 756	-	-	-
Acquisition	487 642	-	-	-	-	900 164
Settlement/Redemption	-	-	-	-	-	-
Gains on financial instruments	1 529	259	22 884	-	25 314	185 231
recognized in the income statement	1 529	259	10 500	-	25 314	127 026
recognized in revaluation reserves	-	-	12 384	-	-	58 205
Decreases, including:	(511 998)	(1 615)	(140 607)	(46 278)	-	(1 607 602)
Reclassification	-	-	-	-	-	(312 012)
Settlement/Redemption	(30 423)	47	(2 007)	(43 295)	-	(232 289)
Sale	(481 555)	-	(138 600)	-	-	(1 050 437)
Losses on financial instruments	(20)	(1 662)	-	(2 983)	-	(12 864)
recognized in the income statement	(20)	(1 662)	-	(2 983)	-	(16)
recognized in revaluation reserves	-	-	-	-	-	(12 848)
Closing balance	3 283	1 881	1 617 135	256 352	90 722	7 151 112
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	12	(183)	(6 472)	(4 495)	-	60 238
Income statement:	12	(183)	(17 404)	(4 495)	-	33 114
net interest income	7	-	1 478	130	-	33 114
net impairment losses on financial assets and off-balance sheet commitments	-	-	(18 882)	-	-	-
result on financial assets and liabilities held for trading	5	(183)	-	(4 625)	-	-
Other comprehensive income	-	-	10 932	-	-	27 124

Notes to financial statements (cont.)

(in PLN thousand)

Change in fair value of financial assets measured at fair value according to Level 3 by the Group

2018	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Opening balance	14 211	1 218	-	-	-	735 442
Initial application of IFRS 9	-	-	1 555 964	365 137	52 339	4 336 613
Opening balance - restated	14 211	1 218	1 555 964	365 137	52 339	5 072 055
Increases, including:	672 824	12	468 833	8 976	13 069	3 094 204
Reclassification	392	-	-	-	-	10 869
Transactions made in 2018	-	-	-	2 745	-	-
Acquisition	671 700	-	408 521	-	-	3 034 342
Gains on financial instruments	732	12	60 312	6 231	13 069	48 993
recognized in the income statement	732	12	28 805	6 231	13 069	48 993
recognized in revaluation reserves	-	-	31 507	-	-	-
Decreases, including:	(660 925)	-	(513 695)	(71 483)	-	(1 054 426)
Reclassification	(14 211)	-	-	-	-	(124 277)
Settlement/Redemption	(680)	-	(26 217)	(71 483)	-	(45 018)
Sale	(646 020)	-	(487 478)	-	-	(825 745)
Losses on financial instruments	(14)	-	-	-	-	(59 386)
recognized in the income statement	(14)	-	-	-	-	-
recognized in revaluation reserves	-	-	-	-	-	(59 386)
Closing balance	26 110	1 230	1 511 102	302 630	65 408	7 111 833
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	29	12	57 554	6 095	-	28 486
Income statement:	29	12	25 179	6 095	-	40 133
net interest income	40	-	24 008	2 287	-	40 133
net impairment losses on financial assets and off-balance sheet commitments	-	-	1 171	-	-	-
result on financial assets and liabilities held for trading	(11)	12	-	3 808	-	-
Other comprehensive income	-	-	32 375	-	-	(11 647)

Notes to financial statements (cont.)

(in PLN thousand)

Transfers of instruments between fair value hierarchy levels are based on changes in availability of active market quotations as at the end of the reporting periods.

In the period from 1 January to 30 September 2019 the following transfers of financial instruments between the levels of the fair value hierarchy were made:

- from Level 3 to Level 2: municipal and corporate bonds which were valued based on information on the prices of comparable financial instruments, municipal and corporate bonds with immaterial impact of the estimated credit parameters on the valuation and capital market derivative instruments for which impact of the unobservable factor (correlation) on the valuation was immaterial,
- from Level 2 to Level 3: municipal and corporate bonds, for which impact of estimated credit parameters was material and capital market derivative instruments with material impact of the estimated factor (correlation) on the valuation.

The impact of estimated parameters on measurement of financial instruments for which the Group applies fair value valuation according to Level 3 as at 30 September 2019 and 31 December 2018 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 30.09.2019	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 30.09.2019	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Debt securities	6 945 258	Discounted cash flow	Credit spread	0.39%-0.93%	60 063	(76 135)
Derivatives	1 881	Black Scholes Model	Correlation	0-1	360	(1 129)
Loans and advances measured at fair value through profit or loss	256 352	Discounted cash flow	Credit spread	1.44%-2.10%	3 601	(3 750)
Loans and advances measured at fair value through other comprehensive income	1 617 135	Discounted cash flow	Credit spread	2.48%-3.14%	15 606	(15 376)

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2018	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2018	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Debt securities	6 948 563	Discounted cash flow	Credit spread	0.35%-1.04%	87 509	(87 509)
Derivatives	1 230	Black Scholes Model	Correlation	0-1	558	(684)
Loans and advances measured at fair value through profit or loss	302 630	Discounted cash flow	Credit spread	0.43%-1.11%	3 066	(3 015)
Loans and advances measured at fair value through other comprehensive income	1 511 102	Discounted cash flow	Credit spread	2.07%-2.75%	11 524	(8 854)

Notes to financial statements (cont.)

(in PLN thousand)

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

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

As of 30 September 2019 and 31 December 2018, the Group classified the financial assets and liabilities not measured at fair value in the consolidated statement of financial position into the following three categories based on the valuation level:

- Level 1: mark-to-market, applies to government securities quoted on the liquid market and cash,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument, applies to interbank deposits, own issues, illiquid government, municipal, corporate and central bank debt securities,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors, is applicable to corporate and municipal debt securities and loans and deposits for which the applied credit risk factor (an unobservable parameter) is recognized significant.

In case of certain groups of financial assets, recognized at the amount to be received with impairment considered, the fair value was assumed to be equal to carrying amount. The above applies in particular to other financial assets and liabilities.

In the case of loans for which no quoted market values are available, the fair values presented are generally estimated using valuation techniques taking into consideration the assumption, that at the moment when the loan is granted its fair value is equal to its carrying amount. Fair value of non-impaired loans is equal to the sum of future expected cash flows, discounted at the balance sheet date, less expected credit loss. The discount rate is defined as the appropriate market risk-free rate plus the liquidity risk margin and current sales margin for the given loan products group. The margin is computed on loans granted broken down by loan product groups and maturity.

For the purpose of the fair value of foreign currency loans estimation, the margin on PLN loans adjusted by the cross-currency basis swap quotes and FX-Swap is used. The fair value of impaired loans is defined as equal to the sum of expected recoveries, discounted with the use of effective interest rate, since the average expected recovery values take the element of credit risk fully into consideration. In case of loans without repayment schedule (loans in current account, overdrafts and credit cards), the fair value was assumed as equal to the carrying amount.

Since no quoted market prices are available for deposits, their fair values have been generally estimated using valuation techniques with the assumption that the fair value of a deposit at the moment of its receipt is equal to its carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows, discounted at the relevant balance sheet date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. The margin is computed on deposits acquired during last three months broken down by deposit product groups and maturity. In case of short term deposits (current deposits, overnights, saving accounts), the fair value was assumed as equal to the carrying amount.

The fair value of deposits and loans, apart from cash and mortgage loans denominated in PLN and CHF for which prepayment model is used, is calculated based on contractual cash flows.

The mark-to-model valuation of own issue debt instruments is based on the method of discounting the future cash flows. Variable cash flows are estimated based upon rates adopted for specific markets (depending upon issue specifications). Both the fixed and implied cash flows are discounted using interbank money market rates.

Notes to financial statements (cont.)

(in PLN thousand)

Assets and liabilities not measured at fair value in the financial statement in breakdown by fair value hierarchy levels

30.09.2019	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	6 357 556	6 356 657	2 878 008	3 478 649	-
Loans and advance to banks	2 222 527	2 222 502	-	1 085 861	1 136 641
Loans and advances to customers measured at amortised cost	130 311 302	130 591 111	-	-	130 591 111
Receivables from financial leases	6 432 198	6 456 588	-	-	6 456 588
Debt securities measured at amortised cost	15 295 570	15 687 164	9 908 915	859 149	4 919 100
Total Assets	160 619 153	161 314 022	12 786 923	5 423 659	143 103 440
Liabilities					
Amounts due to Central Bank	5 037	5 037	-	-	5 037
Amounts due to other banks	6 138 182	6 176 447	-	439 578	5 736 869
Amounts due to customers	153 720 835	153 983 722	-	546 227	153 437 495
Debt securities issued	5 949 884	5 962 012	-	5 962 012	-
Subordinated liabilities	2 383 275	2 385 507	-	2 385 507	-
Total Liabilities	168 197 213	168 512 725	-	9 333 324	159 179 401

31.12.2018	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	13 026 584	13 024 030	3 182 875	9 841 155	-
Loans and advance to banks	2 268 422	2 267 651	-	1 244 964	1 022 687
Loans and advances to customers measured at amortised cost	122 156 323	122 627 126	-	-	122 627 126
Receivables from financial leases	5 326 667	5 425 500	-	-	5 425 500
Debt securities measured at amortised cost	11 255 899	11 351 480	5 262 781	1 188 734	4 899 965
Total Assets	154 033 895	154 695 787	8 445 656	12 274 853	133 975 278
Liabilities					
Amounts due to Central Bank	5 067	5 070	-	-	5 070
Amounts due to other banks	5 615 631	5 637 204	-	278 288	5 358 916
Amounts due to customers	149 491 059	149 509 499	-	347 902	149 161 597
Debt securities issued	5 230 814	5 318 902	-	5 318 902	-
Subordinated liabilities	2 012 485	2 013 376	-	2 013 376	-
Total Liabilities	162 355 056	162 484 051	-	7 958 468	154 525 583

Notes to financial statements (cont.)

(in PLN thousand)

8. Operating segments

Data reported in the section stem from the application of the management model ('Model') in which the main criterion for segmentation is the classification of customers based on their profile and service model.

Reporting and monitoring of results, for managerial purposes, include all components of the income statement up to the gross profit level. Therefore, the income from the segment's activities as well as operating costs related to those activities (including direct and allocated costs in line with the allocation model applied) and other components of income statement are attached to each segment.

The Group settles transactions between segments on an arm's length basis by applying current market prices. Fund transfers between retail, private, corporate and investment banking segments, and the assets and liabilities management and other area are based on market prices applicable to the funds' currency and maturity, including liquidity margins.

Operating segments

The operating segments of the Group are as follows:

- Retail banking – all banking activities related to retail customers (including private banking customers) and micro companies with annual turnover not exceeding PLN 5 million, as well as results of the subsidiaries, and shares in net profit of associates accounted for using the equity method, that are assigned to the retail banking activity,
- SME banking - all banking activities related to the companies with annual turnover from PLN 5 million to PLN 40 million and below 5 million in the case of companies conducting full accounting,
- Corporate and Investment banking – all banking activities related to the medium and large companies, interbank market, debt securities and other instruments, and results of the subsidiaries that are assigned to the Corporate and Investment banking activity,
- Assets and Liabilities management and other – supervision and monitoring of fund transfers, other activities centrally managed as well as the results of subsidiaries and share in net profit of associates accounted for using the equity method that are not assigned to other reported segments.

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 30 September 2019

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	2 315 358	1 032 481	142 736	558 799	4 049 374
Non-interest income	1 113 545	682 957	213 577	51 435	2 061 514
Operating income	3 428 903	1 715 438	356 313	610 234	6 110 888
Personnel expenses	(767 838)	(202 709)	(70 791)	(526 778)	(1 568 116)
Other administrative expenses	(1 023 238)	(293 141)	(96 610)	687 603	(725 386)
Depreciation and amortisation	(131 491)	(24 332)	(3 467)	(219 511)	(378 801)
Operating costs	(1 922 567)	(520 182)	(170 868)	(58 686)	(2 672 303)
Gross operating profit	1 506 336	1 195 256	185 445	551 548	3 438 585
Net impairment losses on financial assets and off-balance sheet commitments	(297 446)	(163 438)	(3 496)	996	(463 384)
Net operating profit	1 208 890	1 031 818	181 949	552 544	2 975 201
Net result on other provisions	(34)	(580)	-	(40 158)	(40 772)
Guarantee funds charges	(221 286)	(185 458)	(10 522)	(16 898)	(434 164)
Tax on certain financial institutions				(442 863)	(442 863)
Net result on investment activities	(75)	215	-	12 560	12 700
Profit before tax	987 495	845 995	171 427	65 185	2 070 102
Income tax expense					(587 210)
Net profit for the period					1 482 892
Attributable to equity holders of the Bank					1 480 661
Attributable to non-controlling interests					2 231
Allocated assets	77 195 104	102 689 759	3 588 578	3 554 655	187 028 096
Unallocated assets					11 776 304
Total assets					198 804 400
Allocated liabilities and equity	100 053 616	55 232 270	11 262 938	2 519 368	169 068 192
Unallocated liabilities and equity					29 736 208
Total liabilities and equity					198 804 400

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 30 September 2018

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	2 012 740	946 583	135 356	604 537	3 699 216
Non-interest income	1 079 027	682 149	189 134	63 990	2 014 300
Operating income	3 091 767	1 628 732	324 490	668 527	5 713 516
Personnel expenses	(886 785)	(204 516)	(64 833)	(389 565)	(1 545 699)
Other administrative expenses	(928 905)	(280 256)	(82 525)	511 788	(779 898)
Depreciation and amortisation	(118 421)	(17 877)	(3 391)	(130 656)	(270 345)
Operating costs	(1 934 111)	(502 649)	(150 749)	(8 433)	(2 595 942)
Gross operating profit	1 157 656	1 126 083	173 741	660 094	3 117 574
Net impairment losses on financial assets and off-balance sheet commitments	(226 147)	(142 605)	(21 600)	(15 818)	(406 170)
Net operating profit	931 509	983 478	152 141	644 276	2 711 404
Net result on other provisions	(2 071)	(387)	-	(11 906)	(14 364)
Guarantee funds charges	(124 244)	(111 526)	(6 282)	6 515	(235 537)
Tax on certain financial institutions				(417 828)	(417 828)
Net result on investment activities	204	66	-	26 633	26 903
Profit before tax	805 398	871 631	145 859	247 690	2 070 578
Income tax expense					(531 967)
Net profit for the period					1 538 611
Attributable to equity holders of the Bank					1 537 933
Attributable to non-controlling interests					678
Allocated assets	71 205 164	95 441 470	3 422 970	3 513 162	173 582 766
Unallocated assets					9 715 698
Total assets					183 298 464
Allocated liabilities and equity	89 579 824	53 920 055	10 732 719	977 551	155 210 149
Unallocated liabilities and equity					28 088 315
Total liabilities and equity					183 298 464

Reconciliations of operating income for reportable segments

	3 QUARTERS 2019	3 QUARTERS 2018
Total operating income for reportable segments	6 110 888	5 713 516
Net other operating income and expenses	(55 033)	(39 294)
Operating income	6 055 855	5 674 222

Geographical segment

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

Notes to financial statements (cont.)

(in PLN thousand)

9. Interest income and expense

Interest income

	III QUARTER 2019			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	1 354 151	11 324	1 549	1 367 024
Interbank placements	10 525	-	-	10 525
Reverse repo transactions	11 029	-	-	11 029
Investment securities	98 833	147 394	-	246 227
Hedging derivatives	-	-	63 878	63 878
Financial assets held for trading	-	-	4 948	4 948
Total	1 474 538	158 718	70 375	1 703 631

	3 QUARTERS 2019			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	3 971 355	27 619	4 854	4 003 828
Interbank placements	35 278	-	-	35 278
Reverse repo transactions	31 599	-	-	31 599
Investment securities	250 352	457 956	-	708 308
Hedging derivatives	-	-	179 607	179 607
Financial assets held for trading	-	-	11 653	11 653
Total	4 288 584	485 575	196 114	4 970 273

Notes to financial statements (cont.)

(in PLN thousand)

Interest income

	III QUARTER 2018			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	1 236 583	5 669	1 834	1 244 086
Interbank placements	14 888	-	-	14 888
Reverse repo transactions	7 547	-	-	7 547
Investment securities	71 552	160 779	-	232 331
Hedging derivatives	-	-	42 713	42 713
Financial assets held for trading	-	-	2 502	2 502
Total	1 330 570	166 448	47 049	1 544 067

	3 QUARTERS 2018			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	3 610 138	19 038	5 780	3 634 956
Interbank placements	37 768	-	-	37 768
Reverse repo transactions	19 623	-	-	19 623
Investment securities	222 404	512 584	-	734 988
Hedging derivatives	-	-	103 923	103 923
Financial assets held for trading	-	-	7 283	7 283
Total	3 889 933	531 622	116 986	4 538 541

Interest expense

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Deposits from customers	(224 427)	(697 786)	(236 402)	(702 650)
Interbank deposits	(7 757)	(15 361)	(3 659)	(11 448)
Repo transactions	(18 465)	(29 616)	(9 183)	(27 002)
Loans and advances received	(7 100)	(21 224)	(2 260)	(5 989)
Leasing	(3 362)	(10 326)	(271)	(1 088)
Debt securities issued	(51 090)	(146 586)	(34 303)	(91 148)
Total	(312 201)	(920 899)	(286 078)	(839 325)

The amounts shown above contain interest expense relating to the financial liabilities measured at amortised cost.

Notes to financial statements (cont.)

(in PLN thousand)

10. Fee and commission income and expense

Fee and commission income

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Accounts maintenance, payment orders and cash transactions	159 940	466 189	158 612	464 452
Payment cards	161 981	457 079	152 253	433 252
Loans and advances	112 869	316 952	100 749	282 304
Margin on foreign exchange transactions with clients	125 334	368 965	115 144	339 334
Investment products sales intermediation	120 985	354 776	123 584	381 504
Securities operations	12 349	41 958	15 649	56 351
Custody activity	12 446	38 518	14 797	42 929
Pension and investment funds service fees	10 195	29 493	9 632	25 429
Guarantees, letters of credit and similar transactions	15 594	46 691	17 291	45 346
Other	11 956	32 975	6 971	26 276
Total	743 649	2 153 596	714 682	2 097 177

Fee and commission expense

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Payment cards	(71 447)	(191 726)	(66 869)	(188 589)
Money orders and transfers	(6 211)	(17 059)	(5 747)	(16 075)
Securities and derivatives operations	(8 044)	(22 738)	(8 548)	(22 284)
Accounts maintenance	(7 575)	(20 582)	(8 054)	(26 217)
Custody activity	(3 710)	(12 230)	(3 833)	(11 946)
Pension and investment funds management charges	(1 291)	(3 320)	(1 256)	(3 296)
Acquisition services	(145)	(408)	(34)	(1 253)
Other	(2 449)	(6 495)	(1 354)	(3 203)
Total	(100 872)	(274 558)	(95 695)	(272 863)

11.Dividend income

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Issuers of securities measured at fair value through profit or loss	535	937	220	384
Issuers of equity instruments designated at fair value through other comprehensive income	-	21 250	25	19 641
Total	535	22 187	245	20 025

Notes to financial statements (cont.)

(in PLN thousand)

12. Result on financial assets and liabilities measured at fair value through profit or loss

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Gains (losses) on loans and advances to customers measured mandatorily at fair value through profit or loss	(750)	(4 607)	422	(3 793)
Gains (losses) on securities measured mandatorily at fair value through profit or loss	(786)	20 197	8 540	17 025
Foreign currency exchange result	(21 683)	(30 071)	6 942	(8 506)
Gains (losses) on derivatives	36 900	68 492	7 964	43 576
Gains (losses) on securities held for trading	7 071	15 467	2 639	13 869
Total	20 752	69 478	26 507	62 171

13. Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss

Realized gains

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Financial assets measured at amortised cost	6 524	12 098	362	534
Financial assets measured at fair value through other comprehensive income	15 220	34 071	13 921	64 869
Financial liabilities not measured at fair value through profit or loss	-	-	1	1
Total	21 744	46 169	14 284	65 404

Realized losses

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Financial assets measured at amortised cost	(1 741)	(6 101)	-	-
Financial assets measured at fair value through other comprehensive income	(280)	(294)	-	-
Financial liabilities not measured at fair value through profit or loss	(131)	(320)	(23)	(66)
Total	(2 152)	(6 715)	(23)	(66)

Net realized profit	19 592	39 454	14 261	65 338
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Notes to financial statements (cont.)

(in PLN thousand)

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

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Loans and other financial assets measured at amortized cost (*)(**)	(180 217)	(391 290)	(144 798)	(404 487)
Debt securities measured at amortized cost	(98)	(15 043)	1 122	586
Loans measured at fair value through other comprehensive income	1 186	(17 119)	212	4 538
Debt securities measured at fair value through other comprehensive income	1 592	1 623	3 255	(2 079)
Off-balance sheet commitments	1 074	(41 555)	(15 068)	(4 728)
Total	(176 463)	(463 384)	(155 277)	(406 170)

(*) Item includes impairment losses on loans and advances to banks and receivables from financial leases.

(**) In 2019 the Group sold loans with a total debt of PLN 231.4 million. The realized gross result on the transaction was PLN 19.6 million.

15. Administrative expenses

Personnel expenses

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Wages and salaries	(422 135)	(1 329 958)	(412 591)	(1 296 849)
Insurance and other charges related to employees	(77 301)	(229 865)	(76 623)	(232 623)
Share-based payments expenses	(2 828)	(8 293)	(1 312)	(16 227)
Total	(502 264)	(1 568 116)	(490 526)	(1 545 699)

Other administrative expenses

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
General expenses	(229 353)	(675 579)	(244 594)	(731 465)
Taxes and charges	(7 319)	(24 567)	(9 666)	(30 067)
Bank Guarantee Fund fee	(20 530)	(434 164)	(30 512)	(235 537)
Financial supervision authority fee (KNF)	(223)	(25 240)	(5 837)	(18 366)
Tax on certain financial institutions	(145 579)	(442 863)	(140 934)	(417 828)
Total	(403 004)	(1 602 413)	(431 543)	(1 433 263)
Total	(905 268)	(3 170 529)	(922 069)	(2 978 962)

From 1 January 2017 new rules for making contributions to Bank Guarantee Fund (hereinafter 'BGF'), defined in the Act of 10 June 2016 on Bank Guarantee Fund, deposit guarantee schemes and resolution of banks (hereinafter 'BGF Act'), have to be applied.

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

As a result of application of the Interpretation IFRIC 21 *Levies* for recognition of the above obligations, the costs of quarterly contribution to deposit guarantee fund of banks in the amount of PLN 61 725 thousand for the 3 quarters (PLN 91 201 thousand for the 3 quarters of 2018) and the costs of annual contribution to resolution fund of banks in the amount of PLN 372 439 thousand (PLN 144 336 thousand in 2018).

Notes to financial statements (cont.)

(in PLN thousand)

16. Depreciation and amortization

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Property, plant and equipment	(73 857)	(226 298)	(43 274)	(128 822)
Investment property	(81)	(227)	(73)	(468)
Intangible assets	(49 640)	(152 276)	(49 325)	(141 055)
Total	(123 578)	(378 801)	(92 672)	(270 345)

17. Net other operating income and expenses

Other operating income

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Rental income	4 269	16 627	5 344	16 565
Miscellaneous income	1 099	2 581	1 399	3 136
Recovery of debt collection costs	5 729	13 264	2 792	9 175
Revenues from sale of products, goods and services	21 592	62 125	20 786	73 944
Refunds and overpayments	3 535	7 527	240	5 251
Compensation, recoveries, penalty fees and fines received	6 184	17 237	5 594	17 916
Revenues from leasing activity	3 518	6 973	2 283	3 139
Income from written off liabilities	967	980	6	35
Releases of impairment allowances for litigation and other assets	290	856	177	649
Gains on sale of leasing assets for third parties	332	1 315	179	319
Other	906	2 209	664	2 456
Total	48 421	131 694	39 464	132 585

Other operating expenses

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Costs related to leasing activity	(430)	(1 399)	(97)	(720)
Credit insurance expenses	(97)	(545)	(844)	(3 104)
Sundry expenses	(183)	(739)	(402)	(1 310)
Reimbursement and deficiencies	(454)	(1 119)	(229)	(3 022)
Costs from sale of products, goods and services	(20 665)	(58 389)	(20 138)	(71 294)
Customers complaints expenses	(380)	(1 325)	(190)	(566)
Impairment allowance for disputed claims and other assets	(2 060)	(2 504)	96	(804)
Costs of litigation and claims	(445)	(953)	(296)	(1 166)
Compensation, penalty fees and fines paid	(72)	(309)	(83)	(600)
Losses on disposal of leasing assets for third person	(426)	(445)	(139)	(399)
Other	(2 226)	(8 934)	(3 568)	(10 306)
Total	(27 438)	(76 661)	(25 890)	(93 291)

Net other operating income and expenses	20 983	55 033	13 574	39 294
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Notes to financial statements (cont.)

(in PLN thousand)

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

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	-	6 271	30 408	34 228
Gains (losses) on disposal of property, plant and equipment and intangible assets other than classified as assets held for sale	1 011	6 429	435	(7 325)
Total gains (losses) on disposal of property, plant and equipment and intangible assets	1 011	12 700	30 843	26 903

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

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
INCOME STATEMENT				
Current tax	(235 737)	(686 522)	(265 423)	(656 504)
Current tax charge in the income statement	(235 713)	(681 740)	(265 415)	(656 918)
Adjustments related to the current tax from previous years	2	(4 423)	46	647
Other taxes (e.g. withholding tax)	(26)	(359)	(54)	(233)
Deferred tax	35 408	99 312	78 482	124 537
Occurrence and reversal of temporary differences	35 408	99 312	78 482	124 537
Tax charge in the consolidated income statement	(200 329)	(587 210)	(186 941)	(531 967)
EQUITY				
Deferred tax	(20 215)	(62 587)	13 475	10 049
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	(11 277)	(28 770)	5 503	9 465
fair value revaluation through other comprehensive income	(10 419)	(32 000)	8 251	(2 818)
Tax charge on items that are or may be reclassified subsequently to profit or loss	(21 696)	(60 770)	13 754	6 647
Tax charge on items that never be reclassified to profit and loss	1 481	(1 817)	(279)	3 402
fair value revaluation through other comprehensive income – equity securities	1 481	(1 817)	(279)	3 402
remeasurements the defined benefit liabilities	-	-	-	-
TOTAL CHARGE	(220 544)	(649 797)	(173 466)	(521 918)

Notes to financial statements (cont.)

(in PLN thousand)

20. Earnings per share

Basic earnings per share

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

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Net profit	656 214	1 480 661	605 793	1 537 933
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	2.50	5.64	2.31	5.86

Diluted earnings per share

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

As at 30 September 2019 there were no diluting instruments in the form of convertible bonds in the Group.

	III QUARTER 2019	3 QUARTERS 2019	III QUARTER 2018	3 QUARTERS 2018
Net profit	656 214	1 480 661	605 793	1 537 933
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	2.50	5.64	2.31	5.86

21. Dividends

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

On 26 June 2019 the Ordinary General Meeting of Bank Pekao S.A. made the resolution regarding the dividend payment for year 2018. The dividend to the shareholders contributed an amount of PLN 1 732 302 224.40, wherein the amount of the dividend per one share was PLN 6.60. The dividend's day was fixed for 10 July 2019.

The payment of the dividend was on 30 July 2019.

Notes to financial statements (cont.)

(in PLN thousand)

22. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	30.09.2019	31.12.2018
Cash	2 878 008	3 182 875
Current account at Central Bank	3 478 845	9 790 609
Other	1 035	54 013
Gross carrying amount	6 357 888	13 027 497
Impairment allowances	(332)	(913)
Net carrying amount	6 357 556	13 026 584

AMOUNTS DUE TO CENTRAL BANK	30.09.2019	31.12.2018
Term deposits	5 037	5 067
Total	5 037	5 067

Receivables and liabilities to the Central Bank are measured at amortized cost.

Cash and balances with Central Bank by currency

30.09.2019	ASSETS	LIABILITIES
PLN	5 092 723	5 037
EUR	585 087	-
USD	363 615	-
CHF	79 684	-
Other currencies	236 447	-
Total	6 357 556	5 037

31.12.2018	ASSETS	LIABILITIES
PLN	10 471 632	5 067
EUR	1 980 231	-
USD	211 636	-
CHF	78 688	-
Other currencies	284 397	-
Total	13 026 584	5 067

Notes to financial statements (cont.)

(in PLN thousand)

23. Loans and advances to banks

Loans and advances to banks by product type

	30.09.2019	31.12.2018
Current accounts	276 655	276 433
Interbank placements	59 047	843 804
Loans and advances	11 133	19 085
Cash collaterals	993 958	983 373
Reverse repo transactions	750 801	126 442
Cash in transit	131 584	29 193
Total gross amount	2 223 178	2 278 330
Impairment allowances	(651)	(9 908)
Total net amount	2 222 527	2 268 422

Loans and advances to banks are measured at amortised cost.

Loans and advances to banks by contractual maturity

	30.09.2019	31.12.2018
Loans and advances to banks, including:		
up to 1 month	2 178 479	2 245 192
between 1 and 3 months	41 410	9
between 3 months and 1 year	171	19 923
between 1 and 5 years	6	31
over 5 years	154	51
past due	2 958	13 124
Total gross amount	2 223 178	2 278 330
Impairment allowances	(651)	(9 908)
Total net amount	2 222 527	2 268 422

Loans and advances to banks by currency

	30.09.2019	31.12.2018
PLN	958 208	493 697
CHF	37 622	31 935
EUR	1 033 939	1 521 593
USD	70 948	159 804
Other currencies	121 810	61 393
Total	2 222 527	2 268 422

Notes to financial statements (cont.)

(in PLN thousand)

24. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.09.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities	1 941 109	755 213
Equity securities	3 876	7 499
Total financial assets	1 944 985	762 712
FINANCIAL LIABILITIES		
Debt securities	741 373	102 429
Total financial liabilities	741 373	102 429

Financial assets and liabilities held for trading are measured at fair value through profit or loss.

Debt securities held for trading

	30.09.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities issued by State Treasury	1 852 845	637 765
T- bills	-	-
T- bonds	1 852 845	637 765
Debt securities issued by banks	17 104	38 567
Debt securities issued by business entities	71 160	78 881
Total financial assets	1 941 109	755 213
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	741 373	102 429
T- bonds	741 373	102 429
Total financial liabilities	741 373	102 429

Equity securities held for trading

	30.09.2019	31.12.2018
Shares	2 594	2 446
Participation units	1 282	5 053
Total	3 876	7 499

Notes to financial statements (cont.)

(in PLN thousand)

Debt securities held for trading by maturity

	30.09.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities, including:		
up to 1 month	10 134	1 720
between 1 and 3 months	1 004	-
between 3 months and 1 year	19 713	85 206
between 1 and 5 years	1 806 742	612 870
over 5 years	103 516	55 417
unspecified term	-	-
Total financial assets	1 941 109	755 213
FINANCIAL LIABILITIES		
Debt securities, including:		
up to 1 month	52 567	-
between 1 and 3 months	-	-
between 3 months and 1 year	10 399	-
between 1 and 5 years	631 432	57 421
over 5 years	46 975	45 008
Total financial liabilities	741 373	102 429

Debt securities held for trading by currency

	30.09.2019	31.12.2018
FINANCIAL ASSETS		
PLN	1 922 740	745 331
EUR	16 077	8 634
USD	2 292	1 248
Total financial assets	1 941 109	755 213
FINANCIAL LIABILITIES		
PLN	741 373	102 429
Total financial liabilities	741 373	102 429

Notes to financial statements (cont.)

(in PLN thousand)

25. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.09.2019	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 821 219	2 099 207
Forward Rate Agreements (FRA)	279	170
Options	10 595	2 441
Other	165	129
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	88 838	81 114
Currency Forward Agreements	139 518	182 273
Currency Swaps (FX-Swap)	127 854	61 840
Options for currency and gold	68 872	67 866
Transactions based on equity securities and stock indexes		
Options	1 991	1 981
Other	3	-
Transactions based on commodities and precious metals		
Options	32 345	30 113
Other	18 438	18 246
Total	2 310 117	2 545 380

31.12.2018	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 154 170	1 592 975
Forward Rate Agreements (FRA)	1 609	776
Options	6 822	2 122
Other	529	1 175
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	33 723	26 679
Currency Forward Agreements	56 153	114 042
Currency Swaps (FX-Swap)	55 528	34 253
Options for currency and for gold	39 434	39 699
Transactions based on equity securities and stock indexes		
Options	2 714	2 693
Other	1	-
Transactions based on commodities and precious metals		
Options	55 222	53 415
Other	45 757	45 217
Total	1 451 662	1 913 046

Derivative financial instruments are measured at fair value through profit or loss.

Notes to financial statements (cont.)

(in PLN thousand)

26. Loans and advances to customers

Loans and advances to customers by product type

	30.09.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	69 507 590	972 910	23 158	70 503 658
Current accounts	12 933 272	-	-	12 933 272
Operating loans	11 721 901	418 148	23 720	12 163 769
Investment loans	20 237 914	226 077	66 552	20 530 543
Cash loans	14 633 150	-	-	14 633 150
Payment cards receivables	1 095 665	-	-	1 095 665
Factoring	5 091 437	-	-	5 091 437
Other loans and advances	1 355 629	-	142 922	1 498 551
Debt securities	-	-	-	-
Reverse repo transactions	-	-	-	-
Cash in transit	35 113	-	-	35 113
Gross carrying amount	136 611 671	1 617 135	256 352	138 485 158
Impairment allowances (*)	(6 300 369)	-	-	(6 300 369)
Carrying amount	130 311 302	1 617 135	256 352	132 184 789

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 32 201 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

	31.12.2018			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	64 592 080	1 109 602	26 826	65 728 508
Current accounts	11 481 932	-	-	11 481 932
Operating loans	12 412 344	401 500	27 750	12 841 594
Investment loans	19 009 546	-	95 669	19 105 215
Cash loans	13 681 398	-	-	13 681 398
Payment cards receivables	1 141 961	-	-	1 141 961
Factoring	4 714 939	-	-	4 714 939
Other loans and advances	1 195 464	-	152 385	1 347 849
Debt securities	-	-	-	-
Reverse repo transactions	-	-	-	-
Cash in transit	64 336	-	-	64 336
Gross carrying amount	128 294 000	1 511 102	302 630	130 107 732
Impairment allowances (*)	(6 137 677)	-	-	(6 137 677)
Carrying amount	122 156 323	1 511 102	302 630	123 970 055

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 14 590 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by customer type

	30.09.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Corporate	57 124 671	1 617 135	47 339	58 789 145
Individuals	76 076 663	-	142 923	76 219 586
Budget entities	3 410 337	-	66 090	3 476 427
Gross carrying amount	136 611 671	1 617 135	256 352	138 485 158
Impairment allowances (*)	(6 300 369)	-	-	(6 300 369)
Carrying amount	130 311 302	1 617 135	256 352	132 184 789

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 32 201 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

	31.12.2018			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Corporate	53 186 945	1 511 102	56 407	54 754 454
Individuals	71 306 127	-	152 385	71 458 512
Budget entities	3 800 928	-	93 838	3 894 766
Gross carrying amount	128 294 000	1 511 102	302 630	130 107 732
Impairment allowances (*)	(6 137 677)	-	-	(6 137 677)
Carrying amount	122 156 323	1 511 102	302 630	123 970 055

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 14 590 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Loans and advances to customers by contractual maturity

	30.09.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and advances to customers, including:				
up to 1 month	17 669 304	-	2 678	17 671 982
between 1 and 3 months	5 159 038	-	15 796	5 174 834
between 3 months and 1 year	11 927 064	52 759	50 080	12 029 903
between 1 and 5 years	40 515 322	400 498	140 019	41 055 839
over 5 years	56 445 624	1 163 878	46 079	57 655 581
past due	4 895 319	-	1 700	4 897 019
Gross carrying amount	136 611 671	1 617 135	256 352	138 485 158
Impairment allowances (*)	(6 300 369)	-	-	(6 300 369)
Carrying amount	130 311 302	1 617 135	256 352	132 184 789

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 32 201 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by contractual maturity

	31.12.2018			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and advances to customers, including:				
up to 1 month	16 076 736	-	2 332	16 079 068
between 1 and 3 months	3 988 069	-	15 097	4 003 166
between 3 months and 1 year	13 201 050	72 224	52 597	13 325 871
between 1 and 5 years	37 046 831	413 713	168 618	37 629 162
over 5 years	53 029 499	1 025 165	61 070	54 115 734
past due	4 951 815	-	2 916	4 954 731
Gross carrying amount	128 294 000	1 511 102	302 630	130 107 732
Impairment allowances (*)	(6 137 677)	-	-	(6 137 677)
Carrying amount	122 156 323	1 511 102	302 630	123 970 055

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 14 590 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Loans and advances to customers by currency

	30.09.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
PLN	109 167 265	100 307	256 352	109 523 924
CHF	3 169 063	-	-	3 169 063
EUR	15 939 481	1 516 828	-	17 456 309
USD	1 585 029	-	-	1 585 029
Other currencies	450 464	-	-	450 464
Total	130 311 302	1 617 135	256 352	132 184 789

	31.12.2018			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
PLN	102 206 944	48 040	302 630	102 557 614
CHF	3 306 813	-	-	3 306 813
EUR	14 509 721	1 463 062	-	15 972 783
USD	1 759 248	-	-	1 759 248
Other currencies	373 597	-	-	373 597
Total	122 156 323	1 511 102	302 630	123 970 055

Notes to financial statements (cont.)

(in PLN thousand)

27. Receivables from financial leases

The Group conducts leasing operations through its subsidiary Pekao Leasing Sp. z o.o.

The value of gross lease investments and minimum lease payments

30.09.2019	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	2 425 880	2 244 845
Between 1 and 5 years	3 993 503	3 769 276
Over 5 years	520 735	494 358
Total	6 940 118	6 508 479
Unearned finance income	(431 639)	
Net leasing investment	6 508 479	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	6 508 479	
Impairment allowances	(76 281)	
Carrying amount	6 432 198	

31.12.2018	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 953 203	1 790 340
Between 1 and 5 years	3 387 505	3 187 430
Over 5 years	455 669	431 683
Total	5 796 377	5 409 453
Unearned finance income	(386 924)	
Net leasing investment	5 409 453	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	5 409 453	
Impairment allowances	(82 786)	
Carrying amount	5 326 667	

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

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

Receivables from financial leases by currency

	30.09.2019	31.12.2018
PLN	4 111 463	3 462 582
CHF	-	214
EUR	2 320 047	1 863 019
USD	688	852
Total	6 432 198	5 326 667

Notes to financial statements (cont.)

(in PLN thousand)

28. Hedge accounting

The Group decided to take advantage of the choice given by IFRS 9 and continues to apply hedge accounting procedures according to IAS 39. This decision concerns all hedging relationships, for which the Group applies and will apply hedge accounting in the future.

As of 30 September 2019 the Group applies fair value hedge accounting and cash flow hedge accounting:

FVH - fair value hedge accounting:

- Interest rate swaps (IRS) designated to hedge debt securities denominated in PLN, EUR and USD (hereafter: **FVH IRS bonds**);

CFH - cash flow hedge accounting:

- Interest rate swaps (IRS) designated to hedge floating rate loans and securities denominated in PLN (hereafter: **CFH IRS loans/bonds**),
- Interest rate swaps (IRS) designated to hedge deposits denominated in PLN and EUR, which economically reflect long-term variable-rate liability (hereafter: **CFH IRS deposits**),
- cross-currency interest rate swaps (basis swap) designated to hedge floating rate loans denominated in CHF and liabilities denominated in PLN, which economically reflect long-term variable-rate liability (hereafter: **CFH CIRS deposits/loans**),
- FX-Swaps designated to hedge floating rate loans denominated in EUR and current and term deposits denominated in USD (two hedging relationships, jointly hereafter: **CFH FX-Swap deposits/loans**).

Fair value hedge accounting

The Group applies fair value hedge accounting for fixed coupon debt securities denominated in PLN, EUR and USD, hedged with interest rate swap (IRS) transactions in the same currencies. The Group hedges component of interest rate risk related to the fair value changes of the hedged item resulting exclusively from the volatility of market interest rates (WIBOR, EURIBOR, LIBOR USD). In the past, hedged risk component accounted for a significant portion of changes in fair value of the hedged item.

Risk management strategy regarding fair value hedge relationships, hedge accounting system and main sources of hedge ineffectiveness were described in consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018 and have not changed substantially since then.

The approach of the Group to market risk management, including interest rate risk, and details regarding exposure of the Group to interest rate risk are disclosed in Note 7.2.

The tables below present interest rate swaps which are used by the Group as instruments hedging interest rate risk in fair value hedge accounting as of 30 September 2019 and 31 December 2018.

Notes to financial statements (cont.)

(in PLN thousand)

Impact of fair value hedge (interest rate risk hedging) on balance sheet and financial result

30.09.2019	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	2 820 480	3 020 480
Carrying amount – assets	-	487	487
Carrying amount – liabilities	19 105	171 371	190 476
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments
Amount of changes in fair value of the hedging instrument in the reporting period used for estimating hedge inefficiency	(8 915)	(79 610)	(88 525)
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(499)	(3 177)	(3 676)
HEDGED ITEM			
Carrying amount – assets	219 056	3 082 272	3 301 328
Accumulated amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet - assets	17 116	213 547	230 663
Balance sheet item in which hedged item is reported	Hedging instruments	Hedging instruments	Hedging instruments
Change in the value of hedged item used for estimating hedge inefficiency in the reporting period	8 416	76 433	84 849
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

Impact of fair value hedge (interest rate risk hedging) on balance sheet and financial result

31.12.2018	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	3 133 649	3 333 649
Carrying amount – assets	-	21 166	21 166
Carrying amount – liabilities	9 592	134 080	143 672
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments
Amount of changes in fair value of the hedging instrument in the reporting period used for estimating hedge inefficiency	(7 560)	48 638	41 078
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(78)	2 933	2 855
HEDGED ITEM			
Carrying amount – assets	208 402	3 335 538	3 543 940
Accumulated amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet - assets	8 700	124 954	133 654
Balance sheet item in which hedged item is reported	Hedging instruments	Hedging instruments	Hedging instruments
Change in the value of hedged item used for estimating hedge inefficiency in the reporting period	7 476	(45 707)	(38 231)
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

Cash flow hedge accounting

The Group applies:

- Cross-currency interest rate swaps (basis swap) to hedge exposure to interest rate risk related to volatility of market reference rates (WIBOR, LIBOR CHF) and exposure to currency risk. Portfolios of variable-rate loans denominated in CHF and deposits in PLN (which economically reflects to long-term variable-rate liability) are hedged items in this hedging relationship. CIRS transactions are decomposed into the part hedging the portfolio of assets and the part hedging the portfolio of liabilities,
- Interest rate swaps (IRS) to hedge the exposure to interest rate risk related to the volatility of market reference rates (WIBOR), generated by portfolios of variable-rate loans denominated in PLN,
- Currency swaps (FX-Swap) to hedge the exposure to interest rate risk related to the volatility of market reference rates (EURIBOR, LIBOR USD), and the exposure to the currency risk, generated by both, portfolios of variable-rate of loans denominated in EUR and portfolios of term and negotiable deposits denominated in USD,
- Currency swaps (FX-Swap) to hedge the exposure to the currency risk, generated by both, portfolios of loans denominated in EUR and portfolios of current and term deposits denominated in USD (new hedging relationship),
- Interest rate swaps (IRS) to hedge the exposure to interest rate risk related to the volatility of market reference rates (WIBOR, EURIBOR), generated by portfolio of deposits denominated in PLN and EUR, which economically reflect a long-term, variable-rate liability.

In the period from 1 January to 30 September 2019 the Group established new hedging relationship (FX-Swap), analogous to the existing one in terms of both hedging instruments and underlying position, but covering the currency risk only.

The new relationship is to replace the existing one: while all FX-Swaps designated to hedge accounting after 31 March 2019 supply the new hedge, the previous relationship is expected to gradually expire till February 2020.

Notes to financial statements (cont.)

(in PLN thousand)

Compared with the relation existing so far, the assessment of ineffectiveness in the new hedging relationship differs (due to the alternative construction of the hypothetical derivative), however the difference remains immaterial in terms of amounts. Due to this fact, as well as to the identity of the hedged items and types of hedging transactions, both relationships are presented together.

The Group's risk management strategy regarding cash flow hedge relationships, hedge accounting system and main sources of hedge ineffectiveness were described in consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018 and have not changed substantially since then.

Impact of cash flow hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP as at 30.09.2019	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX-Swap deposits/loans
HEDGING INSTRUMENTS				
Nominal value	9 200 000	1 221 036	5 088 124	20 690 273
Carrying amount – assets	336 635	3 692	-	111 057
Carrying amount – liabilities	-	35 659	452 298	44 293
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments	Hedging instruments
Change in the fair value of the hedging instrument used for estimating hedge ineffectiveness	124 033	(17 305)	44 364	203
Gains or losses resulting from hedging, recognized in other comprehensive income	-	-	-	-
Amount of hedge ineffectiveness recognized in the income statement in item 'Result on financial assets and liabilities measured at fair value through profit or loss'	-	-	(2)	(4)
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
HEDGED ITEM				
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	(124 033)	17 305	(59 552)	(233)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	274 408	(29 131)	(42 090)	(225)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

Impact of cash flow hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP as at 31.12.2018	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX--Swap deposits/loans
HEDGING INSTRUMENTS				
Nominal value	8 600 000	1 107 760	11 689 750	6 293 305
Carrying amount – assets	261 759	-	-	30 640
Carrying amount – liabilities	-	15 613	745 171	600
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments	Hedging instruments
Change in the fair value of the hedging instrument used for estimating hedge ineffectiveness	48 745	(10 856)	9 369	(175)
Gains or losses resulting from hedging, recognized in other comprehensive income	-	-	-	-
Amount of hedge ineffectiveness recognized in the income statement in item 'Result on financial assets and liabilities measured at fair value through profit or loss'	205	-	(23)	7
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
HEDGED ITEM				
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	(48 745)	10 856	(13 313)	185
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	150 374	(11 975)	(86 447)	(412)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Changes in the revaluation reserve from the valuation of hedging derivatives in cash flow hedge accounting

	3 QUARTERS 2019	3 QUARTERS 2018
Opening balance	51 540	6 581
INTEREST RATE RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	106 878	(55 996)
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
INTEREST RATE RISK/CURRENCY RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	44 544	6 182
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
Closing balance	202 962	(43 233)

Notes to financial statements (cont.)

(in PLN thousand)

29. Investment (placement) securities

	30.09.2019	31.12.2018
Debt securities measured at amortised cost	15 295 570	11 255 899
Debt securities measured at fair value through other comprehensive income	25 407 321	27 032 827
Equity instruments designated at fair value through other comprehensive income	242 460	232 861
Equity instruments mandatorily measured at fair value through profit or loss	111 276	65 408
Total	41 056 627	38 586 995

Debt securities measured at amortised cost

	30.09.2019	31.12.2018
Securities issued by State Treasury	9 627 255	5 237 027
T-bills	-	-
T-bonds	9 627 255	5 237 027
Securities issued by Central Banks	60 650	13 798
Securities issued by business entities	2 326 198	3 426 605
Securities issued by local governments	3 281 467	2 578 469
Total	15 295 570	11 255 899
including impairment of assets	(75 641)	(59 339)

Debt securities measured at fair value through other comprehensive income

	30.09.2019	31.12.2018
Securities issued by State Treasury	16 529 233	15 575 633
T-bills	-	-
T-bonds	16 279 446	15 325 422
Other	249 787	250 211
Securities issued by Central Banks	-	2 985 696
Securities issued by banks	3 495 488	3 418 866
Securities issued by business entities	2 307 450	1 985 860
Securities issued by local governments	3 075 150	3 066 772
Total	25 407 321	27 032 827
including impairment of assets (*)	(26 286)	(28 307)

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount.

Equity instruments designated at fair value through other comprehensive income

	30.09.2019	31.12.2018
Shares	242 460	232 861
Total	242 460	232 861

Notes to financial statements (cont.)

(in PLN thousand)

Equity instruments mandatorily measured at fair value through profit or loss

	30.09.2019	31.12.2018
Shares	90 722	65 408
Investment certificates	20 554	-
Total	111 276	65 408

Investment debt securities according to contractual maturity

	30.09.2019	31.12.2018
Debt securities, including:		
up to 1 month	85 721	3 784 220
between 1 and 3 months	1 340 144	134 911
between 3 months and 1 year	3 225 664	2 959 486
between 1 and 5 years	23 454 014	19 671 719
over 5 years	12 597 348	11 738 390
Total	40 702 891	38 288 726

Investment debt securities by currency

	30.09.2019	31.12.2018
PLN	35 006 279	32 180 082
EUR	2 787 197	2 967 951
USD	2 909 415	3 140 693
Total	40 702 891	38 288 726

30. Assets and liabilities held for sale

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

As at 30 September 2019 non-current assets classified as held for sale are as follows:

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

Assets held for sale are presented below:

	30.09.2019	31.12.2018
ASSETS HELD FOR SALE		
Property, plant and equipment	45 895	11 550
Total assets	45 895	11 550

The effect of disposal of other assets is as follows:

	3 QUARTERS 2019	3 QUARTERS 2018
Sales revenues	11 369	45 695
Net carrying amount of disposed assets (including sale costs)	(5 089)	(11 467)
Profit/loss on sale before income tax	6 271	34 228

Notes to financial statements (cont.)

(in PLN thousand)

31. Intangible assets

	30.09.2019	31.12.2018
Intangible assets, including:	778 346	779 098
research and development expenditures	1	3
licenses and patents	448 629	461 255
other	160 386	168 827
assets under construction	169 330	149 013
Goodwill	747 648	747 648
Total	1 525 994	1 526 746

In the period from 1 January to 30 September 2019 the Group acquired intangible assets in the amount of PLN 134 745 thousand (in 2018 – PLN 181 373 thousand).

In the period from 1 January to 30 September 2019 and in 2018 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 30 September 2019 the contractual commitments for the acquisition of intangible assets amounted to PLN 126 621 thousand, whereas as at 31 December 2018 - PLN 43 136 thousand.

32. Property, plant and equipment

	30.09.2019	31.12.2018
Non-current assets, including:	1 797 036	1 277 774
land and buildings	1 327 203	919 785
machinery and equipment	310 893	232 069
transport vehicles	69 920	53 029
other	89 020	72 891
Non-current assets under construction and prepayments	78 079	142 168
Total	1 875 115	1 419 942

In the period from 1 January to 30 September 2019 the Group acquired property, plant and equipment in the amount of PLN 122 243 thousand (in 2018 - PLN 181 980 thousand), while the value of property, plant and equipment sold amounted to PLN 9 746 thousand (in 2018 - PLN 20 833 thousand).

In the period from 1 January to 30 September 2019 and in 2018 there have been no property, plant and equipment whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 30 September 2019 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 25 048 thousand, whereas as at 31 December 2018 - PLN 7 402 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

33. Assets pledged as security for liabilities

The following tables presents financial assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 30.09. 2019	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	968 921	935 663	969 225
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	728 314	690 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	81 986	81 000	72 955
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	238 056	232 000	208 549
Lombard and technical loan	bonds	3 804 041	3 648 296	-
Other loans	bonds	376 218	363 000	322 407
Debt securities issued	loans, bonds	1 751 199	1 751 124	1 353 531
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposits	33 619	33 619	-
Derivatives	bonds	353 908	349 654	319 834

TYPE OF TRANSACTION AS AT 31.12.2018	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	417 979	352 714	415 119
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	738 238	690 200	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	71 227	70 000	63 415
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	109 874	108 000	96 818
Lombard and technical loan	bonds	3 700 090	3 652 863	-
Other loans	bonds	236 083	221 100	206 151
Debt securities issued	loans, bonds	1 462 355	1 460 936	1 819 911
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	46 439	46 313	-
Derivatives	bonds	529 569	520 445	470 905

Notes to financial statements (cont.)

(in PLN thousand)

34. Amounts due to other banks

Amounts due to other banks by product type

	30.09.2019	31.12.2018
Current accounts	2 235 557	1 053 416
Interbank deposits and other liabilities	237 522	394 156
Loans and advances received	3 205 820	4 060 142
Repo transactions	423 010	67 447
Cash in transit	35 378	40 470
Lease liabilities	895	-
Total	6 138 182	5 615 631

Amounts due to other banks are measured at amortised cost.

Amounts due to other banks by currency

	30.09.2019	31.12.2018
PLN	2 734 281	1 799 447
CHF	192 254	226 207
EUR	3 157 337	3 494 632
USD	25 979	55 287
Other currencies	28 331	40 058
Total	6 138 182	5 615 631

35. Amounts due to customers

Amounts due to customers by entity and product type

	30.09.2019	31.12.2018
Amounts due to corporate, including:	50 775 219	53 468 205
current accounts	38 635 830	39 426 301
term deposits and other liabilities	12 139 389	14 041 904
Amounts due to budget entities, including:	11 260 465	10 946 907
current accounts	9 814 526	9 754 001
term deposits and other liabilities	1 445 939	1 192 906
Amounts due to individuals, including:	90 428 518	84 510 108
current accounts	55 146 831	49 773 217
term deposits and other liabilities	35 281 687	34 736 891
Repo transactions	546 215	347 672
Cash in transit	227 646	211 025
Lease liabilities	482 772	7 142
Total	153 720 835	149 491 059

Amounts due to customers are measured at amortised cost.

Notes to financial statements (cont.)

(in PLN thousand)

Amounts due to customers by currency

	30.09.2019	31.12.2018
PLN	125 802 862	123 029 852
CHF	360 782	350 419
EUR	17 885 777	16 552 992
USD	8 038 934	8 100 077
Other currencies	1 632 480	1 457 719
Total	153 720 835	149 491 059

36. Debt securities issued

Debt securities issued by type

	30.09.2019	31.12.2018
Liabilities from bonds	2 636 773	1 978 319
Certificates of deposit	1 959 580	1 732 596
Mortgage bonds	1 353 531	1 519 899
Total	5 949 884	5 230 814

Amounts debt securities issued are measured at amortised cost.

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

Debt securities issued by currency

	30.09.2019	31.12.2018
PLN	5 694 724	4 901 179
EUR	229 147	329 635
USD	26 013	-
Total	5 949 884	5 230 814

37. Subordinated liabilities

On 30 October 2017, the Bank issued 10 years subordinated bonds with a total nominal value of PLN 1.25 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 21 December 2017 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018, the Bank issued 10 years subordinated bonds with a total nominal value of PLN 0.55 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 16 November 2018 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018, the Bank issued 15 years subordinated bonds with a total nominal value of PLN 0.20 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 18 October 2018 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

Notes to financial statements (cont.)

(in PLN thousand)

On 4 June 2019, the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.35 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 8 July 2019 – 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.

Subordinated liabilities by type

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 30.09.2019
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 267 463
Subordinated bonds	550 000	PLN	variable, WIBOR 6M + margin	15.10.2018	16.10.2028	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	558 506
Subordinated bonds	200 000	PLN	variable, WIBOR 6M + margin	15.10.2018	14.10.2033	Call option giving the Bank the right of early redemption within 10 years from the issue date, subject to the approval of the PFSA	203 324
Subordinated bonds	350 000	PLN	variable, WIBOR 6M + margin	04.06.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	353 982
TOTAL	2 350 000						2 383 275

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 31.12.2018
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 257 025
Subordinated bonds	550 000	PLN	variable, WIBOR 6M + margin	15.10.2018	16.10.2028	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	553 926
Subordinated bonds	200 000	PLN	variable, WIBOR 6M + margin	15.10.2018	14.10.2033	Call option giving the Bank the right of early redemption within 10 years from the issue date, subject to the approval of the PFSA	201 534
TOTAL	2 000 000						2 012 485

Notes to financial statements (cont.)

(in PLN thousand)

38. Provisions

Changes in provisions in the reporting period

3 QUARTERS 2019	PROVISIONS FOR LITIGATION AND CLAIMS	RESTRUCTURING PROVISION	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	54 890	-	289 287	240 698	50 210	635 085
Provision charges/revaluation	40 847	85 000	21 214	173 681	8 293	329 035
Provision utilization	(6 912)	(37 991)	(22 377)	-	(14 050)	(81 330)
Provision releases	(75)	-	-	(132 126)	-	(132 201)
Foreign currency exchange differences	-	-	-	806	-	806
Other changes	186	-	182	-	812	1 180
Closing balance	88 936	47 009	288 306	283 059	45 265	752 575
Short term	3 616	47 009	5 855	39 170	718	96 368
Long term	85 320	-	282 451	243 889	44 547	656 207

2018	PROVISIONS FOR LITIGATION AND CLAIMS	RESTRUCTURING PROVISION	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	17 132	-	300 248	236 909	48 333	602 622
Initial application of IFRS 9	-	-	-	36 266	-	36 266
Opening balance - restated	17 132	-	300 248	273 175	48 333	638 888
Provision charges/revaluation	15 101	-	27 920	203 941	17 825	264 787
Provision utilization	(3 739)	-	(38 567)	(24 808)	(15 899)	(83 013)
Provision releases	(1 143)	-	(5)	(169 241)	(49)	(170 438)
Foreign currency exchange differences	-	-	-	1 391	-	1 391
Other changes	27 539	-	(309)	(43 760)	-	(16 530)
Closing balance	54 890	-	289 287	240 698	50 210	635 085
Short term	3 559	-	12 740	50 987	1 968	69 254
Long term	51 331	-	276 547	189 711	48 242	565 831

Provisions for litigation and claims

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

On 11 September 2019 the Court of Justice of the European Union (hereinafter the 'CJEU') issued a judgment in Case C-383/18 concerning preliminary questions regarding the consumer's right to reduce the total cost of loan in the event of early repayment of consumer loan.

Considering the above, the Bank assessed the probability of cash outflow in relation to commission for early repayment of loans and as at 30 September 2019 created a provision in the total amount of PLN 29.1 million.

Restructuring provision

The Management Board of Bank Pekao S.A. informed that on 4 April 2019, in accordance with the Act of 13 March 2003 on special rules of terminating employment contracts for reasons not attributable to the employees (Journal of Laws, 2018, item 1969), adopted a resolution on the intended collective redundancies and the start of the consultation procedure for collective redundancies.

The intention of the Bank's Management Board is to terminate employment contracts with up to 900 employees and amend terms and conditions of employment with up to 620 employees, between 26 April 2019 and 31 October 2019.

Notes to financial statements (cont.)

(in PLN thousand)

The Bank estimated all the costs of termination of employment contracts and amendment of terms and conditions of employment the Bank's employees related to the collective redundancies for PLN 85 million and the restructuring provision in this amount was created in the Bank's accounting books.

Provisions for defined benefits plans

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

Other provisions

Other provisions include in particular provisions for other employee benefits.

39. Contingent commitments

Court cases

As of 30 September 2019 the following court cases for payment are pending with involvement of the Group, that are important in view of the value of the object of litigation:

1) in the group of liabilities (against the Group):

- brought by a legal person – lawsuit for payment by virtue of improper performance of an agreement, value of the object of litigation EUR 17 521 646 (which as of 30 September 2019 at mid NBP rate was equivalent to PLN 76 632 670.94), litigation initiation date – 19 July 2018, on 27 May 2019 the Arbitration Court at the Polish Chamber of Commerce passed a sentence dismissing the suit in its entirety, the sentence is legally valid but the plaintiff lodged a complaint with a court of general jurisdiction and demand the sentence to be repealed, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
- brought by the receiver for a joint stock company in liquidation bankruptcy – lawsuit for payment of compensation for a damage incurred as a result of the Bank's demanding immediate payment of the amounts due in virtue of payment of the price from the credit receivables transfer agreement and conducting debt enforcement collection of the portion of the price remaining for payment by a court enforcement officer, value of the object of litigation PLN 57 450 130 litigation initiation date – 30 April 2015, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
- brought by a natural person – lawsuit for payment by the Bank of an amount charged by virtue of settlement of financial future or forward transactions, value of the object of litigation PLN 38 916 555.18, litigation initiation date – 2 October 2016, on 6 May 2019 the Regional Court in Warsaw issued a sentence ordering the Bank to pay the amount of PLN 3 392 349.18 and as to the remainder the Court dismissed the suit, the sentence is not legally valid, the Bank appealed against the judgment. In the present factual and legal circumstances regarding the amount awarded by the Circuit Court the Bank assesses the funds outflow risk as probable and in the remaining scope as possible.
- brought by a beneficiary of warranty – lawsuit for payment of a claim by virtue of the warranty issued by the Bank, value of the object of litigation PLN 32 750 000, litigation initiation date – 14 January 2014, in the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,
- brought by a beneficiary of warranty – lawsuit for payment of a claim by virtue of the warranty issued by the Bank, value of the object of litigation PLN 32 491 607.61, litigation initiation date – 25 July 2019, in the present factual and legal circumstances the Bank assesses the funds outflow risk as minor. Before the delivery of the lawsuit, the Bank paid the claimant the main claim sought by the lawsuit from funds obtained from the counter guarantor,
- brought by a natural person – lawsuit for payment of damages by the Bank resulting from improper conduct of a Group entity – former Pekao S.A. Central Brokerage House, the value of the object of litigation is PLN 30 000 000, the date of the litigation initiation is 16 May 2019, in the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,

2) in the group of receivables (brought by the Group):

- Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation is PLN 321 979 666.87, litigation initiation date – 26 October 2018,
- Bank's lawsuit for payment against limited debtor by virtue of mortgage collateralizing repayment of the granted credit, value of the object of litigation PLN 132 877 901, litigation initiation date – 21 January 2016,

Notes to financial statements (cont.)

(in PLN thousand)

- Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation PLN 119 020 334, litigation initiation date – 26 October 2018,
- Bank's mutual lawsuit for payment of amounts due by virtue of the transfer of receivables, value of the object of litigation PLN 89 977 886, litigation initiation date – 28 February 2013,
- Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand to execute (pay) the liabilities purchased by the Bank from one of the defendants against the other defendant, value of the object of litigation PLN 67 432 617.21 , litigation initiation date – 23 January 2006.

None of the litigations pending in the third quarter of the year 2019 before the court, authority competent for arbitrary proceedings or a body of public administration posed a threat for financial liquidity of the Group.

The Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the provisions as at 30 September 2019 is PLN 88 936 thousand (PLN 54 890 thousand as at 31 December 2018).

Financial commitments granted

Financial commitments granted by entity

	30.09.2019	31.12.2018
Financial commitments granted to:		
banks	1 403 322	312 155
customers entities	37 527 290	31 979 434
budget entities	932 567	662 554
Total	39 863 179	32 954 143

Guarantees issued

Guarantees issued by entity

	30.09.2019	31.12.2018
Issued to banks:	1 267 933	1 229 675
guarantees	1 191 416	1 224 617
confirmed export letters of credit	76 517	5 058
Issued customers entities	9 837 995	11 222 563
guarantees	6 697 269	6 824 237
securities' underwriting guarantees	3 082 557	4 320 967
sureties	58 169	77 359
Issued to budget entities:	889 063	162 540
guarantees	31 076	13 192
securities' underwriting guarantees	857 987	149 348
Total	11 994 991	12 614 778

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.09.2019	31.12.2018
Financial received from:	1 490 018	1 085 713
banks	1 490 018	885 739
customers entities	-	199 974
budget entities	-	-
Guarantees received from:	15 959 279	20 181 274
banks	4 435 953	3 556 811
clients entities	10 477 495	15 621 321
budget entities	1 045 831	1 003 142
Total	17 449 297	21 266 987

Moreover, the Group has the ability to obtain financing from National Bank of Poland against the government securities it holds.

40. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	30.09.2019	30.09.2018
Cash and amounts due from Central Bank	6 357 556	5 720 292
Loans and receivables from banks with maturity up to 3 months	2 086 116	4 541 190
Cash and Cash equivalents presented in the cash flow statement	8 443 672	10 261 482

Restricted availability cash and cash equivalents as at 30 September 2019 amounted to PLN 5 434 634 thousand (PLN 5 063 787 thousand as at 30 September 2018).

Changes in liabilities arising from financing activities

	BALANCE AS AT 01.01.2019	CHANGES FROM FINANCING CASH FLOWS	NON-CASH CHANGES			BALANCE AS AT 30.09.2019	
			CHANGES ARISING FROM OBTAINING OR LOSING CONTROL OF SUBSIDIARIES OR OTHER BUSINESSES	THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	CHANGES IN FAIR VALUES		OTHER CHANGES
Debt securities issued	5 230 814	687 982	-	6 454	-	24 634	5 949 884
Subordinated liabilities	2 012 485	350 000	-	-	-	20 790	2 383 275
Loans and advances received	4 060 142	(923 167)	-	68 301	-	544	3 205 820
Lease liabilities	7 142	(127 468)	-	2 419	-	601 574	483 667
Total	11 310 583	(12 653)	-	77 174	-	647 542	12 022 646

	BALANCE AS AT 01.01.2018	CHANGES FROM FINANCING CASH FLOWS	NON-CASH CHANGES			BALANCE AS AT 30.09.2018	
			CHANGES ARISING FROM OBTAINING OR LOSING CONTROL OF SUBSIDIARIES OR OTHER BUSINESSES	THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	CHANGES IN FAIR VALUES		OTHER CHANGES
Debt securities issued	2 771 399	1 978 017	-	-	-	(6 801)	4 742 615
Subordinated liabilities	1 257 188	-	-	-	-	10 212	1 267 400
Loans and advances received	3 006 353	(64 463)	-	111 228	-	(169)	3 052 949
Total	7 034 940	1 913 554	-	111 228	-	3 242	9 062 964

Notes to financial statements (cont.)

(in PLN thousand)

41. Related party transactions

The transactions between the Bank and related parties are typical transactions arising from current operating activities conducted by the Bank. Such transactions mainly include loans, deposits, foreign currency transactions and guarantees.

The credit granting process applicable to the Bank's management and entities related to the Bank

According to the Banking Act, credit transactions with Members of the Bank's Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, shall be effected according to Regulation adopted by the Supervisory Board of the Bank.

The Regulation provides detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels authorized to take decisions. In particular, the transactions with the Members of the Bank's Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank's Management Board and Supervisory Board.

Members of the Bank's Management Board and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is performed using the methodology applied by the Bank, tailored to the client's segment and type of transaction.

In case of entities related to the Bank, the standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank's Head Office.

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions

Related party transactions as at 30 September 2019

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	-	-	2 092	3 645	50 703	-	1 815
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	1 367	-	10 439	9 608	91 006	757	1 644
Key management personnel of the Bank Pekao S.A.	92	-	-	-	6 872	-	-
Total	1 459	-	12 531	13 253	148 581	757	3 459

Receivables from loans and placements by contractual maturity

30.09.2019	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	-	-	-	-	-	-	-
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	28	24	43	121	1 151	-	1 367
Key management personnel of the Bank Pekao S.A.	-	-	-	-	-	92	92
Total	28	24	43	121	1 151	92	1 459

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

Liabilities from loans and deposits by contractual maturity

30.09.2019	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	48 673	2 030	-	-	-	-	50 703
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	78 783	12 223	-	-	-	-	91 006
Key management personnel of the Bank Pekao S.A.	5 803	1 010	-	-	-	59	6 872
Total	133 259	15 263	-	-	-	59	148 581

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by currency

30.09.2019	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	-	-	-	-	-	-
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	1 367	-	1 367
Key management personnel of the Bank Pekao S.A.	-	-	-	92	-	92
Total	-	-	-	1 459	-	1 459

Liabilities from loans and deposits by currency

30.09.2019	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	35	-	-	50 668	-	50 703
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	958	3 360	465	85 300	923	91 006
Key management personnel of the Bank Pekao S.A.	3 262	113	22	3 470	5	6 872
Total	4 255	3 473	487	139 438	928	148 581

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions as at 31 December 2018

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	4	-	104	492	23 722	-	134
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	421	-	2 663	6 727	54 158	547	1 891
Key management personnel of the Bank Pekao S.A.	440	-	-	-	6 609	-	-
Total	865	-	2 767	7 219	84 489	547	2 025

Receivables from loans and deposits by contractual maturity

31.12.2018	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	-	4	-	-	-	-	4
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	6	301	21	93	-	-	421
Key management personnel of the Bank Pekao S.A.	-	-	-	39	9	392	440
Total	6	305	21	132	9	392	865

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

Liabilities due to loans and deposits by contractual maturity

31.12.2018	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	23 722	-	-	-	-	-	23 722
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	49 406	4 752	-	-	-	-	54 158
Key management personnel of the Bank Pekao S.A.	6 499	3	1	106	-	-	6 609
Total	79 627	4 755	1	106	-	-	84 489

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and deposits by currency

31.12.2018	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	-	-	-	4	-	4
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	421	-	421
Key management personnel of the Bank Pekao S.A.	-	-	392	48	-	440
Total	-	-	392	473	-	865

Liabilities due to loans and deposits by currency

31.12.2018	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	34	-	-	23 688	-	23 722
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	743	1 356	232	50 319	1 508	54 158
Key management personnel of the Bank Pekao S.A.	3 207	130	16	3 254	2	6 609
Total	3 984	1 486	248	77 261	1 510	84 489

Notes to financial statements (cont.)

(in PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2019 to 30 September 2019

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	543	(482)	3 901	(101)	1 281	(369)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	471	(1 124)	34 933	(104)	2 151	(15 536)
Key management personnel of the Bank Pekao S.A.	8	(32)	1	-	-	-
Total	1 022	(1 638)	38 835	(205)	3 432	(15 905)

Income and expenses from transactions with related parties for the period from 1 January to 30 September 2018

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	297	(199)	1 147	-	240	(5 549)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	319	(343)	18 702	(114)	1 053	(8 278)
Key management personnel of the Bank Pekao S.A.	1	(46)	1	-	-	-
Total	617	(588)	19 850	(114)	1 293	(13 827)

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial liabilities and guarantees as at 30 September 2019

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 862	15 000	-	502 964
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	642	10 000	-	-
Key management personnel of the Bank Pekao S.A.	595	-	-	-
Total	4 099	25 000	-	502 964

Off-balance sheet financial commitments and guarantees by contractual maturity

30.09.2019	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
PZU S.A. – the Bank's parent entity	-	-	-	-	266	2 596	2 862
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	25	-	-	-	617	642
Key management personnel of the Bank Pekao S.A.	-	-	-	-	194	401	595
Total	-	25	-	-	460	3 614	4 099
Guarantees issued							
PZU S.A. – the Bank's parent entity	-	-	123	-	14 877	-	15 000
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	155	284	-	9 561	-	10 000
Total	-	155	407	-	24 438	-	25 000
Guarantees received							
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	-	-	502 964	502 964
Total	-	-	-	-	-	502 964	502 964

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

30.09.2019	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
PZU S.A. – the Bank's parent entity	-	-	-	2 862	-	2 862
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	642	-	642
Key management personnel of the Bank Pekao S.A.	-	-	-	595	-	595
Total	-	-	-	4 099	-	4 099
Guarantees issued						
PZU S.A. – the Bank's parent entity	-	-	-	15 000	-	15 000
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	10 000	-	10 000
Total	-	-	-	25 000	-	25 000
Guarantees received						
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	502 964	-	-	-	-	502 964
Total	502 964	-	-	-	-	502 964

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial liabilities and guarantees as at 31 December 2018

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 818	15 000	-	494 500
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	617	16 000	-	6 000
Key management personnel of the Bank Pekao S.A.	488	-	-	-
Total	3 923	31 000	-	500 500

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2018	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
PZU S.A. – the Bank's parent entity	-	-	-	-	2 818	-	2 818
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	20	-	-	597	-	617
Key management personnel of the Bank Pekao S.A.	-	-	-	75	412	1	488
Total	-	20	-	75	3 827	1	3 923
Guarantees issued							
PZU S.A. – the Bank's parent entity	-	49	11	14 940	-	-	15 000
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	50	6 040	9 910	-	-	16 000
Total	-	99	6 051	24 850	-	-	31 000
Guarantees received							
PZU S.A. – the Bank's parent entity	-	-	-	-	-	494 500	494 500
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	6 000	-	-	-	6 000
Total	-	-	6 000	-	-	494 500	500 500

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2018	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
PZU S.A. – the Bank's parent entity	-	-	-	2 818	-	2 818
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	617	-	617
Key management personnel of the Bank Pekao S.A.	-	-	-	488	-	488
Total	-	-	-	3 923	-	3 923
Guarantees issued						
PZU S.A. – the Bank's parent entity	-	-	-	15 000	-	15 000
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	16 000	-	16 000
Total	-	-	-	31 000	-	31 000
Guarantees received						
PZU S.A. – the Bank's parent entity	494 500	-	-	-	-	494 500
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	6 000	-	6 000
Total	494 500	-	-	6 000	-	500 500

Notes to financial statements (cont.)

(in PLN thousand)

Remuneration expenses of the Bank's Management Board and Supervisory Board Members

	VALUE OF BENEFITS	
	3 QUARTERS 2019	3 QUARTERS 2018
Management Board of the Bank		
Short-term employee benefits (*)	9 535	9 367
Post-employment benefits	-	1 088
Long-term benefits (**)	1 112	3 230
Share-based payments (***)	4 459	-
Total	15 106	13 685
Supervisory Board of the Bank		
Short-term employee benefits (*)	787	1 034
Total	787	1 034

(*) Short-term employee benefits include: base salary, bonuses and other benefits due in next 12 months from the date of the balance sheet.

(**) The item 'Other long-term benefit' includes: provisions for deferred bonus payments.

(***) The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of share options and shares, including phantom shares, granted to the Members of the Bank's Management Board.

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in the period from 1 January to 30 September 2019 and in the period from 1 January to 30 September 2018.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

	VALUE OF BENEFITS	
	3 QUARTERS 2019	3 QUARTERS 2018
Companies' Management Boards		
Short-term employee benefits	9 819	12 709
Post-employment benefits	1 347	747
Long-term benefits	2 039	1 723
Termination benefits	738	1 634
Total	13 943	16 813
Companies' Supervisory Boards		
Short-term employee benefits	480	429
Total	480	429

42. Subsequent events

Significant subsequent events are presented in the Note 8.8 'Subsequent events' of the Report on the activities of Bank Pekao S.A. Group for the third quarter of 2019.

Signatures of the Management Board Members

05.11.2019 Date	Michał Krupiński Name/Surname	President of the Management Board Position/Function	Signature
05.11.2019 Date	Tomasz Kubiak Name/Surname	Vice President of the Management Board Position/Function	Signature
05.11.2019 Date	Michał Lehmann Name/Surname	Vice President of the Management Board Position/Function	Signature
05.11.2019 Date	Marek Lusztyn Name/Surname	Vice President of the Management Board Position/Function	Signature
05.11.2019 Date	Tomasz Styczyński Name/Surname	Vice President of the Management Board Position/Function	Signature
05.11.2019 Date	Marek Tomczuk Name/Surname	Vice President of the Management Board Position/Function	Signature
05.11.2019 Date	Magdalena Zmitrowicz Name/Surname	Vice President of the Management Board Position/Function	Signature
05.11.2019 Date	Grzegorz Olszewski Name/Surname	Member of the Management Board Position/Function	Signature
05.11.2019 Date	Piotr Wetmański Name/Surname	Member of the Management Board Position/Function	Signature

Glossary

Glossary

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

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

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

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

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

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

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

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

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

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

EAD – Exposure at Default.

EL – Expected Loss.

Life-time ECL – Lifetime Expected Credit Loss.

CCF – Credit Conversion Factor.

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

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

FVH – fair value hedge accounting.

LTV – Loan to Value.

CFH – cash flow hedge accounting.