

Report on the activities of Bank Pekao S.A. for the year 2017



Warsaw, February 2018

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1 Highlights of Bank Pekao S.A.

	2017	2016	2015	2014	2013	2012
INCOME STATEMENT – SELECTED ITEMS (in PLN million)						
Operating income	7,085	7,036	6,792	7,035	7,187	7,510
Operating costs	(3,025)	(2,991)	(2,993)	(3,087)	(3,125)	(3,231)
Gross operating profit	4,061	4,045	3,799	3,948	4,062	4,279
Profit before income tax	2,728	2,863	2,792	3,270	3,436	3,593
Net profit	2,088	2,278	2,290	2,662	2,800	2,925
PROFITABILITY RATIOS						
Return on average equity (ROE)	9.6%	10.1%	10.1%	11.6%	12.3%	13.6%
Return on assets (ROA)	1.2%	1.4%	1.4%	1.8%	2.0%	2.1%
Net interest margin	2.8%	2.8%	2.7%	3.1%	3.3%	3.6%
Non-interest income / operating income	34.0%	37.5%	37.4%	36.2%	38.0%	35.8%
Cost / income	42.7%	42.5%	44.1%	43.9%	43.5%	43.0%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)						
Total assets	182,077	170,989	165,761	164,323	155,287	147,067
Net loans and advances to customers ^(*)	128,873	119,034	113,753	105,600	97,988	91,913
Amounts due to customers ^(**)	146,110	136,630	124,788	121,125	116,201	103,000
Debt securities issued and subordinated liabilities	2,727	301	1,669	2,820	2,241	3,966
Equity	22,259	22,283	22,794	23,387	22,849	22,717
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS						
Net loans ^(*) / total assets	70.8%	69.6%	68.6%	64.3%	63.1%	62.5%
Securities / total assets	21.1%	20.8%	13.3%	15.3%	22.6%	19.9%
Deposits ^(***) / total assets	81.7%	80.1%	76.3%	75.4%	76.3%	72.7%
Net loans ^(*) / deposits ^(***)	86.6%	86.9%	90.0%	85.2%	82.7%	85.9%
Equity / total assets	12.2%	13.0%	13.8%	14.2%	14.7%	15.4%
Total capital ratio (Basel III)	18.4%	18.2%	18.2%	17.1%	18.3%	18.0%
EMPLOYEES AND NETWORK						
Total number of employees	15,316	15,882	16,387	16,914	17,092	17,433
Number of outlets	851	928	975	1,034	1,001	1,001
Number of ATMs	1,745	1,761	1,759	1,825	1,847	1,845

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

(**) Excluding repo transactions.

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

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

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

Income statement data included in the table above and other notes to the Report on the activities were presented according to income statement in a presentation form, which differs from the long form of the income statement presented in the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December, 2017. Reconciliation of income statement in the presentation form and the long form is in the point 7.3.4 of the Report on the activities of the Bank.

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2 Summary of Performance

Net profit of the Bank for 2017 amounted to PLN 2,088.1 million and nominally was lower by PLN 190.3 million, i.e. 8.4% than net profit achieved in 2016, while excluding settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc in 2016 was higher by 1.1%.

Thanks to the effective commercial activity of the Bank in 2017, a significant growth in loan volumes in the area of retail loans (an increase of 10.7% year on year) as well as in the area of corporate loans (an increase of 6.0% year on year) was reported. Such increase in lending was financed by higher volumes of retail deposits growing by 7.7% year on year and corporate deposits growing by 6.3% year on year as well as by higher volumes of Certificates of Deposit.

Total capital ratio (TCR) amounted to 18.4% as at the end of December 2017 and was higher (0.2 p.p.) compared to 2016.

The solid liquidity structure of Bank Pekao S.A. is reflected by net loans to deposits ratio at 86.6% as at the end of December 2017. This, together with high level of capital, enables for further sound and stable development of the Bank's activities.

Main P&L items

In 2017, the Bank's operating income amounted to PLN 7,085.3 million and was higher by 4.6% year on year excluding settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc in 2016 (nominally was higher by PLN 49.3 million, i.e. 0.7% in comparison with 2016), with the following trends:

- Total net interest income and dividend income in 2017, amounted to PLN 4,674.8 million and was higher by PLN 275.1 million, i.e. 6.3% compared to 2016, mainly driven by higher volumes of loans as well as deposits and dividend income,
- Net non-interest income in 2017, amounted to PLN 2,410.5 million and was higher by PLN 37.0 million, i.e. 1.6% in comparison with 2016 excluding settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc (nominally lower by 8.6% year on year), with net fee and commission income (including fees on margins on foreign exchange transactions with clients) lower by 2.6% compared to 2016 due to lower net fee and commission income on loans, cards and other net fee and commission.

The operating costs amounted to PLN 3,024.5 million in 2017. They were higher by PLN 33.1 million, i.e. 1.1% as compared with 2016, mainly due to higher personnel costs.

Guarantee funds charges in 2017, amounted to PLN 266.4 million, an increase of PLN 6.1 million, i.e. 2.3% in comparison with 2016.

On February 1, 2016, tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In 2017, it amounted to PLN 522.3 million and was higher by PLN 72.8 million, mainly due to the shorter life of the tax regulations in 2016.

The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 515.9 million in 2017, an increase of PLN 24.5 million, i.e. 5.0% as compared with 2016.

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Volumes

As at the end of December 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 133,913.3 million, an increase of PLN 9,370.1 million, i.e. 7.5% in comparison to the end of December 2016 with the volume of retail loans growing by 10.7% and corporate loans growing by 6.0% year on year.

As of December 31, 2017, the ratio of impaired receivables to total receivables amounted to 5.2% as compared to 5.8% as at the end of December 2016.

As at the end of December 2017, the total amounts due to the Bank's customers and debt securities issued amounted to PLN 148,837.1 million, an increase of PLN 11,906.3 million, i.e. 8.7% in comparison to the end of December 2016 with retail deposits growing by 7.7% and corporate deposits growing by 6.3% year on year.

The value of net assets of investment funds managed by Pekao TFI S.A. (ex. Pioneer Pekao TFI S.A.) amounted to PLN 18,410.0 million as at the end of December 2017, an increase of PLN 1,616.1 million, i.e. 9.6% in comparison to the end of December 2016.

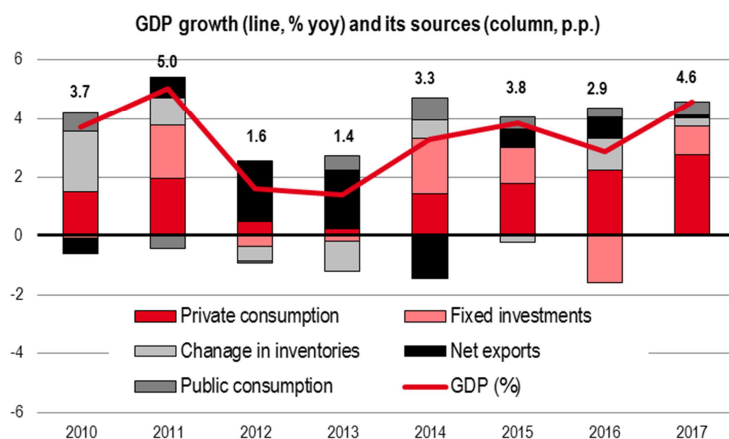
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3 External Activity Conditions

Economic growth

In 2017, economic growth accelerated to 4.6% from 2.9% in 2016. Domestic demand expanded by 4.7% year on year and foreign trade contributed neutrally to annual growth rate (0.1 p.p.). Households consumption increased by 4.8% year on year against 3.9% year on year in previous year. Dynamic consumption growth was facilitated by further improvement on the labour market that boosted households disposable income. Finances of consumers were also supported by social transfers within Family 500 plus Government Program. In 2017, clear rebound in investments was noted, which increased by 5.4% after decline by 7.9% in 2016. In the first three quarters, increase in investments resulted, in particular, from increase in public investments. Change in inventories had ca. 0.2 p.p. of impact on the GDP growth in 2017.

In 2018, the GDP growth is expected to moderate slightly to about 3.8%. Domestic demand is to remain supported by solid growth in private consumption amid vivid labour market and in particular faster wages growth. At the same time investments financed with the aid of the European Union funds from 2014-2020 financial perspective should gain steam. Faster public consumption growth should be accompanied by a revival in private sector investment activity. Acceleration of the investment growth rate in the fourth quarter of 2017 to two-digit levels, gives hopes for continuing investment revival also in 2018. Solid external environment should translate into further rapid growth of Polish exports.



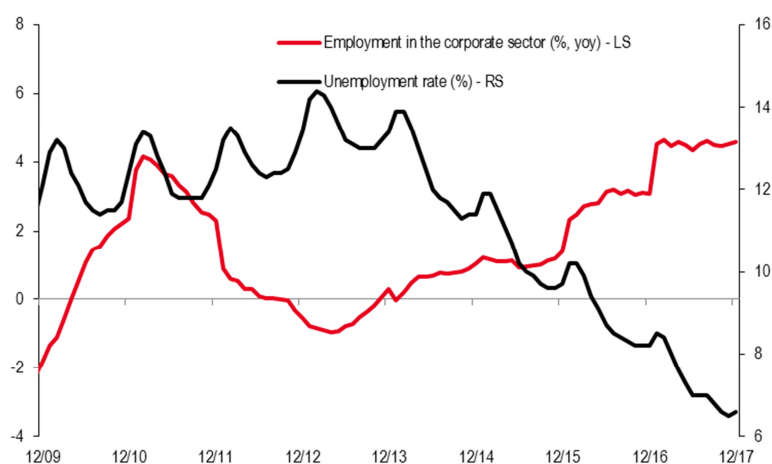
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Labour market

In December 2017, average employment in the Polish corporate sector amounted to 6,064 thousand, i.e. by 265 thousand more than in December 2016. The increase in employment in 2017 was a continuation of the upward trend in the number of jobs that began in mid-2013 and in 2017 noted considerable acceleration. The centers of job creation in 2017 were still, as in the previous year, the manufacturing sector, trade and transportation, while job cuts still dominated the mining industry (long-term trend). It is worth noting that in 2017 there was a beginning of employment rebound in the construction sector after five years of job cuts.

In 2017, it was a continuation of the downward trend in unemployment rate, which in December 2017 was at 6.6% compared to 8.2% in December 2016. It is expected that in 2018, the downward trend in unemployment rate will be continued, though at a clearly slower pace than in the recent years due to approaching the natural rate of unemployment.

Wage growth rate in the Polish corporate sector in 2017 registered considerable acceleration, which was supported by rising tensions in the domestic labour market resulting from shortage of labour supply. The average wage in the corporate sector increased in 2017 by 5.9% compared with an increase of 3.8% in the previous year. As a result, wage bill in the corporate sector increased in 2017 in nominal terms by 10.7% against 6.7% in 2016, which after adjusting for inflation resulted in an increase in real terms by 8.5% in 2017 compared to 7.4% in 2016.



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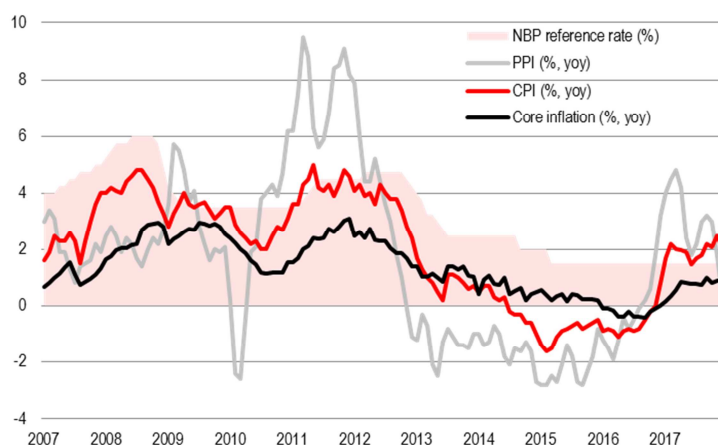
Inflation and monetary policy

According to the Central Statistical Office (GUS) data in 2017 consumer prices increased by 2.0% on average as compared with the CPI deflation of 0.6% in 2016. From the beginning of 2017, headline inflation was within the bound of acceptable deviations from the National Bank of Poland (NBP) target of 2.5% (+/- 1 percentage point). In November 2017, the CPI inflation hit the NBP target before moderating to 2.1% year on year at the end of the year.

In 2017 consumer inflation was predominantly driven by faster food price growth, higher cost of housing and an increase in fuel prices. In 2017, core inflation excluding food and energy prices increased to 0.7% vs. a decline of 0.2% in 2016. Producers' prices (PPI) went up by 2.9% in 2017 after declining by 0.1% in 2016.

The Monetary Policy Council (MPC) kept the main policy rates unchanged throughout 2017. The NBP reference rate stood at 1.50%, the lombard rate at 2.50% and the deposit rate at 0.50%.

In 2018, the CPI inflation is expected to accelerate further on the back of faster growth in food and transport prices. Headline inflation may reach the NBP target of 2.5% in the second quarter of 2018.



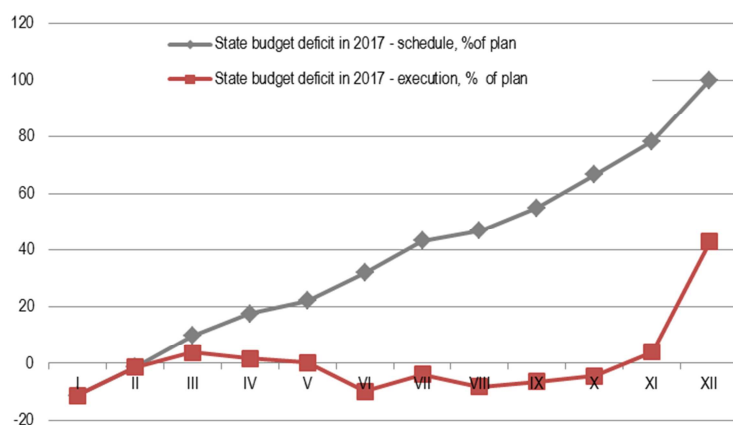
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Fiscal policy

Preliminary estimates of the Ministry of Finance indicate that in 2017 the state budget deficit amounted to PLN 25.4 billion, i.e. 42.7% of the annual limit set in the 2017 state budget act at the level of PLN 59.4 billion. The state budget revenues were PLN 25.1 billion higher than envisaged by the budget execution schedule, while expenditures turned out PLN 8.9 billion lower than planned. Higher non tax revenues were resulting from PLN 8.1 billion payment from the NBP profit for 2016. Tax revenues were by PLN 14.2 billion higher than forecasted, mainly thanks to a surge in VAT collections that was by PLN 13.3 billion higher than expected and higher revenues from PIT collection. VAT revenues was supported by favorable economic conditions, changes in the rules of VAT settlements, and actions aimed at sealing the tax collection system. Higher PIT revenues derived from improvement on the labour market. Growth of wages and employment increased taxable income of individuals. With respect to expenditures, the main savings were stemming from smaller by PLN 2.0 billion than planned subsidy to the Social Security Fund (FUS) as social contributions increased thanks to improvement on the labour market. Lower than expected budget expenditure was also probably the result of lower than planned capital expenditure of the state budget.

The 2018 draft budget already approved by the Sejm assumes budget revenues of PLN 355.7 billion and expenditures at PLN 397.2 billion. Therefore the budget deficit limit is proposed at PLN 41.5 billion. The draft budget is based on the assumption of 3.8% the GDP and the average CPI inflation of 2.3%. According to the Ministry of Finance estimates in 2018, the general government deficit according to the European Union methodology (ESA2010) will amount to 2.7% of the GDP.

The Ministry of Finance estimates that as at the end of 2017, the State Public Debt to the GDP ratio moderated by about 2 p.p. from 51.9% reached at the end of 2016.



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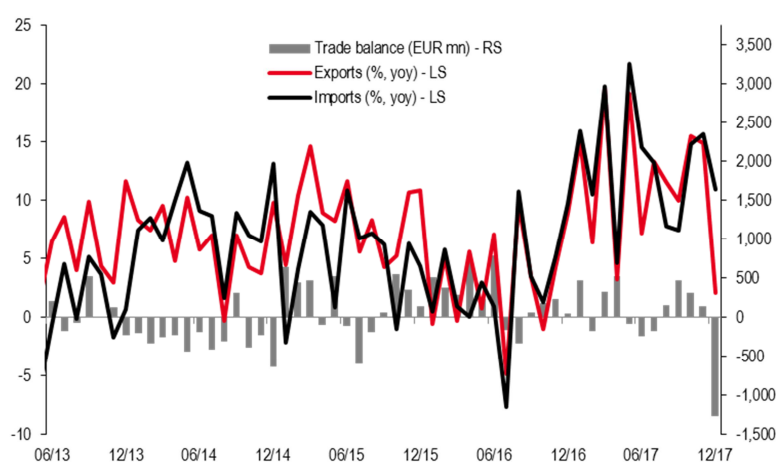
Foreign Sector

The NBP data indicate that in 2017, the current account surplus amounted to EUR 0.3 billion vs. a deficit of EUR 1.3 billion in 2016, which translates into a surplus at 0.1% GDP vs. a deficit of 0.3% GDP in 2016.

The improvement in the current account balance resulted mainly from the growing surplus in the services account (EUR 17.9 billion in 2017 against EUR 14.1 billion in 2016) as well as a smaller deficit of secondary income (EUR 0.1 billion against EUR 1.4 billion in 2016). In turn, the current account balance was adversely affected by a decline in trade surplus (EUR 0.5 billion vs. EUR 2.9 billion in 2016) amid a larger scale of acceleration in growth of imports (13.0% year on year against 2.7% year on year in 2016) than exports (11.5% year on year vs. 3.1% year on year), as well as a deeper primary income deficit (EUR 18.0 billion against EUR 16.9 billion in 2016).

As for the financing side, there was a drop in the inflow of foreign direct investment (FDI) - in 2017, FDI inflow amounted to EUR 4.8 billion compared to EUR 15.2 billion in the same period of 2016. In turn, in the case of portfolio investment there was an inflow of EUR 5.4 billion compared to an outflow of EUR 2.0 billion in 2016 - both into the domestic debt market (EUR 4.2 billion against an outflow of EUR 0.4 billion in 2016) and the equity market (EUR 1.2 billion against an outflow of EUR 2.4 billion in 2016). The inflow of the EU capital transfers increased in comparison with the previous year - EUR 6.3 billion against EUR 5.2 billion in 2016.

In 2017, a clear decrease in the Treasury's foreign debt was recorded. According to the Ministry of Finance, as at the end of November 2017, the Treasury's foreign debt amounted to PLN 288.9 billion, which is a decrease by ca. PLN 30.5 billion in comparison to December 2016 (by 9.6%). The drop of the Treasury's foreign debt was caused primarily by the strengthening of the zloty against the foreign currencies, in which the debt is denominated.



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Capital market

A solid global recovery and still “dovish” major central banks’ monetary policies due to the lack of inflation, maintained a long-term upward tendency of equities. A gradual only the Fed’s monetary tightening and still record-low interest rates in the Eurozone supported demand for risky assets. As a result main indices on developed markets rose clearly setting all-time high levels in the case of main U.S. indices. Dow Jones increased by 25.1%, S&P 500 by 19.4% and German DAX by 12.5%. Global stock markets remained in the upward tendency since 2009, raising concerns about change of “bullish” trend. The monetary policy normalization, among others, by the Fed, ECB and Bank of Japan, in 2018 and later seems to be a key risk factor for financial markets right now. Should the Fed accelerate its monetary tightening and the ECB end its massive monetary stimulus in 2018 year, a room for further appreciation will be limited with a risk of long-term profit taking.

The upward trend on the Warsaw Stock Exchange (WSE), started in late 2016, was continued in 2017, trimming a bit an underperformance against developed markets. The WIG index approached to all-time high recorded in mid-2007, reaching an annual rate of return of 23.17% - the best result in five years. A profit taking and then horizontal trend in the fourth quarter of 2017 trimmed return a bit. The largest companies attracted solid investors’ demand and the WIG20 index increased by 26.35% (the highest rate of return since 2009) and WIG30 increased by 25.94% in 2017. This sector’s outperformance against its peers suggest a foreign capital inflows due to a solid growth of the Polish economy and the zloty appreciation. Smaller companies underperformed the basket and the sWIG80 index increased by 2.36% (the worst result since 2014).

The capitalization of domestic companies increased in 2017 to PLN 670.9 billion from PLN 557.1 billion in 2016. On the other hand foreign companies capitalization increased to PLN 708.9 billion from PLN 558.6 billion a year earlier. The value of total turnover on the stock market increased to PLN 260.8 billion vs. PLN 202.3 billion in 2016.

The value of investment funds’ assets increased to a record-high of PLN 279.0 billion in 2017 from PLN 258.9 billion in 2016, mainly due to high inflows (more than PLN 17 billion in net terms) and a positive investment results. Despite a solid increase in stock prices, equity funds did not attract retail investors’ interest. The net balance amounted below PLN 1 billion, while less risky assets attracted net inflows of PLN 8.2 billion (money markets’ funds) and PLN 3.4 billion (bonds’ funds).



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Banking sector

According to Financial Supervision Authority (KNF) data, in 2017 sector generated an aggregated net profit of PLN 13.6 billion. Even though it resulted in a 2.3% year on year fall, the situation was affected by high base effect – in 2016 financial results were substantially elevated by one-off event (selling of banks' shares in Visa Europe to Visa Inc.). Having excluded this event, total net profit in 2017 increased and improvement resulted from growing profit attributed to main banking activity. Most importantly, net interest income rose by 12.1% year on year, while net income from fees and provisions increased by 9.1% year on year. These effects outweighed the parallel growth on the cost side – by 4.3% year on year in terms of banks' operating costs and by 4.5% year on year in terms of risk costs.

According to the KNF data banking sector assets as at the end of December 2017 were 4.1% higher in comparison to corresponding period of 2016 (the pace was worse than in December 2016, when it had amounted to 7.0% year on year). Non-financial sector deposits rose by 4.1% year on year (compared to 9.5% year on year as at the end of December 2016), while receivables by 3.2% year on year (compared to 5.2% year on year in December 2016).

According to the NBP data, as at the end of December 2017 the following developments were noted in terms of main deposit categories:

- the volume of households' deposits increased by 3.9% year on year. Growth pace was substantially weaker than in previous years (+9.1% year on year as at the end of 2016, +9.2% year on year as at the end of 2015). The descent can be explained mainly through outflow of part of the funds to other asset categories – real estate and capital instruments (stock market, mutual funds), among others, – which took place as a result of record-low interest rates environment,
- the volume of enterprises' deposits rose by 2.4% year on year with growth pace decelerated visibly (+7.9% year on year as at the end of 2016, +10.4% year on year as at the end of 2015). Taking into consideration favourable financial condition of companies, this situation was probably due to distortions resulting from the changes in the settlement of taxes (especially VAT tax),
- other deposits grew by 11.7% year on year, in comparison to 7.7% year on year growth in 2016.

As at the end of 2017, household deposits accounted for 64.9% (65.2% at the end of 2016), corporate deposits for 24.4% (24.9% at the end of 2016), and other deposits for 10.7% (10.0% at the end of 2016) of all deposits.

In 2017, there was a relatively strong shift in the structure of customer deposits towards funds on current accounts from term deposits. As at the end of 2017, funds on current accounts amounted to 62.5% against 57.9% as at the end of 2016 of total deposits. Such situation was favourable for banks as it allowed to reduce the costs of financing.

In terms of main receivables categories, as at the end of 2017, the following developments were noted:

- in yearly terms, volume of receivables from households increased by 1.7%, which can be perceived as a weak result (in 2016 pace amounted to 5.1% year on year). Given that the non-housing loans were growing relatively fast, the aggregated pace was held back by mortgage loans – weak growth in this category is a derivative of exchange rates effect (relatively strong appreciation of PLN in relation to CHF and EUR reduced considerably the value of FX mortgages portfolio in PLN terms) and accumulating repayments of loans taken out in the past (new sales of mortgage loans in 2017 reached record-high level),
- receivables from enterprises rose by 5.4% year on year, in comparison to 4.9% year on year as at the end of 2016. Maintained moderate pace of growth is due to relatively sluggish revival of companies' investment outlays,
- increase by 6.2% year on year, took place in case of other receivables (in comparison to their slight decrease - 0.3% as at the end of 2016).

As at the end of 2017, loans to households accounted for 58.2% (59.2% at the end of 2016), corporate loans for 30.9% (30.2% at the end of 2016) and other loans for 10.9% (10.6% at the end of 2016) of all loans.

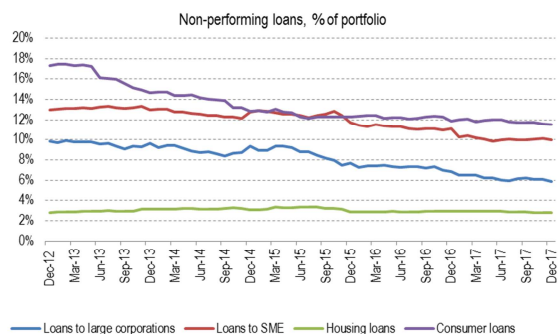
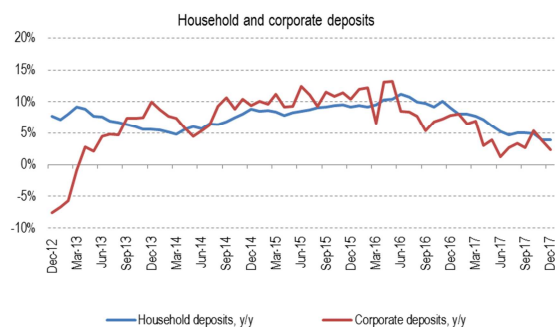
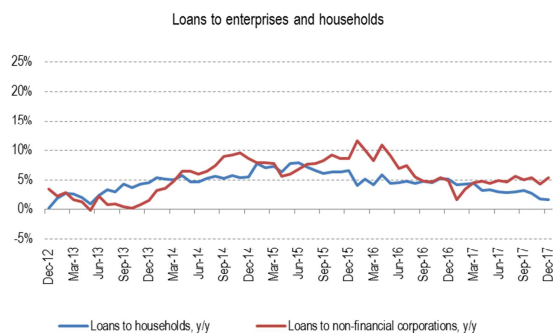
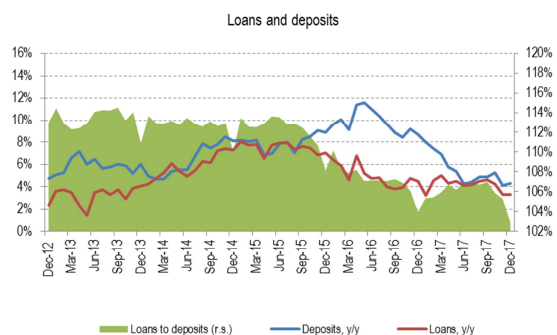
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In terms of loan portfolio quality, in 2017 the following developments were noted:

- further decline in terms of the share of non-performing loans (NPLs) in the corporate loans portfolio. As at the end of December 2017, the share equaled 8.2%, in comparison to 9.2% in the same month of 2016. A similar fall of NPL ratio concerned both loans to large corporates and SMEs – in case of the former from 6.8% to 5.8%, while in case of the latter from 11.1% to 10.0%. Relatively strong improvement of enterprises' loan portfolio quality throughout the year can be attributed above all to favourable macro environment, allowing companies to settle their liabilities in time,
- stabilization of non-performing loans share in case of households' loan portfolio – as at the end of December 2017 the ratio amounted to 6.1%, at the same level in comparison to the end of 2016. In case of housing loans the share declined vaguely (from 2.9% to 2.8%), while a stronger improvement was noted in case of consumer loans (fall from 11.9% to 11.5%).

As far as the tax and regulatory environment is concerned, the following important events took place in 2017:

- tax on certain financial institutions was being accrued for the full year (in 2016 the tax burdened banks for 11 months),
- changes in the size and schedule of payments for the Bank Guarantee Fund (BFG) were implemented,
- the capital requirements were further increased.



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4 Important Events and Achievements

4.1 Changes in the Group' structure

The composition of Bank Pekao S.A. Group is presented in the Note 2 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December, 2017.

The most significant changes concerning the Group occurred in 2017 are presented below.

Preliminary shares purchase agreement of Pioneer Pekao Investment Management S.A., Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A., and Dom Inwestycyjny Xelion Spółka z o.o.

On June 1, 2017, the Bank as a Buyer has entered into a preliminary purchase agreement with Pioneer Global Asset Management S.p.A. with its registered office in Milan (PGAM) concerning stocks of Pioneer Pekao Investment Management S.A. with its registered office in Warsaw (PPIM), constituting 51% of PPIM's stocks and 51% of its share capital and in the total number of votes at the General Meeting of PPIM. PPIM owns a 100% stake in Pioneer Pekao TFI S.A. with registered office in Warsaw. The Bank has entered also into the preliminary agreement with PGAM on purchase of 35% stocks of Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. (PTE).

In addition, the Bank has entered into the preliminary share purchase agreement of 50% stocks in Dom Inwestycyjny Xelion Spółka z o.o. (Xelion) from UniCredit S.p.A.

Purchase of shares of Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.

On October 17, 2017, after receiving regulatory consent, the Bank acquired 7,266 ordinary, registered stocks of Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. with the nominal value PLN 1,000 per stock representing 35% of voting rights at the General Stockholder Meeting of PTE and 35% share in equity. Following the transaction, the Bank is the only stockholder of PTE with 100% in equity and voting rights at the General Stockholders Meeting of PTE.

Purchase of shares of Pioneer Pekao Investment Management S.A. and shares of Dom Inwestycyjny Xelion Sp. z o.o.

On December 11, 2017, the Bank and UniCredit S.p.A. (legal successor of Pioneer Global Asset Management S.p.A.) executed the final sale agreement regarding 14,746 shares in Pioneer Pekao Investment Management S.A. with registered office in Warsaw, constituting 51% stake in share capital and in the overall number of votes in the General Meeting of PPIM. In consequence, the Bank has become a stockholder holding 100% of PPIM shares. PPIM owns a 100% stake in Pioneer Pekao Investment Funds S.A. with registered office in Warsaw.

In addition, on December 11, 2017, the Bank acquired 60,050 shares of Dom Inwestycyjny Xelion Sp. z o.o., constituting 50% of voting rights at the General Shareholder Meeting and 50% share in share capital. In consequence, the Bank is the only shareholder with 100% voting rights at the General Shareholders Meeting of Xelion and 100% in equity.

Taking over of management of pension funds

On November 16, 2017, the Bank signed with Powszechne Towarzystwo Emerytalne PZU S.A. (PTE PZU) and Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. (PTE) agreement that obliges the sale of PTE's enterprise and the takeover by PTE PZU of pension fund management: Pekao Otwarty Fundusz Emerytalny and Dobrowolny Fundusz Emerytalny Pekao, managed up to now by PTE.

The Company will run its business activity in line with the statute till the day of the sale of PTE, i.e. after the KNF decision. As a result of the sale of PTE, liquidation of the Company is planned.

Report on the activities of Bank Pekao S.A. for the year 2017

Change of the Company names

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

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

On December 20, 2017, the Extraordinary General Meeting of Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A., amended the Statute relating to, inter alia, the new name: Pekao Towarzystwo Funduszy Inwestycyjnych S.A. On February 15, 2018, the registration court made an entry in the Register of Entrepreneurs of the National Court Register amending the Statute, including the change of the Company's name, which currently is Pekao Towarzystwo Funduszy Inwestycyjnych S.A.

Report on the activities of Bank Pekao S.A. for the year 2017

4.2 Changes in the Statutory Bodies of the Bank

Supervisory Board

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

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

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

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

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

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

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Information on fulfillment of individual suitability assessment includes information referred to in § 28 p. 4-6 of the Decree of the Ministry of Finance dated February 19, 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State.

As of December 31, 2017, the composition of the Supervisory Board of Bank Pekao S.A. has changed in comparison with December 31, 2016 and it was as follows:

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

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

Report on the activities of Bank Pekao S.A. for the year 2017

Management Board of the Bank

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

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

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

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

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

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

On July 7, 2017, the Bank's Supervisory Board, taking into consideration suitability assessment, appointed Mr. Tomasz Styczyński since July 7, 2017 and Mr. Marek Tomczuk since September 1, 2017 to the Banks' Management Board and entrusted them with the function of Vice-Presidents of the Bank's Management Board.

The Banks' Supervisory Board has decided to entrust, following the date of obtaining the approval of the Polish Financial Supervision Authority, Mr. Marek Lusztyn as the Vice President of the Banks' Management Board, supervising the management of significant risk in the Bank's activity.

According to the submitted statements, Vice-Presidents of Banks' Management Board: Mr. Tomasz Kubiak, Mr. Michał Piotr Lehmann, Mr. Marek Lusztyn, Mr. Tomasz Styczyński do not conduct any business competitive to that of the Bank and nor are they involved in a competitive business as a shareholder or partner in a civil law company or partnership or a member of a corporate body of a competitive corporation or legal person. According to the submitted statements the above mentioned persons are not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

On August 1, 2017, in the current report No. 48/2017, in reference to the current report No. 47/2017, the Management Board of Bank Pekao S.A. informed that on August 1, 2017, the Supervisory Board of the Bank, in connection with appointment of Mr. Marek Tomczuk as Vice President of the Management Board of the Bank in accordance with the Resolution No. 67/17 of the Supervisory Board of the Bank dated July 7, 2017, decided that appointment of Mr. Marek Tomczuk as Vice President of the Management Board of the Bank will be effective on August 21, 2017. According to the submitted statement Vice President of the Management Board of the Bank, Mr. Marek Tomczuk starting from August 21, 2017, will not conduct any activity competitive to the Bank.

Report on the activities of Bank Pekao S.A. for the year 2017

On September 21, 2017, in the current report No. 49/2017, the Management Board of Bank Pekao S.A. informed that on September 21, 2017 Mr. Adam Niewiński resigned from the position of the Vice-President of the Management Board and from the Management Board, effective as of September 21, 2017. The resignation of Mr. Adam Niewiński was connected with the possibility of realizing new professional challenges.

On September 21, 2017, in the current report No. 50/2017, the Management Board of Bank Pekao S.A. informed that on September 21, 2017, the Bank's Supervisory Board, taking into consideration suitability assessment, since January 1, 2018, appointed Mrs. Roksana Ciurysek-Gedir to the position of the Vice President of the Management Board of Bank Pekao S.A. According to the submitted statement Vice-President of Banks' Management Board Mrs. Roksana Ciurysek-Gedir will not conduct any business competitive to that of the Bank since January 1, 2018 and is not involved in a competitive business as a shareholder or partner in a civil law company or partnership or a member of a corporate body of a competitive corporation or legal person. According to the submitted statement the above mentioned Mrs. Roksana Ciurysek-Gedir 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 October 17, 2017, the Management Board of Bank Pekao S.A. informed in the current report No. 53/2017 that at the meeting held on October 17, 2017, the Polish Financial Supervision Authority unanimously gave its consent to entrust Mr. Marek Lusztyń function of member of the Management Board of Bank Pekao S.A. supervising the management of significant risk in the Bank's activity.

On November 7, 2017, the Management Board of Bank Pekao S.A. in the current report No. 58/2017 in fulfilment of provisions of § 5 section 1 point 22 of the Regulation of the Minister of Finance of February 19, 2009 on current and interim reports published by issuers of securities and on the conditions under which such information is recognized as equivalent to information required under regulations of a non-member state, and in reference to the current report No. 42/2017 of June 14, 2017 informed that on November 7, 2017 the Polish Financial Supervision Authority unanimously expressed consent to the appointment of Mr. Michał Krupiński as the President of the Management Board of Bank Pekao S.A.

As of December 31, 2017, the composition of the Management Board of Bank Pekao S.A. has changed in comparison with December 31, 2016 and it was as follows:

DECEMBER 31, 2017	DECEMBER 31, 2016
Michał Krupiński President of the Management Board	Luigi Lovaglio President of the Management Board, CEO
Andrzej Kopyrski Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Tomasz Kubiak Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Michał Lehmann Vice President of the Management Board	Adam Niewiński Vice President of the Management Board
Marek Lusztyń Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Tomasz Styczyński Vice President of the Management Board	Stefano Santini Vice President of the Management Board
Marek Tomczuk Vice President of the Management Board	Marian Ważyński Vice President of the Management Board

Report on the activities of Bank Pekao S.A. for the year 2017

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

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

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

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

As of December 31, 2017, the division of powers between the Members of the Management Board of the Bank was as follows:

Mr. Michał Krupiński, President of the Management Board of the Bank, coordinates the activities of Members of the Management Board of the Bank, supervising also, in particular, the following areas of the Bank's activity: internal audit, legal risk, compliance risk, strategy and development of the Group, investor relations, communication, including marketing and research, and HR.

Mr. Michał Krupiński convenes and presides over the Management Board meetings, presents its stance to other governing bodies of the Bank and in relations with third parties, in particular with the State authorities, and issues ordinances according to the Bank's internal regulations.

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

Mr. Tomasz Kubiak, Vice President of the Management Board of the Bank, supervises the activity of the Finance Division.

Mr. Michał Lehmann, Vice President of the Management Board of the Bank, supervises the activity of the Operations and Services Area. He coordinates the activities aimed at adequate management of risk related to IT environment security. He supervises the implementation of the Bank's Policy on counteracting money laundering and financing of terrorism. He was appointed as the Member of the Management Board to whom breaches of the whistleblowing law will be reported and who will be responsible for the day-to-day functioning of the whistleblowing procedure.

Mr. Marek Lusztyń, Vice President of the Management Board of the Bank, supervises the activity of the Risk Management Division.

Mr. Tomasz Styczyński, Vice President of the Management Board of the Bank, supervises the activity of the SME Division and the Private Banking Division.

Mr. Marek Tomczuk, Vice President of the Management Board of the Bank, supervises the activity of the Retail Banking Division.

On January 1, 2018, the Supervisory Board, taking into consideration suitability assessment, appointed Mrs. Rokšana Ciurysek-Gedir to the position of the Vice President of the Management Board of Bank Pekao S.A. Due to aforementioned change in the composition of the Management Board of the Bank, the scope of competences between the Members of the Management Board of the Bank is as follows:

Report on the activities of Bank Pekao S.A. for the year 2017

Mr. Michał Krupiński, President of the Management Board of the Bank, coordinates the activities of Members of the Management Board of the Bank, supervising also, in particular, the following areas of the Bank's activity: internal audit, legal risk, compliance risk, strategy and the development of the Group, investor relations, communication, including marketing and research, and HR.

Mr. Michał Krupiński convenes and presides over the Board meetings, presents its stance to other governing bodies of the Bank and in relations with third parties, in particular with the State authorities, and issues ordinances according to the Bank's internal regulations.

Mrs. Roksana Ciurysek-Gedir, Vice President of the Management Board of the Bank, supervises the activity of the Private Banking Division.

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

Mr. Tomasz Kubiak, Vice President of the Management Board of the Bank, supervises the activity of the Finance Division.

Mr. Michał Lehmann, Vice President of the Management Board of the Bank, supervises the activity of the Operations and Services Area. He coordinates the activities aimed at adequate management of risk related to IT environment security. He supervises the implementation of the Bank's Policy on counteracting money laundering and financing of terrorism. He was appointed as the Member of the Management Board to whom breaches of the whistleblowing law will be reported and who will be responsible for the day-to-day functioning of the whistleblowing procedure.

Mr. Marek Lusztyn, Vice President of the Management Board of the Bank, supervises the activity of the Risk Management Division.

Mr. Tomasz Styczyński, Vice President of the Management Board of the Bank, supervises the activity of the SME Division.

Mr. Marek Tomczuk, Vice President of the Management Board of the Bank, supervises the activity of the Retail Banking Division.

Report on the activities of Bank Pekao S.A. for the year 2017

4.3 Organizational changes

In 2017, organizational changes in the Bank's Head Office as well as in the regional structure of the Bank took place.

SME Banking Division and 10 Regions were created to support the implementation of the Bank's development strategy in this area of activity.

New internal structures of Retail Banking, Corporate Banking and MIB, Human Resources and Risk Management were introduced. Moreover, MIS Department was transferred to Financial Division, being so far within the structure of Global Banking Services Area.

Logistics and Procurement Division was transformed into Operations and Services Area and the current Global Banking Services Area was included in its structure under the name of Transformation and Services Division. IT Division was transformed into IT Center.

In the area of units supervised directly by the President of the Management Board, Strategy and Group Development Department was created and Stakeholders Engagement Research and Development Department, together with Identity and Communication Area, were transformed into Communication, Marketing and Research Center.

Report on the activities of Bank Pekao S.A. for the year 2017

4.4 Awards and distinctions

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

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

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

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



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

Global Finance ranking is one of the most comprehensive study, classifying bank offers for the most wealthy clients. Experts from Global Finance magazine selected winners based on market evaluations, analysis of independent analysts and opinions of private banking customers using solutions offered by banks.

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



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

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

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



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

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

Bank Pekao S.A. Best Corporate Bank in Poland



Bank Pekao S.A. Best Corporate Bank in Poland in competition organized by Global Banking and Finance Review Awards 2017. Awards are granted since 2011 for contribution to the development and growth of innovation in financial market solutions. They express appreciation for companies and institutions of all sizes, representing such aspects of the industry as: banking, currency operations, insurance, hedge and pension funds, compliance, consulting, corporate governance, brokerage services, stock exchanges and others.

Report on the activities of Bank Pekao S.A. for the year 2017

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



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

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

objective and reliable.

President of Bank Pekao S.A. Mr. Michał Krupiński the best manager of the State Treasury company

Mr. Michał Krupiński, President of the Management Board of Bank Pekao S.A. was chosen by the readers of "Parkiet" as the best manager in the ranking of financial analysts, brokers and investors, and was rated the highest among the presidents of companies with the Treasury shareholding.

In the "Parkiet" ranking, 14 presidents of companies with the State Treasury share were assessed.

Top Employer 2017 for Bank Pekao S.A.



Bank Pekao S.A. was once again awarded with certificate in competition Top Employers Polska 2017 and Top Employers Europe 2017 by Top Employers Institute, which confirms pro-employee activities realized in the Bank.

Top Employers certificate is granted to companies which are outstanding in terms of personnel strategy focused on supporting the professional development of their employees, strengthening their competences and skills, transparent operation in accordance with the adopted values and principles.

Top Employers Institute assessed the activities of the Bank in the following areas: talents development strategy, HR planning, on-boarding of new employees, training and development, management of results, leadership skills development, career development and succession planning, remunerations and creation of organizational culture. The condition for receiving the Top Employers award was to achieve outstanding results in each of the above categories.

Bank Pekao S.A. awarded with certificate Perły Polskiej Gospodarki

Bank Pekao S.A. received certificate Perły Polskiej Gospodarki in the category Perły Sektora Finansowego (Pearls of the Financial Sector). It was awarded for conducting consistent policy and implementation of the company's strategy as well as the leading position among the most dynamic and most effective enterprises in Poland.

This award was granted during the gala of Polish Market magazine, which for 15 years is the organizer of the ranking. The ranking was held under the auspices of Mr. Jarosław Gowin, Deputy Prime Minister and Minister of Science and Higher Education. The ranking Perły Polskiej Gospodarki is prepared by the employees of Zakład Wspomagania i Analiz Decyzyj i Szkoła Główna Handlowa in Warsaw (Warsaw School of Economics).

Report on the activities of Bank Pekao S.A. for the year 2017

Pekao Connect System Innovation of the Year 2017



Integration service of the PekaoBiznes24 transactional platform with Pekao Connect financial and accounting systems was awarded with prestigious title Innovation of the year 2017. Pekao Connect is an innovative solution of the Bank in the field of electronic banking services for large companies.

The Chapter of the competition appreciated activities of Bank Pekao S.A. aimed at providing direct communication between the financial and accounting systems of corporate clients and the Internet banking platform of PekaoBiznes24.

The competition was held under the auspices of Wydział Nauk Technicznych Polskiej Akademii Nauk and Fundacji Centrum Innowacji FIRE.

Bank Pekao S.A. „Lider Jakości Sprzedaży” (Sales Quality Leader) in loans with de minimis guarantee

Bank Pekao S.A. received from Bak Gospodarstwa Krajowego statuette „Lider Jakości Sprzedaży” in loans with de minimis guarantees. The prize was awarded for both, high level of sales and the quality of loan portfolio. The total amount of de minimis guarantees for loans granted by Bank Pekao S.A. accounted for nearly PLN 4.5 billion.

Loans with de minimis guarantees are offered to micro, small and medium enterprises. Guarantee secures 60% of the capital and interest of operating or investment loan. De minimis guarantee is a repayable financial instrument from public funds that facilitates companies to access a loan.

Bank Pekao S.A. awarded by students

Bank Pekao S.A. was awarded with prestigious title „Instytucja Przyjazna Młodemu” (Youth-friendly Institution) during the V Jubileuszowa Gala Nagród Środowiska Studenckiego „ProJuvenes” organized by Parlament Studentów Rzeczypospolitej Polskiej (Students' Parliament of the Republic of Poland). It is the result of long-term cooperation with universities and support of student communities. Already 12 universities in the country together with Bank Pekao S.A. provided student ID cards with the payment card function, and every seventh student uses the Bank's services.

Parlament Studentów Rzeczypospolitej Polskiej appreciated the leading role of Bank Pekao S.A. as an institution supporting student communities for years. The Bank is among the well-deserved institutions friendly to students, supporting the potential of young people and offering banking products that will be useful on a daily basis, during trips to scholarships and other foreign trips.

Distinction for Bank Pekao S.A. in the ranking Gwiazdy Bankowości (Stars of Banking)



Bank Pekao S.A. for two times held a leading position in the ranking of "Dziennik Gazeta Prawna" – Stars of Banking". Participants are assessed in the four categories: Development pace, Business structure, Income and efficiency, Innovation and collectively for overall activity.

Bank Pekao S.A. took the third place in the Business Structure category. The organizers of the competition, when assessing banks in this category, took into account among others the share of loans in the balance sheet, the share of the commission income in revenues and the total capital ratio - in these elements the Bank received the highest rating. Bank Pekao S.A. took also the third place in the Income and efficiency category. High revenues per customer, ROA as well as commission margin and lower costs of risk had an impact on the high rating.

The ranking of "Dziennik Gazeta Prawna" was organized for the third time and 18 banks were participated.

Report on the activities of Bank Pekao S.A. for the year 2017

Award for Bank Pekao S.A. in the category of the Best Financial Partner

Panattoni Europe – the undisputed leader in industrial real estate in Europe, for the consecutive time awarded Bank Pekao S.A. with the title of the Best Financial Partner in the category financing banks. The Bank was honoured for its professional approach and successful cooperation for many years.

Panattoni success in the Polish market is apart from an effective developer team, also the work of real estate agencies, banks and law firms. Panattoni Europe organizes the Gala every year, during which it has the opportunity to thank partners and subcontractors for their contribution to the development of the company and the entire industrial real estate sector.

Bank Pekao S.A. awarded for contribution to the development of the food industry



During the Gala of the Food Industry - VIII Forum 100, organized by Polska Federacja Producentów Żywności, Związek Pracodawców and "Food-Lex" magazine, the prizes "Pro Polonia Opulenta - Dla Polski Dostatniej" were given.

One of the winners in 2017, was Bank Pekao S.A., which supports the development of nearly 5 thousand small, medium and large food companies (of which ca. 450 corporate clients), financing their investments and providing professional service of current business.

The "Pro Polonia Opulenta - Dla Polski Dostatniej" award has been given for 17 years by Polska Federacja Producentów Żywności to individuals, institutions, media and companies from the food industry environment for activities that have a positive impact on the functioning and development of the food production and processing sector.

Bank Pekao S.A. the laureate of the second competition for Laur Pośredników Finansowych (the Laurels of Financial Intermediaries)

Bank Pekao S.A. was recognized as one of the best banks in Poland, distinguished by the highest standards of cooperation with financial intermediaries in the area of mortgage loans.

Laur Pośredników Finansowych is an initiative of representatives of the financial intermediaries, associated in Konfederacja Przedsiębiorców Finansowych, consisting in assessing partner financial institutions and awarding distinctions to those whose standards in terms of cooperation with intermediaries are of the highest quality.

Report on the activities of Bank Pekao S.A. for the year 2017

5 Information for the Investors

5.1 The Bank's share capital and share ownership structure

As at December 31, 2017, 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	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 2017		AS OF DECEMBER 31, 2017		AS AT THE DATE OF SUBMITTING THE REPORT FOR 2016		AS OF DECEMBER 31, 2016	
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%	105,250,485	40.10%	105,250,485	40.10%
Other shareholders (below 5%)	159,949,861	60.94%	159,949,861	60.94%	157,219,549	59.90%	157,219,549	59.90%
Total	262,470,034	100.00%	262,470,034	100.00%	262,470,034	100.00%	262,470,034	100.00%

Report on the activities of Bank Pekao S.A. for the year 2017

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

In addition, in the current report No. 31/2016 from December 8, 2016, the Management Board of Bank Pekao S.A. informed that received statement from UniCredit S.p.A. on announcement of placement of 1,916 Bank Pekao S.A. equity-linked certificates having an aggregate reference amount of approximately EUR 500 million, mandatorily settled in ordinary shares of the Bank. The certificates were designed to dispose of UniCredit S.p.A. remaining 7.3% stake (after completion of the disposal agreement, referred above) in the Bank.

In the current report No. 6/2017 from April 11, 2017, the Management Board of Bank Pekao S.A. informed that the Bank received the notification from UniCredit S.p.A. about reducing to 39.06% of the total number of votes at the General Meeting of the Bank. The aforementioned decrease of the held stake is the result of the disposal of 2,373,911 shares of Bank to holders of "equity-linked certificates" as the results of early settlement "equity-linked certificates" and disposal of 356,402 shares of the Bank, retained by UniCredit S.p.A. pursuant to terms of issue of "equity-linked certificates".

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

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

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

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

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

Since the acquisition of the Bank's shares, PZU S.A. and PFR S.A. hold together 86,090,173 shares of the Bank, accounting for approximately 32.8% of the Bank's share capital and entitling them to 86,090,173 votes representing approximately 32.8% of the total number of votes, with the following votes from June 7, 2017:

- PZU S.A. holds directly 52,494,007 shares of the Bank, representing approximately 20% of the Bank's share capital and entitling to 52,494,007 votes representing approximately 20% of total votes,
- PFR S.A. holds directly 33,596,166 shares of the Bank, constituting approximately 12.8% of the Bank's share capital and entitling to 33,596,166 votes representing approximately 12.8% of the total number of votes.

Prior to the disposal UniCredit S.p.A. owned 105,250,485 shares in the Bank, constituting 40.10% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

After the transaction UniCredit S.p.A. holds 16,430,000 shares in the Bank, constituting 6.26% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

Report on the activities of Bank Pekao S.A. for the year 2017

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.

Polish open-end pension funds (OFE) constitute to the group of financial investors holding significant equity interests in the Bank. Based on their publicly available financial reports, as of December 31, 2017 OFE held in aggregate 16.35% of the Bank's shares.

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

SHAREHOLDER	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM
	DECEMBER 31, 2017		DECEMBER 31, 2016	
Nationale-Nederlanden OFE	11,983,198	4.57%	6,254,975	2.38%
Aviva OFE Aviva BZ WBK	11,481,412	4.37%	10,749,990	4.10%
OFE PZU „Złota Jesień”	4,708,861	1.79%	5,291,194	2.02%
Aegon OFE	3,492,830	1.33%	2,312,363	0.88%
AXA OFE	2,988,062	1.14%	3,132,742	1.19%
OFE MetLife	2,672,028	1.02%	3,644,584	1.39%
Generali OFE	2,001,985	0.76%	2,165,755	0.83%
Allianz Polska OFE	1,791,131	0.68%	1,770,132	0.67%
PKO BP Bankowy OFE	1,082,441	0.41%	1,045,153	0.40%
OFE Pocztylion	701,972	0.27%	705,234	0.27%
Nordea OFE ^(*)	-	-	1,715,436	0.65%
Razem	42,903,920	16.35%	38,787,558	14.78%

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

^(*) As a result of the acquisition, members of Nordea OFE, as of November 17, 2017, became members of Aegon OFE and their funds were transferred to accounts in Aegon OFE.

Report on the activities of Bank Pekao S.A. for the year 2017

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

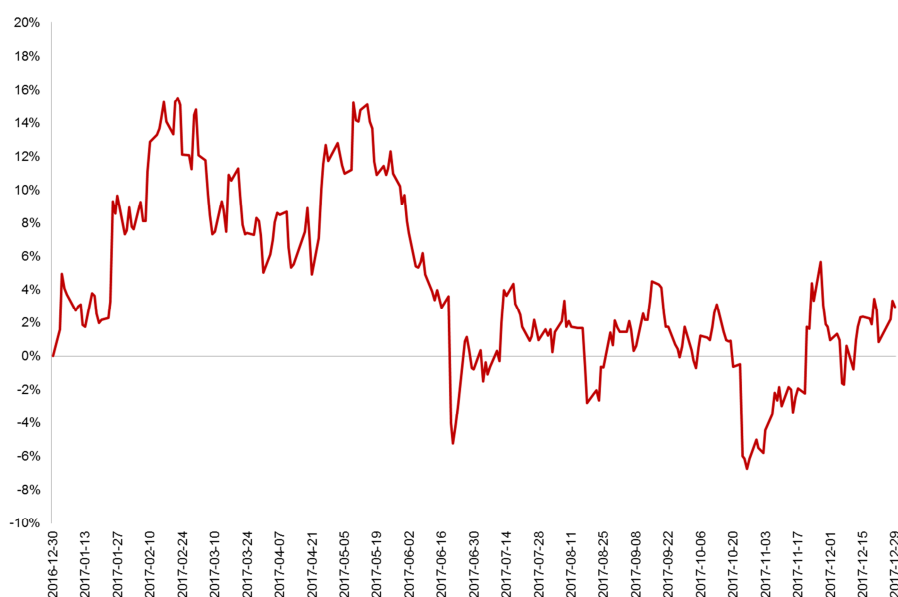
The shares of Bank Pekao S.A. have been listed on the Warsaw Stock Exchange since June 1998 and they are one of the most liquid equities in Poland and Central and Eastern Europe. Since 2000, the Bank maintains Global Depository Receipts (GDR) program. The Bank's GDRs are traded on London Stock Exchange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

The Bank's market capitalization as of December 31, 2017 amounted to PLN 34.0 billion making the Bank one of the biggest listed company in Central and Eastern Europe. Given the high capitalization and liquidity the Bank's shares are a part of many important stock indices maintained by domestic and foreign institutions including Polish blue chips index – WIG20 and banking sector index WIG- Banks. Since December 19, 2011, the shares of Bank Pekao S.A. are included in the CEERIUS Sustainability Index at Vienna Stock Exchange and since 2016 to the index of responsible companies - RESPECT Index run by the Warsaw Stock Exchange.

With the average daily turnover volume at the level of 732 thousand of shares and the worth of trading at PLN 24 billion in 2017, the share of the Bank's stock in trading on the WSE amounted to 10.17%.

The share price of Bank Pekao S.A. increased by 2.9% year on year and reached to PLN 129.5 as at the end of December 2017 comparing to PLN 125.8 a year earlier.

Performance of Bank Pekao S.A.'s shares in year 2017.



Report on the activities of Bank Pekao S.A. for the year 2017

5.3 Dividend payment history

In 2017, the Bank paid dividend for 2016 in the amount of PLN 8.68 per share. Dividend yield amounted to 6.9%.

The dividend payments from 2003 to 2016 are presented below:

DATE	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Dividend for the year (in PLN million)	748	1,065	1,234	1,504	2,517	-	761	1,785	1,412	2,202	2,614	2,625	2,283	2,278
Dividend per 1 share (in PLN)	4.50	6.40	7.40	9.00	9.60	-	2.90	6.80	5.38	8.39	9.96	10.00	8.70	8.68

As at the date of approval of the financial statements, the Management Board of Bank Pekao S.A. has not made a decision about the recommendation regarding the payment of the dividend for 2017. As at the date of approval of the financial statements, Bank Pekao S.A. meets all requirements for payment of 100% of the Bank's profit for 2017.

5.4 Investor Relations

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

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

The Bank's financial results and its activity are regularly monitored by analysts representing Polish and foreign brokerage entities. In 2017, 22 analysts published reports and recommendations on the Bank.

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

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

Report on the activities of Bank Pekao S.A. for the year 2017

5.5 Bank Pekao S.A. financial credibility ratings

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

As of December 31, 2017, Bank Pekao S.A. had assigned following financial credibility ratings:

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

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

Report on the activities of Bank Pekao S.A. for the year 2017

6 Activity of Bank Pekao S.A.

6.1 Important factors influencing the Bank's activities and results

In 2017, the Group's activity was to a large extent determined by the macroeconomic situation in Poland and abroad as well as by the trends observed in the banking sector.

Polish economy maintained its upward growth trend with the GDP growth rate accelerating to 4.6% in 2017 compared to 2.9% in 2016, the highest in the last six years. Private consumption remained the main driver of growth, supported by rebound in the second half of the year in public and private investments as well as positive contribution from the net exports, further supported by a good momentum in the global economy, especially in the euro area. Individual consumption was supported by the strong labour market, with historically low unemployment (the lowest since the economic transformation) and a record-high level of consumer confidence stimulated, among others, by the social program Family 500 plus.

The inflation increase, to the level of acceptable deviation from the NBP target, did not affect Monetary Policy Council rhetoric and interest rates level in 2017, neutrally impacting net interest margin in the banking sector and demand for loans.

Good economic situation with historically low interest rates supported high credit demand. Household lending growth reached 1.7% year on year comparing to 5.1% year on year in the previous year. Double-digit growth in PLN mortgage loans sales was fostered by low interest rates, improving creditworthiness of borrowers' and progressive improvement on the labour market, despite higher requirements regarding customers' down payments (20%). During the year, the demand for corporate loans showed a positive growth dynamic supported by acceleration of investments in economy. A high level of fixed assets amortization and capacity utilization, intensification of realization of investment projects financed with the aid of the European Union funds from 2014-2020 financial perspective with an increasingly noticeable employees shortage supported gradual rebound in corporate investments. Corporate lending growth reached 5.4% year on year, compared to 4.9% year on year in the previous year. Moreover, the growing interest in alternative forms of financing was noticeable such as leasing or factoring.

Household deposits growth decelerated to 3.9% year on year comparing to 9.1% year on year in the previous year due to low interest rates and increased interest in alternative forms of investing, including mutual funds, shares or cash real estate purchases. The increase in corporate investment activity and the declining profitability of corporate sector were accompanied by the slowdown in corporate deposits growth. Moreover, due to relatively low interest rates, international companies were less incentivized in investing their surpluses on the Polish market. Corporate deposits growth amounted to 2.4% year on year, comparing to 7.9% year on year in 2016.

The recovery in the capital markets, both domestic (increase of WIG index by 23% year on year) and foreign, with the decline in Polish government bonds yields and low returns on bank deposits, resulted in increase in customer interest in mutual funds and shares, boosting share of mutual funds in the structure of households' savings.

Financial result of the banking sector decreased year on year, due to the high 2016 base related to the transaction settlement of the sale of shares in Visa Europe to Visa Inc., what had increased the banking sector's net result by ca. PLN 2 billion and one month shorter payment period of tax on certain financial institutions (charged since February 2016) as well as an increase in assets from which the tax is calculated, despite significant improvement in net interest income and net fee and commission income. Economic upturn and labour market improvement strengthen loan portfolio quality.

The new Act on the Bank Guarantee Fund, deposit guarantee scheme and resolution (the "BGF act") dated on June 10, 2016, effective from January 1, 2017, has changed the rules of calculating BGF contributions and payment booking timeline, with marginal impact on yearly sector burdens. Pursuant to this act, the banks are required to pay quarterly contributions to guaranteed fund and a one-off annual contribution to the resolution fund. These contributions are not tax deductible, even though in the previous years annual BGF contribution was tax deductible.

Report on the activities of Bank Pekao S.A. for the year 2017

Zloty strengthening against major currencies slowed the pace of work on the implementation of systemic solution with respect to mortgage loans denominated in foreign currencies, although the two regulations related to this issue have reached and are in progress in the Polish parliament (so called "Spread bill" and Presidential proposal amending the bill on borrowers support which assumed inter alia, set up of restructuring fund from banks' contribution encouraging the banks to voluntary conversion of mortgage loans from CHF to PLN). This had a positive impact on investors' sentiment in the capital market, in particular, on the valuation of banks most exposed to foreign currency loans.

Regulation related to capital requirements had a significant impact on banks' operations, in particular in respect to lending activity. Pursuant to the CRR Regulation, the minimum level of capital ratios for the Group and the Bank should be as follows: 1) Total Capital Ratio 'TCR' - 8.0%, 2) Tier I - 6.0%. In addition, in 2017, the banks were obliged to maintain combined buffer (capital conservation buffer 1.25% and other systematically important institution buffer from 0.25% to 0.75% of risk exposure for a selection of 10 financial institutions). Moreover, the KNF imposed on banks recommended levels of capital ratios. For Bank Pekao S.A., as of December 31, 2017, the minimum total capital ratio was 13.75% and the Tier 1 capital ratio was 10.75%. These levels were increased by add-ons related to individual exposure to household mortgage loans denominated in foreign currency. For Bank Pekao S.A. Group, it amounted to 0.01% on total capital ratio level and 0.0075% on Tier 1 level.

Moreover, from December 2, 2017, the risk weight increased from 100% to 150% for exposures secured by a mortgage on residential property, for which principal or interest installment depends on changes in exchange rates of currency or currencies other than the currency of the debtor's income and market value of property changed from 50% to 80%, in relation to the part of the loan secured on residential real estate, for which a preferential risk weight of 35% may be assigned (for the remain part it amounted to 75%).

From June to August 2017, the KNF carried out stress tests, measuring the sensitivity of the Bank to an unfavorable macroeconomic scenario. The results, among others, impact on the ability to pay dividends on 2017 earnings by individual banks.

On November 24, 2017, the KNF defined the criteria to pay dividend from 2017 earnings by individual commercial banks. Bank Pekao S.A. is one of the few that fulfill all the criteria required to pay 100% dividend. The requirements for the Bank amount to 16.78% for TCR and 14.78% Tier 1. Those requirements correspond to the sum of:

- minimum capital ratios: TCR - 8.0% and Tier 1 - 6.0%,
- buffer defined in article 142 par. 4 of the Banking Law: 1.5%,
- capital conservation buffer: 2.50%,
- other systemically important institution buffer: 0.5%,
- systemic risk buffer: 3.00%,
- individual own funds requirement to cover the risk of mortgage-secured loans denominated in foreign currency to households in the amount of 0.01% at TCR and 0.0075% at Tier 1,
- individual mark-up (ST) measuring the sensitivity of the Bank to an unfavorable macroeconomic scenario: 1.27%.

Regulatory burdens (Basel, MiFID II, PSD II) and strong competition in the most attractive areas of the banking sector had a significant impact on the business models of financial institutions. Banks were competing not only through product offering, but also through innovation and advanced technological solutions tailored to individual customer needs. Investments in new technologies, including remote contact channels, not only increased the attractiveness of banks' offers, but also helped to improve cost efficiency of the banks. More difficult operating environment led to further consolidation in the banking sector and revision of the strategies in some cases of the banking sector.

Report on the activities of Bank Pekao S.A. for the year 2017

6.2 Major sources of risk and threats

Risk management

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

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

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

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

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

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

The rules and instruments of managing each of the risks and information on the risk exposure is included in Note 5 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on December 31, 2017 and in the document "Information in respect to capital adequacy of Bank Pekao S.A Group as at 31 December 2017" published on the Bank's website.

Credit risk

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

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

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

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

Credit risk concentration limits

According to the Banking Law the total exposure of a bank to the risks associated with the single borrower or a group of borrowers in which entities are related by capital or management may not exceed 25% of a bank's equity. In 2017, the maximum exposure limits set forth in the Banking Law were not exceeded.

Report on the activities of Bank Pekao S.A. for the year 2017

Sector exposure concentration

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

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

Compliance risk

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

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

The Bank ensures compliance through application of control mechanisms and compliance risk management process carried out by the Compliance Department. The compliance risk management process includes the following stages: identification, assessment, control, monitoring and reporting of the compliance risk level. Within the control function, the Compliance Department designs, supervises the implementation of control mechanisms relating to compliance risk management or independently applies them and performs independent monitoring of their compliance by other organizational units of the Bank and reports the results of this monitoring.

Within the control function, the Compliance Department ensures compliance, in particular through:

- current vertical verification on a continuous basis within risk-based approach on selected processes operating at the Bank (ex-ante activities),
- vertical testing, including adherence to risk-based approach on selected control mechanisms, performed in the case of completed activities performed as part of selected processes functioning at the Bank (ex-post activities),

within the scope defined in the Regulations of functioning of the Compliance Department.

The reports on performance of tasks by the Compliance Department together with the level of assessed compliance risk are presented to the Management Board and Supervisory Board. The oversight of compliance risk related to the activities of subsidiaries is performed in the Bank.

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

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

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

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

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6.3 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 as well as Commission Implementing Regulations or Delegated Regulations (EU).

Capital ratios, capital requirements and own funds have been calculated in accordance with the above mentioned CRR Regulation using national options defined in Banking Act, article 171a as well as Regulation of Minister of Development and Finance of May 25, 2017 on higher risk weight for exposures secured by mortgages.

The minimum Total Capital Ratio required by law is the sum of minimal capital requirement defined by CRR Regulation (equal to 8.0% TCR and 6.0% Tier I) and combined buffer requirement as defined in Act of 5 August 2015 on macro-prudential supervision over financial system and crisis management in financial system (a conservation buffer of 1.25% and another systemically important institution buffer of 0.50% according to the KNF decision on December 19, 2017).

According to the recommendation of the KNF, after taking into account the combined buffer requirement, the Bank's minimum total capital ratio should remain at the level of not less than 13.75% and the Tier I capital ratio at the level of not less than 10.75%.

As of December 31, 2017 for Bank Pekao S.A., total capital ratio amounted to 18.4% and Tier I ratio amounted to 17.3%. The capital ratios were significantly above the minimum required by the law and the level recommended by KNF.

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

(in PLN thousand)		
CAPITAL REQUIREMENT	31.12.2017	31.12.2016
Credit risk	8,399,097	7,858,037
Exceeding the exposure concentration limit and large exposures limit	-	-
Market risk	49,129	43,616
Counterparty credit risk including CVA	139,786	187,747
Operational risk	450,011	436,612
Total capital requirement	9,038,023	8,526,012
OWN FUNDS		
Common Equity Tier I Capital	19,529,433	19,368,617
Tier II Capital	1,250,000	-
Own funds for total capital ratio	20,779,433	19,368,617
Common Equity Tier I Capital ratio (%)	17.3%	18.2%
Total capital ratio TCR (%)	18.4%	18.2%

Total Capital Ratio as at the end of December 2017 was higher by 0.2 p.p. as compared to the end of December 2016.

Increase in own funds for total capital ratio calculation by 7.3% resulted from including in Tier II Capital the amount of PLN 1.25 billion from the issue of subordinated bonds.

Total capital requirement increased by 6.0%, mainly due to higher credit risk capital requirement resulted from, among others, increase in loan volumes and the KNF recommendation on application of credit conversion factor (CCF) 0%.

Common Equity Tier I Capital ratio was lower by 0.9 p.p. as compared to December 2016.

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On September 22, 2017, the Management Board of the Bank decided to start the book building process in connection with the preparation of the non-public issuance of the Bank's subordinated bonds, which was announced in the current report No. 51/2017.

On October 19, 2017, the Management Board of the Bank passed a resolution on issuance of subordinated bonds (in accordance with Art. 22 of the Act of January 15, 2015 on bonds) and the allocation of funds from the issue - after obtaining the approval of the KNF - to increase the supplementary funds of the Bank pursuant to Art. 127 sec. 2 pt. 2 of the Banking Law and Art. 63 of CRR Regulation, which was announced in the current report No. 54/2017.

The main terms and conditions of the issue of subordinated bonds are as follows:

1. type of bonds: bearer bonds, not having a document form,
2. total nominal value of the issue: PLN 1,250,000,000,
3. unit nominal value of the issue: PLN 1,000,
4. bond interest rate: variable, based on the WIBOR6M reference rate, increased by a fixed margin of 1.52%,
5. format of issue: 10NC5, ten-year maturity bonds, with a reserved call option giving the Bank the right to redeem all bonds within 5 years from the issue date, subject to the approval of the KNF,
6. issue price equal to the nominal value,
7. issue date: October 30, 2017,
8. maturity date: October 29, 2027, subject to the possibility of their early redemption on the terms described in point 5,
9. records and turnover: the records of subordinated bonds will be kept by KDPW, subordinated bonds will be placed on the Catalyst ASO market.

On December 21, 2017, the Bank received the KNF approval to increase own funds by the amount of PLN 1.25 billion from the issue of subordinated bonds.

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

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

Distribution channels

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

	31.12.2017	31.12.2016
Total number of outlets	851	928
Total number of own ATMs	1,745	1,761

As at the end of December 2017, the Bank maintained 5,669.3 thousand PLN-denominated current accounts, 354.1 thousand mortgage loan accounts and 620.8 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

	31.12.2017	31.12.2016
Total number of PLN current accounts ^(*)	5,669.3	5,480.1
of which packages	4,172.7	4,053.9
Number of mortgage loans accounts ^(**)	354.1	328.1
of which PLN mortgage loans accounts	320.8	293.6
Number of "Pożyczka Ekspresowa" loan accounts ^(***)	620.8	572.1

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

(**) Retail customers accounts.

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

6.4.1 Individual clients

In 2017, Bank Pekao S.A. consequently realized the strategy of growth in retail customer segment concentrating on key lending and investment products as well as acquisition of new customers. Growth in loans and deposits volumes in 2017 was faster than in the banking sector allowing for further strengthening of the Bank's market position.

The total value of new key loans for individual customers, including cash and PLN mortgage loans amounted to PLN 17.9 billion and was higher by over 23% in comparison to 2016. The high dynamics of loans granted was reflected in the volume of loan portfolio for individual customers which increased by 10.7% year on year.

Bank Pekao S.A. is one of the leaders in electronic banking in Poland. Within the framework of electronic banking the Bank provides customers with full range of solutions such as: the Internet and mobile service, mobile application on mobile phones and tablets.

In October 2017, the Bank released another updated of the most modern in the country mobile banking application PeoPay which is both an application for banking operations and payments. The PeoPay application offers innovative solution in the market such as biometric technology for payments authorization, payments for online shopping in mobile phone without logging into Internet banking, scanning banking account number directly from invoice instead of rewrite it to the application. In addition, the application gives the opportunity to pay by mobile phone also abroad (or a foreign online store) directly from the account held in the foreign currency without any additional fees and commissions for currency conversion. New PeoPay application, similarly to multicurrency card, enables execution of transactions in PLN as well as in selected foreign currencies without FX conversion thanks to connection with corresponding currency accounts.

The Bank regularly expands the scope of services available through remote access channels. In 2017, the Bank launched new forms of communication with customer through text chat, video and audio which are available after logging into the Pekao24 Internet banking. The customers can use a new form of contact 7 days a week from 07:00 till 22:00.

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In 2017, Bank Pekao S.A. in cooperation with PZU S.A. provided clients with possibility to purchase insurance in a simple and convenient way through the Bank's website and electronic banking: the Pekao24 system and mobile service. The offer includes insurance available in Moje PZU portal: PZU Dom, PZU Wojażer, PZU Auto and new insurance packages for random events (Zdrowie Plus and Zdrowie i Praca) dedicated to customers who make Pożyczka Ekspresowa loan agreement through Pekao24 system.

Realizing the strategy of young customers acquisition, the Bank focused on long-term cooperation with the largest universities in Poland and various educational initiatives all over the country. In 2017, the Bank signed the agreements with another four universities on issuance of Elektroniczna Legitymacja Studencka (Electronic Student Card) with payment card function. Elektroniczne Legitymacje Studenckie of Bank Pekao S.A. are available in 12 universities in the country. The contest „Rodzinna Podróż Marzeń” (Dream Travel) that supports the accounts opening for children was also launched. In 2017, nearly 138 thousand new saving accounts of Mój Skarb, Eurokonto Kieszonkowe and Eurokonto Intro were opened.

The Bank actively promoted the possibility to submit applications in Family 500 plus Government Program through the Bank's Internet service. The customers submitted over 75 thousand online applications through the Pekao24 system. The Bank is among the top three banks with the highest number of applications received electronically under this Program.

Lending products

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

Mortgage loans

In 2017, the Bank strengthened strong position in the area of mortgage loans, granting loans for the record-high amount of PLN 9.1 billion (increase by 33% year on year) that translated into 13% increase of PLN mortgage loans volume year on year. Market share in new sales amounted to 21% in 2017.

The Bank holds a leading position in mortgage loans granting within the government program “Mieszkanie dla Młodych” (“Apartment for the Young”) supporting the persons aged up to 35 in acquisition of the first new apartment, with over 41% market share in 2017.

In 2017, the Bank implemented solution which enables electronic submission of loan application with all necessary documentations to the loan granting process through the Bank's infoline, which is available 7 days a week. This is a new quality in servicing housing loans, implemented in response to the market's expectations, where time and availability matter.

The Bank conducted also local and country-wide promotional activities of mortgage loans, including promotional campaigns using internal channels of marketing communication and participated in real estate fairs organized all over the country.

Consumer lending

In 2017, the value of cash loans granted achieved the highest level in the Bank's history and amounted to PLN 8.8 billion, an increase by 14% in comparison to 2016. Cash loans portfolio increased by 23% year on year which resulted in market share increase by 0.4 p.p.

Main advantages of cash loans available in the Bank are fast and transparent granting procedure, the competitive price conditions, preparation of individual loan offers with the use of CRM tools as well as active use of electronic channels including website dedicated to cash loan, the Pekao24 system and mobile application.

In 2017, the Bank in order to meet the expectations of customers extended the loan period, raised the maximum loan amount to PLN 200 thousand, offered a 3-months grace period in installments, expanded the group of customers with the available loan offer Klik Gotówka, which sale in electronic channels increased over three times compared to 2016.

Within the framework of processes „na klik” (“by click”), the Bank provided users of the Internet service with a simple application for cash loan and credit card. The credit decision is made online and loan disbursement is automatically processed after approval of agreement. The offer is available for selected group of clients.

The Bank conducted also promotional campaign of Express Loan in the main TV channels with the largest coverage and thematic channels as well as on the Internet portals, including YouTube and Facebook.

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Payment cards

In 2017, the number of debit cards of individual clients was higher by 151 thousand and amounted to 3.3 million. In 2017, the Bank issued nearly 76 thousand of multicurrency cards. Multicurrency debit card is one of the most innovative products in the market that enables execution of transactions in PLN as well as in selected foreign currencies without FX conversion thanks to card's connection with corresponding currency accounts. Within the framework of multicurrency cards promotion the Bank launched contest „Wielowalutowa Odyseja” with prizes for the Bank's customers.

In the area of credit cards, the Bank focused on the growth of the card portfolio and card usability by clients by organizing attractive contests and promotions. In 2017, the number of credit cards increased by 29 thousand in comparison to 2016. The Bank's customers, apart from credit card related foreign travel insurance package, are provided with commission-free FX conversion of transactions and transactions in popular currencies are converted directly based on exchange rate table of the Bank. The Bank promoted also credit cards for installment purchases. Thanks to credit card Elastyczna, the Bank's customers had an opportunity to repay debt in ten installments with zero interest rate.

Moreover, promotional and educational activities for seniors were conducted aiming at demonstrating benefits of owing and using payment cards issued to the accounts.

The Bank conducts also the activities supporting non-cash payments through the constant development of the Discount Program Galeria Rabatów under which the customers may receive special rebates while paying by cards of the Bank.

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

Savings and investment products

Thanks to a wide range of deposit products of the Bank, in 2017 deposits volume of individual customers increased by 7.7% in comparison to December 2016, i.e. more than doubling the pace of growth in the banking sector. The Internet deposits (e-lokata) placed through the Pekao24 Internet banking and 6-month and 12-month term deposits were also very popular among the customers.

In 2017, in order to provide customers with more opportunities in terms of products selection and access to new markets, the Bank introduced to its offer new investment fund, enhanced the offer of investment programs and issued 4 new structured products – Certificate of Deposits which ensures 100% capital protection at the end of investment.

Within the framework of TFI Pioneer Funds, the Bank introduced to its offer new investment fund Pioneer Strategii Globalnej – dynamiczny. At the same time IKE, IKZE and PAK offer was expanded with this new investment fund.

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

Within the framework of the structured products offer it was issued Certyfikat Amerykański Koszyk based on change in prices of ten American companies and three certificates based on currency rates EUR/PLN - Mocny Złoty, Mocny Złoty Plus and Mocny Złoty Plus 2.

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

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Brokerage activity

Dom Maklerski Pekao (Dom Maklerski) provides the highest quality brokerage services within the framework of the offer of Bank Pekao S.A. A comprehensive capital market offer guarantees investors, in particular from the group of the Bank's individual clients, opportunity to invest in financial instruments with various characteristics listed on the regulated market and alternative trading system of the WSE and BondSpot SA (among others, stocks, treasury and corporates bonds, derivatives - futures and options, ETF, certificates, warrants) as well as on foreign markets through any channel of service such as mobile application, the Internet, telephone and mobile service and Brokerage Service Points.

As at the end of December 2017, Dom Maklerski maintained 165.7 thousand standard investment accounts, of which nearly 69.3 thousand customers has electronic access to the services through electronic channels. As at the end of 2017, customer service was conducted by a network of 386 Brokerage Service Points, including 43 of full-range order acceptance points with comprehensive brokerage service on the secondary market and 343 points with limited range of service.

In 2017, activities of Dom Maklerski focused on clients service on the secondary market and acquisition of new customers through public offers. Dom Maklerski participated in consortia serving 10 IPO's, registering records of completed issuances from individual investors for the total amount of over PLN 97 million.

Within the framework of cooperation with the Group's related entities, Dom Maklerski conducted service of Fundusze Inwestycyjne Zamknięte offered by TFI PZU registering, under issuance of FIZ AKORD investment certificates, records for PLN 72.7 million and operated as the bidder, conducting registration for two series of covered bonds issued by Pekao Bank Hipoteczny S.A. within the framework of Covered Bonds Program with the total value of PLN 100 million as well as registered records for the amount of nearly PLN 230 million for 4 series of Structured Certificates of Deposits issued as part of the Third Issue Program of bank securities of Bank Pekao S.A.

In the area of quality service, the activities related to development of remote services were continued. In the mobile service of Bank Pekao S.A. and the PeoPay application the possibility of quotes viewing for users with an access to the Pekao24 system and a signed brokerage agreement with Dom Maklerski was introduced. In the Pekao24Makler Internet service tools based on the SPAN methodology were introduced enabling clients current calculations, including the amount of collateral for liabilities related to transactions on the derivatives market and assessment of financial instrument adequacy and brokerage services.

Development activities related to remote services contributed to promotion of Dom Maklerski in Ogólnopolskie Badanie Inwestorów (SII) to the second position in the category of failure-free and fast Internet platform.

In 2017, Dom Maklerski reviewed and updated the regulations adjusting them to changes, among others, resulting from the MIFiD 2 and other provisions introduced to the area of brokerage services.

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Private Banking

Private Banking of Bank Pekao S.A. is present in the Polish financial market since 20 years and since then is setting trends of this area as well as it is the market leader in terms of the value of assets. Client service model is based on cooperation with dedicated Relationship Managers, who provide customers with product solutions tailored to their individual needs and market situation. A group of Relationship Managers consists of experienced employees who hold certificates of European Financial Planning Association. Relationship Managers are supported by assistants and product specialists teams what, combined with a unique experience and knowledge of markets allows to maintain high level of services and to develop an offer for the most demanding customer segment. Both the customers and experts appreciate Private Banking of Bank Pekao S.A. awarding prizes and high positions in rankings.

In 2017, the activity in the area of Private Banking focused on strengthening existing relations with customers, new clients acquisition and, realization of initiatives aimed at maintaining high level of service by offering products solutions tailored to the customers' needs.

Products offer available for the Private Banking customers through the Bank and CDM was extended by over 20 new open- and closed-end funds managed by Union Investment TFI, Altus TFI, NN Investment Partners TFI, Allianz TFI and Skarbiec TFI in cooperation with J.P. Morgan Asset Management as well as Subfunds selected within Esaliens Parasol Zagraniczny SFIO (Esaliens Foreign Umbrella SFIO).

The Private Banking customers were offered with seven issues of structured products in a form of structured certificates of UniCredit Bank AG based on stocks of ArcelorMittal, Total SA, BMW AG (issuance in PLN and USD), ING, Rio Tinto and Orange SA. Moreover, the customers were provided with an access to the primary market of corporate bonds of the Warsaw Stock Exchange and presented high activity in this sector on the secondary market.

Investment Advisory was very popular among customers. As at the end of 2017, total value of assets covered by this service amounted to PLN 2.98 billion.

A series of investment meetings were held throughout Poland, where experts from the Bank and selected Investment Funds were presenting the directions and trends in the financial markets.

Private Banking customers also had the opportunity to participate in events sponsored by the Bank, such as Paszporty Polityki (Passports of the Polityka magazine) awards ceremony, Ludwig van Beethoven Easter Festival, the Champions and European Leagues, the 25th Pekao Szczecin Open Tennis Tournament, the Official International Showjumping Competition CSIO 5*, the 11th Film and Art Festival Dwa Brzegi as well as prestigious meeting associated with publication of a List of 100 Polish billionaires 2017 of the Forbes magazine and the meeting with recognized economist, Mr. Nouriel Roubini.

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

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Electronic banking for Individuals

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

In October 2017, the Bank released another updated of the most modern in the country mobile banking application PeoPay which is both an application for banking operations and payments. The PeoPay application offers innovative solution in the market such as biometric technology for payments authorization, payments for online shopping in mobile phone without logging into Internet banking, scanning banking account number directly from invoice instead of rewrite it to the application. In addition, the application gives the opportunity to pay by mobile phone also abroad (or a foreign online store) directly from the account held in the foreign currency without any additional fees and commissions for currency conversion. New PeoPay application, enables execution of transactions in PLN as well as in selected foreign currencies without FX conversion thanks to connection with corresponding currency accounts. The PeoPay application is available for devices with Android and iOS operational systems. Thanks to the PeoPay application it is possible to make payments in over 535.8 thousand of terminals in Poland (NPB data as at the end of the second quarter of 2017) i.e. ca. 91.6% of total number of POS and in ca. 6 million terminals abroad as well as in majority of on-line shops in Poland and over 300 thousand on-line shops with Masterpass logo abroad.

In 2017, the Bank offered new mobile service Pekao24. In addition to visual change, user-friendly navigation and intuitive service, there are also functions well known from the "Pekao24 na tablety" application and the Internet service – expenses reporting by category, possibility to use loan offer "na klik" ("on click"), foreign currency payments and FX conversion with a preferential rates. The service user can view currency rates and use a convenient calculator in order to determine quickly the currency conversion value. A new service provides also the possibility to reschedule the debt of Elastyczna credit card.

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

The functionality of the new application "Pekao24 na tablety" is systematically developed. In 2017, the application users were provided with ability to display operations realized with the use of debit cards. Within the process "na klik" ("by click"), the Bank offered functionality that allows to apply for debit card and sign currency account agreement remotely. In addition, the users can mark transactions in the history of operations which allows to search operations by individually created criteria and to split and assign individual transaction to a few categories of expenditure.

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

The Bank regularly expands the scope of functionalities available through remote access channels. The Bank's customers were offered the opportunity to set up Profil Zaufany (Trusted Profile) in the Pekao24 Internet service, which is a free-of-charge method of identity confirmation in electronic systems of public administration. The Bank in cooperation with PZU S.A. provided possibility to purchase insurance through the Bank's website, the Pekao24 electronic banking and mobile service.

Within the framework of processes "na klik" ("by click"), the Bank provided users of the Internet service with a simple application for cash loan and credit card with a possibility to use loan insurance. The credit decision is made online and loan disbursement is automatically processed after approval of agreement. The offer is available for selected group of clients.

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As at the end of December 2017, the number of individual users with an access to mobile banking amounted to 1,541.0 thousand and was higher by 384.2 thousand as compared to the end of December 2016. In the fourth quarter of 2017, the number of individual users actively using mobile banking amounted to 938.2 thousand and was higher by 265.9 thousand as compared to the end of December 2016.

(in thousand)

	31.12.2017	31.12.2016
Number of individual users with an access to electronic banking Pekao24 as at the end of period	3,298.5	3,176.9
Number of individual users actively using electronic banking Pekao24 as at the end of period ^(*)	1,846.3	1,708.6
Number of individual users with an access to mobile banking as at the end of period ^(**)	1,541.0	1,156.8
Number of individual users actively using mobile banking as at the end of period ^(***)	938.2	672.3

(*) 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).

6.4.2 Small and micro enterprises (SME)

In 2017, the Bank realized a series of activities addressed to small and micro enterprises. Acquisition of new customers was supported by, among others, action encouraging start-up entrepreneurs to cooperate with the Bank. In relations with existing customers there were conducted campaigns supporting ongoing activities in order to simplify, facilitate and accelerate processes related to financing tailored to the needs of the company as well as improving flexibility in communication with the Bank.

Within the framework of these activities, among others, the range of products related to customers financing was extended and a number of simplifications in trade finance (including exports) were implemented. The Bank continued promotional campaigns of loans „SLK - szybko dostępny limit kredytowy” (“SLK – quickly available credit limit”) addressed to the selected customers with dedicated short term loans offer and credit and charge cards limits available in simplified loans granting process. In 2017, the value of loans portfolio for SME customers increased by 15.7%.

In 2017, the Bank signed an agreement on cooperation with Bank Gospodarstwa Krajowego (BGK) regarding the implementation of portfolio guarantees lines under the EU financing program - Program Operacyjny Inteligentny Rozwój 2014-2020 (POIR). New guarantees are aimed at facilitating access to financing for the innovative entities from the SME segment. The guarantees are long-term (maximum up to 20 years), secure as much as 80% of the loan and are commission-free for the clients.

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

In 2017, the Bank signed two agreements with Europejski Fundusz Inwestycyjny (EFI) under the program of EaSI (Europejski Program na Rzecz Zatrudnienia i Innowacji Społecznych) on loans with EFI guarantees for start-ups (companies operating in the market for up to 2 years). The agreements concern the coverage of EFI guarantee 80% of capital and interests of loans for these customers. Moreover, the Bank actively participates in de minimis guarantees program managed by BGK for micro, small and medium-sized enterprises.

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As at the end of 2017, SME Banking Division which is functioning based on Centra Biznesowe Małych i Średnich Przedsiębiorstw (SME Business Centers) has been established in the Bank. The Centers were located in regions with the highest business potential, providing the opportunity to actively support entrepreneurs in their current operations. The task of the new Division is to build long-term cooperation with clients by providing banking solutions and services adequate to the needs of small and medium-sized companies. In order to accomplish this task, a new service model for companies from this segment is implemented based on a dedicated team of experts: a client manager and product specialists.

Electronic banking for SME customers

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

In 2017, the mobile offer for business customers using the Pekao24 dla firm system was extended by a new version of m.pekao24.pl service on mobile phones and the PeoPay mobile application combining the functions of the mobile service m.pekao24.pl with the possibility of, among others, paying by phone, the possibility of withdrawing from ATMs, payments execution to phone numbers of other users.

As at the end of December 2017, 236.0 thousand business users had an access to the electronic banking. In the fourth quarter of 2017, 178.5 thousand business users logged in to the Pekao24 electronic banking services, an increase by 9.2 thousand in comparison with 2016.

As at the end of December 2017, 24.2 thousand business users had an access to the mobile banking application for SME clients. The number of business users with an access to the mobile banking application increased by 2.4 thousand compared to the end of December 2016.

(in thousand)

	31.12.2017	31.12.2016
Number of business clients (SME) actively using electronic banking systems as at the end of period (*)	178.5	169.3
Number of business clients (SME) actively using mobile banking as at the end of period (**)	13.2	12.0

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

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

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6.4.3 Corporate customers

Market position and main directions of the activities

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

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

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

The Bank's services are used by every second large company in Poland. As at the end of December 2017, the Corporate Banking and MIB Division serviced over 14.5 thousand of entities, including nearly 3 thousand foreign customers and 3 thousand local government units and municipal companies.

Transactional services

The Bank holds a leading market position in the comprehensive range of transactional products for corporate clients and the PekaoBiznes24 Internet platform, which offers the widest range of products and financial services, is the most commonly chosen electronic banking system for companies in Poland.

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

- issuing and service of nearly 50 thousand prepaid cards with individual visualisation supporting the advertising campaign of a leading provider of electronic media in Poland,
- acquiring of petrol stations of one of the largest fuel distributors for servicing cash deposits in closed form, which translated into growth of monthly cash volumes of the client serviced by the Bank by over PLN 650 million,
- installation of "oplatomat" in Bydgoszcz, Zakopane and Radom. These devices allow to make payments to Municipal Offices in cash or by payment cards,
- improvement in the offer of housing escrow accounts (developer accounts) by implementing a new model of customer service for purchasers and a new IT system for developer accounts service. These changes simplify cooperation between developer and the Bank within the scope of documents workflow and ensure simple register of all investment settlements for developer,
- introduction of changes in the offer of escrow and custodial accounts by implementing standard agreements on escrow and custodial accounts linked with the service through the PekaoBiznes24 Internet banking system. Thanks to these changes, the clients were provided with possibility to manage the account and to process withdrawals without assistance of the Bank's employee at any time, fast online withdrawals without necessity of verification and manual execution of paper transfers in the Bank's outlet and fully electronic paper workflow.

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Strengthening the Bank's leading position in the transactional banking market in 2017 confirms:

- an increase in the number and volume of domestic transfers by 4% and 7% year on year respectively,
- an increase in the number and volume of cash deposits in closed form by 10% and 11% year on year respectively,
- processing within the framework of Pekao Collect service (mass payments identification) of 138 million transactions with total volume of PLN 160 billion, i.e. increase by 2% and 20% year on year respectively,
- an increase in the number of foreign outgoing and incoming payments by over 15% and over 9% respectively, with an increase in volumes of foreign payments by 19% and 13% year on year.

Custodial and depositary bank's services

Custodial services are rendered base on the KNF permission. The Bank's clients are domestic and foreign financial institutions, banks providing custodial and investing services, insurance companies, investment and pension funds as well as non-financial institutions. The Bank provides services including, among others, the settlement of transactions on domestic and foreign markets, the custody of client assets, the management of securities, servicing dividend and interest payments. The Bank acts also as a depository for investment funds and pension funds.

Bank Pekao S.A. as a clearing member of KDPW CCP, provides services to foreign brokerage houses intermediating in trading of shares and other instruments listed on the Warsaw Stock Exchange and in 2017, held a dominant position in this segment.

Additionally, in 2017, the Bank started its cooperation with a significant TFI company, thanks to which in the perspective of 2018 it will increase to a significant extent the value of assets, as well as its share in the depositary bank's services market and maintain the current portfolio of one of the largest foreign investment banks present on the Polish capital market.

As of December 31, 2017, the Bank maintained 12.5 thousand securities accounts and omnibus accounts in comparison with 12.3 thousand accounts as of December 31, 2016.

Cyber security - Pekao Connect system integration

Bank Pekao S.A. is the leader in system integration and it offers the Pekao Connect high-tech solution integrating ERP/financial-accounting systems of clients with the bank systems, ensuring the high level of data and transactions security.

In 2016, this solution was implemented with over 150 clients, whereas in 2017 the financial and accounting systems of another 420 Bank's clients were integrated. Currently, the share of Bank Pekao S.A. in the market of system integration is ca. 25%, whereas the number of transfers executed via the new electronic banking channel increased by 16% year on year.

Trade finance and supporting of exports

The Bank holds a leading position in product solutions on domestic and foreign trade finance market.

The volume of receivables financed by Bank Pekao S.A. at the end of 2017 increased by 22% year on year, whereas the volume of issued bank guarantees rose by 18% year on year, i.e. by PLN 1.3 billion.

In addition, in the area of trade finance, the Bank noted a 9% increase in the value of opened import letters of credit.

The Bank implemented a number of hardware and regulatory adjustments for trade finance products as a result of changes in generally applicable law regulations in Poland and in the EU, recommendations of the KNF, and also adjusted its activity to market requirements and clients' expectations.

Trade Finance Team conducted regular training and workshops for employees of the Bank to ensure that relationship managers had actual knowledge of the products offered and the market situation.

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One of the strategic directions of development of Bank Pekao S.A. corporate banking is to support companies in developing their international business.

In 2017, the clients - exporters received over 1.2 million payments for the amount of over PLN 190 billion, i.e. an increase of nearly 14% year on year. According to the data of the Polish Bank Association published after the three quarters of 2017, the Bank's market share in export letters of credit rose up to 18.4% from 15.8% with the increase of volume by 24%.

The data of the Ministry of Development show that Poland's exports after the three quarters of 2017 increased by 9.8%. Bank Pekao S.A. is growing in this segment faster than the market, which translates into higher market shares.

Cooperation with international clients

In 2017, the Bank continued and developed cooperation with its international clients as well as acquired new customers. In August of 2017, an agreement regulating the rules of activity of Bank Pekao S.A. and UniCredit Group in terms of servicing common international clients was signed. The main benefit of this agreement is a significant expansion of the potential international clients base being the customers of UniCredit Group who want to run business in Poland. As a result, a role of the Bank in the area of cross-border solutions for the international clients increases significantly and the Bank as a Polish institution gains the European range of activity. On the other hand, it allows to offer the Polish customers an opportunity to operate in countries where UniCredit Group is present, which facilitates expansion of Polish companies to those markets.

The Bank continues its cooperation with international chambers of commerce and industry, strengthening its image as a partner of foreign companies operating in Poland. In November the Bank participated as partner in the Automotive Business Meeting organised by the Polish-Italian Chamber of Industry and Commerce, which allowed to establish many new relationships in this dynamically developing sector.

Intensive development of cooperation with international clients and supporting domestic companies expanding their business abroad were defined in 2017 as the Bank's strategic goals. As a result, the so far organizational units involved in cooperation with foreign clients were transformed into International Banking and Export Support Department .

Investment banking, structured finance and commercial real estates

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

The Bank finances projects aimed at redevelopment of brownfield sites in order to improve common space.

The Bank provides financing allowing the activity and development of enterprises operating on the Polish market. At the same time, the Bank participates in transactions executed abroad by companies from Poland.

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

In 2017, the Bank participated, among others, in the following investment projects of institutional clients:

- the largest private equity transaction in CEE since 2013,
- financing of investment/ guarantee securing tender offer for shares, the Bank's participation in the amount of PLN 1,375 million,
- comprehensive refinancing and granting of investment loan to the HORECA sector leader, the Bank's share in the amount of PLN 820 million,
- multipurpose financing of the energy group in the amount of PLN 480 million,
- financing of cars sale development by a leasing company in the amount of PLN 400 million,

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- comprehensive refinancing of the activity of a leading manufacturer of interior furnishing articles, the Bank's share in the amount of over PLN 350 million,
- financing one of the most important Polish electricity distributing companies, the Bank's share in the amount of PLN 250 million,
- financing of the acquisition of an enterprise in the food sector in the amount of PLN 135 million,
- financing of a leading pharmaceutical company in the amount of PLN 100 million,
- financing of the rail transport sector company in the amount of PLN 100 million,
- supporting of EU expansion of the Polish company, financing in the amount of nearly PLN 90 million,
- increasing financing for one of the leading production enterprises in the biofuel sector by PLN 80 million within a year.

In 2017, the value of new loan agreements in the area of commercial real estate reached the level of nearly PLN 5 billion, and included, among others, the following transactions:

- financing of a leading developer of warehouses in Poland in the amount of over PLN 800 million,
- financing of office-shopping-residential complex located in post-industrial areas in Warsaw in the amount of over PLN 500 million,
- financing of the housing estate in Trójmiasto. The loan in the amount of over PLN 50 million was granted to the leader of housing developers in Poland,
- financing the development of a warehouse located in Dolnośląskie province for one of the leaders in the industry, financing in the amount of EUR 24 million,
- financing of the construction of an office building in Wrocław implemented by the leading Polish developer, financing in the amount of EUR 16 million.

Financial market and treasury products

In the fourth quarter of 2017, the Bank dynamically developed its activity in the Treasury area and recorded a considerable, two-digit growth of volumes of FX Spot and FX Forward transactions with corporate clients.

In order to meet the clients' expectations, the Bank is continuously developing its electronic transaction channels. In the fourth quarter of 2017, the Bank completed the implementation of the modern PekaoFX currency exchange platform (available also in mobile version) dedicated to the most active clients of the Bank.

Another segment of Treasury activity showing a considerable growth is protection against the risk of changes in prices of raw materials and commodities, where the annual dynamics of turnovers exceeded 75%.

The Bank is also one of the key players on the domestic interbank market performing the role of market maker for the Polish currency.

In 2017, Bank Pekao S.A. confirmed its strong position on the financial market receiving again the status of Money Market Dealer granted by the NBP, and achieved the permanent status of Treasury Securities Dealer – given by the Ministry of Finance.

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Issuance of debt instruments

In the area of arrangement and management of commercial debt securities in 2017, Bank Pekao S.A., according to the data as at 30 November 2017 (based on Rating&Rynek bulletin published by Fitch Polska), had:

- 1st place (over 28% market share in the corporate bonds market),
- 1st place (nearly 15% market share in the market of bank debt securities),
- 1st place (over 51% market share in the market of municipal bonds).

In 2017, the Bank issued mid-term bonds for enterprises and banks for the total amount of over PLN 6.2 billion, including in particular the following transactions:

- the issue of 10-year bonds for the leading insurance company for the amount of PLN 2.25 billion,
- the issue of 10-year subordinated bonds of Bank Pekao S.A. in the amount of PLN 1.25 billion,
- the issue of five series of bonds with 7-, 9- and 12-year maturity, denominated in EUR and PLN, for the leading producer of packaging for total amount of the equivalent of nearly PLN 900 million,
- the issue of 13 series of bank securities with the maturity date up to 3 years for a bank operating in Poland for the total amount of nearly PLN 670 million,
- the issue of 11 series of 3-year bonds for a leasing company for the total amount of over PLN 300 million,
- the issue of 4-year bonds for the bank operating in Poland for the amount of PLN 300 million,
- the issue of two series of bonds with 3- and 5-year maturity for a company operating in developers sector in the amount of nearly PLN 200 million,
- the issue of 5-year bonds for domestic stock exchange for the amount of PLN 120 million,
- the issue of 3-year bonds for a bank operating in Poland for the amount of PLN 100 million,
- the issue of two series of 7-year mortgage covered bonds for a mortgage bank in the total amount of PLN 100 million,
- the issue of 5-year bonds for a company operating in developers sector for the amount of EUR 20 million,
- the issue of 5-year bonds for a wholesale trade company for the amount of PLN 75 million.

In addition, the Bank signed, among others, a new bond issue agreement for the amount of PLN 5 billion with an entity operating in gas industry, and also operating in other areas of the fuel sector and in the energy sector, a new bond issue agreement with a leasing company for the amount of PLN 3 billion and 72 new bond issue agreements with local governments for the total amount of over PLN 766 million.

Comprehensive services for the public finance sector

Consistently developing the cooperation with large units of the public sector, particularly by participation in financing of municipal infrastructural projects, the Bank in 2017, concluded credit agreements for the total amount of over PLN 3 billion, including:

- in the area of public transport financing the agreements for the amount of PLN 1 billion. In 2017, the Bank successfully participated in the largest transactions of transport financing by the Polish cities,
- the agreements for the amount of nearly PLN 224 million in the area of waste management and disposal,
- the agreements for the amount of nearly PLN 100 million in the area of thermal energy.

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The Bank intensively supported the current and investment needs of Polish local governments by granting them short, mid and long-term loans in total amount of ca. PLN 674 million.

In 2017, the Bank participated, among others, in the following transactions:

- financing of expenditures relating to purchase of tram, bus and technical facilities for MZK in Gorzów Wielkopolski Sp. o.o. for the amount of nearly PLN 117 million,
- financing of short-term credit needs of Miasto Poznań for the amount of PLN 100 million,
- financing of rail transport for Łódzka Kolej Aglomeracyjna for the amount of PLN 77 million,
- financing and refinancing of expenditures relating to implementation of the investment program by MPEC-Rzeszów Sp. z o.o. in the form of bonds issue in the amount of PLN 30 million,
- additional financing for Miejskie Przedsiębiorstwo Oczyszczania w Warszawie for the amount of PLN 22 million.

In addition, the Bank provides the full range of services dedicated to budgets of Polish cities, communities and provinces implementing public utility projects.

Cooperation with international and domestic financial institutions

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

As at the end of December 2017, the Bank maintains 69 nostro accounts with 48 banks in 26 countries; it runs 221 loro accounts for 206 foreign clients (banks and other financial institutions) from 48 countries and 43 current accounts for 41 foreign financial institutions.

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

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

Implementing a new strategy of the Bank concerning the development of cooperation of the Group with small and mid-sized companies, the subsidiary company, Pekao Leasing Sp. z o.o., concluded already the second credit line agreement with the Council of Europe Development Bank for the amount of EUR 100 million, to be used for supporting this segment of clients. The purpose of the credit line is to finance the undertakings allowing to create and maintain jobs for micro, small and mid-sized companies. Bank Pekao S.A. arranged the transaction and guaranteed the credit.

EU Funds and public programs

Bank Pekao S.A. actively participates in implementation of programs supporting the Polish companies. Increasingly popular among enterprises are programs offering support in a form of the so-called re-payable instruments, most often in a form of bank loans with the EU, the European financial institutions or domestic guarantees.

In 2017, the Bank (as one of the first institutions in the market) introduced to its offer loans with guarantees for innovative projects or for innovative companies which are financed from the EU funds within the framework of Program Operacyjny Inteligentny Rozwój (Smart Growth Operational Programme). The Program is managed by BGK and is targeted to micro, small and medium-sized enterprises implementing new investment projects. The guarantees are long-term (maximum up to 20 years), secure as much as 80% of the loan and are commission-free for the clients.

Moreover, the Bank actively participates in de minimis guarantees program managed by BGK for micro, small and medium-sized enterprises.

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6.5 Investing in human capital

Human Capital as a key asset

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

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

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

Training and professional development

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

In 2017, the Bank prepared for implementation next editions of on-the-job learning programs allowing for direct exchange of professional knowledge among experts.

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

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

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

The Bank realized training projects supporting personnel in proper distribution of banking products, including bank assurance products. In cooperation with the NBP, a comprehensive training program on banknotes security was implemented and program of introducing of a new 500 PLN banknote was continued. Training programs dedicated to the staff responsible for acquisition of new customers and personnel dealing with current clients were also implemented.

Professional knowledge development of the Bank's employees

The Bank continued realization of training projects aimed at reinforcement of risk culture and training regarding introduction of adopted business strategies. Additionally, training programs for employees with high potential and for employees servicing SME clients were realized.

In 2017, the Bank delivered in form of class room over 183 thousands of training hours (class room and virtual sessions), in which attended almost 10.5 thousands of employees confirming the Bank's determination in efficient implementation of required regulations and customer care. In addition to class room training, the Bank realized a series of training in a form of e-learning, including dedicated projects on newly implemented regulations, i.e. the Mortgage Directive and MiFiD 2.

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Development programs and initiatives

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

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

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

- Annual appraisal process of managers as well as planning and realization of development activities, in 2017, 627 persons took part in this process,
- Annual process of the professional development, potential and performance assessment, used to manage and develop talents in the Bank, which was attended by 133 persons, identified as part of the recruitment process, addressed to all employees of the Bank,
- Succession Plans, which are the key outcomes of the above mentioned processes and have fundamental importance in ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk,
- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In 2017, 13,883 employees took part in the process.

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

- Development Centre sessions, survey of individual performance style and communication and 180/360 Feedback - diagnostic tools for identification of strengths and development areas of the employees,
- Mentoring and Coaching – dedicated for selected employees to give them broader business perspectives and an opportunity to gain new experience,
- Action Learning – method of teamwork, focused on finding creative solutions for the challenges faced by the team while at the same time developing participants in interpersonal and leadership competences.

Apprenticeship programs

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

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

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

Increasing engagement of employees

In the Bank "Team's climate" project was continued, which is realized within the teams and is aimed at strengthening the employees' engagement through implementation of the activities that improve the work atmosphere. In 2017, over 400 employees from the 15 Bank's organizational units were covered by this project.

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Compensation policy

On December 7, 2017, as a result of yearly review of remuneration rules, the Supervisory Board of Bank Pekao S.A. approved the updated Compensation Policy of the Bank (hereinafter referred to as “the Policy”), reflecting the mission and values of the Bank’s approach to remuneration systems, which:

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

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

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

Due to the change of the Bank’s shareholding structure and implementing the Regulation of the Minister of Development and Finance of March 6, 2017 on the risk management system and internal control system, compensation policy and detailed method of estimating internal capital in banks, the Bank amended the Policy in the scope of provisions regarding the determination of fixed and variable components of remuneration, guidance on compliance factors in the development of incentive systems for various job groups and the possibility of allowing non-application of deferred variable remuneration granted below a certain amount.

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

Assessment report of functioning of the Policy in the Bank in 2016, according to the provisions of the Supervisory Board of Bank Pekao S.A. Regulation was presented for the General Meeting of Shareholders on April 19, 2017. After considering the report, the General Meeting of Shareholders estimated that the functioning of the Bank’s Compensation Policy in 2016 contributed to the development and security of the Bank’s activities.

Information regarding remuneration value of each Member of the Management and the Supervisory Board is presented in the point 8, the section of the Management Board and the Supervisory Board Remuneration.

Incentive systems

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

Executive Variable Compensation System is dedicated to people holding managerial positions, who have significant influence on the risk profile of the Bank. The aim of the System is to support the execution of the Bank’s operational strategy and to mitigate excessive risk conflicts of interest. Participant covered by the system may receive a variable compensation based on a bonus pool approach. The System provides a comprehensive performance measurement at individual level, level of his/her organizational unit and results of the entire Bank, as well as verification of the participant’s compliant behaviour with respect to law provisions and standards adopted by the Bank. In accordance with the System parameters, for reinforcement of care for long-term welfare of the Bank, at least 50% of variable remuneration is provided in phantom shares based on the value of the Bank shares and at least 40% of the bonus is deferrable and paid after the end of the evaluation period it is payable for. In case of the Management Board Members, deferral refers to 60% of the variable remuneration component. Variable remuneration payable for a particular year, is paid within 6 years by considering economic cycle and the risk resulting from conducted activity.

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

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

Retention Plans

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

Additional benefits for employees

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

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

In 2017, it was accomplished the realization of Employee Share Ownership Plan (ESOP), under which the Bank offers to all employees the opportunity to invest in the shares of UniCredit S.p.A at favorable conditions.

Suitability Assessment Policy

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

Diversity policy

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

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

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Corporate values

The Bank's employees in their daily relations are guided by the corporate values. The Bank's values defined in the Integrity Charter are: respect, reciprocity, transparency, fairness, confidence, and freedom (to act). These values provide a reference system for routine work and for problem situations which are not always addressed by external and internal regulations. The foundation of this "System of Values" is the work of Integrity Charter Ombudsmen who are independent, experienced, retired managers to whom the employees may report behaviors which clash with the corporate values. The Ombudsmen use the available tools (meetings, notices) when they undertake measures to restore respect for the corporate values in relations among employees wherever they have been disrupted. Their work directly supports the Bank's internal communication and defines certain standards of conduct and communication patterns for all the employees to follow. In 2017, the Integrity Charter Ombudsmen continued meetings with individuals and group of the Bank's employees in order to promote dialogue and apply the corporate values in the employee relations.

Relations with Trade Union Organizations

The co-operation between the Bank and the trade unions in the fields of consultation, negotiation, and agreements was carried out according to the rules and procedures defined by the Labour Law and with respect to the interest of the parties and the principles of social dialogue. In 2017, 13 meetings were held with attendance of the Bank and the Unions.

Relations with the Works Council

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

Workforce in number

As at the end of December 2017, the Bank employed 15,316 employees as compared to 15,882 employees as at the end of 2016. The average age of the employees was 47.1 years, 66.7% of the employees are university graduates (64.7% in 2016), women represent 78.9% of the total workforce.

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6.6 Sponsorship and charity policy

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

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

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

Apart from the activity carried out through dr. Marian Kanton Foundation, Bank Pekao S.A. has been cooperating directly with several public benefit organizations to which it has been providing donations supporting their statutory activities. In 2017, among institutions supporting by the Bank was, among others, Foundation of the Great Orchestra of Christmas Charity (Wielka Orkiestra Świątecznej Pomocy).

Bank Pekao S.A. is one of the titular sponsor of the Pekao Szczecin Open Tournament, the biggest and the most important men's tennis tournament in Poland. The Bank is continuously present at the Tournament since 1993, i.e. since its very beginning. Additionally, in 2015, the Bank launched educational program "Road to Pekao Szczecin Open" (Droga do Pekao Szczecin Open). The program is to promote sport among children and their parents, thus making it possible to select new talented tennis players, who will have a chance to win the Challenger tournament in Szczecin in the future. 2017 was the year of the 25th anniversary of the Tournament and cooperation with the Bank.

The majority of projects, in which the Bank is engaged, are the high culture projects. In this area, the sponsoring activities of the Bank are carried out at two levels: the national level, at which the Bank sponsors strategic events with an undisputed impact on the Polish culture, and the local level, at which smaller projects of great significance to local communities are supported. In 2017, the Bank supported, among others, Bank Pekao Project Room conducted in the Center of Contemporary Art – Ujazdowski Castle in Warsaw, Film and Art Festival Dwa Brzegi, the Gdańsk Shakespeare Festival, Łódź Ballet Festival, the Polish Theater in Wrocław, the Polish Composers' Festival in Bielsko-Biała, Jan Kochanowski Theatre in Opole, Poznań Grand Theatre, Grape-Harvest Theater Meetings in Zielona Góra, Gorzów Theater Meetings, Philharmonie de Lublin.

Significant element of the Bank's activities is to support important economic initiatives. In 2017, the Bank was present, among others, in the European Financial Congress in Sopot, Economic Congress in Krynica, the Financial Congress and the Corporate Banking Congress in Warsaw, the European Congress of Small and Medium-Size Enterprises in Katowice.

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

Report on the activities of Bank Pekao S.A. for the year 2017

7 Statement of Financial Position and Financial Results

Unconsolidated income statement containing cumulated items for the period from 1 January to 31 December, 2017 and 2016 respectively is presented in the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2017.

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

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

The tables below present the Bank's statement of financial position – short form.

ASSETS	31.12.2017		31.12.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	5,186.3	2.8%	5,861.3	3.4%	(11.5%)
Loans and advances to banks	2,692.9	1.5%	3,454.7	2.0%	(22.1%)
Loans and advances to customers ^(*)	128,873.2	70.8%	119,033.6	69.6%	8.3%
Reverse repo transactions	-	x	-	x	x
Securities ^(**)	38,360.8	21.1%	35,585.1	20.8%	7.8%
Investments in subsidiaries	1,693.8	0.9%	1,063.0	0.6%	59.3%
Investments in associates	-	x	27.6	0.0%	x
Property, plant and equipment and intangible assets	2,030.6	1.1%	1,976.2	1.2%	2.8%
Other assets	3,239.4	1.8%	3,987.4	2.4%	(18.8%)
Total assets	182,077.0	100.0%	170,988.9	100.0%	6.5%

(*) Including debt securities eligible for rediscounting at Central Bank.

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

EQUITY AND LIABILITIES	31.12.2017		31.12.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	6.1	0.0%	6.1	0.0%	0.0%
Amounts due to other banks	3,438.8	1.9%	3,367.1	2.0%	2.1%
Amounts due to customers	146,109.9	80.2%	136,629.9	79.9%	6.9%
Debt securities issued	1,470.0	0.8%	300.9	0.2%	> 100%
Subordinated liabilities	1,257.2	0.7%	-	x	x
Repo transactions	788.4	0.4%	1,436.2	0.8%	(45.1%)
Other liabilities	6,748.1	3.7%	6,966.1	4.1%	(3.1%)
Equity	22,258.5	12.2%	22,282.6	13.0%	(0.1%)
Total equity and liabilities	182,077.0	100.0%	170,988.9	100.0%	6.5%

Report on the activities of Bank Pekao S.A. for the year 2017

7.1.1 Assets

Changes in the structure of assets

Loans and advances to customers and securities represent items of the largest value under assets. As at the end of 2017, they accounted for 70.8% and 21.1% of the total assets respectively in comparison with 69.6% and 20.8% respectively as at the end of 2016.

Cash and due from Central Bank

(in PLN million)

	31.12.2017	31.12.2016	CHANGE
Cash and due from Central Bank, including:	5,186.3	5,861.3	(11.5%)
Cash	2,686.6	2,639.5	1.8%
Current account at Central Bank	2,259.0	1,713.3	31.9%
Other	240.7	1,508.5	(84.0%)

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	31.12.2017	31.12.2016	CHANGE
Loans and advances at nominal value⁽¹⁾	133,307.9	123,660.5	7.8%
Loans ⁽²⁾	120,622.0	111,258.9	8.4%
Retail	63,269.5	57,176.3	10.7%
Corporate	57,352.5	54,082.6	6.0%
Non-quoted securities	12,685.9	12,401.6	2.3%
Other ⁽³⁾	682.6	618.8	10.3%
Nominal value adjustment	211.5	267.7	(21.0%)
Impairment losses	(5,328.8)	(5,513.4)	(3.3%)
Total net receivables	128,873.2	119,033.6	8.3%
Securities issued by non-monetary entities ⁽⁴⁾	605.4	882.7	(31.4%)
Reverse repo transactions	-	-	x
Total customers' financing⁽⁵⁾	133,913.3	124,543.2	7.5%
Total customers' financing excluding reverse repo transactions	133,913.3	124,543.2	7.5%

(1) Excluding reverse repo transactions.

(2) Including debt securities eligible for rediscounting at Central Bank.

(3) Including interest and receivables in transit.

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

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

As at the end of December 2017, loans and advances at nominal value and securities issued by non-monetary entities amounted to PLN 133,913.3 million, an increase of PLN 9,370.1 million, i.e. 7.5% in comparison to the end of December 2016 with significant growth in key strategic areas.

As at the end of December 2017, the volume of retail loans amounted to PLN 63,269.5 million, an increase of PLN 6,093.2 million, i.e. 10.7% in comparison to the end of December 2016.

As at the end of December 2017, corporate loans amounted to PLN 57,352.5 million, an increase of PLN 3,269.9 million, i.e. 6.0% in comparison to the end of December 2016.

The volume of corporate loans, non-quoted securities and securities issued by non-monetary entities amounted to PLN 70,643.8 million as at the end of December 2017, an increase of PLN 3,276.9 million, i.e. 4.9% as compared to the end of December 2016.

Report on the activities of Bank Pekao S.A. for the year 2017

Receivables and impairment losses

(in PLN million)

	31.12.2017	31.12.2016	CHANGE
Gross receivables^(*)	133,572.4	123,991.7	7.7%
Not impaired	126,574.4	116,742.7	8.4%
Impaired	6,998.0	7,249.0	(3.5%)
Impairment losses	(5,328.8)	(5,513.4)	(3.3%)
Interest	629.6	555.3	13.4%
Total net receivables	128,873.2	119,033.6	8.3%

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

As of December 31, 2017, the ratio of impaired receivables to total receivables amounted to 5.2% as compared to 5.8% as at the end of December 2016.

Impairment losses as at the end of December 2017 amounted to PLN 5,328.8 million.

Loans and advances to customers by currency^(*)

	31.12.2017		31.12.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	113,778.7	84.8%	102,387.4	82.2%	11.1%
Denominated in foreign currencies ^(**)	20,423.3	15.2%	22,159.6	17.8%	(7.8%)
Total	134,202.0	100.0%	124,547.0	100.0%	7.8%
Impairment losses	(5,328.8)	x	(5,513.4)	x	(3.3%)
Total net	128,873.2	x	119,033.6	x	8.3%

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

(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of December 2017, their share was 84.8%. The largest portion of foreign currency loans and advances to customers is represented by those denominated in EUR (69.1%), CHF (15.6%) and USD (14.1%).

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

	31.12.2017		31.12.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	13,964.0	10.4%	14,481.8	11.6%	(3.6%)
1 to 3 months	4,543.3	3.4%	2,962.7	2.4%	53.3%
3 months to 1 year	11,096.5	8.3%	13,509.6	10.8%	(17.9%)
1 to 5 years	43,846.9	32.7%	38,199.9	30.7%	14.8%
Over 5 years	60,068.7	44.8%	54,774.3	44.0%	9.7%
Other	682.6	0.5%	618.7	0.5%	10.3%
Total	134,202.0	100.0%	124,547.0	100.0%	7.8%
Impairment losses	(5,328.8)	x	(5,513.4)	x	(3.3%)
Total net	128,873.2	x	119,033.6	x	8.3%

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

As at the end of December 2017, loans and advances with maturity over 5 years represents 44.8% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Information on loan concentration is included in the Note 26 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on December 31, 2017.

Report on the activities of Bank Pekao S.A. for the year 2017

7.1.2 Liabilities

Changes in the structure of liabilities

Amounts due to customers were the main item under the Bank's liabilities and equity. As at the end of 2017, amounts due to customers, debt securities issued and subordinated liabilities totaled PLN 148,837.1 million, and their share in the total assets was 81.7%, compared with 80.1% as at the end of 2016. The share of total shareholder's equity in the total assets was 12.2% as at the end of 2017, compared with 13.0% as at the end of 2016.

External sources of financing

(in PLN million)

	31.12.2017	31.12.2016	CHANGE
Amounts due to Central Bank	6.1	6.1	0.0%
Amounts due to other banks	3,438.8	3,367.1	2.1%
Amounts due to customers	146,109.9	136,629.9	6.9%
Debt securities issued	1,470.0	300.9	> 100%
Subordinated liabilities	1,257.2	-	x
Repo transactions	788.4	1,436.2	(45.1%)
Total external sources of financing	153,070.4	141,740.2	8.0%

Amounts due to customers amounted to PLN 146,109.9 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 Bank uses also funds borrowed on the interbank market. The Bank is not dependent on any single customer nor group of customers.

On October 30, 2017, the Bank issued 10- year subordinated bonds with a total nominal value of PLN 1,250.0 million with the maturity date on October 29, 2027. The funds from the issue were designated – after receiving the approval of the KNF on December 21, 2017 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market and BondSpot.

As at the end of 2017, the geographical structure of deposits acquired through the Bank's domestic branches was as follows:

REGION	% OF TOTAL DEPOSITS
Warszawski	28.1%
Mazowiecki	19.4%
Małopolski	11.1%
Centralny	9.4%
Południowo-Wschodni	8.6%
Wielkopolski	5.1%
Śląski	4.9%
Zachodni	4.6%
Pomorski	4.5%
Dolnośląski	4.3%
Total	100.0%

Report on the activities of Bank Pekao S.A. for the year 2017

Amounts due to customers and debt securities issued

(in PLN million)

	31.12.2017	31.12.2016	CHANGE
Corporate deposits	70,986.4	66,803.9	6.3%
Non-financial entities	47,908.4	48,812.0	(1.9%)
Non-banking financial entities	10,890.4	10,184.4	6.9%
Budget entities	12,187.6	7,807.5	56.1%
Retail deposits	74,747.9	69,425.4	7.7%
Other (*)	375.6	400.6	(6.2%)
Amounts due to customers(**)	146,109.9	136,629.9	6.9%
Debt securities issued, of which	2,727.2	300.9	> 100%
Structured Certificates of Deposit (SCD)	310.8	168.9	84.0%
Certificates of Deposit	1,150.0	130.0	> 100%
Subordinated bonds	1,250.0	-	x
Interest	16.4	2.0	> 100%
Amounts due to customers and debt securities issued, total(**)	148,837.1	136,930.8	8.7%
Repo transactions	788.4	1,436.2	(45.1%)
Investment funds of Pekao TFI S.A. (ex. Pioneer Pekao TFI)	18,410.0	16,793.9	9.6%
including distributed through the Bank's network	17,203.9	15,583.6	10.4%

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

(**) Excluding repo transactions.

As at the end of December 2017, the total amounts due to the Bank's customers and debt securities issued amounted to PLN 148,837.1 million, an increase of PLN 11,906.3 million, i.e. 8.7% in comparison to the end of December 2016.

Retail deposits amounted to PLN 74,747.9 million as at the end of December 2017, an increase of PLN 5,322.5 million, i.e. 7.7% in comparison to the end of December 2016.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 75,397.6 million as at the end of December 2017, an increase of PLN 5,461.5 million, i.e. 7.8% in comparison to the end of December 2016.

Corporate deposits amounted to PLN 70,986.4 million as at the end of December 2017, an increase of PLN 4,182.5 million, i.e. 6.3% as compared to the end of December 2016.

The total volume of corporate deposits, Certificates of Deposit, subordinated bonds, interest and other amounted to PLN 73,439.5 million as at the end of December 2017, an increase of PLN 6,444.8 million, i.e. 9.6% as compared to the end of December 2016.

Repo transactions amounted to PLN 788.4 million as at the end of December 2017, a decrease by PLN 647.8 million, i.e. 45.1% in comparison to the end of December 2016.

The value of net assets of investment funds managed by Pekao TFI S.A. (ex. Pioneer Pekao TFI S.A.) amounted to PLN 18,410.0 million as at the end of December 2017, an increase of PLN 1,616.1 million, i.e. 9.6% in comparison to the end of December 2016.

Report on the activities of Bank Pekao S.A. for the year 2017

Amounts due to customers by currency^(*)

	31.12.2017		31.12.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	119,906.6	82.1%	113,967.1	83.4%	5.2%
Denominated in foreign currencies	26,203.3	17.9%	22,662.8	16.6%	15.6%
Total	146,109.9	100.0%	136,629.9	100.0%	6.9%

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

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of December 2017 amounted to 82.1%. The majority of amounts due to customers denominated in foreign currencies was in EUR (62.8%) and USD (30.2%).

Amounts due to customers by contractual maturities^(*)

	31.12.2017		31.12.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	91,046.3	62.5%	79,574.3	58.4%	14.4%
Term deposits	54,688.0	37.5%	56,655.0	41.6%	(3.5%)
Total deposits	145,734.3	100.0%	136,229.3	100.0%	7.0%
Interest accrued	172.2	x	198.2	x	(13.1%)
Funds in transit	203.4	x	202.4	x	0.5%
Total	146,109.9	x	136,629.9	x	6.9%

(*) Excluding repo transactions.

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

(in PLN million)

	31.12.2017	31.12.2016	CHANGE
Contingent liabilities granted and received	62,378.0	56,272.6	10.8%
Liabilities granted:	48,335.7	45,248.6	6.8%
financial	34,677.5	32,306.0	7.3%
guarantees	13,658.2	12,942.6	5.5%
Liabilities received:	14,042.3	11,024.0	27.4%
financial	176.4	209.7	(15.9%)
guarantees	13,865.9	10,814.3	28.2%
Derivative financial instruments	201,030.0	199,819.2	0.6%
interest rate transactions	98,351.4	96,557.5	1.9%
transactions in foreign currency and in gold	101,258.6	102,454.6	(1.2%)
transactions based on commodities and equity securities	1,420.0	807.1	75.9%
Total off-balance sheet items	263,408.0	256,091.8	2.9%

More detailed information on off-balance-sheet items is included in the Notes 25 and 47 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2017.

Report on the activities of Bank Pekao S.A. for the year 2017

7.2 The unconsolidated income statement – presentation form

Net profit of the Bank for 2017 amounted to PLN 2,088.1 million and nominally was lower by PLN 190.3 million, i.e. 8.4% than net profit achieved in 2016, while excluding settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc in 2016 was higher by 1.1%.

Thanks to the effective commercial activity of the Bank in 2017, a significant growth in loan volumes in the area of retail loans (an increase of 10.7% year on year) as well as in the area of corporate loans (an increase of 6.0% year on year) was reported. Such increase in lending was financed by higher volumes of retail deposits growing by 7.7% year on year and corporate deposits growing by 6.3% year on year as well as by higher volumes of Certificates of Deposit.

Total capital ratio (TCR) amounted to 18.4% as at the end of December 2017 and was higher (0.2 p.p.) compared to 2016.

The solid liquidity structure of Bank Pekao S.A. is reflected by net loans to deposits ratio at 86.6% as at the end of December 2017. This, together with high level of capital, enables for further sound and stable development of the Bank's activities.

The unconsolidated income statement – presentation form

(in PLN million)

	2017	2016	CHANGE
Net interest income	4,486.7	4,266.9	5.2%
Dividend income	188.1	132.8	41.6%
Total net interest income and dividend income	4,674.8	4,399.7	6.3%
Net fee and commission income	2,078.1	2,134.4	(2.6%)
Trading result	77.2	316.9	(75.6%)
Net other operating income and expenses	255.2	185.0	37.9%
Net non-interest income	2,410.5	2,636.3	(8.6%)
Operating income	7,085.3	7,036.0	0.7%
Operating costs	(3,024.5)	(2,991.4)	1.1%
Gross operating profit	4,060.8	4,044.6	0.4%
Net impairment losses on loans and off-balance sheet commitments	(515.9)	(491.4)	5.0%
Net operating profit	3,544.9	3,553.2	(0.2%)
Net result on other provisions	(28.5)	(15.5)	83.9%
Guarantee funds charges	(266.4)	(260.3)	2.3%
One-off charge in favour of the Bank Guarantee Fund related to bankruptcy of Bank Spółdzielczy in Nadarzyn	-	(16.6)	x
Tax on certain financial institutions	(522.3)	(449.5)	16.2%
Net result on investment activities	0.1	51.9	(99.8%)
Profit before tax	2,727.8	2,863.2	(4.7%)
Income tax expense	(639.7)	(584.8)	9.4%
Net profit	2,088.1	2,278.4	(8.4%)

Operating income

In 2017, the Bank's operating income amounted to PLN 7,085.3 million and was higher by 4.6% year on year excluding settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc in 2016 (nominally was higher by PLN 49.3 million, i.e. 0.7% in comparison with 2016).

Report on the activities of Bank Pekao S.A. for the year 2017

Total net interest income and dividend income

(in PLN million)

	2017	2016	CHANGE
Interest income	5,511.2	5,309.5	3.8%
Interest expense	(1,024.5)	(1,042.6)	(1.7%)
Net interest income	4,486.7	4,266.9	5.2%
Dividend income	188.1	132.8	41.6%
Total net interest income and dividend income	4,674.8	4,399.7	6.3%

Total net interest income and dividend income in 2017, amounted to PLN 4,674.8 million and was higher by PLN 275.1 million, i.e. 6.3% compared to 2016, mainly driven by higher volumes of loans as well as deposits and dividend income.

Net non-interest income

(in PLN million)

	2017	2016	CHANGE
Fee and commission income	2,404.0	2,440.8	(1.5%)
Fee and commission expense	(325.9)	(306.4)	6.4%
Net fee and commission income	2,078.1	2,134.4	(2.6%)
Trading result	77.2	316.9	(75.6%)
of which gains on disposal of AFS assets	41.0	276.5	(85.2%)
Net other operating income and expense	255.2	185.0	37.9%
Net non-interest income	2,410.5	2,636.3	(8.6%)

Net non-interest income in 2017, amounted to PLN 2,410.5 million and was higher by PLN 37.0 million, i.e. 1.6% in comparison with 2016 excluding settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc (nominally lower by 8.6% year on year), with net fee and commission income (including fees on margins on foreign exchange transactions with clients) (*) lower by 2.6% compared to 2016 due to lower net fee and commission income on loans, cards and other net fee and commission. Trading result was lower by 75.6% year on year due to settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc in 2016.

(*) In the first quarter of 2017, the Bank introduced changes in presentation in the income statement of the margins on foreign exchange transactions with the Bank's clients. Before the change such margins were presented in the item Trading result, after the change are presented in the item Fee and commission income. In order to ensure comparability, data for 2016 in the Report on the activities of Bank Pekao S.A. for the year 2017 were restated in comparison to those previously published. Changes in presentation of financial data are described in detail in the Note 4 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2017.

Report on the activities of Bank Pekao S.A. for the year 2017

The Bank's net fee and commission income in 2017, amounted to PLN 2,078.1 million and was lower by PLN 56.3 million, i.e. 2.6% in comparison with 2016, mainly due lowered credit activity of corporate clients and continued migration of customers to the digital channels, lower fee and commission income on loans in the area of corporate banking and lower commission on cash withdrawals with payment cards, with higher activity of the customers on the currency market and favourable situation on the capital markets supporting fee and commission income on mutual funds.

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

(in PLN million)

	2017	2016	CHANGE
Net fee and commission income	2,078.1	2,134.4	(2.6%)
on loans	459.4	486.0	(5.5%)
on cards	357.1	380.2	(6.1%)
on margins on foreign exchange transactions with clients	439.6	431.0	2.0%
on mutual funds	160.6	148.1	8.4%
other	661.4	689.1	(4.0%)

Operating costs

The operating costs amounted to PLN 3,024.5 million in 2017. They were higher by PLN 33.1 million, i.e. 1.1% as compared with 2016, mainly due to higher personnel costs.

(in PLN million)

	2017	2016	CHANGE
Personnel expenses	(1,740.0)	(1,701.2)	2.3%
Other administrative expenses	(955.3)	(967.0)	(1.2%)
Depreciation and amortization	(329.2)	(323.2)	1.9%
Operating costs	(3,024.5)	(2,991.4)	1.1%

In 2017, cost / income ratio amounted to 42.7% in comparison with 42.5% in 2016.

As of December 31, 2017, the Bank employed 15,316 employees as compared to 15,882 employees as at the end of December 2016.

Guarantee funds charges

Guarantee funds charges in 2017, amounted to PLN 266.4 million, an increase of PLN 6.1 million, i.e. 2.3% in comparison with 2016.

Tax on certain financial institutions

On February 1, 2016, tax on certain financial institutions under the Act on tax on certain financial institutions was introduced. In 2017, it amounted to PLN 522.3 million and was higher by PLN 72.8 million, mainly due to the shorter life of the tax regulations in 2016.

Report on the activities of Bank Pekao S.A. for the year 2017

Net impairment losses

(in PLN million)

	2017	2016	CHANGE
Impairment losses on loans	(494.6)	(390.6)	26.6%
Impairment losses on off-balance sheet commitments	(21.3)	(100.8)	(78.9%)
Net impairment losses on loans and off-balance sheet commitments	(515.9)	(491.4)	5.0%

The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 515.9 million in 2017, an increase of PLN 24.5 million, i.e. 5.0% as compared with 2016. commitments amounted to PLN 521.3 million in 2017,

an increase of PLN 20.7 million, i.e. 4.1% as compared with 2016. The increase is a reflection of higher volumes, while maintaining the cost of risk at the level of ca. 0.45% (lower by 0.01 p.p. than in 2016).

Provisions, deferred tax assets and liabilities

(in PLN million)

	31.12.2017	31.12.2016	CHANGE
Total provisions	593.6	560.5	5.9%
of which:			
provisions for off-balance sheet commitments	246.0	226.3	8.7%
provisions for liabilities to employees	332.4	313.2	6.1%
other provisions	15.2	21.0	(27.6%)
Deferred tax liabilities	-	-	x
Deferred tax assets	708.2	778.3	(9.0%)

Report on the activities of Bank Pekao S.A. for the year 2017

7.3 Quarterly Income Statement

7.3.1 Unconsolidated income statement – long form

Unconsolidated income statement for 2017 - Provided for comparability purposes.

(in PLN thousand)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Interest income	1,425,870	1,382,708	1,360,425	1,342,250
Interest expense	(263,244)	(256,177)	(250,597)	(254,491)
Net interest income	1,162,626	1,126,531	1,109,828	1,087,759
Fee and commission income	627,096	600,535	598,665	577,699
Fee and commission expense	(89,925)	(87,251)	(79,565)	(69,157)
Net fee and commission income	537,171	513,284	519,100	508,542
Dividend income	130	136	44,540	143,264
Result on financial assets and liabilities held for trading	20,893	7,252	(1,076)	4,753
Result on fair value hedge accounting	650	919	1,334	1,713
Gains (losses) on disposal of:	158,933	21,882	5,118	824
loans and other financial receivables	143,775	2,113	27	66
available for sale financial assets and held to maturity investments	15,278	19,841	5,120	809
financial liabilities	(120)	(72)	(29)	(51)
Operating income	1,880,403	1,670,004	1,678,844	1,746,855
Net impairment losses on financial assets and off-balance sheet commitments:	(151,931)	(137,889)	(116,477)	(109,608)
loans and other financial receivables	(134,981)	(126,099)	(113,476)	(120,005)
off-balance sheet commitments	(16,950)	(11,790)	(3,001)	10,397
Net result on financial activity	1,728,472	1,532,115	1,562,367	1,637,247
Administrative expenses	(861,633)	(833,003)	(813,231)	(980,568)
personnel expenses	(448,063)	(441,932)	(431,749)	(418,240)
other administrative expenses ^(*)	(413,570)	(391,071)	(381,482)	(562,328)
Depreciation and amortization	(88,300)	(79,733)	(81,033)	(80,074)
Net result on other provisions	(8,767)	(8,102)	(6,049)	(5,608)
Net other operating income and expenses	30,035	37,964	12,047	33,547
Operating costs	(928,665)	(882,874)	(888,266)	(1,032,703)
Gains (losses) on subsidiaries and associates	-	-	-	-
Gains (losses) on disposal of property, plant and equipment, and intangible assets	(207)	197	(154)	256
Profit before income tax	799,600	649,438	673,947	604,800
Income tax expense	(183,973)	(157,139)	(150,963)	(147,581)
Net profit	615,627	492,299	522,984	457,219

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

Report on the activities of Bank Pekao S.A. for the year 2017

Unconsolidated income statement for 2016 - Provided for comparability purposes.

(in PLN thousand)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Interest income	1,340,501	1,347,824	1,304,279	1,316,944
Interest expense	(255,914)	(259,001)	(250,649)	(277,111)
Net interest income	1,084,587	1,088,823	1,053,630	1,039,833
Fee and commission income	626,325	600,727	630,657	583,159
Fee and commission expense	(81,006)	(71,806)	(77,345)	(76,316)
Net fee and commission income	545,319	528,921	553,312	506,843
Dividend income	272	-	67,736	64,816
Result on financial assets and liabilities held for trading	7,249	6,514	9,215	16,180
Result on fair value hedge accounting	5,265	1,449	(2,533)	(2,868)
Gains (losses) on disposal of:	4,209	7,811	273,498	150,385
loans and other financial receivables	3,773	-	5,796	149,924
available for sale financial assets and held to maturity investments	460	7,862	267,706	465
financial liabilities	(24)	(51)	(4)	(4)
Operating income	1,646,901	1,633,518	1,954,858	1,775,189
Net impairment losses on financial assets and off-balance sheet commitments:	(105,608)	(133,229)	(126,412)	(126,136)
loans and other financial receivables	(69,502)	(129,483)	(67,723)	(123,930)
off-balance sheet commitments	(36,106)	(3,746)	(58,689)	(2,206)
Net result on financial activity	1,541,293	1,500,289	1,828,446	1,649,053
Administrative expenses	(868,400)	(845,531)	(863,033)	(821,610)
personnel expenses	(433,671)	(421,217)	(425,337)	(420,951)
other administrative expenses ⁽¹⁾	(434,729)	(424,314)	(437,696)	(400,659)
Depreciation and amortization	(79,894)	(80,625)	(81,365)	(81,347)
Net result on other provisions	(5,850)	(6,671)	(2,141)	(809)
Net other operating income and expenses	7,852	12,449	4,077	5,127
Operating costs	(946,292)	(920,378)	(942,462)	(898,639)
Gains (losses) on subsidiaries and associates	-	46,853	-	-
Gains (losses) on disposal of property, plant and equipment, and intangible assets	(50)	3,327	328	1,425
Profit before income tax	594,951	630,091	886,312	751,839
Income tax expense	(141,674)	(108,895)	(185,391)	(148,858)
Net profit	453,277	521,196	700,921	602,981

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

Report on the activities of Bank Pekao S.A. for the year 2017

7.3.2 Unconsolidated statement of comprehensive income Unconsolidated statement of comprehensive income for 2017

(in PLN thousand)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net profit	615,627	492,299	522,984	457,219
Other comprehensive income				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Change in fair value of available-for-sale financial assets	(39,792)	2,896	94,417	172,080
Change in fair value of cash flow hedges	(26,332)	25,287	(27,607)	(4,491)
Income tax expense on other comprehensive income	12,564	(5,356)	(12,693)	(31,842)
<i>Items that will never be reclassified to profit or loss:</i>				
Re-measurements of the defined benefit liabilities	8,589	-	-	-
Tax on items that will never be reclassified to profit or loss	(1,632)	-	-	-
Other comprehensive income (net)	(46,603)	22,827	54,117	135,747
Total comprehensive income	569,024	515,126	577,101	592,966

Note: The first quarter of 2017 net profit includes one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund.

Unconsolidated statement of comprehensive income for 2016

(in PLN thousand)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net profit	453,277	521,196	700,921	602,981
Other comprehensive income				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Change in fair value of available-for-sale financial assets	(342,085)	17,610	(312,983)	28,820
Change in fair value of cash flow hedges	(44,063)	4,712	(6,281)	40,075
Income tax expense on other comprehensive income	73,368	(4,241)	60,660	(13,090)
<i>Items that will never be reclassified to profit or loss:</i>				
Re-measurements of the defined benefit liabilities	(11,400)	-	-	-
Tax on items that will never be reclassified to profit or loss	2,166	-	-	-
Other comprehensive income (net)	(322,014)	18,081	(258,604)	55,805
Total comprehensive income	131,263	539,277	442,317	658,786

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

Report on the activities of Bank Pekao S.A. for the year 2017

7.3.3 Unconsolidated income statement – presentation form

Unconsolidated income statement for 2017

(in PLN thousand)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	1,162,626	1,126,531	1,109,828	1,087,759
Dividend income	130	136	44,540	143,264
Total net interest income and dividend income	1,162,756	1,126,667	1,154,368	1,231,023
Net fee and commission income	537,171	513,284	519,100	508,542
Trading result	36,701	27,940	5,349	7,224
Net other operating income and expenses	172,664	38,994	11,041	32,457
Net non-interest income	746,536	580,218	535,490	548,223
Operating income	1,909,292	1,706,885	1,689,858	1,779,246
Operating costs	(787,277)	(758,366)	(743,488)	(735,320)
Gross operating profit	1,122,015	948,519	946,370	1,043,926
Net impairment losses on loans and off-balance sheet commitments	(151,931)	(137,889)	(116,477)	(109,608)
Net operating profit	970,084	810,630	829,893	934,318
Net result on other provisions	(8,767)	(8,102)	(6,049)	(5,608)
Guarantee funds charges	(22,709)	(22,492)	(22,212)	(199,012)
Tax on certain financial institutions	(138,801)	(130,795)	(127,531)	(125,154)
Net result on investment activities	(207)	197	(154)	256
Profit before income tax	799,600	649,438	673,947	604,800
Income tax expense	(183,973)	(157,139)	(150,963)	(147,581)
Net profit	615,627	492,299	522,984	457,219

Note: The first quarter of 2017 net profit includes one-off recognition of costs of annual contribution to the resolution fund of banks related to the Bank Guarantee Fund.

Report on the activities of Bank Pekao S.A. for the year 2017

Unconsolidated income statement for 2016

(in PLN thousand)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	1,084,587	1,088,823	1,053,630	1,039,833
Dividend income	272	-	67,736	64,816
Total net interest income and	1,084,859	1,088,823	1,121,366	1,104,649
Net fee and commission income	545,319	528,921	553,312	506,843
Trading result	12,950	15,774	274,384	13,773
Net other operating income and expenses	10,818	11,422	8,782	153,954
Net non-interest income	569,087	556,117	836,478	674,570
Operating income	1,653,946	1,644,940	1,957,844	1,779,219
Operating costs	(737,823)	(739,542)	(759,107)	(754,909)
Gross operating profit	916,123	905,398	1,198,737	1,024,310
Net impairment losses on loans and off-balance sheet commitments	(105,608)	(133,229)	(126,412)	(126,136)
Net operating profit	810,515	772,169	1,072,325	898,174
Net result on other provisions	(5,850)	(6,671)	(2,141)	(809)
Guarantee funds charges	(65,099)	(64,860)	(63,996)	(66,311)
One-off charge in favour of the Bank Guarantee Fund related to bankruptcy of Bank Spółdzielczy in Nadarzyn	(16,603)	-	-	-
Tax on certain financial institutions	(127,962)	(120,727)	(120,204)	(80,640)
Net result on investment activities	(50)	50,180	328	1,425
Profit before income tax	594,951	630,091	886,312	751,839
Income tax expense	(141,674)	(108,895)	(185,391)	(148,858)
Net profit	453,277	521,196	700,921	602,981

Report on the activities of Bank Pekao S.A. for the year 2017

7.3.4 Reconciliation of income statement – presentation form and long form Unconsolidated income statement for 2017

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2017	COMMENTS
Net interest income		4,486,744	
Dividend income	Dividend income	<u>188,070</u>	
Total net interest income and dividend income		4,674,814	
Net fee and commission income	Net fee and commission income	<u>2,078,097</u>	
Trading result		<u>77,214</u>	
	Result on financial assets and liabilities held for trading	31,822	
	Result on fair value hedge accounting	4,616	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	41,048	
	(Gains) losses on disposal of financial liabilities	(272)	
Net other operating income and expenses		<u>255,156</u>	
	Net other operating income and expenses	113,593	
	less - Refunding of administrative expenses	(4,418) /1	
	Gains (losses) on disposal of loans and other financial receivables	145,981	
Net non-interest income		2,410,467	
Operating income		7,085,281	
Operating costs		<u>(3,024,451)</u>	
	Personnel expenses	(1,739,984)	
	Other administrative expenses	(1,748,451)	
	less –Guarantee funds charges	266,425	
	less – Tax on certain financial institutions	522,281	
	Refunding of administrative expenses	4,418 /1	
	Depreciation and amortization	(329,140)	
Gross operating profit		4,060,830	
Net impairment losses on loans and off-balance sheet commitments		<u>(515,905)</u>	
	Net impairment losses on loans	(494,561)	
	Net impairment provision for off-balance sheet commitments	(21,344)	
Net operating profit		3,544,925	
Net result on other provisions	Net result on other provisions	<u>(28,526)</u>	
Guarantee funds charges	Guarantee funds charges	(266,425)	
Tax on certain financial institutions	Tax on certain financial institutions	(522,281)	
Net result on investment activities		<u>92</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	92	
	Gains (losses) on disposal of subsidiaries and associates	-	
Profit before income tax		2,727,785	
Income tax expense	Income tax expense	<u>(639,656)</u>	
Net profit	Net profit	2,088,129	

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

Report on the activities of Bank Pekao S.A. for the year 2017

Unconsolidated income statement for 2016

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2016	COMMENTS
Net interest income		<u>4,266,873</u>	
Dividend income	Dividend income	<u>132,824</u>	
Total net interest income and dividend income		4,399,697	
Net fee and commission income	Net fee and commission income	<u>2,134,395</u>	
Trading result		<u>316,881</u>	
	Result on financial assets and liabilities held for trading	39,158	
	Result on fair value hedge accounting	1,313	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	276,493	
	(Gains) losses on disposal of financial liabilities	(83)	
Net other operating income and expenses		<u>184,976</u>	
	Net other operating income and expenses	29,505	
	less - Refunding of administrative expenses	(4,022) /1	
	Gains (losses) on disposal of loans and other financial receivables	159,493	
Net non-interest income		2,636,252	
Operating income		7,035,949	
Operating costs		<u>(2,991,381)</u>	
	Personnel expenses	(1,701,176)	
	Other administrative expenses	(1,697,398)	
	less –Guarantee funds charges	260,266	
	less – One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	16,603	
	less – Tax on certain financial institution	449,533	
	Refunding of administrative expenses	4,022 /1	
	Depreciation and amortization	(323,231)	
Gross operating profit		4,044,568	
Net impairment losses on loans and off-balance sheet commitments		<u>(491,385)</u>	
	Net impairment losses on loans	(390,638)	
	Net impairment provision for off-balance sheet commitments	(100,747)	
Net operating profit		3,553,183	
Net result on other provisions	Net result on other provisions	<u>(15,471)</u>	
Guarantee funds charges	Guarantee funds charges	<u>(260,266)</u>	
One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	<u>(16,603)</u>	
Tax on certain financial institution	Tax on certain financial institution	<u>(449,533)</u>	
Net result on investment activities		<u>51,883</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	5,030	
	Gains (losses) on disposal of subsidiaries and associates	46,853	
Profit before income tax		2,863,193	
Income tax expense	Income tax expense	<u>(584,818)</u>	
Net profit	Net profit	2,278,375	

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

Report on the activities of Bank Pekao S.A. for the year 2017

8 Other Information

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

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

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

As at the end of December 2017, the number of full-time jobs in the Bank was 15,114 compared to 15,667 as at the end of 2016.

In 2017, the Bank's operating income amounted to PLN 7,085.3 million, nominally higher by PLN 49.3 million, i.e. 0.7% in comparison with 2016.

Profit before tax of Bank Pekao S.A. in 2017 amounted to PLN 2,727.8 million and was lower by PLN 135.4 million, i.e. 4.7% in comparison to 2016. Income tax expense in 2017 amounted to PLN 639.7 million vs. PLN 584.8 million in 2016 and was higher by 9.4%.

As at the end of December 2017, the return on assets (ROA) of the Bank was 1.2% in comparison with 1.4% at the end of December 2016.

In 2017, the Bank do not conclude any agreements according to article 141t, section 1 of the Banking Law Act.

Management Board position regarding the possibility of achieving previously published forecasts

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

Report on the activities of Bank Pekao S.A. for the year 2017

Management Board remunerations

The amount of remunerations or benefits (in cash, payments in kind or in any form) paid or due to the Management Board Members in 2017.

Fix remuneration

(in PLN thousand)

	BASE SALARY FOR 2017	POST TERMINATION BENEFITS/COMPENSATIONS	OTHER BENEFITS ⁽¹⁾	TOTAL	NOTES
Michał Krupiński	979	-	82	1,061	Receive remuneration from 15.06.2017
Diego Biondo	484	-	406	890	Received remuneration to 14.06.2017
Andrzej Kopyrski	1 334	-	112	1,446	
Tomasz Kubiak	407	-	34	441	Receive remuneration from 07.07.2017
Michał Lehmann	407	-	34	441	Receive remuneration from 07.07.2017
Luigi Lovaglio	1 954	30	651	2,635	Received remuneration to 14.06.2017
Marek Lusztyn	436	-	37	473	Receive remuneration from 07.07.2017
Adam Niewiński	614	1,693	243	2,550	Received remuneration to 21.09.2017
Grzegorz Piwowar	667	2,106	970	3,743	Received remuneration to 06.07.2017
Stefano Santini	278	-	225	503	Received remuneration to 14.06.2017
Tomasz Styczyński	436	-	37	473	Receive remuneration from 07.07.2017
Marek Tomczuk	419	-	35	454	Receive remuneration from 21.08.2017
Marian Ważyński	459	1,543	624	2,626	Received remuneration to 06.07.2017

⁽¹⁾ Other benefits include: holiday equivalent in connection with the termination of the employment contract, an allowance for work outside the country of origin, insurance policies and medical care.

Variable remuneration

(in PLN thousand)

VARIABLE REMUNERATION PAID FOR	VARIABLE REMUNERATION - CASH PART FOR 2013,2014, 2015, 2016	VARIABLE REMUNERATION - PHANTOM SHARES FOR 2012, 2013
Luigi Lovaglio	5,226	1,929
Diego Biondo	690	207
Andrzej Kopyrski	1,006	428
Adam Niewiński	300	58
Grzegorz Piwowar	1,256	447
Stefano Santini	263	67
Marian Ważyński	467	196

Report on the activities of Bank Pekao S.A. for the year 2017

Due portion of Members of the Management Board variable remuneration in phantom shares is 7,726 shares while due portion of variable remuneration in phantom shares for former Members of the Management Board is 64,962.

The value of this portion of the variable remuneration will depend on the Bank's share price at the settlement date.

In 2017, the Management Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

Supervisory Board remunerations

The amount of remunerations or benefits (in cash, payments in kind or in any form) paid or due to the Supervisory Board Members in 2017:

(in PLN thousand)

	TOTAL	NOTES
Paweł Surówka (from 08.06.2017)	107	
Sabina Bigos-Jaworowska (from 08.06.2017)	90	
Joanna Błaszczuk (from 08.06.2017)	126	
Justyna Głębiowska-Michalak (from 08.06.2017)	111	
Grzegorz Janas (from 08.06.2017)	105	
Stanisław Kaczoruk (from 08.06.2017)	96	
Michał Kaszyński (from 08.06.2017)	90	
Marian Majcher (from 08.06.2017)	75	
Paweł Stopczyński (from 08.06.2017)	75	
Jerzy Woźnicki (to 08.06.2017)	107	
Dariusz Filar (to 08.06.2017)	86	
Massimiliano Fossati (to 07.06.2017)	-	Did not receive remuneration
Gianni Papa (to 07.06.2017)	-	Did not receive remuneration
Leszek Pawłowicz (to 08.06.2017)	98	
Laura Penna (to 07.06.2017)	-	Did not receive remuneration
Katarzyna Majchrzak (to 08.06.2017)	58	
Doris Tomanek (to 07.06.2017)	-	Did not receive remuneration

In 2017, the Supervisory Board Members did not receive nor are due any compensation from subsidiaries and associated entities of Bank Pekao S.A.

The Incentive Programs

As of December 31, 2017 the Long-Term Incentive Program of UniCredit Group 2008 was carried out in the Bank Pekao S.A Group - in scope of stock options, 31 employees of Bank Pekao S.A Group, including 2 managing persons are covered. The deadline for exercising the options expires in 2018.

Report on the activities of Bank Pekao S.A. for the year 2017

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

According to information available to the Bank as of December 31, 2017 and as the date of submitting of this report, the Members of the Bank's management and supervisory bodies did not held shares of Bank Pekao S.A.

The table below presents the number of shares held by the Management Board Members as of the date of submitting of the report:

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE YEAR 2017	FOR THE THIRD QUARTER OF 2017	FOR THE YEAR 2016
Luigi Lovaglio	n/a ^(*)	n/a ^(*)	64,035
Diego Biondo	n/a ^(**)	n/a ^(**)	9,500
Total	-	-	73,535

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

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

Information regarding contracts for post termination benefits

The Following Members of the Management Board Mr. Michał Krupiński - President of the Management Board, Mr. Andrzej Kopyrski - Vice-president of the Management Board, Mr. Tomasz Styczyński - Vice-president of the Management Board, Mr. Michał Lehmann - Vice-president of the Management Board, Mr. Marek Lusztyn - Vice-president of the Management Board, Mr. Tomasz Kubiak - Vice-president of the Management Board, Mr. Marek Tomczuk - Vice-president of the Management Board, Mrs. Roksana Ciurysek-Gedir - Vice-president of the Management Board, have concluded non-competition agreements with the Bank, which define the rights and obligations of agreement parties in the scope covered by non-competition agreements during and after the employment period.

Employment agreement concluded with Mr. Andrzej Kopyrski – Vice-president of the Management Board provide payment of compensation, among others, in the event of tenure expiration without appointment for the next tenure or dismissing from the function. The above mentioned provisions do not apply in case of dismissal for reasons stipulated in art. 52 or art. 53 of the Labour Code or in case of, among others, failure to adequately execute responsibilities or infringement of the Bank Statute, resolutions of the Management Board and the Supervisory Board.

Agreements with companies entitled to auditing of financial reports

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

Audit remuneration for services of Bank Pekao S.A. is presented in the tale below.

(in PLN thousand)

	2017	2016
Fee for the audit of annual financial statements	2,717	2,299
Fee for other attestation services, including review of financial statements	1,941	2,042

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

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Average interest rates in Bank Pekao S.A. in December 2017

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

PLN retail deposits	0.7% p.a.
PLN corporate clients deposits	0.8% p.a.

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

Total retail loans	4.4% p.a.
Mortgage	3.4% p.a.
Consumption	7.9% p.a.
Other	5.6% p.a.
Corporate loans	3.3% p.a.

Number and value of titles of execution and value of collaterals

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

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

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

For corporate clients, the total value of the collateral for impaired transactions as at December 31, 2017 amounted to PLN 2,035.2 million. For retail clients, the total value of the collateral for impaired transactions as at December 31, 2017 amounted to PLN 619.4 million. In 2017, there were no titles of execution issued on behalf of the Bank.

Pending litigations

In 2017, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Bank's liabilities was 661 with the total value amounting to PLN 171,844.2 million. The number of legal proceedings in respect of receivables was 17,041 with the total value of PLN 1,311.1 million.

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

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

Related party transactions

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

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

Detailed information on related party transactions is included in Note 51 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2017.

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Information on significant agreements

In 2017, there have been no significant agreements concluded by the Bank, in particular the Bank has not concluded material agreements with central bank or the competent supervision authorities.

Information on derivative financial instruments and hedge accounting

Information on derivative financial instruments and hedge accounting is included in Note 25 and 27 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2017.

Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in Note 4 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2017.

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 310.8 million (principal value) as at the end of December 2017. There is 5 issuances of Structured Certificates of Deposit open in PLN with the maximum maturity date on October 11, 2019. The liabilities with the maturity date in 2018 and 2019 accounts for 80.2% and 19.8% 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 1,150.0 million (principal value) as at the end of December 2017. There are 5 issuances of Certificates of Deposit. The liabilities with the maturity date up to 3 months, up to 6 months and up to 1 year accounts for 33.5%, 10.9% and 55.6% of its total value respectively.

Subordinated bonds

On October 30, 2017, the Bank issued 10- year subordinated bonds with a total nominal value of PLN 1,250.0 million with the maturity date on October 29, 2027. The funds from the issue were designated – after receiving the approval of the KNF on December 21, 2017 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market and BondSpot.

Subsequent events

Change of the Company names

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

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

On December 20, 2017, the Extraordinary General Meeting of Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A., amended the Statute relating to, inter alia, the new name: Pekao Towarzystwo Funduszy Inwestycyjnych S.A. On February 15, 2018, the registration court made an entry in the Register of Entrepreneurs of the National Court Register amending the Statute, including the change of the Company's name, which currently is Pekao Towarzystwo Funduszy Inwestycyjnych S.A.

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9 Prospects for Development

9.1 Factors which will affect the results of the Bank

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.

Economic growth prospects for 2018 are solid and households consumption should continue playing an important role in the GDP growth composition. At the same time investments growth is expected to accelerate, particularly in the private sector. Consumption growth will be fueled mainly by further improvement in the labour market, where it is observed a robust demand for employees accompanied by labour supply constraints due to demographic situation. Such a combination of factors reduces unemployment and puts pressure on increasingly robust wages growth, what positively influences consumer confidence. Improving disposable income of households is positive, among others, for banking activity. At the same time demographic challenges will intensify in the coming years and may require substantial economic adjustment.

Public investments financed from the EU financial perspective for the years 2014-2020 should intensify in 2018. In the case of private investments the key issue is to reduce regulatory uncertainty as many factors (high capacity utilization, high profitability of enterprises and accumulated profits from previous years, favourable exchange rate, high depreciation of assets, the need to substitute labour with capital due to demographic developments, etc.) indicate the need or even necessity of investments. Gradual recovery of private investments performance is expected.

In 2018, the GDP growth is expected at about 3.8% vs. about 4.6% estimated for 2017.

In 2018, the tax and regulatory environment is bound to have major influence on the activity and financial results of banks. This concerns in particular:

- tax on certain financial institutions, which was introduced in February 2016. In case of banks the tax base is assets value (net of selected items). According to available information, in 2018 the tax is going to be charged according to the same rules as in previous years,
- high requirements in terms of banks' equity and solutions connected to the newest accounting standards (so-called IFRS9), which will probably have negative impact on the level of accumulated capital base and can lead to higher changes in costs of risk,
- payments on the BFG – due to new structure of contributions a high level of burden will be maintained. Moreover, in addition to pre-defined yearly contributions an ad-hoc need for financing of the Fund may arise, as it did in some previous years,
- costs of adjustment to a number of regulatory solutions (MIFID II, RODO or PSD II, among others).

Strict tax and regulatory environment may constrain banks' credit expansion.

In 2018, a moderate recovery of household deposits' growth pace can be expected. It is connected with positive situation on labour market (growth of employment and wages) as well as growing risks (due to high valuations) associated with flow of funds toward alternative asset categories. Stronger pace case can be also anticipated in case of corporate deposits; even though recovery in investment outlays should lead to higher utilization of generated funds, higher growth pace should be driven by low base in 2017.

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As for loans, following trends can be expected in 2018:

- a stabilization of growth in case of household loans. This will be due to diminishing portfolio of FX mortgages (such loans are now virtually not being given) and growing size of repayments of existing loans portfolio,
- an acceleration of growth in case of corporate loans. It is however based on assumption that further recovery in investment outlays of companies will be seen.

In 2018, monetary policy may be among important factors influencing bank results. In line with expectations at the turn of 2017 and 2018, inflation was clearly higher than in previous years. To-date activity and attitude of Monetary Policy Council prolong the period of record-low interest rates in Poland, yet there is a high probability that near the end of 2018, a series of increases will be started, especially if in upcoming periods the inflation turns out to be higher than expected. This would have positive influence on banks' financial results (though rather in next years than in 2018 itself).

Right now the Polish Parliament is working on two Presidential draft bills related to the portfolio of mortgage loans denominated in foreign currencies. First project provides for returns of some receivables resulting from the loans agreements. It assumes that in case of FX loans banks will have to return to the clients the difference between acceptable spread (the difference between the rate of buying and selling of the currency set by the law) and the one actually charged. Estimates point out that if the law is passed the cost for the banking sector may amount to couple of billions of zlotys. Second project proposes special fund to help troubled borrowers. The contribution to the fund may cost banks up to PLN 3.2 billion per year. The entry into force of any of these solutions would have a strong negative impact on the financial performance of banks with significant portfolio of foreign currency denominated mortgages. However, taking into account the relatively minor share of these loans in the total assets of the Bank (almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007), Bank Pekao S.A. assesses that potentially taken solutions should not materially affect the financial standing of the Group. Moreover, the risk of implementation of any of these solutions in 2018 has subsided recently.

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9.2 Directions of the activities and business priorities

Bank Pekao S.A. is a universal bank, and since 2017 part of the PZU S.A. Capital Group, the largest financial institution in Central and Eastern Europe. The Bank's main strategic goal announced under the new strategy for 2018-2020 "Strength of the Polish Bison" is to become the profitability leader in the Polish banking sector combining intelligent growth and high efficiency and quality of business processes. Business development is based on a strong capital and liquidity position while maintaining the highest standards in risk management and further improving cost effectiveness of the Bank.

The Bank's business model is based on client segmentation distinguishing the following groups:

- Retail Banking - serving individual clients and micro-enterprises utilising a leading network of branches and partner outlets supported by the use of the Bank's leading on the market remote channels,
- Private Banking - serving affluent clients and providing investment consulting via private banking centres and remote channels,
- Small and Medium Enterprises (SME) - a newly created division of the Bank focused on servicing one of the fastest growing sector of the Polish economy. Clients are served by the Bank's advisors with the support of product specialists. The service is conducted in both universal retail branches as well as in specialized Business Client Centres. Customers are offered professional products and services tailored to their individual needs based on product solutions already successfully rolled out in corporate banking targeting larger corporates and subsequently tailored to the needs of the SME segment,
- Corporate Banking - customer segmentation includes medium and large companies (segmentation by revenues of companies), public sector entities, financial institutions and the commercial real estate industry. Clients are served by advisors with the support of product specialists, what allows optimization of service quality and service costs. Customer advisors focus on providing high quality service, using the best practices and integrated sales management tools.

The Bank offers products and services competitive on the Polish market, high level of customer service and a well-developed network of branches and ATMs, with convenient access throughout the country, as well as a professional telephone service centre and a competitive online and mobile banking platform for individual, corporate and business customers.

Thanks to the large scale of operations, strong capital and liquidity position characterized by a high capital adequacy ratio and surplus of deposits in relation to loans granted, the Bank has distinct advantages that allow it to effectively compete on the market.

Bank Pekao S.A. also intends to monitor consolidation trends on the Polish and European markets and look opportunistically at the possibilities of supporting the Bank's strategy through inorganic growth initiatives. As a priority, the Bank intends to implement possible synergies resulting from cooperation within the PZU S.A. Capital Group, announced in 2017. The indicated direction of further increasing innovation of the Bank, may also be an area for partnerships with technology leaders, other financial institutions and consumer companies.

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Directions of activity and business priorities for 2018

In 2018, the Bank intends to implement the strategy for 2018-2020 "Strength of the Polish Bison" aimed at achieving ambitious financial goals: one of the highest profitability ratios in the Polish banking sector (at least 14% measured by ROE), cost-income ratio at level of sector efficiency leaders below 40% and increase of annual profit in excess of PLN 3 billion annually by 2020.

It is expected that in 2018, a relatively high rate of economic growth of 3.5%-4.0% will be maintained by the Polish economy supported by a pick-up in investments and continuation of strong consumption growth. Together, this should lead to a slight acceleration in the growth rate of loan volumes (ca. 6% year on year). The level of deposit growth should be at a similar level (ca. 6.5% year on year), and the ratio of loans to deposits should remain in line with 2017 level. Thanks to its competitive advantages, including a strong capital position, large scale of activity and universal banking model, the Bank intends to strengthen its market position in strategic growth areas with the highest potential for profitable growth coupled with volume growth.

The vision of Bank Pekao S.A. as a bank of intelligent growth, universal, integrated, effective and modern translates into clearly defined business priorities:

- Leader of intelligent growth,
- Expert in efficiency and quality,
- Integrated risk management expert,
- Employer of the best talent.

The leader of intelligent growth

Individual clients - in a retail segment, the Bank intends to focus on acquiring customers based on a new and simplified offer and cooperation with PZU S.A. With the increase in customers' expectations, the Bank wants to be distinguished by its quality and convenience in the customer's daily interaction with the Bank, both via the branch network and remote channels.

The basis for growth in this market segment will be the new attractive ROR offer to attract new customers and the Express Loan, aimed at increasing profitability and volumes in this market segment. Both goals will be supported by effective development of processes improving both the acquisition's dynamics and sales focused on a bigger number of products. Following the best market practice, the Bank will actively focus on the development of analytical tools for risk management, the implementation of data aggregation technologies and customer's profile segmentation. The implementation of these processes has to improve significantly understanding of the clients' needs and their risk profile. The success of the PeoPay mobile platform as a leading mobile application in the market, the Bank will continue the dynamic development of mobile and internet banking, at the same time unifying the client's experience in all channels according to the 'Omni channel' philosophy.

Micro companies customers – in this segment the Bank wants to be a local expert, who makes decisions in an automated and convenient way for users in all Bank's branches. In this key area, the Bank plans to increase the acquisition based on high quality, scale of activity and efficiency of the network.

SME clients - by establishing the new SME segment, the Bank has the ambition to become the premier relationship bank, using its vast network coverage: SME Centres, mobile advisors and product specialists. Growth in this area will be based on effective acquisition (dedicated team, analyst and efficient process of establishing relations with the Bank) and on "cross-selling" culture (e-banking offer, product specialists).

Corporate clients - the Bank intends to maintain its leading position in corporate banking in Poland, focusing on developing relationships and multi-product cooperation with clients. Using the unique sector expertise of advisors and strong customer relationships, the Bank plans a growth of its investment banking franchise while maintaining a very strong market position in the area of structured finance products. Along with the growth of clients and their financing needs, the Bank will offer transactional advisory services and financing product supporting expansion of its clients abroad.

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An expert in efficiency and quality

The success in delivering value to investors and customers, as well as in the Bank's development, is determined by the continuous improvement of processes, cost discipline and service quality, which is a competitive advantage of the Bank. By implementing the strategy, Bank Pekao S.A. aspires to the position of an efficiency and quality expert.

The Bank will work on increasing the effectiveness of traditional sales channels by optimizing processes, aligning sales with financial goals, as well as implementing a new branch model and format. Remote channels, along with the market development and change in the ways of banking customers, will play an increasingly important role and the Bank aspires to become a significant competitive advantage. The Bank's development also means cost discipline, which will be achieved through the centralization of internal processes and robotization.

Integrated risk management expert

Based on the current risk discipline, the Bank will focus on the development of this area, crucial from the point of view of business transformation and safe growth. In the area of risk modelling and management, the Bank will invest in key competences in the areas of modelling (including AI), portfolio management and risk policy. Thanks to close cooperation of risk division with the business, the Bank will be able to provide high quality of client interaction and create credit processes that are simple, transparent and predictable. The implementation of the advanced internal rating method will allow for the optimization of capital requirements supporting development and growth of the Bank.

Employer for the best talent

Bank Pekao S.A. will focus on developing key competences and increasing the effectiveness of cooperation within the company. Active recruitment policy and strong focus on continuous development of experts and strengthening their involvement in the key areas of the Bank (data analytics, technology, sales, customer service), the Bank intends to build its image as a modern institution and employer for the best talent. The Bank intends to strengthen its position through an attractive level of remuneration linked to performance and an offer of unique development opportunities. The biggest challenge facing the Bank is to develop a coherent and engaging culture that is based on values that support the strategy and the brand's promise.

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10 Representations of the Bank's Management Board

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

- Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2017 and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner Bank Pekao S.A. financial position and their results,
- Report on the activities of Bank Pekao S.A. for the year 2017 provides the true picture of Bank Pekao S.A. development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2017 has been selected in line with the binding legal regulations. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the annual consolidated financial statement, in line with the binding provisions of the law and professional standards.

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11 Statement of Bank Polska Kasa Opieki Spółka Akcyjna on application of Corporate Governance Standards in 2017

According to the ordinance of Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and the conditions for recognition as equivalent the information required by the laws of a non-member state¹ (hereinafter referred to as “the ordinance of the Minister of Finance dated February 19, 2009”), Bank Polska Kasa Opieki Spółka Akcyjna (the “Bank”) states that it falls within the following set of corporate governance rules, including standards that issuer applies voluntarily and corporate governance practices used by issuer beyond the requirements of national law.²

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

In 2017, the Bank applied corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies 2016³ (hereinafter referred to as “Best Practice”) set by WSE Supervisory Board’s Resolution No. 26/1413/2015 of October 13, 2015. The Bank partly applies the recommendation No. VI.R.3 and the detailed principle No. II.Z.7 of the Best Practice, regarding the tasks and functioning of committees operating on the supervisory board, according to which the Bank should apply the provisions of Annex I to the Commission Recommendation 2005/162 / EC of 15 February 2005 on the role of non-executive directors or supervisory directors of listed companies and on the committees of the (supervisory) board (hereinafter referred to as “EC Recommendation”)⁴. Bank does not apply the EC Recommendation concerning composition of Nomination and Remuneration Committee due to the necessity of providing consistent remuneration standards for management board members and key managers within the group.

Furthermore, Recommendation No. IV.R.2 did not apply to the Bank due to shareholder’s structure, lack of notifications regarding shareholders expectations concerning mode of conducting General Meeting with the use of electronic communication means and lack of possibility to ensure technical infrastructure necessary to efficiently conduct General Meeting with the use of electronic communication means and to maintain relevant level of electronic communication security during General Meeting. The Bank ensured General Meeting transmission in real time via Internet.

In 2017, the Bank also applied Corporate Governance Rules for the Supervised Institutions issued by the Polish Financial Supervision Authority on July 22, 2014⁵ with the exclusion of:

- chapter 9 of the Rules related to asset management at the client’s risk, in view of the fact that the Bank does not pursue any activity in this area,
- § 49 section 4 and § 52 section 2 of the Rules in view of the fact that there is an audit unit and a compliance unit functioning in the Bank.

¹ Journal of Laws 2014.133 unified text, as amended

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

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

⁴ Dz.U.U.E.L.2005.52.5, the document is publicly available on the website: <http://eur-lex.europa.eu/legal-content/PL/TXT/?uri=CELEX%3A32005H0162>

⁵ The document is publicly accessible on the Polish Financial Supervision Authority web site: <http://www.knf.gov.pl/regulacje/praktyka/index.html>

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The Bank partially applied the principle set out in § 21 section 2 of the Corporate Governance Principles for the Supervised Institutions regarding the composition of the supervisory body, as regards the chairman of the Supervisory Board. The election of the chairman of the Supervisory Board was made on the basis of knowledge, experience, including the management of the body, and skills that confirm the competences necessary for the proper performance of supervision duties. In the view of the above, the criterion of independence was waived. The composition of the Bank's Supervisory Board meets the independence criteria resulting from the Bank's Statute and the Best Practices.

Moreover, taking into account the lack of possibility for the Bank to ensure the technical conditions necessary to correctly identify shareholders and to ensure the appropriate level of security of electronic communication during the Ordinary General Meeting of the Bank for 2016, in particular during the process of voting at the General Meeting, the Management Board has resolved not to allow participation in this General Meeting with the use of electronic communication means and hence has decided not to apply § 8 section 4 of Corporate Governance Rules for the Supervised Institutions.

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

In the announcement on convening the Ordinary General Meeting of the Bank published in the current report 7/2017 on March 24, 2017 the Bank informed that: "Considering the fact that the Shareholding of the Bank is characterized by a large number of shareholders, geographical and linguistic diversity, which means that for the Bank to meet the requirements necessary to identify the shareholders correctly and to ensure the appropriate level of security of electronic communication it is necessary for the Bank to provide highly advanced technical solutions which currently the Bank is not in possession of, in accordance with Art. 406⁵ § 2 of the Commercial Companies Code and § 8a sec. 2 of the Statute of the Bank, the Management Board of the Bank resolved not to allow participation with the use of electronic communication means in the Ordinary General Meeting of the Bank for the year 2016."

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

In 2017, the Bank applied corporate governance rules laid down in the Code of Banking Ethics of Polish Bank Association.⁶

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

The activities undertaken by the Bank comply with the laws regulations, the Bank's Statute, internal Bank's regulations, market standards and ethic norms.

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

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

The Management Board of the Bank is responsible for developing and implementing of an independent, adequate, effective and efficient Internal Control System, one of whose objectives is to ensure the reliability of financial reporting.

The Supervisory Board supervises the introduction and ensuring the functioning of an adequate and effective Internal Control System. The Supervisory Board performs an annual assessment of the adequacy and effectiveness of the Internal Control System, including an annual assessment of the adequacy and effectiveness of control functions, compliance units and internal audit units.

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

⁶ The document is publicly accessible on the Polish Bank Association web site: <http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej>

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

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

The accounting books are reconciled against reporting databases.

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

UniCredit S.p.A. as the parent company of the Bank (until June 7, 2017) is subject to the provisions of the Italian "Savings Act 262" (law 262/2005). Therefore in the Bank there has been implemented a verification process of its operational and audit procedures applied in the drawing up of the financial statements, in accordance with UniCredit S.p.A. guidelines arising from the above provisions. This process was in force until June 7, 2017, i.e. until the date of the contract of sale by UniCredit S.p.A. Bank's shares dated December 8, 2016 and loss by UniCredit S.p.A. the status of the parent company in relation to the Bank.

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

The main shareholder of the Bank from August 1999 to June 7, 2017 was UniCredit S.p.A. On March 15, 2017 the Bank received the notification from UniCredit S.p.A. about reducing on March 13, 2017 the total number of votes at the General Meeting of the Bank to 39.06%, as the result of the:

- disposal of 2,373,911 shares of Bank to holders of "equity-linked certificates" as the results of early settlement "equity-linked certificates" and
- disposal of 356,402 shares of Bank, retained by UniCredit S.p.A. pursuant to terms of issue of "equity-linked certificates".

Prior to the disposal, UniCredit S.p.A. owned 105,250,485 shares in the Bank, constituting 40.1% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

After above changes, UniCredit S.p.A. holds 102,520,172 shares in Bank, i.e. 39.06% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

In the current report no. 31/2017 the Management Board of Bank Pekao S.A. informs that on June 7, 2017 the Bank received from UniCredit S.p.A. the notice on reducing to 6.26% UniCredit S.p.A.'s stake in the total number of votes at the Bank's General Meeting from 39.06% hold previously, as a result of the execution of Bank's share purchase agreement dated December 8, 2016 ("Sale Agreement"), concluded between UniCredit S.p.A., as the seller, and Powszechny Zakład Ubezpieczeń S.A. ("PZU S.A.") and Polski Fundusz Rozwoju S.A. ("PFR") as the buyers.

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

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Before executed on June 7, 2017 disposal of 86,090,172 (eighty-six million ninety thousand one hundred and seventy-two) of the Bank's shares to the buyers, UniCredit S.p.A. held 102,520,172 (one hundred and two million five hundred and twenty thousand, one hundred and seventy two) Bank's shares, representing 39.06% of the Bank's share capital and entitling to 102,520,172 (one hundred and two million five hundred and twenty thousand, one hundred and seventy two) votes, constituting 39.06% the total number of votes at the General Meeting of the Bank.

Following the sale of 86,090,172 (eighty-six million ninety thousand one hundred and seventy two) of the Bank's shares, UniCredit S.p.A. holds 16,430,000 (sixteen million four hundred and thirty thousand) Bank shares, representing 6.26% of the Bank's share capital and entitling to 16,430,000 (sixteen million, four hundred and thirty thousand) votes, representing 6.26% of the total number of votes at the Bank's General Meeting.

On June 7, 2017, as a result of the implementation of the Sale Agreement, the Bank's shares were purchased by:

- PZU S.A. in the number of 52,494,007 (fifty-two million four hundred ninety four thousand seven) shares of the Bank, constituting approximately 20% (twenty percent) of the Bank's share capital and entitling to exercise 52,494,007 (fifty-two million four hundred and ninety four thousand seven) votes, representing about 20% of the total number of votes, and
- PFR S.A. in the number of 33,596,165 (thirty-three million five hundred ninety six thousand one hundred and sixty five) of the Bank's shares, representing approximately 12.8% of the Bank's share capital and entitling to 33,596,165 (thirty-three million five hundred ninety six thousand one hundred sixty five) votes representing about 12.8% of the total number of votes.

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

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

On February 20, 2017 the Management Board of Bank Pekao S.A. informed that Oppenheimer Funds Inc. ("OFI") had acquired the Bank's shares exceeding 5% of the total number of votes at the General Meeting of the Bank. Prior the above, OFI owned 12,304,639 shares in the Bank, constituting 4.69% of the total number of the Bank's shares, corresponding to the same number and percentage share of votes at the General Meeting of the Bank. At the end of February 13, 2017, OFI held 14,040,662 shares in the Bank, i.e. 5.35% of the total number of shares in the Bank, corresponding to the same number and percentage share of votes at the General Meeting of the Bank.

On April 26, 2017 the Management Board of Bank Pekao S.A. informed that the Bank had received notification from OFI about reducing below 5% of the total number of votes at the General Meeting of the Bank, as a result of the sale of shares in stock exchange transaction on April 24, 2017. Prior to the disposal, the OFI owned 13,739,973 shares in the Bank, constituting 5.23% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank. As of the end of the day April 24, 2017 OFI held 12,790,047 shares in Bank, i.e. 4.87% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

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

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The shareholders of the Bank owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the Bank's General Shareholders Meeting are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	
			SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	
			DECEMBER 31, 2017	DECEMBER 31, 2016
PZU S.A.	52,494,007	20.00%	-	-
PFR S.A.	33,596,166	12.80%	-	-
UniCredit S.p.A.	16,430,000	6.26%	105,250,485	40.10%
Other shareholders (below 5%)	159,949,861	60.94%	157,219,549	59.90%
Total	262,470,034	100.00%	262,470,034	100.00%

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

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

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

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

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

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

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

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

Management Board

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

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

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

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

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

Report on the activities of Bank Pekao S.A. for the year 2017

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

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

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

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

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

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

Amendment of the Bank's Statute requires adoption by way of resolution of the Bank's General Shareholders Meeting as well as registering the amendment in the National Court Register. Procedure of the General Shareholders Meeting of the Bank¹⁴ defines detailed rules of conducting the Bank's General Shareholders Meetings and adopting resolutions. The Bank's General Shareholders Meetings resolutions concerning the amendments of the Bank's Statute are being adopted by the three-quarter majority. Moreover, as stated in Par. 34.2 of the Banking Act, any amendment of the Statute of the Bank shall require the authorization of the Polish Financial Supervision Authority where such amendment relates to:

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

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

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

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

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

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

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

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

¹⁶ http://www.pekao.com.pl/o_banku/about_bank

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

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

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

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

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

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

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

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

Report on the activities of Bank Pekao S.A. for the year 2017

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

- the right of shareholders holding at least a half of the share capital or at least a half of the votes to convene Extraordinary Meeting of Shareholders. In this case, the shareholders elect the chairman of the Bank's General Meeting,
- the right of shareholders holding at least the twentieth of share capital to demand that specific issues be placed on the agenda of the next Bank's General Shareholders Meeting. The demand should include the justification and the project of resolution's project concerning proposed issue and should be submitted to the Management Board no later than 21 days prior to the Meeting date. The Management Board is obliged to announce changes in the Meeting agenda introduced because of shareholder's demand as fast as possible and no later than 18 days prior to the Meeting date. The Announcement takes place according to the way proper for General Meeting convocation,
- the right of shareholders holding at least the twentieth of share capital to submit via electronic communication media projects of resolutions concerning issues introduced to the Bank's General Meeting agenda or issues, which are supposed to be introduced to the Meeting agenda before the date of holding the Bank's General Meeting. The Bank instantly announces projects of resolutions on the Bank's website,
- the right of every shareholder to submit projects of resolutions concerning issues introduced to the Meeting's agenda,
- the right of shareholders to participate in the Bank's General Shareholders Meeting personally or by proxy,
- the right of shareholders holding a tenth of the share capital represented at the Bank's General Shareholders Meeting to demand that the attendance list of the Bank's General Shareholders Meeting be checked by a committee appointed for that purpose and composed of at least three persons, including one person appointed by the parties making the demand,
- the right according to which the Bank's General Shareholders Meeting is not allowed to adopt a resolution to remove an item from the agenda or not to consider an issue which was placed on the agenda upon request of shareholders unless the shareholders express their consent to the same,
- the right according to which the Bank's General Shareholders Meeting may not be adjourned deliberately to obstruct the exercise of the shareholders rights,
- the right of each individual participant of the Bank's General Shareholders Meeting to nominate one or more candidates for membership on the Bank's Supervisory Board,
- the right of shareholders holding at least a fifth of the share capital to demand block voting on the appointment of the Supervisory Board; a relevant request should be submitted to the Management Board in writing at such time as to enable its placement on the agenda of the Bank's General Shareholders Meeting,
- the right to inspect the book of minutes and to receive copies of resolutions authenticated by the Management Board,
- the right according to which the Chairperson of the Bank's General Shareholders Meeting is obliged to ensure that the rights of minority shareholders are respected,
- the right of shareholders who raise an objection against a resolution to justify the objection in a concise manner.

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

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

Report on the activities of Bank Pekao S.A. for the year 2017

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

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

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

In the course of performing their responsibilities, the Bank's governing bodies ensure that the interests of majority shareholders are served in such a way as not to prejudice the interests of the minority shareholders. The above principle finds its practical implementation in the proper composition of the Supervisory Board, which comprises representatives of both majority and minority shareholders.

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

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

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

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

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

Management Board

As at January 1, 2017 the Management Board of the Bank was composed of the following persons:

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

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

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On June 14, 2017:

- the Supervisory Board of the Bank dismissed Mr. Luigi Lovaglio from the position of the President of Management Board and from Management Board, effective as of June 14, 2017,
- the resignation from the position of Vice President of the Management Board have been submitted by Mr. Diego Biondo and Mr. Stefano Santini, effective as of June 14, 2017,
- the Supervisory Board of the Bank appointed Mr. Michał Krupiński to the Management Board of the Bank on the position of the Vice President of the Management Board, effective as of June 15, 2017. The Supervisory Board decided that until the approval of the Polish Financial Supervision Authority, Mr. Michał Krupiński would be the Vice President of the Management Board, and after obtaining the approval of the Polish Financial Supervision Authority he would be the President of the Management Board, which took place on November 7, 2017.

On July 6, 2017:

- the resignation from the position of Vice President of the Management Board and from Management Board have been submitted by Mr. Marian Ważyński and Mr. Grzegorz Piwowar, effective as of July 6, 2017,
- the Supervisory Board of the Bank, taking into consideration suitability assessment, appointed Mr. Tomasz Kubiak, Mr. Michał Lehmann, Mr. Marek Lusztyn since July 7, 2017 to the Banks' Management Board and entrusted them with the function of Vice Presidents of the Bank's Management Board.

On July 7, 2017 the Supervisory Board of the Bank, taking into consideration suitability assessment, appointed Mr. Tomasz Styczyński since July 7, 2017 and Mr. Marek Tomczuk since September 1, 2017 to the Banks' Management Board and entrusted them with the function of Vice Presidents of the Bank's Management Board.

The Supervisory Board has decided to entrust Mr. Marek Lusztyn as the Vice President of the Banks' Management Board, supervising the management of significant risk in the Bank's activity from the date of obtaining the approval of the Polish Financial Supervision Authority. The Polish Financial Supervision Authority gave its consent on October 17, 2017.

On August 1, 2017 the Supervisory Board in connection with appointment of Mr. Marek Tomczuk as Vice President of the Management Board of the Bank in accordance with the Resolution no. 67/17 of the Supervisory Board of the Bank dated July 7, 2017, decided that appointment of Mr. Marek Tomczuk as Vice President of the Management Board of the Bank will be effective on August 21, 2017.

On September 21, 2017:

- the resignation from the position of Vice President of the Management Board and from Management Board have been submitted by Mr. Adam Niewiński, effective as of June 14, 2017,
- the Supervisory Board of the Bank appointed Mrs. Roksanę Ciurysek-Gedir to the position of the Vice President of the Management Board, effective as of January 1, 2018.

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As at December 31, 2017 the Management Board was composed of the following persons:

Michał Krupiński	President of the Management Board,
Andrzej Kopyrski	Vice President of the Management Board,
Tomasz Kubiak	Vice President of the Management Board,
Michał Lehmann	Vice President of the Management Board,
Marek Luszczyn	Vice President of the Management Board, supervising the management of significant risk in the Bank's activity,
Tomasz Styczyński	Vice President of the Management Board,
Marek Tomczuk	Vice President of the Management Board.

The Management Board of the Bank acts according to the Bank's Statute and the Rules of procedure adopted by virtue of its Resolution No. 358/X/17 of October 24, 2017. The Rules of procedure shall in particular define the matters which require joint consideration by the Management Board, as well as the procedure for adopting a resolution in writing. The Rules of Procedure of the Management Board are available on the Bank's website¹⁸. The Members of the Management Board shall coordinate and supervise the activity of the Bank pursuant to the binding division of competence adopted by the Management Board and approved by the Supervisory Board.

According to the Bank's Statute, the Management Board shall conduct the matters of the Bank and represent the Bank. Issues not reserved by virtue of the provisions of the law or of the Statute to fall within the scope of competence of other Bank's statutory bodies, shall fall within the scope of competence of the Bank's Management Board.

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

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

Supervisory Board

As at January 1, 2017 the Supervisory Board of the Bank was composed of the following persons:

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

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

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On January 13, 2017 the Bank Management Board informed in the current report No. 2/2017 that Gianni Papa, Massimiliano Fossati, Laura Stefania Penna and Doris Tomanek resigned from the positions of members of the Supervisory Board of the Bank subject to the condition and with effect as of the date of: (i) the indirect sale by UniCredit S.p.A. of 52,494,007 (fifty-two million four hundred and ninety-four thousand and seven) shares in the Bank to Powszechny Zakład Ubezpieczeń S.A. and (ii) the direct sale by UniCredit S.p.A. of 26,247,003 (twenty-six million, two hundred and forty-seven thousand and three) shares in the Bank to Polski Fundusz Rozwoju S.A.

On April 25, 2017 in the current report no. 16/2017 the Management Board informs about the change of the conditions of resignation submitted by four members of the Supervisory Board. The resignations from the positions of the Bank's Supervisory Board members submitted by Mr Gianni Papa, Mr Massimiliano Fossati, Mrs Laura Stefania Penna and Mrs Doris Tomanek will come into effect subject to the condition that and on the day of direct disposal of total 86,090,172 (eighty-six million, ninety thousand one hundred and seventy-two) shares in Bank by UniCredit S.p.A. to Powszechny Zakład Ubezpieczeń S.A. and Polski Fundusz Rozwoju S.A. ("Transaction"). According to the statements, it is a consequence of a change in the structure of the Transaction.

According to the current report no. 32/2017 the resignation of Mr Gianni Papa, Mr Massimiliano Fossati, Mrs Laura Stefania Penna and Mrs Doris Tomanek from the positions of the Bank's Supervisory Board members became effective on June 7, 2017.

On June 8, 2017 the Extraordinary General Meeting of the Bank:

- dismissed the following members of the Supervisory Board: Jerzy Woźnicki, Leszek Pawłowicz, Dariusz Filar and Katarzyna Majchrzak,
- taking into account the assessment of the suitability requirements, appointed members of the Supervisory Board for a new joint three-year term, beginning on June 8, 2017.

The following persons were appointed to the Supervisory Board: Paweł Surówka, Paweł Stopczyński, Grzegorz Janas, Michał Kaszyński, Justyna Głębiowska-Michalak, Joanna Błaszczuk, Stanisław Ryszard Kaczoruk, Sabina Bigos-Jaworowska, Marian Majcher.

At the meeting on June 8, 2017 the Supervisory Board appointed:

Paweł Surówka	as Chairman of the Supervisory Board,
Joanna Błaszczuk	as Deputy Chairman of the Supervisory Board,
Stanisław Ryszard Kaczoruk	as Deputy Chairman of the Supervisory Board,
Paweł Stopczyński	as Secretary of the Supervisory Board,
Sabina Bigos-Jaworowska	as Member of the Supervisory Board,
Justyna Głębiowska-Michalak	as Member of the Supervisory Board,
Grzegorz Janas	as Member of the Supervisory Board,
Michał Kaszyński	as Member of the Supervisory Board,
Marian Majcher	as Member of the Supervisory Board.

Report on the activities of Bank Pekao S.A. for the year 2017

As at December 31, 2017 the Supervisory Board was composed of the following persons:

Paweł Surówka	Chairman of the Supervisory Board,
Joanna Błaszczuk	Deputy Chairman of the Supervisory Board,
Stanisław Ryszard Kaczoruk	Deputy Chairman of the Supervisory Board,
Paweł Stopczyński	Secretary of the Supervisory Board,
Sabina Bigos-Jaworowska	Member of the Supervisory Board,
Justyna Głębkowska-Michalak	Member of the Supervisory Board,
Grzegorz Janas	Member of the Supervisory Board,
Michał Kaszyński	Member of the Supervisory Board,
Marian Majcher	Member of the Supervisory Board.

The Supervisory Board acts on the basis of the Rules of procedure adopted by virtue of its Resolution No. 10/15 of February 6, 2015, amended by the resolution No. 54/15 of the Supervisory Board of December 18, 2015. The Rules of procedure of the Supervisory Board are available on the Bank's website.¹⁹

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

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

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

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

¹⁹ http://www.pekao.com.pl/o_banku/about_bank

Report on the activities of Bank Pekao S.A. for the year 2017

Audit Committee

As at January 1, 2017 the Audit Committee was composed of the following persons:

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

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

Since June 6, 2017 the Audit Committee is composed of the following persons:

Justyna Głębiowska-Michalak	President of the Committee,
Joanna Błaszczuk	Member of the Committee,
Grzegorz Janas	Member of the Committee.

The Supervisory Board in Resolutions accordingly no. 93/17 and 94/17 dated September 21, 2017 as an Audit Committee Member of the Audit Committee, additionally appointed Sabina Bigos-Jaworowska and Michał Kaszyński.

As at December 31, 2017 the Audit Committee was composed of the following persons:

Justyna Głębiowska-Michalak	President of the Committee,
Joanna Błaszczuk	Member of the Committee,
Grzegorz Janas	Member of the Committee,
Sabina Bigos-Jaworska	Member of the Committee,
Michał Kaszyński	Member of the Committee.

The Rule of procedure of the Audit Committee of the Supervisory Board of Bank Pekao S.A. was adopted by the Resolution No. 81/17 dated August 1, 2017. Previously in force Supervisory Board's Resolution No. 41/14 dated December 12, 2017 expired.

The Audit Committee supports the Supervisory Board in the performance of its duties, therein related to the monitoring financial reporting process, financial auditing activities, and regularity and effectiveness of the Bank's internal control systems, management of risk and function of internal audit, compliance with applicable laws and procedures governing the Bank's operations, independence of statutory auditor and auditing company and the resources of the Internal Audit Department. The Audit Committee is composed of three to five persons selected from among the Members of the Supervisory Board. At least one of the members of the Audit Committee has the knowledge and skills in the field of accounting or auditing of financial statements. Most Members of the Audit Committee, including its Chairman, are independent of the Bank in the meaning of the Par. 129 section 3 Act on statutory auditors, audit firms and public supervision.

Meetings of the Audit Committee are held as depending to the needs, but not less frequently than four times a year, in compatible terms with key dates in the Bank's quarterly reporting cycle and the review of the annual audit plan presented by the Chief of the Internal Audit Department.

Report on the activities of Bank Pekao S.A. for the year 2017

Nomination and Remuneration Committee

As at January 1, 2017, in the Bank operated the Nomination and Remuneration Committee, which was composed of the following persons:

Dariusz Filar
Gianni Papa
Doris Tomanek
Jerzy Woźnicki

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

The Supervisory Board in Resolutions accordingly No. 51/17, 52/17 and 50/17 of June 9, 2017 appointed the following persons to the Nomination and Remuneration Committee: Paweł Stopczyński, Sabina Bigos-Jaworowska and Paweł Surówka.

As at December 31, 2017 Nomination and Remuneration Committee is composed of the following persons:

Paweł Stopczyński	President of the Committee,
Sabina Bigos-Jaworowska	Member of the Committee,
Paweł Surówka	Member of the Committee.

The Committee operates on the basis of the Rules of Procedure of the Supervisory Board of the Bank which was adopted on April 27, 2015, amended by the resolution No. 75/16 dated October 11, 2016 and the resolution no. 46/17 dated June 9, 2017.

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

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

Report on the activities of Bank Pekao S.A. for the year 2017

Risk Committee

As at January 1, 2017 Risk Committee was composed of the following persons:

Massimiliano Fossati

Katarzyna Majchrzak

Leszek Pawłowicz

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

The Supervisory Board in Resolutions accordingly No. 53/17, 55/17 and 54/17 of June 9, 2017 appointed to the Risk Committee: Stanisław Ryszard Kaczoruk, Michał Kaszyński and Marian Majcher.

As at December 31, 2017 the Risk Committee was composed of the following persons:

Stanisław Ryszard Kaczoruk President of the Committee,

Michał Kaszyński Member of the Committee,

Marian Majcher Member of the Committee.

Risk Committee operates on the basis of "Rules of Procedure of the Risk Committee" which was adopted by the Supervisory Board in the Resolution no. 55/15 dated December 18, 2015. Mission of the Committee is to support the Supervisory Board in fulfillment of its obligations concerning supervision over risk management system and assessment of the adequacy and effectiveness of the said system.

10. Description of the Bank's diversity Policy applied to governing, managing and supervising bodies with respect to such factors as age, gender or education and professional experience, aims of the diversity policy, manner of its realization and results in the given reporting period²⁰

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

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

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

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

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

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

Report on the activities of Bank Pekao S.A. for the year 2017

In 2014-2017 the share of men and women the Management of the Bank was following.

	December 31, 2014		December 31, 2015		December 31, 2016		December 31, 2017	
	No. of persons	%	No. of persons	%	No. of persons	%	No. of persons	%
Women		0%		0%		0%		0%
Men	6	100%	7	100%	7	100%	7	100%
Sum	6	100%	7	100%	7	100%	7	100%

In 2014-2017 the share of men and women the Supervisory Board of the Bank was following.

	December 31, 2014		December 31, 2015		December 31, 2016		December 31, 2017	
	No. of persons	%	No. of persons	%	No. of persons	%	No. of persons	%
Women	4	44%	4	44%	4	44%	3	33%
Men	5	56%	5	56%	5	56%	6	67%
Sum	9	100%	9	100%	9	100%	9	100%

Report on the activities of Bank Pekao S.A. for the year 2017

12 Statement of Bank Pekao S.A. on Non-financial Data for 2017

About Bank

Business model

Bank Pekao S.A. is a universal bank, and since 2017 part of the PZU Capital Group, the largest financial institution in Central and Eastern Europe. The Bank's main strategic goal announced under the new strategy for until 2020 "Strength of the Polish Bison" is to become the profitability leader in the Polish banking sector combining intelligent growth and high efficiency and quality of business processes. Business development is based on a strong capital and liquidity position while maintaining the highest standards in risk management and further improving cost effectiveness of the Bank.

The Bank's business model is based on client segmentation distinguishing the following groups:

- Retail Banking - serving individual clients and micro-enterprises utilizing a leading network of branches and partner outlets supported by the use of market leading bank remote channels
- Private Banking - serving affluent clients and providing investment consulting via private banking centers and remote channels
- Small and Medium Enterprises ('SME') - a newly created division of the Bank focused on servicing one of the fastest growing sector of the Polish economy. Clients are served by the Bank's advisors with the support of product specialists. The service is conducted in both universal retail branches as well as in specialized Business Client Centers. Customers are offered professional products and services tailored to their individual needs based on product solutions already successfully rolled out in corporate banking targeting larger corporates and subsequently tailored to the needs of the SME segment
- Corporate Banking - customer segmentation includes medium and large companies (segmentation by revenues of companies), public sector entities, financial institutions and the commercial real estate industry. Clients are served by advisors with the support of product specialists, what allows optimization of service quality and service costs. Customer advisors focus on providing high quality service, using the best practices and integrated sales management tools.

The Bank offers products and services competitive on the Polish market, high level of customer service and a well-developed network of branches and ATMs, with convenient access throughout the country, as well as a professional telephone service center and a competitive online and mobile banking platform for individual and business customers

Due to the large scale of operations, strong capital and liquidity position characterized by a high capital adequacy ratio and surplus of deposits in relation to loans granted, the Bank has distinct advantages that allow it to effectively compete on the market.

Bank Pekao S.A. also intends to monitor consolidation trends on the Polish and European markets and look opportunistically at the possibilities of supporting the bank's strategy through inorganic growth initiatives. As a priority, the Bank intends to implement possible synergies resulting from cooperation within the PZU Capital Group, announced in 2017. The indicated direction of further increasing innovation of the Bank, may also be an area for partnerships with technology leaders, other financial institutions and consumer companies.

Report on the activities of Bank Pekao S.A. for the year 2017

Group structure

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.

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	
			31.12.2017	31.12.2016
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	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.	Warsaw	Pension fund management	100.00	65.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A., including:	Warsaw	Real estate development	100.00	100.00
<i>FPB - Media Sp. z o.o.</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	-
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	100.00	-
Pioneer Pekao TFI S.A.	Warsaw	Asset management	100.00	-

As at 31 December 2017, all subsidiaries of the Bank have been consolidated.

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	
			31.12.2017	31.12.2016
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediary	-	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	-	49.00
<i>Pioneer Pekao TFI S.A.</i>	<i>Warsaw</i>	<i>Asset management</i>	<i>-</i>	<i>49.00</i>
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00

As at 31 December 2017, the Group held no shares in entities under joint control.

Report on the activities of Bank Pekao S.A. for the year 2017

The Bank's share capital and share ownership structure

Share ownership structure

As at December 31, 2017, 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	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 2017		AS OF DECEMBER 31, 2017		AS AT THE DATE OF SUBMITTING THE REPORT FOR 2016		AS OF DECEMBER 31, 2016	
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%	105,250,485	40.10%	105,250,485	40.10%
Other shareholders (below 5%)	159,949,861	60.94%	159,949,861	60.94%	157,219,549	59.90%	157,219,549	59.90%
Total	262,470,034	100.00%	262,470,034	100.00%	262,470,034	100.00%	262,470,034	100.00%

Report on the activities of Bank Pekao S.A. for the year 2017

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

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

The Bank's market capitalization as at December 31, 2017 amounted to PLN 34.0 billion making the Bank one of the biggest listed company in Central and Eastern Europe. Given the high capitalization and liquidity the Bank's shares are a part of many important stock indices maintained by domestic and foreign institutions including Polish blue chips index – WIG20 and banking sector index WIG- Banks. Since December 19, 2011, the shares of Bank Pekao S.A. are included in the CEERIUS Sustainability Index at Vienna Stock Exchange and since 2016 to the index of responsible companies - RESPECT Index run by the Warsaw Stock Exchange.

With the average daily turnover volume at the level of 732 thousand and the worth of trading at PLN 24 billion in 2017, the share of the Bank's stock in trading on the WSE amounted to 10.17%.

The share price of Bank Pekao S.A. increased by 2.9% y/y and reached to PLN 129.5 at the end of December 2017 comparing to PLN 125.8 a year earlier.

Business strategy

Directions of activity and business priorities for 2018

In 2018, the Bank intends to implement the strategy for 2018-2020 "Strength of the Polish Bison" aimed at achieving ambitious financial goals: one of the highest profitability ratios in the Polish banking sector (at least 14% measured by ROE), cost-income ratio at level of sector efficiency leaders below 40% and increase of annual profit in excess of PLN 3 billion annually by 2020.

It is expected that in 2018, a relatively high rate of economic growth of 3.5%-4.0% will be maintained by the Polish economy supported by a pick-up in investments and continuation of strong consumption growth. Together, this should lead to a slight acceleration in the growth rate of loan volumes (ca. 6% year on year). The level of deposit growth should be at a similar level (ca. 6.5% year on year), and the ratio of loans to deposits should remain in line with 2017 level. Thanks to its competitive advantages, including a strong capital position, large scale of activity and universal banking model, the Bank intends to strengthen its market position in strategic growth areas with the highest potential for profitable growth coupled with volume growth.

The vision of Bank Pekao S.A. as a bank of intelligent growth, universal, integrated, effective and modern translates into clearly defined business priorities:

- Leader of intelligent growth,
- Expert in efficiency and quality,
- Integrated risk management expert,
- Employer of the best talent.

Report on the activities of Bank Pekao S.A. for the year 2017

The leader of intelligent growth

Individual clients - in a retail segment, the Bank intends to focus on acquiring customers based on a new and simplified offer and cooperation with PZU S.A. With the increase in customers' expectations, the Bank wants to be distinguished by its quality and convenience in the customer's daily interaction with the Bank, both via the branch network and remote channels.

The basis for growth in this market segment will be the new attractive ROR offer to attract new customers and the Express Loan, aimed at increasing profitability and volumes in this market segment. Both goals will be supported by effective development of processes improving both the acquisition's dynamics and sales focused on a bigger number of products. Following the best market practice, the Bank will actively focus on the development of analytical tools for risk management, the implementation of data aggregation technologies and customer's profile segmentation. The implementation of these processes has to improve significantly understanding of the clients' needs and their risk profile. The success of the PeoPay mobile platform as a leading mobile application in the market, the Bank will continue the dynamic development of mobile and internet banking, at the same time unifying the client's experience in all channels according to the 'Omni channel' philosophy.

Micro companies customers – in this segment the Bank wants to be a local expert, who makes decisions in an automated and convenient way for users in all Bank's branches. In this key area, the Bank plans to increase the acquisition based on high quality, scale of activity and efficiency of the network.

SME clients - by establishing the new SME segment, the Bank has the ambition to become the premier relationship bank, using its vast network coverage: SME Centres, mobile advisors and product specialists. Growth in this area will be based on effective acquisition (dedicated team, analyst and efficient process of establishing relations with the Bank) and on "cross-selling" culture (e-banking offer, product specialists).

Corporate clients - the Bank intends to maintain its leading position in corporate banking in Poland, focusing on developing relationships and multi-product cooperation with clients. Using the unique sector expertise of advisors and strong customer relationships, the Bank plans a growth of its investment banking franchise while maintaining a very strong market position in the area of structured finance products. Along with the growth of clients and their financing needs, the Bank will offer transactional advisory services and financing product supporting expansion of its clients abroad.

An expert in efficiency and quality

The success in delivering value to investors and customers, as well as in the Bank's development, is determined by the continuous improvement of processes, cost discipline and service quality, which is a competitive advantage of the Bank. By implementing the strategy, Bank Pekao S.A. aspires to the position of an efficiency and quality expert.

The Bank will work on increasing the effectiveness of traditional sales channels by optimizing processes, aligning sales with financial goals, as well as implementing a new branch model and format. Remote channels, along with the market development and change in the ways of banking customers, will play an increasingly important role and the Bank aspires to become a significant competitive advantage. The Bank's development also means cost discipline, which will be achieved through the centralization of internal processes and robotization.

Integrated risk management expert

Based on the current risk discipline, the Bank will focus on the development of this area, crucial from the point of view of business transformation and safe growth. In the area of risk modelling and management, the Bank will invest in key competences in the areas of modelling (including AI), portfolio management and risk policy. Thanks to close cooperation of risk division with the business, the Bank will be able to provide high quality of client interaction and create credit processes that are simple, transparent and predictable. The implementation of the advanced internal rating method will allow for the optimization of capital requirements supporting development and growth of the Bank.

Employer for the best talent

Bank Pekao S.A. will focus on developing key competences and increasing the effectiveness of cooperation within the company. Active recruitment policy and strong focus on continuous development of experts and strengthening their involvement in the key areas of the Bank (data analytics, technology, sales, customer service), the Bank intends to build its image as a modern institution and employer for the best talent. The Bank intends to strengthen its position through an attractive level of remuneration linked to performance and an offer of unique development opportunities. The biggest challenge facing the Bank is to develop a coherent and engaging culture that is based on values that support the strategy and the brand's promise.

Report on the activities of Bank Pekao S.A. for the year 2017

Financial Credibility Ratings

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

As of December 31, 2017, Bank Pekao S.A. had assigned following financial credibility ratings:

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

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

Report on the activities of Bank Pekao S.A. for the year 2017

Awards

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

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

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

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

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

Global Finance ranking is one of the most comprehensive study, classifying bank offers for the most wealthy clients. Experts from Global Finance magazine selected winners based on market evaluations, analysis of independent analysts and opinions of private banking customers using solutions offered by banks.

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

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

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

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

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

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

Bank Pekao S.A. Best Corporate Bank in Poland

Bank Pekao S.A. Best Corporate Bank in Poland in competition organized by Global Banking and Finance Review Awards 2017. Awards are granted since 2011 for contribution to the development and growth of innovation in financial market solutions. They express appreciation for companies and institutions of all sizes, representing such aspects of the industry as: banking, currency operations, insurance, hedge and pension funds, compliance, consulting, corporate governance, brokerage services, stock exchanges and others.

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

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

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

Report on the activities of Bank Pekao S.A. for the year 2017

President of Bank Pekao S.A. Mr. Michał Krupiński the best manager of the State Treasury company

Mr. Michał Krupiński, President of the Management Board of Bank Pekao S.A. was chosen by the readers of "Parkiet" as the best manager in the ranking of financial analysts, brokers and investors, and was rated the highest among the presidents of companies with the Treasury shareholding.

In the "Parkiet" ranking, 14 presidents of companies with the State Treasury share were assessed.

Top Employer 2017 for Bank Pekao S.A.

Bank Pekao S.A. was once again awarded with certificate in competition Top Employers Polska 2017 and Top Employers Europe 2017 by Top Employers Institute, which confirms pro-employee activities realized in the Bank.

Top Employers certificate is granted to companies which are outstanding in terms of personnel strategy focused on supporting the professional development of their employees, strengthening their competences and skills, transparent operation in accordance with the adopted values and principles.

Top Employers Institute assessed the activities of the Bank in the following areas: talents development strategy, HR planning, on-boarding of new employees, training and development, management of results, leadership skills development, career development and succession planning, remunerations and creation of organizational culture. The condition for receiving the Top Employers award was to achieve outstanding results in each of the above categories.

Bank Pekao S.A. awarded with certificate Perły Polskiej Gospodarki

Bank Pekao S.A. received certificate Perły Polskiej Gospodarki in the category Perły Sektora Finansowego (Pearls of the Financial Sector). It was awarded for conducting consistent policy and implementation of the company's strategy as well as the leading position among the most dynamic and most effective enterprises in Poland.

This award was granted during the gala of Polish Market magazine, which for 15 years is the organizer of the ranking. The ranking was held under the auspices of Mr. Jarosław Gowin, Deputy Prime Minister and Minister of Science and Higher Education. The ranking Perły Polskiej Gospodarki is prepared by the employees of Zakład Wspomagania i Analiz Decyzji in Szkoła Główna Handlowa in Warsaw (Warsaw School of Economics).

Pekao Connect System Innovation of the Year 2017

Integration service of the PekaoBiznes24 transactional platform with Pekao Connect financial and accounting systems was awarded with prestigious title Innovation of the year 2017. Pekao Connect is an innovative solution of the Bank in the field of electronic banking services for large companies.

The Chapter of the competition appreciated activities of Bank Pekao S.A. aimed at providing direct communication between the financial and accounting systems of corporate clients and the Internet banking platform of PekaoBiznes24.

The competition was held under the auspices of Wydział Nauk Technicznych Polskiej Akademii Nauk and Fundacji Centrum Innowacji FIRE.

Bank Pekao S.A. „Lider Jakości Sprzedaży” (Sales Quality Leader) in loans with de minimis guarantee

Bank Pekao S.A. received from Bak Gospodarstwa Krajowego statuette „Lider Jakości Sprzedaży” in loans with de minimis guarantees. The prize was awarded for both, high level of sales and the quality of loan portfolio. The total amount of de minimis guarantees for loans granted by Bank Pekao S.A. accounted for nearly PLN 4.5 billion.

Loans with de minimis guarantees are offered to micro, small and medium enterprises. Guarantee secures 60% of the capital and interest of operating or investment loan. De minimis guarantee is a repayable financial instrument from public funds that facilitates companies to access a loan.

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Bank Pekao S.A. awarded by students

Bank Pekao S.A. was awarded with prestigious title „Instytucja Przyjazna Młodemu” (Youth-friendly Institution) during the V Jubileuszowa Gala Nagród Środowiska Studenckiego „ProJvenes” organized by Parlament Studentów Rzeczypospolitej Polskiej (Students' Parliament of the Republic of Poland). It is the result of long-term cooperation with universities and support of student communities. Already 12 universities in the country together with Bank Pekao S.A. provided student ID cards with the payment card function, and every seventh student uses the Bank's services.

Parlament Studentów Rzeczypospolitej Polskiej appreciated the leading role of Bank Pekao S.A. as an institution supporting student communities for years. The Bank is among the well-deserved institutions friendly to students, supporting the potential of young people and offering banking products that will be useful on a daily basis, during trips to scholarships and other foreign trips.

Distinction for Bank Pekao S.A. in the ranking Gwiazdy Bankowości (Stars of Banking)

Bank Pekao S.A. for two times held a leading position in the ranking of "Dziennik Gazeta Prawna" – Stars of Banking". Participants are assessed in the four categories: Development pace, Business structure, Income and efficiency, Innovation and collectively for overall activity.

Bank Pekao S.A. took the third place in the Business Structure category. The organizers of the competition, when assessing banks in this category, took into account among others the share of loans in the balance sheet, the share of the commission income in revenues and the total capital ratio - in these elements the Bank received the highest rating. Bank Pekao S.A. took also the third place in the Income and efficiency category. High revenues per customer, ROA as well as commission margin and lower costs of risk had an impact on the high rating.

The ranking of "Dziennik Gazeta Prawna" was organized for the third time and 18 banks were participated.

Award for Bank Pekao S.A. in the category of the Best Financial Partner

Panattoni Europe – the undisputed leader in industrial real estate in Europe, for the consecutive time awarded Bank Pekao S.A. with the title of the Best Financial Partner in the category financing banks. The Bank was honoured for its professional approach and successful cooperation for many years.

Panattoni success in the Polish market is apart from an effective developer team, also the work of real estate agencies, banks and law firms. Panattoni Europe organizes the Gala every year, during which it has the opportunity to thank partners and subcontractors for their contribution to the development of the company and the entire industrial real estate sector.

Bank Pekao S.A. awarded for contribution to the development of the food industry

During the Gala of the Food Industry - VIII Forum 100, organized by Polska Federacja Producentów Żywności, Związek Pracodawców and "Food-Lex" magazine, the prizes "Pro Polonia Opulenta - Dla Polski Dostatniej" were given.

One of the winners in 2017, was Bank Pekao S.A., which supports the development of nearly 5 thousand small, medium and large food companies (of which ca. 450 corporate clients), financing their investments and providing professional service of current business.

The "Pro Polonia Opulenta - Dla Polski Dostatniej" award has been given for 17 years by Polska Federacja Producentów Żywności to individuals, institutions, media and companies from the food industry environment for activities that have a positive impact on the functioning and development of the food production and processing sector.

Bank Pekao S.A. the laureate of the second competition for Laur Pośredników Finansowych (the Laurels of Financial Intermediaries)

Bank Pekao S.A. was recognized as one of the best banks in Poland, distinguished by the highest standards of cooperation with financial intermediaries in the area of mortgage loans.

Laur Pośredników Finansowych is an initiative of representatives of the financial intermediaries, associated in Konfederacja Przedsiębiorców Finansowych, consisting in assessing partner financial institutions and awarding distinctions to those whose standards in terms of cooperation with intermediaries are of the highest quality.

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

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

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

Call Center of Bank Pekao S.A. undisputable leader of the banking sector

In the consecutive edition of the quality survey of bank call centers conducted by an external, independent research company - ARC Rynek i Opinia call center of Bank Pekao S.A. managed by Centrum Bankowości Bezpośredniej (CBB) won the undisputed first place in all categories. The survey covered both call waiting time with consultant and the waiting time for an answer by e-mail or a form provided on the bank's website.

The survey is carried out by ARC Rynek i Opinia since 2010. As part of the XVI edition of the survey, a total of 1.9 thousand audits with the use of Mystery Caller and Mystery Mailing technics were conducted by ARC Rynek i Opinia auditors. In the last three editions of the survey, CBB obtained the second place in the overall ranking, while in the case of e-mail contact CBB is constantly the number one. This result confirms the Bank's leader position and commitment and competences of the employees.

Social issues

Social Responsibility

Corporate Social Responsibility is the foundation on which the Bank builds its relations with the outside world. As a responsible organization and an active participant of social life, Bank Pekao S.A. follows the applicable laws and ethical standards, also with regard to social responsibility. Bank Pekao S.A. does not have a single regulation that comprehensively governs the issue of social responsibility. Nonetheless, this issue is presented in other regulations adopted by the Bank. Bank Pekao S.A. also observes Good Banking Practices adopted by the Polish Bank Association and the Canon of Best Practices on the Financial Market, a document endorsed by resolution of the Polish Financial Supervision Authority. The documents set forth the rules of conduct by banks in relations with customers, the rules of mutual relations among banks and of the Bank's conduct as an employer towards its employees.

Corporate values – Integrity Charter

In order to stress the materiality of the issues related to social responsibility, Bank Pekao S.A. has approved an Integrity Charter – an internal set of values that include: respect, trust, equality, freedom (freedom of operation), reciprocity and transparency. An integral part of consistent activities falling within the scope of the Bank's CSR strategy is social commitment. The Bank favours long-term social commitments based on partnership with selected trustworthy organizations with a view to solving certain clearly identified problems.

The Bank's overarching objective is to build sustainable value by offering customers the best quality of service, introducing simple, easy-to-use solutions, creating a work environment conducive to personal development, ensuring satisfaction with work, reinforcing a sense of pride in being part of the organization among the employees, and contributing to the betterment of local communities in which we operate. All those aspects are included in the Integrity Charter.

The Charter is a collection of core corporate values. It identifies the values underpinning the relations with each stakeholder group, and indicates the models of conduct to be followed. Adherence to the Charter in relations with employees, customers, shareholders and communities is conducive to sustainable development, as it helps to build value for all stakeholder groups. They constitute a reference in daily work and in problem situations that are not always covered with external and internal regulations.

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With the Integrity Charter, the Bank strives to:

- propose ways of conduct that will support the Bank's own conduct in the day-to-day activities which may generate conflicts between morality, business objectives and various cultures,
- create a unity by overcoming conflicts and disputes, contribute to the development of a common sense of perception and experience among staff members.

Code of Conduct of Bank Pekao S.A. Group

The Code of Conduct sets forth the rules of conduct by the Bank's employees to ensure top service standards and protection of the Bank's reputation. Reputation is a priceless, non-financial value with the employees playing the decisive role in developing. The rules specified in the Code apply to all persons employed by Bank Pekao S.A. or other Legal Entity of the Capital Group of Bank Pekao S.A. on an employment contract basis or on any other legal relationship of a similar nature, including members of statutory bodies of Companies.

Employees are obliged to confirm in writing or via the IT system that they have reviewed the content of the Code and agree to comply with it.

Each Employee is expected to act ethically, to be honest and loyal, to manifest an attitude promoting collaboration in achieving the Group's objectives, respect and prudent use of the Group's assets, in particular:

- perform their duties with the highest standards of professional conduct to meet Customers' expectations and avoid behaviour which could be misinterpreted or interpreted in a manner not intended by an Employee,
- act in the best interest of the Customers,
- apply applicable laws and recommendations of the regulators,
- adhere to the provisions of the Code and other internal regulations as this is part of the employees' core duties.

The Managers are expected to take all reasonable measures to ensure compliance of the Employees with the applicable laws, regulators' recommendations, internal regulations and the approved standards of conduct. The managers are in particular responsible for:

- ensuring that the employees are trained in their business duties in compliance with applicable laws, regulatory recommendations, internal regulations and ethical standards; such training – if so required by the employees' duties – should also cover the product offer,
- noting legal risk, compliance risk and reputation risk and care for correct conduct by employees in that respect,
- taking action if employees report any information in breaches or justified doubts concerning the issues specified in the Code,
- ensuring that the employees hold appropriate permits to perform their business duties, required by generally acceptable laws.

Each employee should be aware that their conduct – both during the performance of their business duties and after work – may affect the way the Group is perceived. Employees may not behave in a way to expose the Group to reputation risk. Each employee is responsible for caring about the Group's good name in performing their duties, representing the companies or any reference to being employed by them.

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The Code of Conduct defines the required attitudes of employees, referring in particular to such areas as:

- reputation protection,
- treating others tactfully and with respect,
- legally protected information, including:
 - bank secrecy,
 - confidential information,
 - personal Data,
 - information constituting company secrets,
- transactions materially affecting the Group's condition,
- anti-money laundering and counter-terrorism financing,
- competition and consumer protection,
- abuse related to trading in financial instruments,
- management of conflicts of interest,
- anti-corruption activity:
 - use of intermediary services,
 - acceptance or offering gifts and entertainment,
 - providing donations and sponsoring,
- communication standards
 - electronic communication,
 - communication with customers, reports, complaints,
 - communication with the public at large, control and supervision bodies, politicians and the media,
- protection of assets,
- internal control, maintenance of books of account, workflow,
- authorization to act on behalf of the company,
- occupational health and safety,
- principles of travel and temporary secondment of Employees to positions abroad,
- taxes,
- information on breaches,
- training.

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Relations with customers

One of the key elements in building long-term and sustainable value of the Bank is the attention given to the satisfaction and loyalty of our stakeholders, and in particular - customers of the Bank.

It is the Bank's objective to ensure that each client, when purchasing a product or a service, is aware of the related risks and properly understands the value of such a product or service. This is particularly important in the context of a substantial growth of risk due to the development of more and more complex financial instruments. For many years now, the Bank has consistently refrained from granting mortgage loans in foreign currencies, thus effectively protecting its clients against the currency risk, which hit many households severely when the zloty exchange rate plummeted. Further enhancement of the protection for clients against taking excessive risk in their investment decisions resulted from the full implementation of the MiFID Directive in the Bank's Group.

Protecting customers against excessive risk-taking in investment decisions due to the full implementation MiFID in Bank Pekao S.A. Group. As a result, client expect full protection of their interests. On the basis of a questionnaire filled out by the customer Bank carried out an assessment of the adequacy of Order Transmission Service and other investment products. The adequacy of the questionnaire contains the set of questions relating to knowledge and experience level of investing in financial instruments and in other investment products. On the basis of assessment, Customer receives feedback if the proposed service is appropriate and has a possibility to make conscious investment decisions.

At the same time, the Bank implemented management and organizational measures to enhance the protection for clients – the conflicts of interests management policy and the clients classification/reclassification policy as well as the principles governing own investments of the Bank's employees and . policy of selling investment products.

The Bank always focuses on building proper relations with its Clients and their greater satisfaction with the quality of offered insurance solutions. Bank continues the realization of solutions — beneficial from the point of view of the protection of Clients' interests— in the area of the insurance products distribution related to the Recommendation U issued by the Polish Financial Supervision Authority, among others such as reliable information policy and supports clients in the claims filing process. The Bank analyses bancassurance-related complaints and monitors the performance of insurance agreements by insurance companies. Simultaneously implemented Financial Survey which aim is to enable the selection of insurance offer tailored to the needs of the customer in connection with a view to concluding agreements related to the insurance capital fund.

The Bank protects the interests of its clients, safeguarding their deposits and ensuring the security of transactions in their accounts. Any information about clients is protected in line with the applicable security and confidentiality standards. The protection of the funds entrusted to us by clients is our top priority. The solutions offered by the Bank are very up-to-date, but also secure, convenient and practical.

When developing its state-of-the-art online platforms (Pekao24, PekaoBiznes24 and mobile payment PeoPay), the Bank ensured that they are user-friendly and absolutely secure. The access to accounts is protected by a multi-level security system. Electronic banking systems of Bank Pekao S.A. warrant the protection of personal data, and the security of the funds in accounts and transactions.

The Bank continuously enhances its procedures and takes necessary actions to promptly react to complaints lodged by its customers and addresses them in such a way as to take into account – to the fullest extent possible – legitimate interests of its customers. This is ensured with internal regulations concerning the complaint management and review processes, as well as strict adherence to applicable laws. If as a result of a complaint review, the dispute is not resolved, the customer who is a consumer may request a non-judicial procedure to the Bank Arbiter at the Polish Bank Association or to the Financial Ombudsperson.

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The core regulation in the area is the complaints is the Complaint Management Policy at Bank Polska Kasa Opieki Spółka Akcyjna, last updated with the Regulation of the President of the Management Board in January 2016. The Policy defines and clarifies the functions and duties related to the complaint review process within the Bank's organisational units, the procedures of complaint management within the organizational unit. The objective thereof was to ensure:

- timely and effective complaint management at the Bank;
- ongoing satisfaction improvement of the Bank's Customers;
- appropriate measures to prevent the recurrence of situations that resulted in a complaint, by eliminating the reasons of organizational or procedural shortcomings that were detected in connection with the complaint;
- reliable information to existing and potential customers of the Bank of possibilities to file complaints as well as the conditions and terms of complaint reviews.

As a result of the Bank's activity in the sphere of complaints, 99.8% of complaints subject to the Act on reviewing complaints by financial market entities and on the Financial Ombudsperson, received by the Bank in 2017, were reviewed within the time frames specified in the Act.

Satisfaction management

Concern for high quality relations with Customers, their satisfaction and loyalty are crucial to the development of sustainable values for all the Bank's stakeholders.

Therefore, in 2017 the Bank continued its survey programme of Customer satisfaction that covered all business segments. The results of the survey were used to strengthen the organizational culture focusing the evolving needs of the existing and potential Customers.

A survey of service quality in branches in 2017 collected over 25 thousand of the Bank's Customer opinions. Additionally, almost 800 mystery shopper visits were made, focused on measuring the effectiveness of sales processes of such products as personal accounts or express loans. The results supported more effective management of the Customers' experience who visit the Bank's branches.

The Customer satisfaction survey with the services provided by the Bank covered almost 10 thousand Customers of Bank Pekao S.A. and its competitors. Since the NPS® metric has been implemented to surveys of the Customers of Pekao (2014), the Bank's NPS® index grew by: 16 pps in the Mass Market segment, 20 pps in the Premium segment, 14 pps in the SME segment, 20 pps in the Private segment.

The survey conducted in 2017 was additionally focused on extracting the Customers' opinion on new and existing bank products and services. Opinions were obtained for instance on mobile solutions, accounts or the possibility of an initial grace period for mortgage loans. With the obtained responses, the Bank could take adequate actions to meet the Customers' expectations and develop its competitive advantages.

Overall, in 2017 regular surveys and dedicated surveys generated over 33 thousand interviews with Customers over various channels – telephone interviews, Internet questionnaires. Additionally, over 3,500 opinions were collected on the Bank and its services from selected Internet forums and social media that constitute a valuable source of information on the services provided.

Further, relying on many years of experience in surveying the Employees' commitment and effective cooperation in the Bank, also in 2017 the Employees' opinions were requested on selected new banking projects. As a result, opinions were collected from external and internal Customers who are people directly involved in new tasks and who face the set targets. In the surveys, the Employees could express their expectations, ideas and observations on the basis of their involvement in projects.

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Responsible marketing

In compliance with the Bank's internal regulations, products, services and marketing materials – before they are implemented – are subject to a compliance analysis with the applicable laws and guidelines of supervisory authorities, principles of fair financial market practices and good habits.

Marketing and advertising activities have been pursued by the Bank in compliance with the applicable laws and guidelines of supervisory authorities, principles of fair financial market practices, good habits and customers' declarations of intent related to such activities. They are also performed in compliance with the Bank's communication strategy, with the visual identity and image being preserved, the approved internal regulations and subject to an understandable message.

The core regulations in the area, relating to compliance risk, include: "Implementation Policy of New Products at Bank Pekao S.A." of 9 September 2016 and the "Principles of developing marketing communications", of 22 December 2014 – both regulations implemented with a Regulation of the President of the Management Board. The "Principles of developing marketing communications" were developed as a result of the decision made by the Bank's Management Board approving the Corporate Governance Rules for Regulated Entities, issued by the Polish Financial Supervision Authority.

Bank Pekao S.A. has been striving that the advertising message does not undermine social trust to advertising activity, it does not contain content or images that breach common social standards, does not abuse customers' trust by drawing on customers' lack of experience or knowledge, does not refer to intimidation, does not contain elements that could lead to or encourage acts of violence or approve of discrimination, in particular due to race, religion or gender.

NON-FINANCIAL PERFORMANCE INDICATORS FOR 2017	
The amounts of penalties paid for breach of consumer rights	0 PLN
The amounts of penalties paid for breach of the rules of free competition	0 PLN

Supplier relations

Bank Pekao S.A. treats its counterparties with due respect and suppliers and providers of services are selected in an objective and impartial manner, thus taking care of good and fair commercial relations. In the selection process of its suppliers, the Bank applies internal procedures, compliant with the best practices and the applicable Polish laws.

The core internal regulation defining the Bank's relations with suppliers are *Principles of granting orders for goods and services at Bank Polska Kasa Opieki Spółka Akcyjna*, last updated by the Regulation of the President of the Management Board in August 2016.

In the procurement procedures, the specification of the procurement is the same for all business partners to guarantee fair competition. Any company may be invited to participate in a procedure and to submit a business proposal meeting the Bank's requirements. All companies that have submitted their initial proposals, are registered in the supplier base and will be taken into account in the development lists of potential supplies.

The companies invited to participate in the procedure can make inquiries related to the received specification. Information on the results of a given procedure is sent to all participating bidders. To ensure an unbiased selection process of suppliers of goods and services the Bank establishes Commissions whose tasks include ensuring transparency of the supplier selection process and preparation of a recommendation of the best proposal.

In accordance with the procurement rules, the Bank is consistently increasing its reliance on negotiations by electronic means, thanks to which the procedure can have a national and international reach. A significant advantage of this solution is enhanced effectiveness and transparency of the negotiation process.

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The suppliers participating in tender processes run by the Bank must complete a Company Social Responsibility form, in which they provide, inter alia, information concerning environmental protection aspects, social standards and compliance with human rights. As a result, Bank Pekao S.A. takes actions supporting sustainable development, environmental protection and prevention to breaking human rights by the Bank's business partners.

Additionally, as a result of tender procedures, the Bank verifies prospective suppliers with respect to corruption risk and against sanction lists (USA and EU sanction lists) and PFSA's public warnings.

The companies that perform deliveries to the Bank are informed on the existing inconformity process and major provisions of the anti-corruption policy pursued by the Bank.

Management of conflicts of interest

The Bank holds an internal regulation "Rules of managing conflicts of interest" setting forth the rules of managing conflicts of interest and defining the circumstances that cause or may cause conflicts of interest in the Bank's business.

The measures to manage conflicts of interest applied by the Bank in case of potential conflicts of interest include those that are based on:

- organizational structure and consisting in:
 - establishing of information barriers (Chinese walls),
 - implementing a split of tasks providing for physical and competence separation of various organizational units of the Bank and the Group entities in activities that may generate conflicts of interest, in particular separation of organizational units of the Bank,
 - implementing a structural independence by assigning to each organizational unit of the Bank of specific competences, description of methods, types of operational actions and behaviour, supporting independent decision taking and supervision over the Bank's Employees,
 - prevention to simultaneous or immediate involvement of the Bank's employees in the provision of Services if such involvement may adversely affect the effectiveness of conflicts of interest management,
- internal regulations implementing rules concerning the remuneration of the Bank's Employees consisting in:
 - defining the remuneration rules so that they do not adversely affect the stakeholders' interests and eliminate direct dependencies between the variable part of remuneration and business objectives,
 - conclusion of their own Transactions, implementing procedures preventing abuse related to conclusion of their own Transactions in financial instruments by establishing restrictions to transactions on the Employees' or Bank's own account,
 - transfer of the Bank's Employees to other positions in case of reporting subordination between related persons.

When – despite the application of all available measures to manage conflicts of interest – a risk exists of a breach of a stakeholder's interests to whom the conflict applies or if a risk to reputation arises, the conflicts of interest is disclosed to the stakeholder. Such disclosure shall always describe the conflict of interest, adjusted to the stakeholder's knowledge and experience, to support them in taking an informed decision on the specific Service and information on the measures of conflicts of interest management applied by the Bank to mitigate the risks related to the conflict of interest. Such disclosure of the conflict of interest does not release the Bank from its duty to apply all available measures to manage the conflict of interest.

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The Bank also has the “Management policy of conflicts of interest resulting from non-banking activities in the Bank Pekao S.A. Group” – non-banking activities in any way related to an entity that is a Bank’s Competitor, Customer or Counterparty that may generate conflicts of interest. Additionally, sitting on statutory bodies, provision of consulting services or work for companies in Bank Pekao S.A. Group other than the Bank, performance of functions in the Company’s corporate bodies within the ownership supervision exercised by the Bank and purchases of large share packets in public companies may generate conflicts of interest. Employees may not be involved in any transactions concluded by the Bank, Bank Pekao S.A. Group, Customer or Counterparty if as a result of such transaction such employees or their close persons may obtain a personal benefit directly or indirectly.

Before taking up any non-banking activity, Employees are obliged to analyze if it may generate conflicts of interest. Taking up activities in favour of Customers, Counterparties, Competitors or any other activities if circumstances exist that may raise doubts as to potential conflicts of interest, the Employee is obliged to report the fact to the Manager of the Bank’s unit where he/she is employed; in case of higher managerial staff – to their direct superiors or the Compliance Department.

Charity and sponsoring activities

The policy pursued by the Bank in the sphere of sponsoring and charity activities is focused on supporting the Bank's image as an open and modern institution, close to its customers and the communities it operates in. The core internal regulation defining this issue are *Rules governing granting donations and sponsoring by Bank Polska Kasa Opieki Spółka Akcyjna*, last updated by the Regulation of the President of the Management Board in February 2017.

Selecting various initiatives, the Bank departs from one-off subsidies and reaction to requests for support in favour of long-term social involvement based on partnership with selected organizations that enjoy social recognition and trust. In particular, the Bank has been involved in projects in such areas as: high culture, sports, support to children in needs, environmental protection, responsible economic development.

In compliance with the Bank's “Anti-corruption policy”, risk analysis (due diligence) is performed before making a donation or entering into a sponsoring contract.

Dr. Marian Kanton Bank Foundation

The Bank's charity activities are carried out primarily via The Dr. Marian Kanton Bank Foundation was established in 1997.

The scope of the Foundation’s charity and social activities is very wide. Its statutory objective is to support initiatives in the following scope:

- education of children and young people,
- scientific, R&D and teaching projects undertaken by academic institutions and schools,
- promoting knowledge in the field of banking,
- helping the ill and the disabled,
- promoting physical activity and sport,
- environmental protection,
- projects and activities undertaken by charities,
- promoting culture.

Every year, about a third of the Foundation’s resources is applied to finance summer and winter holidays for children from families experiencing financial hardship as well as stays in rehabilitation centers for ill and disabled children and youth. In this way the Foundation is able to improve the quality of life and create equal opportunities.

Additionally, the Foundation provides financial and in-kind assistance to schools and libraries in villages and small towns and supports sports clubs for children and teenagers, usually operating at schools or community culture centers.

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In line with the Founder's intention, the Management Board of the Foundation assigns funds for scholarships awarded to talented pupils and students from poor backgrounds.

For years, the Foundation has been offering financial support to children of the Bank employees who require rehabilitation or treatment ("Let's Help One Another"), providing funds to for direct financial support to persons covered with the program.

The regular recipients of assistance provided by the Foundation include state-run and family children's homes, certain organizations and associations (including Caritas, Monar-Markot and Children's Friends Association), village schools and kindergartens, parishes, single mothers' homes, day-care centers, and hospices. It is worth stressing that in many cases, small institutions dedicated to the support of Polish families come to depend on the Foundation's assistance in order to exist.

Detailed reports on the operation of the Foundation are published at the Bank's website.

Direct charity activities

Apart from the activity pursued via the Dr Marian Kanton Bank Foundation, Bank Pekao S.A. has been cooperating with leading public benefit organizations to which it has been providing donations supporting their statutory activities.

In 2017 the group of institutions supported by the Bank included the Great Orchestra of Christmas Charity Foundation (WOŚP). Apart from a donation of PLN 2,000,000 for the statutory activity of the WOŚP Foundation, the Bank became involved in the 25th jubilee of the WOŚP Grand Finales and transferred additional donations of PLN 400,000 to be used to purchase insulin pumps for diabetic women who wish to have children, and to purchase resuscitation phantoms and rescue equipment for volunteer fire brigades.

Culture

As a socially responsible institution, Bank Pekao S.A. has been striving to improve the quality of society life and develop and reinforce lasting relationships with the society relying on mutual understanding of needs. Therefore, for years the Bank has been supporting cultural initiatives.

The support provided by the Bank is made at two levels: national – within which the Bank sponsors strategic events with major impact on Polish culture, and local – supporting initiatives dedicated to local communities.

In 2017 the Bank provided financial support for instance to: Bank Pekao S.A. Project Room at the Ujazdowski Castle Centre for Contemporary Art, Film and Art Festival Two Riversides, Gdańsk Shakespeare Festival, Łódź Ballet Meetings, Teatr Polski in Wrocław, Polish Composer Festival in Bielsko – Biała, Jan Kochanowski Theatre in Opole, Grand Theatre in Poznań, Vie Harvest Theatrical Meetings in Zielona Góra, Theatrical Meetings in Gorzów, Lublin Philharmonic.

Sports

Bank Pekao S.A. has been a long-term partner of the largest and most important male tennis tournament in Poland – Pekao Szczecin Open. The Bank has been the titular sponsor of the Tournament since 1993 or from the very beginning. In 2017, a 25th jubilee was celebrated of the Tournament and cooperation with the Bank.

The cooperation covered the continued training program "The path to Pekao Szczecin Open". The objective of the programme is to promote sport among children and their parents and thus to identify new tennis talents that may win the challenger in Szczecin in the future.

The Bank further supported the International Show Jumping Competition CSIO 5* – the major jumping competition in Poland held at the Hippodrome in Sopot.

Report on the activities of Bank Pekao S.A. for the year 2017

Economic initiatives

As a leader of the financial sector, Bank Pekao S.A. has been present at core economic initiatives in Poland, also as a co-organizer. The Bank's involvement consists in financial and technical support.

In 2017 the Bank attended for instance the European Financial Forum in Sopot, Economic Forum in Krynica, Congress of Banking and Corporate Finances in Warsaw and the European SME Congress in Katowice.

It is worth mentioning also the Bank's involvement in local initiatives, particularly in the Provinces of Rzeszów and Lublin where the Bank was a partner of three galas closing competitions at which prizes were awarded to the best entrepreneurs: Business Forum and Gala of the Lublin Business Club, Podkarpacki Economic Prize, Fair Play Enterprise.

NON-FINANCIAL PERFORMANCE INDICATORS FOR 2017	
The total amount of provided donations (apart from the donation for the Bank Pekao S.A. Foundation)	2,999,728 PLN
The donation provided to the Bank Pekao S.A. Foundation	1,000,000 PLN

Corporate volunteering

In 2017 corporate volunteering was incorporated to activities related to the development of the organizational culture. So far, the volunteering activities performed at the Bank were due to the sponsoring or charity projects under way or at the initiative of organizational units or employees. In November 2017 structured interviews were held with representatives of various external organizations, future beneficiaries of corporate volunteering. On that basis, conclusions were drawn on potential needs of those organizations and the preferred forms of cooperation with the Bank.

An analysis was also held of the needs and expectations of the Bank's employees in the area of corporate volunteering. In December 2017 a questionnaire was sent to all employees of the Bank which was completed by 742 persons. 80% of the respondents explicitly and voluntarily declared their participation volunteering activities organized by the employer, stressing the significance and importance of the initiative.

An information site was opened on volunteering where the employees will find information about the nature of volunteering, examples of good practices and news.

The first initiative held as part of the new approach to volunteering was the Charity Christmas Fair, held on 18 December 2017 in the Bank's head office. During the fair, funds were raised of PLN 20,000 that were transferred to the account of the Warsaw Hospice for Children foundation. The collection was held in cooperation and with support of the M. Kanton Foundation.

For 2018 a number of activities have been planned as part of corporate volunteering, including, inter alia, implementing of formalities regulating the employees' activities within corporate volunteering, inclusion of corporate volunteering to educational activities dedicated to new employees and managerial staff and a broad promotion in internal communication channels.

Blood donating actions

Employees of Bank Pekao S.A. also regularly participate in blood donation actions in cooperation with the Regional Centre for Blood Donation in Warsaw. Since the beginning of the cooperation in 2010, over 500 employees of the Bank donated about 230 litres of blood. In 2017 there were two blood donation actions – in May and in September. Almost 100 volunteered to donate blood of which 67 were qualified and 30.15 litres of blood were collected. More blood donation actions are planned for 2018.

Report on the activities of Bank Pekao S.A. for the year 2017

Membership in sectoral associations and organizations

Bank Pekao S.A. has been active in various sectoral associations and organizations. The involvement in the area may be split into four key areas:

- Polish Bank Association (ZBP) with Committees and Counsels, including: Bank Cyber Security Centre Committee, Housing Finance Committee, Clearing Agent Committee, Banking Cards Issuers Council, Electronic Banking Council,
- International associations and organizations, of which: International Swaps and Derivatives Association (ISDA), Institute of International Finance (IIF), Association of Chartered Certified Accountants (ACCA),
- National associations and organizations, of which: Polish Association of Listed Companies, Brokerage House Chamber, Polish Human Resources Management Association, ACI Polska – the Polish Financial Markets Association, Polish Private Equity and Venture Capital Association,
- Local associations and organizations, mainly regional economic and industrial-commercial chambers, of which: Staropolska Chamber of Commerce and Industry, Northern Chamber of Industry – Szczecin, Lower Silesian Chamber of Commerce, Chamber of Industry and Trade – Białystok.

RESPECT Index

In 2017 for the second time the Bank entered the composition of the RESPECT index. The stock index functioning at the Warsaw Stock Exchange (WSE) since 2009 which groups companies that impeccably communicate with the market with their current and periodic reports and their web sites and primarily – that are managed in a responsible and balanced way.

NON-FINANCIAL PERFORMANCE INDICATORS FOR 2017	
Bank's activity in sectoral associations and organizations in 2017 (number of memberships)	
ZBP and Committee and Councils operating in ZBP	15
International associations and organizations	14
National associations and organizations	9
Local associations and organizations	21

Employee issues

Human capital management

Human capital is a core value for Bank Pekao S.A. and the activities in the HR area are determined by the Bank's mission and the values deemed as crucial for its sustainable development. The Bank is a first choice employer and as a result attracts the best candidates for work while employees are assured working conditions supporting increased motivation, satisfaction and their commitment. A major objective of the Bank's HR policy is to invest in developing skills of all Employees; the priority of the Bank's development programmes is to identify, review, verify and develop existing and future leaders.

As at the end of December 2017, the Bank employed 15,316 employees as compared to 15,882 employees as at the end of 2016. The average age of the employees was 47.1 years, 66.7% of the employees are university graduates (64.7% in 2016), women represent 78.9% of the total workforce.

The Bank creates opportunities for individual professional development of its Employees by investing in training and improving the Employees' competences and skills. Focusing on a friendly working environment, we survey the Employees' satisfaction and opinions in order to keep improving the working conditions, communication and employee relations.

In 2017 those tasks were accompanied by a specific stress on promoting of values that are of priority to the Bank's organizational culture.

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In 2017 Bank Pekao S.A. was for the seventh time certified as a winner of the prestigious competition Top Employers Polska 2017 and Top Employers Europe 2017 which is additional evidence of employee-oriented activities. The Top Employers certificate is awarded solely to those companies that stand out in terms of pursuance of a personnel strategy that is focused on supporting its employees' professional development, strengthening their competences and skills, transparent operation in line with the approved values and principles.

The Top Employers Institute reviewed the practices followed by the Bank in the following areas:

- Talent development strategy,
- Human Resources planning,
- On-boarding of new employees,
- Training and development,
- Performance management,
- Development of leadership skills,
- Career development and succession planning,
- Remuneration and benefits,
- Culture.

The Top Employers award was granted for results above average in each of the categories listed above.

Managing diversity

Respect for diversity and equality as well as no discrimination are principles that are deeply rooted in the organizational culture of Bank Pekao S.A. For years, they have been promoted and sanctioned in internal regulations. The Bank is involved in activities for informed diversity management, including workshops and training for employees and managerial staff, dedicated to diversity management, thus supporting the development of an organizational culture focusing on accepting individual dissimilarities and differences as well as on preventing situations whereby employees could be discriminated on grounds of their differences.

A number of regulations and practices implemented supports efforts in the area of sustainable development, subject to respect to diversity and equal treatment.

Diversity policy with reference to the management and persons in key functions at the Bank

Bank Pekao S.A. pursues the "Diversity Policy for members of the Supervisory Board, members of the Management Board and persons in Key Functions at Bank Polska Kasa Opieki Spółka Akcyjna", implemented in March 2016 with a Regulation of the President of the Bank's Management Board which sets the strategy with respect to diversity management, in terms of appointment of members of the Supervisory Board, members of the Management Board and persons in Key Functions at the Bank.

The objective of the Bank's diversity strategy – as detailed in the Policy – is to ensure high quality task accomplishment by its bodies, by appointing competent persons to the functions in Supervisory Board, Management Board and Key Functions at Bank. Applying first objective technical criteria and considering the benefits resulting from diversity.

The Policy, in line with the Bank's legislative process, was accepted by the Bank's Management Board and approved by the Supervisory Board.

Report on the activities of Bank Pekao S.A. for the year 2017

Personnel selection policy

The "Candidate Appointment Policy to act as members of the Management Board, perform Key functions at Bank Polska Kasa Opieki Spółka Akcyjna and to assume Position N-1 and Position N-2", implemented in February 2016 with a Regulation of the President of the Bank's Management Board, sets forth guidelines for an optimum and uniform candidate selection process for members of the Management Board, Key functions at the Bank and to assume Position N-1 and Position N-2 in order to ensure task performance related to the Bank's plans and business strategy by persons who hold the required know-how, experience and skills and who enjoy good reputation.

The Policy further states that the candidates should be selected on the basis of uniform standards of candidate recruitment and assessment with the aim to ensure representation of both genders of the recommended candidates and subject to the regulations on equal treatment in hiring.

The Policy, in line with the Bank's legislative process, was accepted by the Bank's Management Board and approved by the Supervisory Board.

Gender equality policy

The "Policy of Bank Polska Kasa Opieki Spółka Akcyjna concerning gender equality", implemented in December 2013 with a Regulation of the President of the Bank's Management Board, sets forth guidelines aimed at ensuring that the Bank's employees can manage their career, each success and their performance is assessed on the basis of individual achievements, irrespective of gender.

The guidelines on equality of women and men set forth in the Policy apply to all personnel processes followed by the HR Division. The Policy defines the following guidelines:

- efforts to ensure representations of both genders in external recruitment processes by drafting lists of recommended candidates that contain minimum one candidate of each gender,
- efforts to ensure representations of both genders in internal appointment processes by drafting lists of recommended candidates to managerial positions that contain minimum one candidate of each gender,
- elimination of discriminative gender-based criteria when drafting job offers and job descriptions,
- notification to external partners, operating in the areas of recruitment and training (temporary employment agencies, recruitment agencies, employment agencies, public employment agencies, head-hunting agencies) on the coverage and content of the approved Policy and the Bank's commitment to accomplishing the objectives,
- ensuring equal professional development opportunities for the Bank's employees (training, coaching, mentoring and other development activities at work), irrespective of the gender, subject to their business duties, performance, professional potential in line with organizational needs, the Bank's standards and criteria, as set forth in the applicable internal regulations,
- ensuring equal treatment with respect to remuneration and fringe benefits, irrespective of the gender, within the framework of the Remuneration Policy of Bank Polska Kasa Opieki Spółka Akcyjna and other applicable legal regulation,
- promotion of a professional and private balance by employees by using the opportunities offered by applicable regulations and such facilities as:
 - offering flexible working models (e.g. part-time employment, etc.) in compliance with applicable laws, in particular: labour laws and social insurance regulations and internal regulations and subject to the requirements and business and organizational needs,
 - support to employees during and after the end of long-term absence (e.g. after parental leaves, unpaid leaves, sickness and other long-term absences) by: avoiding discrimination during and after the end of long-term absence, offering regular contact with the company to employees during their long-term absence and supporting their return in line with the applicable laws, including in particular: labour laws and social insurance regulations and internal regulations,
 - providing for issues relating to gender equality in training programmes, including for managerial staff, adaptation programmes and other forms of training and communication,
 - ensuring training for the Bank's organizational units and PZL employees, in line with this Policy.

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All employees of the Bank are responsible for promoting the equality culture and provisions of this Policy, related to gender equality and for reporting instances when this Policy is breached in line with the Whistleblowing Policy of Bank Pekao S.A.

Antimobbing policy

The “Antimobbing Policy of Bank Polska Kasa Opieki Spółka Akcyjna”, implemented in November 2009 with a Regulation of the President of the Bank’s Management Board, sets forth the rules of counteracting to actions and conduct indicating mobbing. This is another initiative of the Bank aimed at respecting diversity at the Bank.

The “Antimobbing Policy” of Bank Polska Kasa Opieki Spółka Akcyjna supports the development of a friendly atmosphere and relations at work and an appropriate attitude to all the Bank’s stakeholders. The Policy is an element of compliance with law and the Bank’s corporate values defined in the Integrity Charter.

Bank Pekao S.A. in no circumstances tolerates any actions or conduct indicating mobbing in relation to the Employees and appropriate measures are applied to those guilty of mobbing. In accordance with the regulation, each reported instance is reviewed by the Antimobbing Commission – a collective body appointed by the employer to review complaints related to mobbing.

Minimum annually, by the end of Q1, the HR Division is obliged to provide the Bank’s Management Board with information on the pursuance of the Policy in the previous year.

Non-financial performance indicators for 2017: two instances were reported and reviewed under the regulation.

Integrity Charter Ombudsmen

The “System of Values” is the practical application of the Integrity Charter by translating its values into real-life situations and workplace relations. The “System of Values” relies on the activities of Integrity Charter Ombudsmen – independent, experienced, retired managers, former employees of the Bank, to whom employees may report conduct incompliant with corporate values.

In January 2017, the “Principles and operating mode of Integrity Charter Ombudsmen at review of incidents reported by the Bank’s employees related to breaches of the Integrity Charter”, were implemented with a Regulation of the President of the Bank’s Management Board; the regulation sets forth the actions that may be taken by the employees and Integrity Charter Ombudsmen to review incidents reported by the Bank’s employees related to breaches of the Integrity Charter, as well as the rules of organizing meetings of Ombudsmen with employees. The objective of the regulation is to support the development of high quality of social co-existence in the Bank, as referred to in Art. 94.10 of the Labour Code.

In accordance with the regulation, the Bank’s employees can contact the Ombudsmen for the Integrity Charter if they witness or are affected by a behaviour which is incompliant with the values underlying the Integrity Charter. Ombudsmen are trustees for the Employees since they are subject to the principles of confidence and discretion. The role of the Ombudspersons is to help solve problems resulting from non-adherence to those values. When notified, Ombudsmen take steps to reconcile the conflicting parties and restore the relation by using the available array of tools such as a meeting or signaling them to find a solution to the problem, to determine further proceedings and future implications.

In 2017, Integrity Charter Ombudsmen continued meetings with the Bank’s employees in order to clarify the “System of Values” and the work of Integrity Charter Ombudsmen to the Bank’s employees. Meetings with Employees in Branches and subsidiary companies – 27 meetings at the Bank’s Branches in 2017. Additionally, the Ombudsmen held individual meetings with employees and held telephone conversations to indicate various possibilities to resolve problems.

Annually, the Ombudsmen file a report to the Bank’s Management Board on their interventions taken in the previous year along with recommendations for actions for the next year. The information contains only general description of the reported breaches subject to confidentiality.

Report on the activities of Bank Pekao S.A. for the year 2017

As at 31 December 2017, the Integrity Charter Ombudsmen were reported 287 instances of breaches of the Integrity Charter – in 2017 fourteen such instances were reported of which 12 were reviewed and closed.

NON-FINANCIAL PERFORMANCE INDICATORS FOR 2017	
Integrity Charter Ombudsmen: Number of instances reported	14
Integrity Charter Ombudsmen: Number of instances reviewed and closed	12

Activities promoting diversity

A number of initiatives were followed at Bank Pekao S.A. to promote diversity, addressed to all employees, including proposals of new initiatives and active use of the existing projects. The supreme objective is as follows:

- full use of the potential of all employees of the Bank in the company's intellectual capital management process and in developing the organizational culture based on sharing know-how and experience;
- Employees' increased commitment and satisfaction in all age groups;
- improvement of the HR management strategy on the organization by leadership development;
- development of an Employee-friendly organization

Those initiatives include:

- Workshops promoting diversity among employees of their styles of action and communication – where we discuss types of personalities and the resulting differences between us in the process of communication, relationship development and preferred methods of conduct. The workshops have been attended by over 1,200 of our Employees.
- Training for Managers "Diverse Team Management" – the objective is to provide know-how to managers on diversity management – focusing on various needs and ways to motivate employees subject to their age, experience, competences and skills. At such training, we explain the essence of diversity management and we refer to the Bank's situation in the area. We devoted much time to discussing challenges facing managers who manage diversified teams with the differences stemming from various age, various experience of the employees and their individual needs and motivation. Such training so far has been attended by over 250 managers of the Bank.
- Actions supporting women's development at managerial positions: The Bank has been taking initiatives to consolidate diversified leadership, also in terms of gender. To this end, a workshop "Develop your own brand" has been prepared for Women Managers – it is to make women aware how important it is to develop one's own brand in managing careers. The initiative has been well received by the Participants and will be continued. Additionally, we have been endeavouring to inspire other women to develop on the managerial path, e.g. by publishing "Women Leaders at the Bank" on the Intranet containing extraordinary stories of the Bank's women leaders who were successful in attaining their professional objectives.
- Team Spirit Project – this is a process carried out within Teams and relies on an anonymous questionnaire covering working atmosphere, employee individual commitment and it further contains questions for recommendations to improve Team functioning. The objective of the efforts within the project is to increase the employees' commitment and their satisfaction with the atmosphere at work. So far such projects have been implemented at the Bank.
- Development Centre sessions – the objective is to diagnose the employees' competences in the context of their further development. The quality of feedback is used primarily as the driving force supporting employee development is used in the method. During sessions, project participants – after every task and directly from experienced Business Leaders – are provided with information on their strengths and areas requiring improvement. At the end of the process, they obtain a summary of their competences in the form of reports and interviews are held on further development plans, with the involvement of persons from the HR Division and the line manager. By 2017 such form of development and know-how sharing was used by 550 employees of our Bank.

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- Mentoring – a partner relation oriented on discovering and developing the potential of employees/mentored and on sharing know-how and experience. Projects are carried out at meetings and interviews during which the mentor – a person with an appreciated position and professional success at the Bank who inspires, directs and uses tools available for development of their mentored. Mentorees – those are usually people who have just become team leaders and they get an opportunity to learn about themselves and the organization, develop their self-awareness and a vision of their role in the Bank. The process reinforces their motivation and provides satisfaction with accomplished objectives. So far almost 450 persons have participated in the programme – mentors and mentorees.

Communication of actions performed for diversity

Information on actions performed to support diversity is available on the Intranet site.

On the site dedicated to managers – “Diversity management”, team managers will find a number of guidelines and advice how to manage diversified teams and how to develop a friendly working environment (Diversity Management Manual, Manual – managerial interviews” as well as a description of the applicable internal regulations.

The sites accessible to all employees contain information on diversity, including differences between generations, those related to gender or reconciliation of the employee's role with a parental role. Employees also have access to multiple inspiring articles on the subject and can share their varied experience and passions.

In order to support employee activity on the area, an e-mail address was activated to collect ideas related to diversity.

Training and development

Training and professional development

The Bank offers opportunities to study and provides access to various forms of education to its employees. Educational programmes include in-class training, training on the job, electronic training, coaching and a system of Virtual Classes to share know-how in remote Webinars.

The core internal regulation covering the area is the *Policy of training and improving professional qualifications of Employees of Bank Polska Kasa Opieki Spółka Akcyjna* which defines procedures related to employee participation in each form of qualification improvement, such as:

- Procedure of group class training;
- Procedure of individual domestic training;
- Procedure of individual language courses;
- Review of training needs;
- Post-graduate and MBA programmes;
- Procedure of e-learning group training.

In 2017 the Bank activated new editions of a systemic rotation programme to support direct specialist know-how flow between experts. In 2017 the Bank's core training priorities covered:

- strengthening of product and sales knowledge of the Bank's employees,
- expansion of specialist know-how among the Bank's employees,
- training of medium-level and higher managerial staff,
- mandatory training programmes resulting from internal and external regulations.

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Strengthening of product and sales knowledge of the Bank's employees

The Bank carried out training projects supporting personnel in appropriate distribution of banking products, including bancassurance products. In cooperation with NBP, a cascade training system was implemented dedicated to new security elements of banknotes and the programme was continued on launching the new banknote of PLN 500 to circulation. Additionally, dedicated training programmes were developed and implemented for employees whose task is to attract new customers and service existing customers.

Expansion of specialist know-how among the Bank's employees

The Bank continued training projects dedicated to consolidating the risk culture and training related to implementing the approved business strategies. Additionally, training was held dedicated to high-potential employees and to employees who provide services to SME customers.

In 2017 the Bank just in in-class training held over 183 thousand hours of synchronous training (in-class and virtual class) with the attendance of almost 10.5 thousand employees – this is evidence of an effective implementation of the required regulations and of caring for the customer's interests. Apart from in-class training, the Bank held a number of e-learning courses in which dedicated projects were devoted to newly implemented regulations, such as: Mortgage Directive and FiD 2.

Development programmes and initiatives

In 2017 development programmes and initiatives were held for the Bank's employees in order to ensure support in interpersonal and managerial competence development. The Bank's development programmes have the priority to identify, review, verify and develop existing and future leaders.

The Bank has been carrying out four core processes related to the issue:

- Annual assessment of managerial staff as well as planning and pursuing development activities that in 2017 were attended by 627 persons,
- Annual professional development process and assessment of professional potential and achievements, supporting talent management and development at the Bank, attended by 133 persons, identified in the recruitment process addressed to all employees of the Bank,
- Succession Plans that are the core deliverables of the above processes and are of fundamental importance to ensuring uninterrupted employment in strategic positions, pursuance of long-term projects and operational risk mitigation,
- Annual assessment system – assessment process of the Bank's employees covering assessment of competences, potential, individual development planning and business objectives. In 2017, 13,883 employees were involved in the process.

Additionally, the Bank offers development initiatives to support professional development, skills, know-how and competences.

- Development Centre sessions, surveys of an individual operational style and communication and 180/360 assessment – diagnostic tools to identify the strengths of the employees and their areas for development,
- Mentoring and Coaching – actions dedicated to selected employees to expand their business prospects and to collect new professional experience.
- Action Learning – a team work method focused on a search for creative solutions for the tasks set forth for the team with simultaneous development of the participants in the area of interpersonal and leadership competences.

Report on the activities of Bank Pekao S.A. for the year 2017

Internship programmes and practical training

An annual objective of the Bank is to attract a specified number of graduates from the best universities in Poland, offer them professional development within the organization: in the branch network and in the units of the Bank's Head Office. The objectives were being attained with the support of the following programmes:

- UniChallenge – a two-year internship programme addressed to talented students just before graduation and to graduates. UniChallenge is a source of new high potential customers.
- Practical training programmes addressed to students. Such practical training lasts from 2 weeks to 3 months and offer opportunities to collect experience in all banking area, in all organisational units of the Bank.

	NON-FINANCIAL PERFORMANCE INDICATORS FOR 2017							TOTAL
	GENDER		FUNCTION		AGE			
	FEMALE	MALE	MANAGERS	EMPLOYEES	< 30	30-50	> 50	
Average number of training hours in the year per employee (FTEs)	24.36	23.89	30.95	23.20	80.42	26.61	18.34	24.26

Compensation Policy

Remuneration Policy

The remuneration strategy, developed in line with operating standards and values underlying the Bank's mission, is reflected in internal regulations and is a factor to develop and protect the Bank's reputation and to develop sustainable values for all stakeholders. The core regulation in the area is the Remuneration Policy at Bank Polska Kasa Opieki Spółka Akcyjna, last updated with the Regulation of the President of the Management Board in December 2016. The Policy reflects the mission and values in the Bank's approach to remuneration systems, including:

- it defines remuneration pillars, management of the structure, corporate and organizational processes,
- it confirms compliance requirements of remuneration systems with the applicable laws,
- it defines monitoring principles of market practices and an approach to remuneration systems ensuring stable functioning of the Bank.

The remuneration structure ensures a direct link between remuneration and results by guaranteeing financial stability and variable remuneration levels adequate for the Bank's financial potential, setting remuneration limits based on performance and development of incentive systems to provide for minimum levels of the Bank's results below which no bonus is paid. Variable remuneration covers all components of remuneration that are awarded subject to performance and the disbursement thereof is subject to individual performance and the risk-weighted results generated by the Bank.

Stable results contributing to long-term value for the stakeholders refer to the actual results and the methods they are generated subject to result measurement cohesive with the shareholders' interests and profitability principles on the basis of safe risk levels, balanced risk management practices and a multi-dimensional analysis of results and quality of operation.

In order to ensure that the remuneration structure is competitive and transparent as well as an effective and fair remuneration system, the Bank keeps monitoring market trends in remuneration and remuneration levels offered in the market. Decisions concerning the Bank's remuneration system are taken subject to data available on market trends in fixed remuneration as well as incentive systems. Such data is sourced from national or international consulting companies offering analyses of the financial sector. In the Bank's organizational units, a benchmarking analysis is additionally performed to ensure consistent remuneration in each area.

As part of the remuneration system, employees are offered non-payroll benefits ensuring fair treatment and a consistent remuneration system.

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Each year a report is made on the functioning of the Remuneration Policy at the Bank which is presented at the Bank's General Meeting to all shareholders for assessment if the Remuneration Policy followed by the Bank supports the Bank's development and operational safety.

Incentive systems

The Bank operates three core incentive systems: Variable Remuneration System for Managerial Staff, Management by Objectives System (MBO) and a system based on the Collective Labour Agreement relying on quarterly bonus and incentive bonus.

Top management is subject to a variable remuneration system, dedicated to persons with material impact on the Bank's risk profile. The objective of the system is to support the Bank's strategy and mitigate excessive risk and conflicts of interest. Within the system, participants may be paid variable remuneration out of a bonus pool. The system provides for a comprehensive measurement of performance at individual levels, at organizational units and the entire Bank, subject to compliance of the participants with the applicable laws and the standards approved by the Bank. In order to display the Bank's care to develop long-term values within the Bank, the system provides for minimum 50% of the bonus to be disbursed in phantom shares relying on the Bank's stock and minimum 40% of the bonus is deferred and disbursed only after expiry of the period for which it is due.

The variable component remuneration system is developed by the HR Division, with the involvement of other organizational units of the Bank, including the Legal Department, Compliance Department, Risk Management Division, Financial Division and consulted with the Internal Audit Department. The above is to ensure compliance with regulations, the Bank's Articles of Association, ethical conduct standards or other standards that apply to the Bank so that legal, compliance and reputational risks, usually in relations with customers, are adequately controlled and managed.

The MBO system covers persons with managerial contracts and applies primarily to customer service jobs and managerial jobs materially affecting the accomplishment of the Bank's planned commercial targets. Within the MBO system, the employees are set individual targets to achieve that result from the financial plan approved for the year and the Bank's key objectives, the amount of the annual bonus is subject to the performance level.

The system based on the Collective Labour Agreement (ZUZP) applies to all employees who are covered with it. In compliance with ZUZP, the system is based on a quarterly bonus, is discretionary and the amount is subject to the assessment of the employees' performance and commitment level and the profit generated by the Bank in each year, as well as an incentive bonus which is awarded for outstanding achievements in professional work.

Management of career paths and recruitment

Management of career paths and recruitment

Bank Pekao S.A., as a reliable and responsible employer, has a comprehensive approach to recruitment staff for the Bank – both internally and externally – and assures support to systematic development of the personnel.

The core regulation in that area is the *Procedure of external and internal recruitment* with the last update in January 2017. The regulation ensures an optimum and consistent staff selection process of people for the tasks at hand on line with the HR policy as well as the Bank's plans and business strategy. The procedure regulates the recruitment process to positions covered with the Collective Labour Agreement and the MBO System to positions from the N-3 level inclusive. Recruitment to positions above N-3 is carried out in line with dedicated procedures, primarily the *Candidate Selection Policy for members of the Management Board, Key Functions at Bank Polska Kasa Opieki Spółka Akcyjna and for Position N-1 and Position N-2*, implemented in February 2016 with a Regulation of the President of the Bank's Management Board.

The recruitment process each time focuses on identification and verification of the best candidate meeting all the requirements as specified in the Career Navigator as well as in the recruitment requisition, relying on the Integrity Charter and the Code of Conduct of Bank Pekao S.A. Group as well as competences that are crucial for the organization in line with the Competence Model prevailing in the Bank.

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Career paths

Career paths of the Bank's employees are developed on the basis of a multi-dimensional assessment and analysis of the potential. On that basis, a projection can be made of the direction and time when the employee can change their position. The mission of the Career Path Programme pursued by the Bank is to ensure continuous development and self-fulfilment of employees, relying at work on their professional skills and preferences, to the benefit of themselves and the Bank.

The Bank endeavours that the recruitment process is carried out subject to top standards. The Bank has developed an internal *Code of Good Practices in Recruitment*, containing key guidelines that we follow in each project.

The core benefits resulting from the Career Path Programme:

- supporting employees in search for development directions,
- defined, clear and transparent development,
- knowledge of the requirements to be complied with to become a candidate for promotions,
- control of the employees' own development, setting short- and long-term development objectives,
- reduced uncertainties related to employees' professional development,
- expanding knowledge on the organization,
- ensuring transfer of knowledge and experience among employees.

Competence Model

The model defines competences – knowledge, skills and attitudes – manifested in behaviour and affecting the employees' personal effectiveness. Competences in a transparent manner define the type of Bank we wish to create and describe what we should do to ensure the effectiveness of their own work as well achieve tangible results for the Bank. The model covers the following competences:

- WE Pekao – Together we can do more!,
- RESULTS – We strive to accomplish the objective,
- REPUTATION We build and care about the Bank's image,
- ASPIRATIONS We can attain everything,
- ADMIRATION We act to obtain the Customers' admiration and respect.

The Competence Model is a basis for an annual assessment of the employees' attitudes (SOOP), planning their development careers and perfecting skills in certain areas. In order to support the employees' development, a Development Manual has been implemented which contains proposed development activities assigned to each competence. The tool inspires for self-improvement and supports the process of development planning for all Employees.

Additionally, Bank Pekao S.A. has provided a dedicated tool – Career Navigator which provides comprehensive information on:

- presentation of typical transfers among positions,
- model requirements for each position,
- guidelines concerning the development of individual plans and proposals of development activities,
- additional factors taken into account at promotion.

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Periodic employee assessment

The Bank follows a process of periodic assessment which is a summary of performance for the past year by the Superior by assessing work and holding an interview in the form of a dialogue between the Superior and the Employee.

The direct benefits from the process are as follows:

- Receipt of clear and comprehensive information how the Superior perceives the work and task accomplishment by Employees;
- Possibility to identify expectations on the part of the Superior on the Employees' tasks and methods they are achieved;
- Possibility to hold a discussion with the superior on the Employees' professional aspirations and development of a development plan.

The information generated from the SOOP process constitutes a basis to manage HR in internal recruitment processes and to plan development actions for the Employees – also in proposing the involvement in the Bank's strategic projects.

Additionally, during the year, the process of quarterly and interim feedback is carried out. Ongoing feedback is an opportunity to provide information supporting the Employees' professional development and success in task performance as specified in job descriptions as well as individual and team tasks.

	NON-FINANCIAL PERFORMANCE INDICATORS FOR 2017							TOTAL
	GENDER		FUNCTION		AGE			
	FEMALE	MALE	MANAGERS	EMPLOYEES	< 30	30-50	> 50	
The percentage proportion of employees who are regularly assessed for performance and are provided with information on professional development	93%	83%	69%	96%	82%	97%	84%	91%

Employment and work terms and conditions

Employment and work terms and conditions at Bank Pekao S.A. are regulated with internal regulations, primarily as follows: Company Collective Labour Agreement, individual employment contracts / managerial contracts and Work Rules.

Collective Labour Agreement

The Company Collective Labour Agreement of Bank Pekao S.A. (ZUZP) sets the principles of the Bank's HR and remuneration policy, including remuneration rules and conditions of the Bank's employees and the principles of granting work-related benefits, including:

- Principles of personnel policies,
- Working time,
- Principles of remuneration policies,
- Base salary,
- Bonus fund,
- Fund of incentive bonus,
- Bonus,
- Pension and post-employment severance pay.

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The existing Company Collective Labour Agreement was concluded on 15 December 2005 between Bank Polska Kasa Opieki S.A. and the trade union organizations operating in the Bank.

In the light of law, Bank Pekao S.A. is the employer whose remuneration terms and conditions and other work-related benefits are regulated with the Company Collective Labour Agreement (of 15 December 2005, as amended) and for employees not covered with ZUZP for whom remuneration conditions and other work-related benefits are regulated on the basis of individual managerial contracts (employment contracts).

Work Rules

Work Rules set forth the organization and order of work at Bank Pekao S.A., and identifies the related rights and duties of the Bank and its employees. The Work Rules now in force were implemented in May 2014 with a Regulation of the President of the Bank's Management Board. The Work Rules apply to all Employees of Bank Pekao S.A., irrespective of the type of work they perform and the position they occupy and irrespective of the type of employment contract. The new Work Rules in particular:

- detail the fundamental duties of the Employees and the Bank,
- specify the working time systems applied at the Bank and the work commencement and end hours,
- sets forth the rules of working time records in the HR Eko Konto, working time schedules for monthly periods in settlement periods,
- regulate OH&S training, employee medical check-ups, provision of information to Employees on hazards to the working environment, the principles of allotting working and protective clothing,
- regulate the rules of financial support to corrective glasses,
- implement the requirements to comply with the Code of Conduct of Bank Pekao S.A. Group and the rules set forth in the code of Banking Ethics.

Additional information

In line with applicable labour law, the Bank does not discriminate employees due to the type of employment contracts they may have or employment for FTE or part-FTE. The Bank provides its Employees with equal treatment, personal and professional development, respect for human freedoms. Additionally, the Bank has implemented the Regulation of the President of the Management Board of Bank Pekao S.A. "Policy of Bank Polska Kasa Opieki Spółka Akcyjna concerning gender equality" which is to ensure that the Bank's Employees are able to manage their careers, to be successful and work is assessed on the basis of individual performance, irrespective of the gender.

No instances of discrimination were reported in the Bank in 2017. In line with the applicable laws, the Bank ensures equal treatment in recruitment of all employees, with respect to: establishing and ending working relationships, employment conditions, promotion and access to training to improve professional qualifications, in particular due to gender, age, disability, race, religion, nationality, political outlook, trade union membership, ethnic origin, religion, sexual orientation and due to their employment for a specified or unspecified time or as a full-time or part-time employee. The relevant regulations concerning the required conduct of employees and managers can be found in the Bank's internal regulations.

Bank Pekao S.A. does not apply any additional pension benefits plans apart from those that are common in Poland. The Bank as the employer fully complies with the duties resulting from the national pension system – the Bank has no arrears in payment of premium from the employees' salaries or the amounts payable by the employer. Pursuant to the Company Collective Labour Agreement, the Bank applies additional pension and post-employment severance pay for employees who acquire rights to benefits under the universal pension scheme.

Bank applies contract notice periods as specified in the Labour Code or in the relevant employment contracts which may not be less favourable than those set forth in labour laws. Consulting at the Bank with respect to termination of employment contracts is in line with the laws in force in Poland. Practically, in 2017 the Bank applied 1- or 3-month notice periods.

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Relations with trade unions and respect for the freedom of association

The Bank respects the Employees' freedom of association and is in dialogue with staff representatives – trade union organizations and the Bank's Employee Council, based on mutual respect for equitable interests of the parties. The Bank documents the social dialogue it is involved in and provides trade union organizations and the Employee Council with dedicated Intranet sites to communicate with employees.

Relations with trade union organizations

In 2017 the Bank's cooperation with trade union organizations in the areas of consulting, negotiations and agreements, has been carried out in line and subject to the labour law regulations, respectful for the interests of the parties and social dialogue principles. In 2017 there were 13 meetings between the Bank and trade union organizations, covering employee issues, internal regulations of labour law, principles on the use of the Company Social Benefit Fund and other issues related to collective employee rights. Trade union organizations are given opportunities to publish their bulletins and information on the Bank's Intranet sites, concerning employee cases, including their dialogue with the employer.

Relations with the Employee Council

At the Bank, there is the Employee Council of Bank Pekao S.A. The Council is a representation of employees, entitled to obtain information and consult with employees as specified in the Act of 7 April 2006 on disclosures to employees and consulting with employees. In 2017 the discussions with the Employee Council covered issues as specified in the applicable laws and the cooperation was subject to respect of mutual rights of the parties. Information on meetings of the Employee Council with the employer is published as communiques on Intranet sites available to all employees of the Bank.

NON-FINANCIAL PERFORMANCE INDICATORS FOR 2017	
The number of trade union organizations operating at Bank Pekao S.A.	9
Number of members of the Employee Council of Bank Pekao S.A. for the term of 2015-2019	7 persons
Trade union membership percentage ratio at Bank Pekao S.A.	58%
Number of days lost due to strikes	0

Health and safety at work

Bank Pekao S.A. as an institution aware of its responsibility for employee safety and health protection, is primarily obliged to:

- prevent accidents at work, vocational sicknesses and near misses, relying on technical and organizational progress,
- comply with the relevant legal requirements and other requirements applicable to the Bank,
- strive to improve the condition of occupational health and safety,
- get involved in documenting and updates of professional risk assessment,
- improve its activities in the sphere of occupational health and safety to avoid losses caused by accidents at work,
- improve the qualifications and intensify the employees' commitment to activities supporting OH&S,
- ensure the required technical and financial measures, and competent personnel to carry out the set tasks related to the employees' OH&S.

The core regulation related to Employee safety is the "Procedure applicable to actual and potential hazards and tasks related to OH&S at Bank Polska Kasa Opieki Spółka Akcyjna", implemented on 2 December 2013 with a Regulation of the President of the Management Board.

The core duties of the OH&S function include control of working conditions, including in particular: organization of working processes and their impact on working conditions and technical condition of the working premises; making proposals concerning the OH&S requirements, and attendance in commissioning of reconstructed facilities.

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Studying various aspects of work, the OH&S function is materially involved in assessing occupational risks. The process is aimed at identifying the hazards in the working environment that may cause injuries or adversely affect health of the employees, and whether the hazards can be eliminated, if not – what actions are to be taken to mitigate occupational risk related to those hazards.

As required, the OH&S function organizes and arranges an appropriate level of OH&S training in for newly hired employees, cooperates with the competent organizational units with respect to periodic training and with persons who act as social labour inspectors.

In order to facilitate the above tasks, the OH&S Commission was established in April 2001 – its rights and duties are defined in a dedicated regulation *Establishment of the OH&S Commission operating at Bank Polska Kasa Opieki Spółka Akcyjna*. The last update of the regulation was made on 28 October 2014 with a Regulation of the President of the Management Board.

The tasks of the OH&S Commission include reviews of working conditions, periodic assessment of OH&S, consulting of measures applied by the employer to prevent accidents and occupational illnesses, making proposals to improve working conditions and cooperation with the employer in the OH&S area.

Medical services

Bank Pekao S.A. in cooperation with an external provider offers medical care services to all employees. All employees of the Bank are covered with a fundamental packet of medical services and such packets may be extended to their designated family members. The offer is also available to retired employees of Bank Pekao S.A.

In cooperation with the medical service provider, the Bank organizes additional initiatives which are additional to efforts aimed at improving the employees' health. The most important activities include anti-flu vaccinations or additional preventive check-ups without medical referral. In questionnaires, the Bank analyses employee satisfaction with the medical services.

NON-FINANCIAL PERFORMANCE INDICATORS FOR 2017	
Number of accidents at work – total number	70
Number of fatal accidents at work	0
Accident frequency ratio (number of accidents to the number of overall staff per 1000 staff members)	4,54
Severity of accidents (ratio of the number of lost working days due to accident-related absence to the overall number of accidents)	42,29

Natural Environment

Bank Pekao S.A. as a responsible organization and an active participant of social life, Bank Pekao S.A. follows the applicable laws and ethical standards, also with regard to natural environment. Bank Pekao S.A. does not have a single regulation that comprehensively governs the issue of natural environment. Nonetheless, this issue is presented in other regulations adopted by the Bank. Bank Pekao S.A. has been trying to mitigate its impact on the natural environment by, *inter alia*, implementing pro-ecological technical solutions at the Bank's branch network, replacement of the most used company cars with new cars, emitting less exhaust gases, monitoring of consumption of various materials. Additionally, the Bank provides for ecological issues in credit risk analysis, is involved in bison protection and for years has been involved in the action "Earth Hour".

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Reduced consumption of materials

Technical solutions implemented in the properties where the Bank's branches are located is a material element of the pro-ecological attitude of Bank Pekao S.A. in their day-to-day operational activity. In 2017 further solutions were being implemented to reduce electrical energy consumption and reduce negative environmental impact, for instance:

- optimization of energy consumption (reduction of contractual power),
- installation of devices compensating reactive power (eliminating unnecessary energy losses),
- replacement of old UPS devices with new ones with higher maximum efficiency,
- liquidation of unnecessary back-up power supply connections,
- a pilot implementation of LED energy savings lighting technology,
- installation of air conditioning systems with better performance, with special focus on the class of energy efficiency,
- replacement of devices using environmentally harmful refrigerants with devices based on mixtures of ecological gases,
- installation of motion sensors in social and sanitary rooms,
- switching electronic devices into the standby mode in the evening,
- provision of information on energy saving near light switches in corridors and in social rooms.

The key regulation in this area is the "Policy on optimizing the energy use at Bank Polska Kasa Opieki Spółka Akcyjna" of February 2013 that stipulates principles and rules concerning standards and guidelines with regard to optimizing the energy use at the Bank with respect to environmental protection based on involvement in the proper monitoring and preventing, if possible, from any negative effects for the environment resulting from the Bank's operations.

With comprehensive modernization of its properties, the Bank has been applying state-of-the-art solutions, e.g. tap fixtures with aerators to reduce water consumption. In 2017 there were 53 of such modernizations performed.

The Bank, as part of waste management, systematically gives away paper documentation, digital data media, furniture or audio-video and household appliances for specialized disposal. When new audio-video and household appliances are ordered, collection and disposal of old equipment is also considered.

In its daily operations, the Bank has also been taking measures to reduce paper consumption, like e.g. use of multi-functional printers, default option of double-sided printing, scanning and sending documents in electronic form, fax receipt in electronic form (to e-mail boxes), a system to buffer printouts and possibility for users to cancel obsolete/unnecessary/unrequired printouts, non-mandatory printing of confirmations of ATM and cashier operations, processing of HR matters in electronic form, limited number of printed documents for customers.

The cars in the Bank's fleet are being successfully replaced with models emitting less exhaust gas to the atmosphere. Since 2016, the oldest company cars have been gradually replaced with new cars with the EURO 6 exhaust gas emission standard. In 2016 and 2017 overall 740 cars were replaced which accounted for 60.2% of the overall number of cars used by the Bank. The other cars have the EURO 5 exhaust gas emission standard. Work mobile phones of staff who have business cars at their disposal have a dedicated mobile application EcoDriver to minimize adverse effects of travelling on the environment.

For years, the Bank has been identified with the objectives of the action "Earth Hour" and in 2017 it turned off all the lights in the Bank's Head Office buildings in Warsaw at ul. Żwirki i Wigury 31, ul. Grzybowska 53/57 and ul. Giełdowa 5.

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Supplier relations

Environmental aspects are also material in the Bank's relations with suppliers. Since 2010, the suppliers participating in tender processes (with value above EUR 1 million net) run by the Bank must complete a Business Social Responsibility Declaration form, in which they provide information concerning environmentally conscious management subject to environmental protection.

The supreme objective is to improve the awareness of suppliers and providers in issues related to environmental protection and to consolidate the Bank's reputation as a result of cooperation with specific providers and counterparties.

The Business Social Responsibility Declaration contains explicit questions related to compliance with the regulations on environmental protection and performance of pro-environmental initiatives, such as:

- holding certificates of the pro-environmental profiles of counterparties (DIN EN ISO 14001 or EMAS certificates),
- compliance with environmental protection laws and regulations, completed inspections and penalties as a result of failure to comply with such regulations,
- holding hazardous substances related to business operations (raw materials, production, waste),
- implementation of innovative, environment friendly new technologies,
- organization of training and informative meetings for employees relating to ecological issues.

Protection of the Polish Bison

For years Bank Pekao S.A. has been consistently involved in the protection of Polish bison – the unique species threatened with extinction. As part of these activities in 2017 the Bank continued its cooperation with six leading institutions involved in the protection of the largest European mammal: The partners of the Bank include:

- Białowieża National Park (BPN),
- Wildlife Society of the Province of West Pomerania,
- "Panda" Foundation for Warsaw ZOO Development,
- Toruń Zoobotanical Garden,
- Society of Bison Lovers,
- Agencja Rozwoju i Promocji Ziemi Pszczyńskiej Sp. z o.o.

The donations provided by the Bank are used towards diversification and development of the population, maintenance of the BPN's Bison Breeding Centre, herd care, as well as promoting scientific and educational projects.

Environmental Risk Associated with Lending Activities

Bank Pekao S.A. is implementing an environmental awareness policy which follows from the United Nations Environment Programme Finance Initiative (UNEP FI) concerning natural environment and sustainability, considering environmental impact factors in performing credit risk analyses of its transactions and in transaction monitoring processes.

In its day-to-day activities Bank Pekao S.A. is strongly committed to protection of the environment. Environmental risk assessment is one of the crucial factors in evaluating credit transactions executed with businesses. It covers a number of activities: from review of a customer's business profile and preparation of a preliminary environmental risk assessment, to assessment proper, which includes an on-site visit and review of documents relating to the environmental aspects of an undertaking, to management phase which includes a credit decision and agreement execution, to monitoring of environmental risks.

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If a borrower's business profile entails environmental hazards, Bank Pekao S.A. works with the customer on reducing the potential implications of the environmental risks. They cooperate to identify such risks, assess their scale and mitigate their potential impact. Such cooperation, which forms part of credit risk assessment, relies on the methodology and industry guidance developed by the European Bank for Reconstruction and Development.

If the Bank establishes that a customer is unable to minimize its environmental risks, it defines certain conditions to be met during the transaction term, also by including relevant environmental provisions in the loan agreement.

The Bank does not finance certain types of business activities on environmental grounds. Such activities are enumerated in the Environmental Exclusion List drawn up on the basis of international standards, including the Convention on International Trade in Endangered Species (CITES). Furthermore, the Bank refuses to finance trade in goods representing environmental hazards or projects violating health and public safety laws.

The Bank's credit risk policy prohibits it to finance production of military equipment, nuclear power projects and activities which may be a source of major environmental hazards. Any exceptions to that policy require the approval of the Management Board and a positive opinion of the Supervisory Board.

In line with its credit policy, the Bank supports projects with environmental benefits.

NON-FINANCIAL PERFORMANCE INDICATORS FOR 2017	
Electrical energy	58 511 MWh
Water	207 495 m3
Gasoline	1 020 556 l
Diesel oil	218 391 l
Paper	1 089,5 ton
Value of proceedings completed in 2017 with suppliers related to compliance of environmental criteria	33,31%
The amount of penalties paid for breaches of environmental protection regulations	0 PLN

Anti-corruption

The core procedures related to corruption prevention are specified in the "Anti-corruption Policy in the Bank Pekao S.A. Group", most recently updated on 10 January 2018, replacing the earlier regulation of 26 September 2016. The Policy defines general assumptions and competences related to corruption risk management and implements the Anti-Corruption Programme at Bank Pekao S.A. The Policy applies to all business pursued by the Bank and to all persons with labour or other legal relationships with the Bank, including persons who are members of the Bank's statutory bodies or who are being trained at the Bank.

The Policy also applies to the Bank's subsidiary companies to the extent it does not breach the applicable laws, prudency regulations and independence of the subsidiaries, to the extent adequate to the business they pursue and subject to a risk-based approach.

The Bank firmly fights against all manifestations of corruption or situations that may support corruption. The Bank does not tolerate any actions with indications of corruption by employees of the Bank or by any other persons or entities having any type of relations with the Bank. The Bank protects employees who refuse to get involved in activities with indications of corruption and those who disclose the fact of such activities or attempts thereof by other persons/entities. Those employees will not be subject to any disciplinary sanctions and they will be subject to no penalties even if such behaviour by such employees may expose the Bank to financial losses. The Bank does not tolerate the offering, promising, demanding, handing over or accepting by the Bank's employees or any other persons or entities having relations with the Bank, of any payments to accelerate procedures.

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Bank Pekao S.A. has defined the core areas of corruption risk related to its business, which are as follows:

- use of intermediary services,
- gifts and entertainment,
- recruitment policy,
- use of counterparty services,
- donations and sponsoring, in particular donations for political parties,
- M&A transactions,
- major investments,
- Bank's involvement in public procurement procedures.

The analysis of corruption risk in core areas is additional to the Bank's due diligence related to other risks in those areas.

Programme for counteracting corruption

In compliance with the Policy guidelines, the Bank has approved a programme for counteracting corruption, composed of the following elements:

- annual risk assessment of the business pursued by the Bank, indicating the areas of the Bank's business that are most exposed to corruption risk (in particular, retail, private, corporate, investment banking). On a quarterly basis, the results of the risk assessment are submitted to the Bank's Management Board;
- rules and procedures related to:
 - cooperation with intermediaries,
 - gifts and entertainment,
 - recruitment process,
 - cooperation with counterparties,
 - donations and sponsoring (including donations for political parties),
 - M&A transactions,
 - major investments,
 - Bank's involvement in public procurement procedures.
- training and informative programmes for the Bank's employees in the area of counteracting to corruption,
- the process of designing, supervision over implementing control mechanisms in the area of counteracting to corruption, application thereof and monitoring that they are adhered to by other organizational units of the Bank, in line with the Bank's relevant internal regulations,
- ensuring safe and accessible communication channels to be used by the Bank's employees or other persons to report corruption attempts or actions that may indicate corruption – all in a confidential manner,
- reporting to the Bank's Management Board – within the quarterly report of the Compliance Department – on the implementation of the Anti-corruption Programme,
- accurate and fair registration of all transactions in the Bank's books and documents and avoidance of any undisclosed or unrecorded bills, funds, assets or transactions.

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Officer Counter-corruption Officer

In order to stress the significance of the area, the Counter-corruption Officer was appointed in the Compliance Department whose tasks include reporting information on corruption attempts or actions that may indicate corruption.

The detailed tasks of the Counter-corruption Officer, including development, implementation and supervision of an effective anti-corruption Programme, pursuing a legislative process relating to the Bank's internal anti-corruption processes, are detailed in the Anti-corruption Policy at Bank Pekao S.A. Group.

The Counter-corruption Officer is entitled to review suspicious or actual actions that may indicate corruption, which includes that the person suspected of corruption is obliged to disclose all documents for review and to report such instances in line with the applicable procedure.

Whistleblowing policy

Whistleblowing policy at Bank Pekao S.A. of 9 June 2017 is an expression of commitment on the part of Bank Pekao S.A. to promote corporate culture supporting ethical behaviour, in line with applicable laws, the Bank's procedures and ethical standards. Its objective is to provide employees with safe reporting channels of any practices observed at the Bank that would be incompliant with law, unfair or unethical or when justified suspicion arises that such have occurred, as well as to ensure that the reported problems will be accepted, analyses and appropriately managed and the person reporting them in good faith would be protected against retaliation.

Early detection of breaches and the resulting remedial actions would mitigate or completely eliminate any risk to the Bank's reputation. The culture of openness and fairness – contrary to a culture of silence – will improve trust to the Bank's transparent activities and is an explicit message of no tolerance to behaviour incompliant with law or ethical standards.

The Policy applies to all persons employed by Bank Pekao S.A. or those who have other similar legal relationships, including members of the Bank's statutory bodies. Breaches refer to each action or omission that causes or may cause damage to the Bank's mission or reputation, its customers or its Employees.

In particular, those may include:

- unlawful, unfair or non-ethical activities,
- activities that breach law, the Bank's procedures (all internal acts, including rules, instructions, systems and solutions applied by the Bank) and ethical standards.

In case of justified suspicion of a breach or potential breach, the employee should immediately contact the designated member of the Management Board or in specific cases (when the report relates) – the Supervisory Board, by phone, traditional post or electronically, via dedicated communication channels, such as an anonymous infoline or a dedicated e-mail box. All reports shall be treated by the Bank with top attention and are subject to procedures as specified in the Policy.

Breaches may be reported anonymously or with the Reporting Person's identity disclosed. When Reporting Person's identity is disclosed, the data shall be protected. The information on such reports is classified as "Confidential" and is stored subject to appropriate security measures, in line with applicable laws and the classification and information management rules prevailing at the Bank.

The Code of Conduct of Bank Pekao S.A. Group is the core collection of the Bank's standards and value, an indicator of behaviour that is recommended by the Bank. It applies to all persons at the Bank, irrespective of their position.

NON-FINANCIAL PERFORMANCE INDICATORS FOR 2017	
The number of instances reported over the whistleblowing mechanism (the information covers solely Bank Pekao S.A.)	12
Number of likely instances of corruption reported to law enforcement bodies	0

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Respect for Human Rights

As a responsible organization and an active participant of social life, Bank Pekao S.A. follows the applicable laws and ethical standards, also with regard to respect for human rights. Bank Pekao S.A. does not have a single regulation that comprehensively governs the issue of respect for human rights. Nonetheless, the issue of human rights, with regard to all groups of stakeholders, such as employees, customers, suppliers, and business partners, and also local communities, is presented in other regulations adopted by the Bank.

Philosophy of business, defined in the mission statement of Bank Pekao S.A., explicitly determines all areas of the Bank's operations setting a path for building durable value for all shareholders through development of values for the Bank's customers, best working places for the employees, and active and responsible influence on the development of local communities. Bank Pekao S.A. has been engaged in a permanent, open dialogue with all interested parties which allows optimizing implemented actions, also in the context of respect for human rights.

The dialogue with all groups of stakeholders is reflected in the implementation of a number of internal regulations that directly relate to respect for human rights. The most important of them include:

- Code of Conduct of Bank Pekao S.A. Group,
- Counter Corruption Policy in Bank Pekao S.A. Group,
- Principles of assigning rights to employees of the Bank to process personal data and authority to access the Bank's information.

Furthermore, Bank Pekao S.A. has adopted separate regulations that fit into activities aimed at respecting human rights and, at the same time, are applied to individual groups of stakeholders.

Protection of Personal Data

Personal data is processed by Bank Pekao S.A. in compliance with applicable laws and diligently to protect the interests of the data subjects. Bank Pekao S.A. is the data controller within the meaning of the Act of 29 August 1997 on personal data protection and thus it is fully liable for compliance with the laws on personal data protection, in particular with respect to:

- verification of compliance of personal data processing with the provisions of the Act,
- supervision over development and updates of documentation with details of the methods of data processing as well as the technical and organizational measures ensuring protection of personal data processing adequate to the applicable hazards and the categories of protected data and compliance with the rules set forth therein.
- ensure that the persons authorized to process personal data are aware of the regulations on personal data protection.

The Bank complies with the rules related to personal data processing and protection, implemented with regulations of a higher hierarchy, applying a number of its own internal regulations. The core regulation in the area is ZPZ No. D/46/2015 "Principles of personal data protection and rules of obtaining consents for the Bank to take actions for direct marketing at Bank Polska Kasa Opieki Spółka Akcyjna" of 2 December 2015. In order to ensure comprehensive actions in the sphere of personal data protection, a number of internal regulations have been implemented, relating to specific area of the Bank's business.

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Those regulations include:

- *Policy of application security at Bank Polska Kasa Opieki Spółka Akcyjna,*
- *Protection rules and handling of information at Bank Polska Kasa Opieki Spółka Akcyjna,*
- *Information Security Policy along with Documents of Information Security Policy,*
- *Principles of assigning rights to employees of the Bank to process personal data and authority to access the Bank's information,*
- *Protection of electronic information at Bank Polska Kasa Opieki S.A.,*
- *Principles of placing information in the IT system on personal data processing and rules to identify consents for the Bank to take direct marketing actions at Bank Polska Kasa Opieki Spółka Akcyjna,*
- *Periods of personal data processing where Bank Polska Kasa Opieki Spółka Akcyjna acts as controller thereof.*

Directors of the Bank's organizational units and information owners are fully responsible for the organization, safety and processing of personal data in their subordinate units, including for providing responses to persons requesting the Bank information on the purposes and scope of processing of their data, referring to the rights available in compliance with the Act. Employees are obliged to process personal data in line with their respective authority compliant with their respective job descriptions.

Training in the sphere of protection of personal data and other information

In order to ensure compliance with the existing duties related to personal data protection, Bank Pekao S.A. has been developing and implementing mandatory training programme, subject to monitoring of the completed training. In 2017 training was held on the following subjects:

- Protection of electronic information at the Bank – 99.16% of the Bank's staff completed the training
- Personal data protection – 99.43% of the employees completed the training
- Protection of information / bank secrets – 98.92% of the Bank's staff completed the training

No 100% attendance is due to ongoing fluctuation, including hiring of new staff members.

Bank Pekao S.A. also holds regular inspections of personal data processing and the Bank's information by each information owner. In 2017 twelve inspections were held that verified, inter alia, the process of assigning authority (to process personal data, to access the Bank's information) and to accept Statements in the Personnel EkoKonto, status of training, access rights to personal data processing systems as well as notification (and updates) of personal data sets to be registered with GIODO.

Other activities

The personal data protection aspect is also incorporated in daily consulting of the Bank's internal regulations and contracts concluded by the Bank. The Bank's Security Department (DBB) is consulted on internal regulations, proposals to the Change Management Committee and draft agreements with counterparties (including agreements on entrusting personal data) for compliance with higher-order regulations.

The Bank further decided to implement the principles of personal data protection related to technical and organizational measures ensuring personal data protection. Within DBB, the Operational Security Centre (OCC) was established that monitors unauthorized access to data (including personal data) as well as (via the systems operated by the Bank) aimed at prevention of data leaks.

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From a point of view of employees

The Bank observes human rights of the Bank's employees by means of a number of internally regulated actions that take into consideration diversity and which counteract exclusion, promoting the culture based on respect and freedom to act, a consistently pursued dialogue also by means of regular opinion polls and employee satisfaction surveys, freedom of association, and in particular by:

- observing employees' rights, including counteracting discrimination with regard to establishment and dissolution of employment relations, terms and conditions of employment, promotion, and access to training to enhance professional qualifications, especially in terms of gender, age, disability, race, religion, nationality, political beliefs, trade union membership, ethnic origin, faith, sexual orientation, and also in terms of employment for a specified or unspecified period of time, or on a full or part-time basis,
- pursuing a policy of gender equality aimed at providing the employees with a possibility of managing their career, achieving success, and assessing their work based on individual performance, irrespective of their gender,
- counteracting any forms of mobbing,
- caring about a friendly and safe workplace,
- consistently enhancing knowledge of the employees, also including assessment of the professional risk,
- providing the employees with a health care system,
- ensuring equal treatment of the employees in terms of remuneration and additional benefits,
- promoting a balance between professional and private life, among others, by utilising opportunities created by appropriate regulations in that respect and available improvements, such as offering flexible working models in line with the applicable regulations of law, including, but not limited to provisions of the labour law and social insurance and internal regulations and having regard to the requirements and business and organizational needs,
- supporting the employees during and after long-term absence (e.g. after a maternity/paternity leave, unpaid leave, illness, and after any other long-term absences) by means of: avoiding discrimination during and after long-term absence, providing employees with a possibility of staying in touch with the company during long-term absence and facilitating return after long-term absence.
- The Bank additionally respects the employees' freedom of association and is in dialogue with staff representatives, i.e. trade union organizations and the Bank's Employee Council, based on mutual respect for equitable interests of the parties.

The most important internal regulations adopted at Bank Pekao S.A. relating to the employees are:

- *Integrity Charter and the System of Values,*
- *Code of Conduct of the Pekao Group,*
- *Gender Equality Policy,*
- *Anti-Mobbing Policy,*
- *Remuneration Policy,*
- *Competence Model,*
- *Business Travel Protection.*

The Bank also provides all employees with internal training in the form of e-learning called *Compliance with Human Rights* that is voluntary. Such training offers learning about respect for human rights, sustainable development, allows analyzing cases of violation of human rights, and also promotes appropriate attitudes and behaviour towards employees, customers, and suppliers / business partners of the Bank.

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From a point of view of customers

Caring about the interests of customers is the main principle underlying Bank Pekao S.A.'s operations. Seeking to be a bank of first choice determines conducting business in a transparent manner that is compliant with all regulations and based on respect. The Bank is determined to develop long-term relations with customers, strengthen their trust through continuous enhancement of the quality of provided services, transparency of the Bank's activities, and also security of executed transactions and protection of information confidentiality.

Bank Pekao S.A. is engaged in a systemic dialogue with all customer segments, also by means of period surveys of their opinions, listening to their expectations and observations concerning all aspects of the Bank's operations. In response, the Bank seeks to consistently modify its product offer, provide regular training and strengthen competence of its employees, and build proper corporate governance.

The Bank also operates in favour of reducing financial exclusion understood as limited access to financial services due to a handicap. Therefore, to provide for the needs of the handicapped, the Bank provides alternative access channels to the offered products and services and consistently abolishes architectonic barriers at the Bank's outlets by adapting them to the needs of the handicapped. In 2016 the number of outlets adapted to the needs of handicapped customers accounted for 69.51% while in 2017 the proportion was 72.94%.

The most important internal regulations adopted at Bank Pekao S.A. relating to the customers are:

- *Integrity Charter,*
- *Code of Conduct of the Pekao Group,*
- *Counter Fraud Policy at the Group of Bank Pekao S.A.,*
- *Principles of assigning rights to employees of the Bank to process personal data and authority to access the Bank's information,*
- *Other regulations dedicated to the Bank's core activities*

Non-financial performance indicators for 2017:

The number of outlets adapted to the needs of handicapped customers: 595, accounting for 72.94% of all outlets.

From a point of view of suppliers

Bank Pekao S.A. treats its counterparties with due respect and suppliers and providers of services are selected in an objective and impartial manner, thus taking care of good and fair commercial relations. In the selection process of its suppliers, the Bank applies internal procedures, compliant with the best practices and the applicable Polish laws.

The core internal regulation defining the Bank's relations with its suppliers are the *Principles of Granting Orders for Goods and Services at Bank Polska Kasa Opieki Spółka Akcyjna*, last updated by the Regulation of the President of the Management Board in August 2016.

The suppliers participating in tender processes run by the Bank must complete a Company Social Responsibility form, in which they provide, inter alia, information concerning environmental protection aspects, social standards and compliance with human rights. As a result, Bank Pekao S.A. takes actions supporting sustainable development, the environmental protection and preventing violation of human rights by the Bank's business partners.

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The form of the Business Social Responsibility Declaration contains explicit questions relating to compliance with the regulations, such as:

- prohibition to employ children (persons below 15 years of age),
- ban on forced labour,
- freedom of association,
- prohibition to administer corporal punishment or means of physical/psychological coercion,
- respect for rights governing the working time,
- respect for the provisions on OHS,
- no discrimination due to ethnic origin, race, gender, age, language, religious or political beliefs,
- application of minimum standards for sanitary, social amenity, and canteen facilities,
- compliance with the provisions and regulations concerning the labour law, including disbursement of remuneration customarily offered to all employees in a given sector.

Additionally, as a result of tender procedures, the Bank verifies prospective suppliers with respect to corruption risk and against sanction lists (USA and EU sanction lists) and PFSA's public warnings.

The companies that perform deliveries to the Bank are informed on the existing inconformity process and major provisions of the anti-corruption policy pursued by the Bank.

The most important internal regulations adopted at Bank Pekao S.A. relating to suppliers in terms of respect for human rights are:

- *Principles of Granting Orders for Goods and Services,*
- *Code of Conduct of the Pekao Group,*
- *Integrity Charter,*
- *Counter Corruption Policy in the Group of Bank Pekao S.A.,*
- *Principles of assigning rights to employees of the Bank to process personal data and authority to access the Bank's information.*

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From a point of view of local communities

The Bank's commitment to society is manifested in actions for sustainable development through active involvement in Poland's economic growth, support of culture and socially important projects.

Actions pursued by Bank Pekao S.A. are aimed at developing the Bank's image as a financial trustworthy institution that is socially committed, modern, open to dialogue, and that understands customers' needs. A consistent dialogue with the environment is of fundamental importance in pursuing basic business of Bank Pekao S.A. and underlies social activities of the Bank's organization, and also the role it plays in economic development.

Respect for human rights in relation to local communities is pursued at Bank Pekao S.A. among others by its philanthropic and sponsoring activities that are carried out in accordance with the Bank's *Principles of Granting Donations and Sponsoring by Bank Polska Kasa Opieki Spółka Akcyjna*. Selecting various initiatives, the Bank departs from one-off subsidies and reaction to requests for support in favour of long-term social involvement based on partnership with selected organizations. In particular, the Bank has been supporting the selected organizations and institutions involved in projects in such areas as: high culture, sports, support to children in need, the environmental protection, and responsible economic development. Before making a donation or concluding a sponsoring agreement, the Bank assesses the associated risk (due diligence) in compliance with the Bank's internal regulations on counteracting corruption.

The most important internal regulations adopted at Bank Pekao S.A. relating to local communities are:

- *Integrity Charter and the System of Values,*
- *Code of Conduct of the Pekao Group,*
- *Rules governing granting donations and sponsoring by Bank Polska Kasa Opieki Spółka Akcyjna.*

Risk management

The risk management system in place at Bank Pekao S.A. is defined in the ICAAP Policy, adopted by the Bank's Management Board and approved by its Supervisory Board.

The ICAAP Policy outlines the key elements of a comprehensive approach to the risks arising from the Bank's operations and business strategy, both at the level of the Bank and the entire Bank Pekao S.A. Group. It defines identified risks and the criteria for classifying them as significant, sets out the objectives and principles of risk management, the target structure of risk exposure arising from the Bank's operations, as well as the acceptable level and structure of risk, defined within the assumed risk appetite.

Every identified risk is assessed in terms of its significance and – if found to be significant – measured (if classified as measurable), as well as monitored and controlled in line with the methods and procedures defined specifically for the given type of risk. The risk assessment and measurement methodologies are designed to ensure compliance with the applicable legal requirements and the best market practices.

The Bank applies formal limits to mitigate the risks, in compliance with the assumed risk appetite, and defines rules to be followed in the event that the limits are exceeded. The adopted management information system serves as a tool enabling it to monitor the risks. The Bank's organizational structure is adapted to the size and profile of its risk exposure. In managing risks at the Group level, the Bank oversees the risk exposures inherent in the operations of its subsidiaries.

Under the risk management system currently in place at the Bank, the Management Board is responsible for: the development, implementation and functioning of risk management processes and the process of computing of internal capital adapted to the Bank's size and risk profile (risk appetite), taking into account risk exposures of subsidiaries. The Bank's Management Board receives regular updates on the Bank's risk profile, the largest exposures and credit risk concentrations.

The Supervisory Board, supported by the Risk Committee, exercises supervision over the risk management system, assessing its adequacy and effectiveness. Moreover, the Supervisory Board also provides supervision of the compliance of the Group policy with respect to risk management with the strategy and financial plan.

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The risk management strategy (inclusive of risk appetite) and risk management system in place at the Bank are subject to regular reviews and necessary updates to ensure that they remain adequate given the scale and complexity of the Bank's operations. The risk management system in place at the Bank constitutes an integral part of the Bank's management system. Risk management improves the efficiency of the decision-making process, while ensuring compliance of the Bank's decisions with the best market practice and the applicable regulatory regime.

Due to the nature of the Bank's business, all risks termed as material or resulting from guidelines of the regulatory bodies, including risks related to social issues, employee-related issues, natural environment, human rights, counteraction to corruption, risks related to products and outside relations, including counterparties, have been adequately defined and taken into account in dedicated regulations. Selected regulations in that respect, are referred to in this Statement on non-financial information of Bank Pekao S.A. for 2017.

Reputational risk

Reputation protection is of crucial importance for the Bank due to the potential impact of the risk on the Bank's financial results and capitals, as well as due to the role of the Bank as a public trust institution. In line with the guidelines of the ICAAP Policy which terms reputation risk as material, Bank Pekao S.A. has implemented a dedicated regulation for the risk. *Management principles of reputation risk at Bank Pekao S.A* were implemented in March 2013 with a Regulation of the President of the Management Board.

Reputation is an assessment of the Bank's image or how the Bank is perceived at the time by the surrounding composed of customers, counterparties, investors, shareholders, regulators and the public at large. Image is not only a marketing term but also a business term – image is a condition for the Bank to be approved by market participants and the resultant support to sales of products and services. Thus, reputation risk by the Bank is understood as a risk of a negative perception of the Bank's image that results in a loss of existing or future revenues by the Bank or a loss of capital.

Reputation risk is secondary and closely correlated to other types of risk inherent in the Bank's daily business such as credit, operational, market, liquidity, compliance risk. For each risk listed above, actions have been identified that may potentially affect reputation risk. The major ones are as follows:

With respect to credit risk:

- financing of enterprises from sensitive areas of the economy, e.g. armaments industry, companies involved in gambling,
- financing of political organizations,
- financing of activities generating material hazard to the natural environment,
- financing of authoritarian states, states breaching international treaties, states with low protection of human rights or subject to embargo.

With respect to operational risk:

- occurrence of internal and external fraud,
- non-compliance with rules concerning employment and safety at the place of work,
- occurrence of events relating to unequal treatment, employee discrimination, mobbing or employee disputes,
- occurrence of irregularities in Customer service, product design and use of unfair operational practices,
- incorrect settlement of transactions, supplies and incorrect management of operational processes,
- disturbance of operations and failures of systems affecting Customer service.

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With respect to compliance risk:

- application of business practices that are disallowed or incompliant with good practices,
- unlawful activities by the Bank,
- incorrect performance or no performance of recommendations by control and supervisory bodies,
- occurrence of conflicts of interest,
- occurrence of market abuse.

With respect to market risk

- occupying dominating positions, including by entering into large transactions, use of monopolistic practices.

Due to its nature, reputation risk is a risk that is difficult to measure. In line with the ICAAP procedure, it is not subject to quantitative measurement. The ongoing management of the Bank's reputation risk consists in managing original risks supported with a qualitative assessment, monitoring, reporting and mitigating reputation risk by the Bank.

Bank Pekao S.A. has been consistently mitigating reputation risk by:

- application of an appropriate credit policy (covering those sectors of the economy where the Bank is not involved, e.g. armaments industry, nuclear energy),
- implementation and application of the best practices and ethical rules, for instance: "Principles of Good Banking Principles of the Polish Bank Association", "Canon of Good Practices of the Financial Market", "Good practices of WSE listed companies" and the "Code of conduct of the Pekao Group" which sets the core values and standards of conducts of the Bank's Employees to ensure top service standards and to protect the Bank's reputation,
- popularization among the Bank's Employees of legal regulations, principles of ethics and corporate governance, and their correct application, training in compliance risk,
- management of conflicts of interest,
- anti-corruption activity,
- prevention to use Bank's business for purposes related to money laundering or terrorism financing activities,
- fraud management (with special focus on internal fraud) by counteraction, detection or fight against fraud, mitigation the effects thereof and taking measures to detect the perpetrators, and – whenever determined appropriate – to notify law enforcement authorities,
- ensuring an appropriate level of information security, in particular covering the Customers' personal data, and providing access to the information only to authorized entities,
- taking measures and initiatives to improve the customers' level of satisfaction,
- management of the customers' complaint review process,
- management by objectives (setting targets for the Bank's Employees in sales and managerial positions concerning service quality and Customer satisfaction),
- analysis of new products and services and marketing campaigns for reputation risk,
- consulting with the Bank's Management Board and Supervisory Board of measures important for the Bank's reputation.

Management of the Bank's reputation is an ongoing process with active involvement of all organizational units and Employees of the Bank. A specific role in the process is played by the Bank's statutory bodies and the organizational units that are directly responsible for primary risks, in line with their competences set forth in the Bank's dedicated internal regulations.

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Supplementary information

This Statement on non-financial information of Bank Pekao S.A. for 2017 containing key non-financial efficiency indicators relating to business of Bank Pekao S.A. and information on issues concerning social, employee-related, environmental protection, respect for human rights, and counteracting corruption matters is implementation of the requirements of the amended Accounting Act of 15 December 2016 in terms of disclosure of non-financial information provided for under transposition of Directive 95/2014/EU1 and the Regulation of the Minister of Financial of 25 May 2016 on the scope of information concerning diversity.

The Statement includes a description of key policies implemented by the Bank with regard to issues concerning social, employee-related, environmental protection, respect for human rights, and counteracting corruption matters, and also a description of results of their application.

The Statement contains a concise presentation of actions pursued by Bank Pekao S.A. in that respect in a period from 1 January to 31 December 2017, unless a different period has been indicated therein. Non-financial data applies to Bank Pekao S.A. The Statement is the first of such type documents drafted by the Bank and does not contain corrections to information or references to other documents concerning actions pursued under social responsibility by Bank Pekao S.A.

The Statement on non-financial information of Bank Pekao S.A. has been prepared on the basis of guidelines for reporting sustainable development issues prepared by the Global Reporting Initiative (GRI) in its fourth version (GRI4)

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Signatures of all Members of the Bank's Management Board

26.02.2018	Michał Krupiński	President of the Management Board	
Date	Name/Surname	Position/Function	Signature
26.02.2018	Roksana Ciurysek-Gedir	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
26.02.2018	Andrzej Kopyrski	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
26.02.2018	Tomasz Kubiak	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
26.02.2018	Michał Lehmann	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
26.02.2018	Marek Luszczyn	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
26.02.2018	Tomasz Styczyński	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
26.02.2018	Marek Tomczuk	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature