

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



Warsaw, February 2018

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1 Highlights of Bank Pekao S.A. Group

	2017	2016	2015	2014	2013	2012
INCOME STATEMENT CONTINUED OPERATIONS – SELECTED ITEMS ^(*) (in PLN million)						
Operating income	7,350	7,347	7,059	7,346	7,494	7,790
Operating costs	(3,263)	(3,212)	(3,220)	(3,286)	(3,331)	(3,445)
Gross operating profit	4,087	4,135	3,839	4,060	4,162	4,345
Profit before income tax	3,153	2,897	2,831	3,360	3,433	3,619
Net profit for the period attributable to equity holders of the Bank	2,475	2,279	2,293	2,715	2,767	2,906
INCOME STATEMENT – SELECTED ITEMS (in PLN million)						
Operating income	7,350	7,347	7,059	7,346	7,565	7,953
Operating costs	(3,263)	(3,212)	(3,220)	(3,286)	(3,376)	(3,529)
Gross operating profit	4,087	4,135	3,839	4,060	4,189	4,424
Profit before income tax	3,153	2,897	2,831	3,360	3,454	3,664
Net profit for the period attributable to equity holders of the Bank	2,475	2,279	2,293	2,715	2,785	2,943
PROFITABILITY RATIOS						
Return on average equity (ROE)	11.0%	9.8%	9.7%	11.5%	12.0%	13.3%
Return on assets (ROA)	1.4%	1.4%	1.4%	1.8%	1.9%	2.0%
Net interest margin	2.8%	2.8%	2.8%	3.1%	3.4%	3.7%
Non-interest income / operating income	36.7%	39.6%	40.0%	38.3%	39.6%	37.3%
Cost / income	44.4%	43.7%	45.6%	44.7%	44.6%	44.4%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)						
Total assets	185,466	174,215	168,786	167,625	158,522	150,755
Net loans and advances to customers ^(**)	132,300	122,663	117,299	109,189	101,356	94,864
Amounts due to customers ^(***)	145,398	136,380	124,399	120,630	116,129	102,898
Debt securities issued and subordinated liabilities	4,029	1,523	2,903	3,857	3,064	4,759
Equity	23,268	22,912	23,424	24,046	23,514	23,264
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS						
Net loans ^(**) / total assets	71.3%	70.4%	69.5%	65.1%	63.9%	62.9%
Securities / total assets	20.8%	20.6%	13.2%	15.0%	22.2%	19.5%
Deposits ^(****) / total assets	80.6%	79.2%	75.4%	74.3%	75.2%	71.4%
Net loans ^(**) / deposits ^(****)	88.5%	88.9%	92.1%	87.7%	85.0%	88.1%
Equity / total assets	12.5%	13.2%	13.9%	14.3%	14.8%	15.4%
Total capital ratio (Basel III)	17.1%	17.6%	17.7%	17.3%	18.3%	18.1%
EMPLOYEES AND NETWORK						
Total number of employees	17,339	17,757	18,327	18,765	18,916	19,816
Number of outlets (Bank Pekao S.A. and PJSC UniCredit Bank)	851	928	975	1,034	1,001	1,040
Number of ATMs (Bank Pekao S.A. and PJSC UniCredit Bank)	1,745	1,761	1,759	1,825	1,847	1,919

(*) As financial data for the period 2014 – 2017 don't include results of PJSC UniCredit Bank – sold on July 16, 2013, in order to ensure comparability, the section "Income statement continued operations – selected items" was added where for the previous periods only results of continued operations are reported.

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

(***) Excluding repo transactions.

(****) Deposits include amounts due to customers, 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 Ornontowice, took over by Bank Pekao S.A. following decision of The Polish Financial Supervision Authority on December 5, 2014.

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

Income statement data included in the table above and other notes to the Report on 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 Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December, 2017. Reconciliation of income statement in the presentation form and the long form is in the point 7.4.4 of the Report on the activities of the Group.

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2 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2017 amounted to PLN 2,475.1 million and was higher by PLN 195.8 million, i.e. 8.6% than net profit for 2016.

Thanks to the effective commercial activity of the Group in 2017, a significant growth in loan volumes in the area of retail loans (an increase of 10.4% year on year) as well as in the area of corporate loans (an increase of 5.5% year on year) was reported. Such increase in lending was financed by higher volumes of retail deposits growing by 7.5% year on year and corporate deposits growing by 5.8% year on year as well as by higher volumes of Certificates of Deposit.

Total capital ratio (TCR) amounted to 17.1% as at the end of December 2017 and was slightly lower (0.5 p.p.) compared to 2016.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 88.5% as at the end of December 2017. This, together with high level of capital, enables for further sound and stable development of the Group's activities.

Net profit of Bank Pekao S.A. Group in 2017 was also influenced by the gain on remeasurement to fair value of previously held shares, related to the acquisition of remaining shares in Pioneer Pekao Investment Management S.A. and Dom Inwestycyjny Xelion Spółka z o.o. in the amount of PLN 414 million.

Main P&L items

In 2017, the Group's operating income amounted to PLN 7,350.4 million and was higher by 3.8% year on year excluding settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc in 2016 (nominally at comparable level to 2016), with the following trends:

- Total net interest income, dividend income and income from equity investments in 2017, amounted to PLN 4,652.7 million and was higher by PLN 215.3 million, i.e. 4.9% compared to 2016, mainly driven by higher volumes of loans as well as deposits,
- Net non-interest income in 2017, amounted to PLN 2,697.7 million and was higher by PLN 50.7 million, i.e. 1.9% in comparison with 2016 excluding settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc in 2016 (nominally lower by 7.3% year on year), with net fee and commission income (including fees on margins on foreign exchange transactions with clients) lower by 1.5% compared to 2016 mainly due to lower net fee and commission income on loans, cards and other net fee and commission.

The operating costs amounted to PLN 3,263.3 million in 2017. They were higher by PLN 51.4 million, i.e. 1.6% as compared with 2016, mainly due to higher personnel costs.

Guarantee funds charges in 2017, amounted to PLN 269.0 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 Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 521.3 million in 2017, an increase of PLN 20.7 million, i.e. 4.1% 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 137,470.9 million, an increase of PLN 9,166.6 million, i.e. 7.1% in comparison to the end of December 2016 with the volume of retail loans growing by 10.4% and corporate loans growing by 5.5%.

As of December 31, 2017, the ratio of impaired receivables to total receivables amounted to 5.4% as compared to 6.0% as at the end of December 2016.

As at the end of December 2017, the total amounts due to the Group's customers and debt securities issued amounted to PLN 149,426.4 million, an increase of PLN 11,523.7 million, i.e. 8.4% in comparison to the end of December 2016 with retail deposits growing by 7.5% and corporate deposits growing by 5.8% 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.

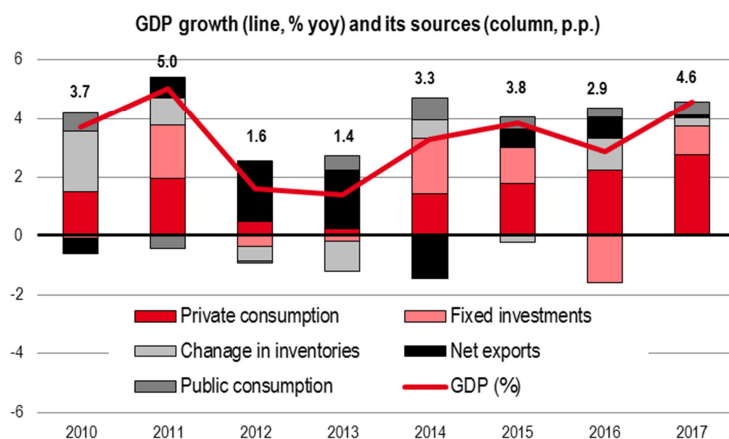
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3 External Activity Conditions

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.



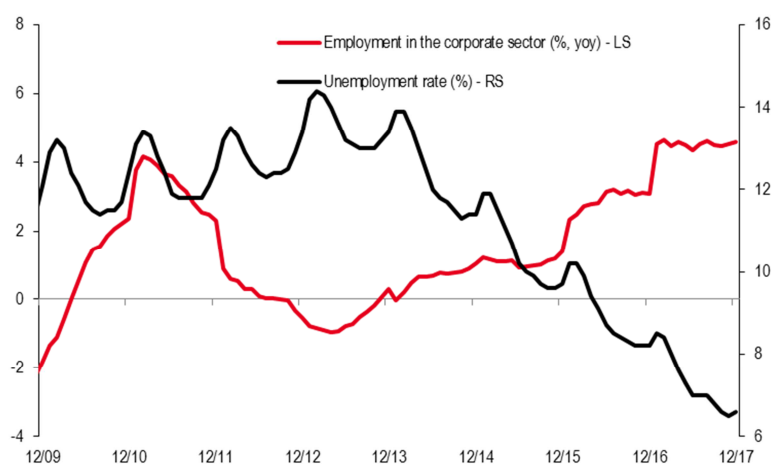
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Labour market

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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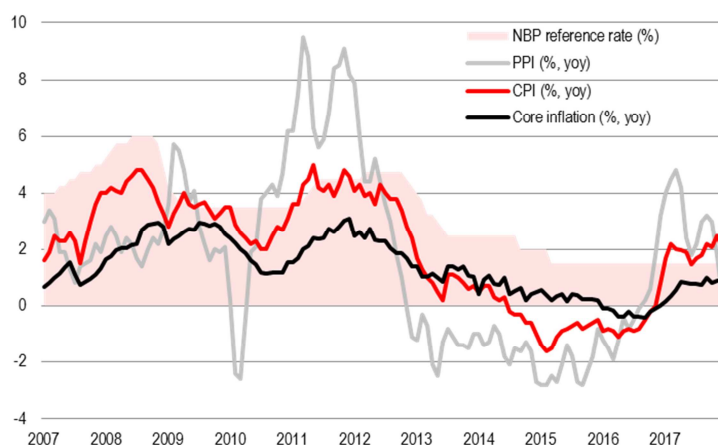
Inflation and monetary policy

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.



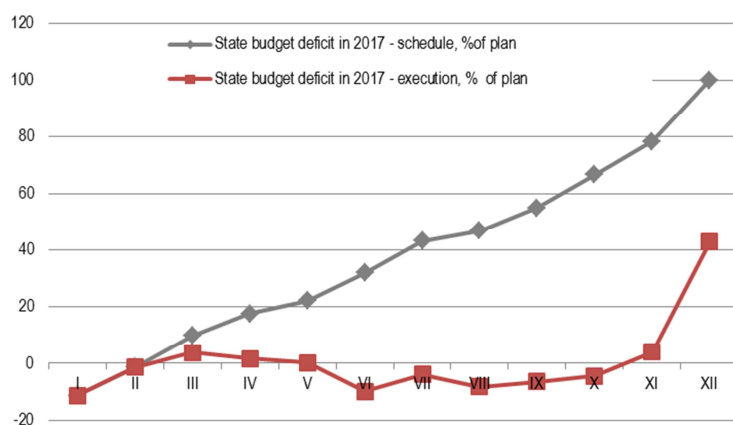
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Fiscal policy

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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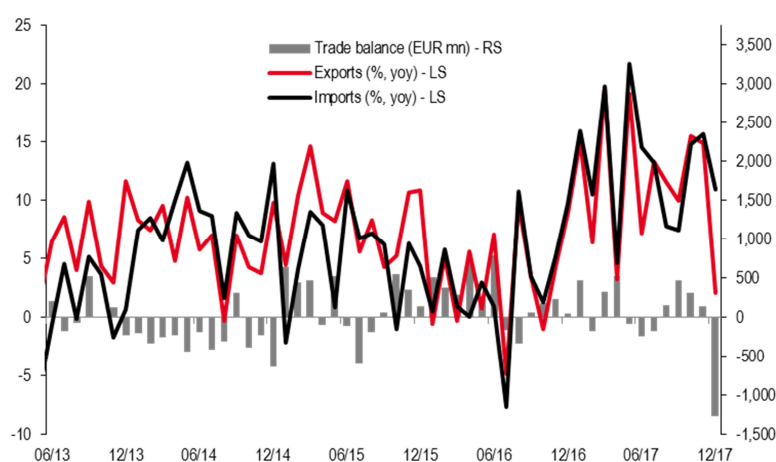
Foreign Sector

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.

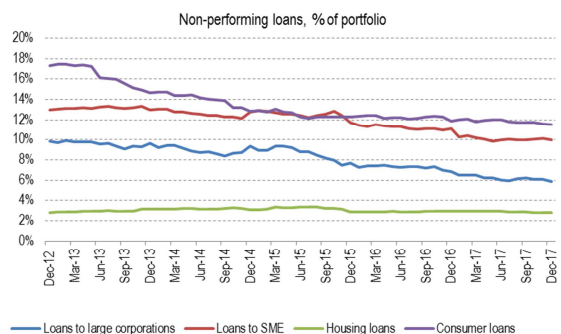
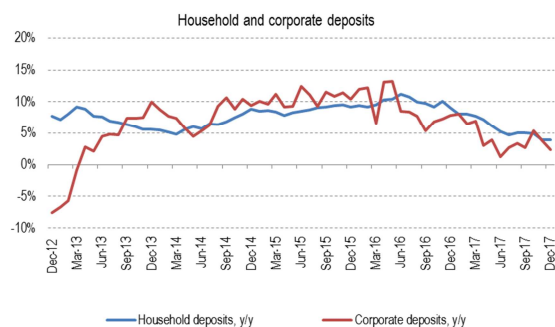
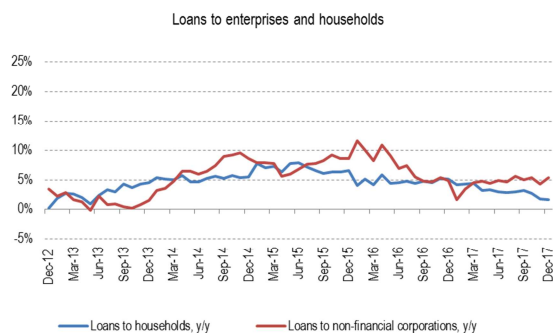
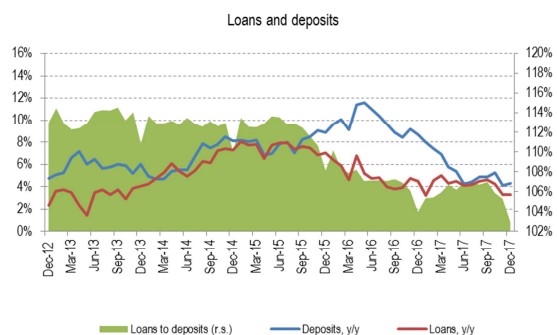
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In terms of loan portfolio quality, in 2017 the following developments were noted:

- 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.

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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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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 Głębikowska-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.

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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.

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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

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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. Rokszana 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:

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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.

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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.

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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.

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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 in Szkoła Główna Handlowa in Warsaw (Warsaw School of Economics).

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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.

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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.

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.

Report on the activities of Bank Pekao S.A. Group 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%

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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.

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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. Group for the year 2017

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

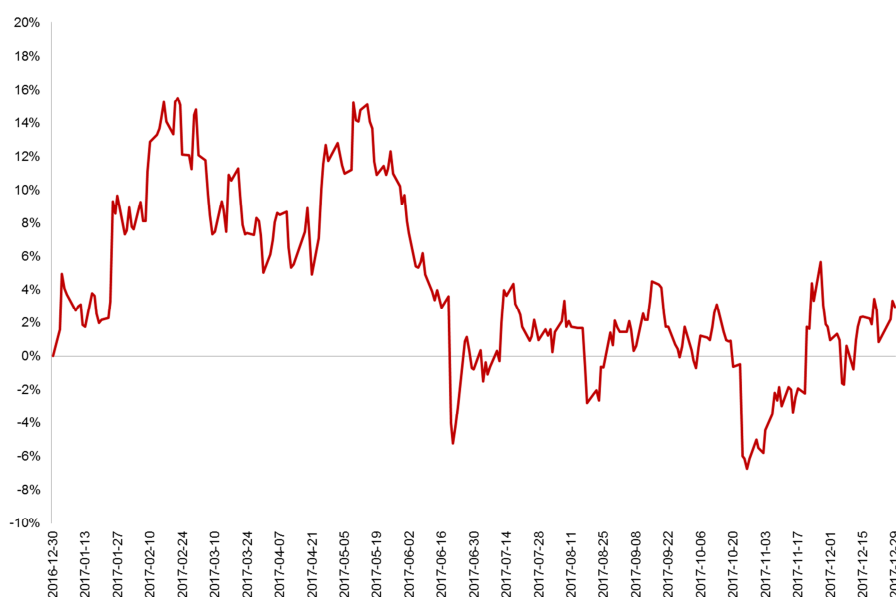
The shares of Bank Pekao S.A. have been listed on the Warsaw Stock Exchange since June 1998 and they are one of the most liquid equities in Poland and Central and Eastern Europe. Since 2000, the Bank maintains Global Depository Receipts (GDR) program. The Bank's GDRs are traded on London Stock Exchange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



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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".

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5.5 Financial credibility ratings

5.5.1 Bank Pekao S.A financial credibility ratings

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

As of 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.

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

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

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

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

6 Activity of Bank Pekao S.A. Group

6.1 Important factors influencing the Group'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.

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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.

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6.2 Major sources of risk and threats

Risk management

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

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

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

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

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

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

The rules and instruments of managing each of the risks and information on the risk exposure is included in Note 6 to the Consolidated Financial Statements of Bank Pekao S.A. Group 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.

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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 Group'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%. Both levels are increased by SREP requirement imposed by the KNF¹.

As of December 31, 2017 for Bank Pekao S.A. Group, total capital ratio amounted to 17.1% and Tier I ratio amounted to 16.1%. 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 the Group 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	8,833,498	8,323,345
Exceeding the exposure concentration limit and large exposures limit	-	-
Market risk	48,154	44,022
Counterparty credit risk including CVA	139,865	187,820
Operational risk	560,851	493,557
Total capital requirement	9,582,368	9,048,744
OWN FUNDS		
Common Equity Tier I Capital	19,252,010	19,954,579
Tier II Capital	1,250,000	-
Own funds for total capital ratio	20,502,010	19,954,579
Common Equity Tier I Capital ratio (%)	16.1%	17.6%
Total capital ratio TCR (%)	17.1%	17.6%

Total Capital Ratio of the Group as at the end of December 2017 was lower by 0.5 p.p. compared to the end of December 2016 mainly due to higher capital requirement, partially compensated by higher own funds.

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

Total capital requirement increased by 5.9%, mainly due to higher credit risk capital requirement resulting from, among others, increase in loan volumes and the KNF recommendation on application of credit conversion factor (CCF) 0%.

Common Equity Tier I Capital ratio as at the end of December 2017 was lower by 1.5 p.p. compared to December 2016, affected by Common Equity Tier I Capital lower by 3.5% compared to December 2016 due to purchase of Pioneer Pekao Investment Management S.A. stocks by the Bank.

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

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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

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

As at the end of December 2017, the retail brokerage entities of the Group maintained 334.7 thousand investment accounts. The Group's brokerage entities were serving 182.9 thousand accounts with an active access to services through remote channels. As at the end of 2017, direct service of individual customers was conducted through nationwide network of 441 points of brokerage services.

As of December 31, 2017, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 25.3 billion.

In 2017, activities of the Group's brokerage entities focused on clients service on the secondary market and acquisition of new customers through public offers. In 2017, the brokerage entities of the Group participated in consortia serving 12 IPO's, registering records of completed issuances for the total amount of over PLN 336 million.

Brokerage entities, within the framework of cooperation with the Group's related entities, conducted service of Fundusze Inwestycyjne Zamknięte offered by TFI PZU registering, under issuance of FIZ AKORD investment certificates, records for over PLN 100 million. Dom Maklerski 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 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 2017, the CDM offer was expanded by 36 open-end investment funds and 5 closed-end investment funds. The offer of CDM was supplemented by structured certificates issued under non-public offer. In 2017, seven issuances of certificates were conducted and were available in the offer for Private Banking customers.

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 Internet service of Dom Maklerski and CDM 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.

Dom Maklerski in Ogólnopolskie Badanie Inwestorów (SII) was promoted to the second position in the category of failure-free and fast Internet platform.

In 2017, the regulations were also reviewed and adjusted to reflect changes resulting from the MIFID 2 and other provisions introduced in 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.

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.

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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 Major areas of activities of the Group's subsidiaries

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

Dom Maklerski, CDM and Xelion render brokerage services within the Group providing retail customers with a wide range of products and services on the capital markets. For detailed description of the brokerage activity refer to the point 6.4.1.

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

6.5.1 Banking activity

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In 2017, Pekao Bank Hipoteczny, as a specialized mortgage bank, continued activities on the market of commercial properties, as well as loans for purchase, construction, refurbishment or modernization of housing loans to individuals.

As at the end of 2017, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 1,774.8 million, a decrease by PLN 249,4 million, i.e. 12.3% in comparison to 2016. Loans granted to corporates and local governments represent 50.1% and loans granted to individual clients represent 49.9% of loan portfolio structure. Loans granted in 2017 in over 98% were dedicated to finance housing loans to individuals.

In 2017, within the framework of a strategy focused on co-operation with Bank Pekao S.A., Pekao Bank Hipoteczny provides the Group with long-term financing as issuer of covered bonds.

In 2017, within the second Program of Covered Bonds to bearer, Pekao Bank Hipoteczny conducted two public issuances of covered bonds (one issuance was terminated in this period). The total value of liabilities due to covered bonds amounted to PLN 1,211.3 million as of December 31, 2017.

6.5.2 Assets management

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

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

Pekao TFI is the oldest investment fund in Poland providing customers with modern financial products and opportunity to invest on the Polish and the largest global capital markets. For many years, it creates savings programs, including programs offering additional savings for retirement under the third pillar, voluntary pension pillar. Service of portfolios management is also available in Pekao TFI offer.

As of December 31, 2017, the net asset value of investment funds of Pekao TFI S.A. amounted to PLN 18,410.0 million, an increase of PLN 1,616.1 million, i.e. 9.6% as compared to the end of 2016.

Pekao Powszechnie Towarzystwo Emerytalne S.A. (ex. Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A.) – Pekao PTE

Pekao PTE activity is the management of an open-end pension fund Pekao OFE, in which pension contributions are pooled and invested with the aim of their distribution to unit holders after they reach retirement age and voluntary pension fund Pekao DFE which allows collecting of additional funds with a number of advantages of this form of saving.

As at the end of 2017, the value of the pension fund's net assets was PLN 2,655.3 million and Pekao OFE held 1.5% share in the market of open-end pension funds, i.e. on the similar level in comparison to 2016.

As a consequence of the agreement for which refer to point 4.1., Pekao PTE financial statement for 2017 was prepared with assumption of non-going concern basis. The Company will run its business activity 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.

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6.5.3 Leasing activity

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

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

In 2017, the Company concluded 11,078 new agreements. The value of leased assets increased in comparison to 2016 by 15.4% and amounted to PLN 2,494.3 million, of which 62.5% were vehicles, 30.6% - plant and equipment, 0.6% - real estates and 6.3% - others.

Under the program of co-operation between Pekao Leasing and Bank Pekao S.A. in the area of sale, the value of assets leased via the Bank's branches amounted to PLN 1,677.5 million and increased by 13.0% in comparison to 2016.

6.5.4 Factoring activity

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

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

The Company is ranked the seventh on the Polish factoring market, with 8.1% of market share.

6.5.5 Transactional advisory

Pekao Investment Banking S.A. - PIB

PIB operates as brokerage house, focusing on institutional and corporate clients service. The scope of services provided by PIB include in particular receiving and transferring financial instruments to buy or sell orders, execution of these orders on the account of orders provider, offering financial instruments, advisory for corporates within capital structure, corporate strategy or other issues related to such structure or strategy as well as other services related to mergers, demergers and corporates acquisition.

In 2017, PIB acted, in particular, as the M&A main advisor in stock acquisition of entity from retail sector and participated as co-editor in book-building process of entity from financial institutions sector. It was also coordinator and co-governing in book-building process in: sale of shares of developer company in SPO offer, equity increase of company in SPO offer and equity increase of company from real estate sector in the accelerated book-building process. In addition, acted, among others, as organizer in bonds issuance offer of two companies and as an intermediary entity in tender offer.

PIB acts also as an animator both on equities as well as on derivative instruments market, being one of the most active animators. As at the end of 2017, PIB was the animator for 21 companies.

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6.5.6 Other financial services

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

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

CBB supports Bank Pekao S.A., as a major customer, in the use of online banking, cards and call center products. The Company in its operations serves customers through alternative channels of communication, including, above all, by phone and mailing. The main channel of communication are the phone calls - in 2017, CBB handled 16.8 million calls (an increase of 7.7% compared to 2016).

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

Pekao Financial Services Sp. o.o. – PFS

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

Among the clients served by the PFS there are companies with established market position. As at the end of December 2017, the company maintained its leading position in the OFE funds serving using the services of external Transfer Agent.

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

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

In 2017, CK S.A. continued realization of important IT projects allowing the extension of a range of products offered by Bank Pekao S.A.

The main projects realized in 2017 included the implementation of new mobile application for the clients of Bank Pekao S.A. and authorization functionality for debit cards.

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6.6 Investing in human capital

Human Capital as a key asset

The principles of the Bank's policy in the area of Human Resources (HR) development are set by its mission and values considered as 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 Group employed 17,339 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 17,757 employees as at the end of 2016.

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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6.7 Sponsorship and charity policy

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

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

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

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

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7 Statement of Financial Position and Financial Results

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

The Report on activities of Bank Pekao S.A. Group 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 consolidated statement of financial position – short form

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of December 2017, the total assets of Bank Pekao S.A. constitutes 98.2% of the total assets of the whole Group.

The tables below present the Group'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	5,236.3	2.8%	5,872.9	3.4%	(10.8%)
Loans and advances to banks ^(*)	2,627.6	1.4%	3,258.5	1.9%	(19.4%)
Loans and advances to customers ^(**)	132,300.4	71.3%	122,663.2	70.4%	7.9%
Reverse repo transactions	-	x	-	x	x
Securities ^(***)	38,636.2	20.8%	35,853.1	20.6%	7.8%
Investments in associates	0.0	0.0%	136.2	0.1%	(100.0%)
Property, plant and equipment and intangible assets	2,951.1	1.6%	2,019.1	1.2%	46.2%
Other assets	3,714.0	2.1%	4,411.9	2.4%	(15.8%)
Total assets	185,465.6	100.0%	174,214.9	100.0%	6.5%

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

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

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

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	4,981.3	2.7%	4,823.4	2.8%	3.3%
Amounts due to customers	145,397.8	78.4%	136,379.7	78.3%	6.6%
Debt securities issued	2,771.4	1.5%	1,523.0	0.9%	82.0%
Subordinated liabilities	1,257.2	0.7%	-	x	x
Repo transactions	788.4	0.4%	1,436.2	0.8%	(45.1%)
Other liabilities	6,995.6	3.8%	7,134.6	4.0%	(1.9%)
Total equity, including	23,267.8	12.5%	22,911.9	13.2%	1.6%
non-controlling interests	-	x	14.9	0.0%	x
Total equity and liabilities	185,465.6	100.0%	174,214.9	100.0%	6.5%

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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 71.3% and 20.8% of the total assets respectively in comparison with 70.4% and 20.6% 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:	5,236.3	5,872.9	(10.8%)
Cash	2,686.6	2,639.5	1.8%
Current account at Central Bank	2,259.0	1,713.3	31.9%
Other	290.7	1,520.1	(80.9%)

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⁾	136,874.4	127,421.6	7.4%
Loans ⁽²⁾	124,188.5	115,020.0	8.0%
Retail	64,156.9	58,109.9	10.4%
Corporate	60,031.6	56,910.1	5.5%
Non-quoted securities	12,685.9	12,401.6	2.3%
Other ⁽³⁾	703.9	647.0	8.8%
Nominal value adjustment	254.0	304.2	(16.5%)
Impairment losses	(5,531.9)	(5,709.6)	(3.1%)
Total net receivables	132,300.4	122,663.2	7.9%
Securities issued by non-monetary entities ⁽⁴⁾	596.5	882.7	(32.4%)
Reverse repo transactions	-	-	x
Total customers' financing⁽⁵⁾	137,470.9	128,304.3	7.1%
Total customers' financing excluding reverse repo transactions	137,470.9	128,304.3	7.1%

(1) Excluding reverse repo transactions.

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

(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 137,470.9 million, an increase of PLN 9,166.6 million, i.e. 7.1% 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 64,156.9 million, an increase of PLN 6,047.0 million, i.e. 10.4% in comparison to the end of December 2016.

As at the end of December 2017, corporate loans amounted to PLN 60,031.6 million, an increase of PLN 3,121.5 million, i.e. 5.5% 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 73,314.0 million as at the end of December 2017, an increase of PLN 3,119.6 million, i.e. 4.4% as compared to the end of December 2016.

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Receivables and impairment losses

(in PLN million)

	31.12.2017	31.12.2016	CHANGE
Gross receivables^(*)	137,207.6	127,815.4	7.3%
Not impaired	129,771.3	120,154.8	8.0%
Impaired	7,436.3	7,660.6	(2.9%)
Impairment losses	(5,531.9)	(5,709.6)	(3.1%)
Interest	624.7	557.4	12.1%
Total net receivables	132,300.4	122,663.2	7.9%

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

As of December 31, 2017, the ratio of impaired receivables to total receivables amounted to 5.4% as compared to 6.0% as at the end of December 2016.

Impairment losses as at the end of December 2017 amounted to PLN 5,531.9 million.

Loans and advances to customers by currency^(*)

	31.12.2017		31.12.2016		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	115,285.7	83.6%	103,891.3	80.9%	11.0%
Denominated in foreign currencies ^(**)	22,546.6	16.4%	24,481.5	19.1%	(7.9%)
Total	137,832.3	100.0%	128,372.8	100.0%	7.4%
Impairment losses	(5,531.9)	x	(5,709.6)	x	(3.1%)
Total net	132,300.4	x	122,663.2	x	7.9%

(*) 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 83.6%. The largest portion of foreign currency loans and advances to customers is represented by those denominated in EUR (70.0%), CHF (16.2%) and USD (12.8%).

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	14,778.9	10.7%	15,047.9	11.7%	(1.8%)
1 to 3 months	4,902.9	3.6%	3,271.3	2.5%	49.9%
3 months to 1 year	11,325.7	8.2%	13,330.4	10.4%	(15.0%)
1 to 5 years	44,549.8	32.3%	39,666.9	30.9%	12.3%
Over 5 years	61,571.1	44.7%	56,409.3	43.9%	9.2%
Other	703.9	0.5%	647.0	0.6%	8.8%
Total	137,832.3	100.0%	128,372.8	100.0%	7.4%
Impairment losses	(5,531.9)	x	(5,709.6)	x	(3.1%)
Total net	132,300.4	x	122,663.2	x	7.9%

(*) 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 44.7% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Information on loan concentration is included in the Note 28 and 29 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2017.

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Credit exposures towards Ukraine

As of December 31, 2017, the net balance sheet value of remaining exposures towards Ukraine amounted to PLN 29 million (which constitutes 0.02% of total Group exposures), less by PLN 82 million in comparison with the end of December 2016.

7.1.2 Liabilities

Changes in the structure of liabilities

Amounts due to customers were the main item under the Group's liabilities and equity. As at the end of 2017, amounts due to customers, debt securities issued and subordinated liabilities totaled PLN 149,426.4 million, and their share in the total assets was 80.6%, compared with 79.2% as at the end of 2016. The share of total shareholder's equity in the total assets was 12.5% as at the end of 2017, compared with 13.2% 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	4,981.3	4,823.4	3.3%
Amounts due to customers	145,397.8	136,379.7	6.6%
Debt securities issued	2,771.4	1,523.0	82.0%
Subordinated liabilities	1,257.2	-	x
Repo transactions	788.4	1,436.2	(45.1%)
Total external sources of financing	155,202.2	144,168.4	7.7%

Amounts due to customers amounted to PLN 145,397.8 million, an increase by 6.6% to significant extent contributed to dynamic increase in loans.

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

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. Group for the year 2017

Amounts due to customers and debt securities issued

(in PLN million)

	31.12.2017	31.12.2016	CHANGE
Corporate deposits	69,561.8	65,764.5	5.8%
Non-financial entities	48,055.8	48,932.4	(1.8%)
Non-banking financial entities	9,318.3	9,024.7	3.3%
Budget entities	12,187.7	7,807.4	56.1%
Retail deposits	75,438.5	70,183.2	7.5%
Other (*)	397.5	432.0	(8.0%)
Amounts due to customers(**)	145,397.8	136,379.7	6.6%
Debt securities issued, of which	4,028.6	1,523.0	> 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
Pekao Bank Hipoteczny S.A. covered bonds	1,204.0	1,214.8	(0.9%)
Pekao Leasing Sp. z o.o. bonds	90.1	-	x
Interest	23.7	9.3	> 100%
Amounts due to customers and debt securities issued, total(**)	149,426.4	137,902.7	8.4%
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%
Bond and money market funds	13,350.4	12,108.2	10.3%
Balanced funds	2,666.4	2,418.1	10.3%
Equity funds	2,393.2	2,267.6	5.5%
including distributed through the Group's network	18,093.2	16,470.2	9.9%

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

(**) Excluding repo transactions.

As at the end of December 2017, the total amounts due to the Group's customers and debt securities issued amounted to PLN 149,426.4 million, an increase of PLN 11,523.7 million, i.e. 8.4% in comparison to the end of December 2016.

Retail deposits amounted to PLN 75,438.5 million as at the end of December 2017, an increase of PLN 5,255.3 million, i.e. 7.5% in comparison to the end of December 2016.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 76,107.2 million as at the end of December 2017, an increase of PLN 5,382.4 million, i.e. 7.6% in comparison to the end of December 2016.

Corporate deposits amounted to PLN 69,561.8 million as at the end of December 2017, an increase of PLN 3,797.3 million, i.e. 5.8% as compared to the end of December 2016.

The total volume of corporate deposits, Certificates of Deposit, subordinated bonds, Pekao Bank Hipoteczny S.A. covered bonds, Pekao Leasing Sp. z o.o. bonds, interest and other amounted to PLN 73,319.2 million as at the end of December 2017, an increase of PLN 6,141.3 million, i.e. 9.1% 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. Group 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	119,157.4	82.0%	113,654.0	83.3%	4.8%
Denominated in foreign currencies	26,240.4	18.0%	22,725.7	16.7%	15.5%
Total	145,397.8	100.0%	136,379.7	100.0%	6.6%

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

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of December 2017 amounted to 82.0%. 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	90,645.1	62.5%	79,090.1	58.2%	14.6%
Term deposits	54,355.2	37.5%	56,857.6	41.8%	(4.4%)
Total deposits	145,000.3	100.0%	135,947.7	100.0%	6.7%
Interest accrued	166.4	x	198.5	x	(16.2%)
Funds in transit	231.1	x	233.5	x	(1.0%)
Total	145,397.8	x	136,379.7	x	6.6%

(*) 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	59,635.0	54,592.2	9.2%
Liabilities granted:	45,378.6	43,564.2	4.2%
financial	33,880.0	32,304.3	4.9%
guarantees	11,498.6	11,259.9	2.1%
Liabilities received:	14,256.4	11,028.0	29.3%
financial	385.0	209.1	84.1%
guarantees	13,871.4	10,818.9	28.2%
Derivative financial instruments	197,205.9	196,569.9	0.3%
interest rate transactions	98,249.4	96,486.1	1.8%
transactions in foreign currency and in gold	97,536.0	99,253.8	(1.7%)
transactions based on commodities and equity securities	1,420.5	830.0	71.1%
Total off-balance sheet items	256,840.9	251,162.1	2.3%

More detailed information on off-balance-sheet items is included in the Notes 27 and 49 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2017.

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

7.2 The structure of the net profit

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

(in PLN million)

	2017	2016	CHANGE
Net profit of Bank Pekao S.A.	2,088.1	2,278.4	(8.4%)
Entities consolidated under full method			
Pekao Leasing Sp. z o.o.	34.8	40.0	(13.0%)
Centralny Dom Maklerski Pekao S.A.	33.1	25.3	30.8%
Pekao Faktoring Sp. z o.o.	11.0	9.7	13.4%
Pekao Financial Services Sp. z o.o.	6.0	7.5	(20.0%)
Pekao Bank Hipoteczny S.A.	5.8	8.7	(33.3%)
Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) ^(*)	5.8	x	x
Pekao Investment Banking S.A.	4.7	24.4	(80.7%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	3.8	3.4	11.8%
FPB "Media" Sp. z o.o.	0.9	(0.2)	x
Centrum Kart S.A.	0.8	0.3	> 100%
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji ^(**)	0.4	0.3	33.3%
Dom Inwestycyjny Xelion sp. z o.o. ^(*)	0.3	x	x
Pekao Powszechne Towarzystwo Emerytalne S.A. (ex. Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.) ^(***)	(3.1)	1.4	x
Pekao Property S.A.	(24.5)	(0.3)	> 100%
Pekao Leasing Holding S.A. w likwidacji ^(****)	x	0.4	x
Entities valued under the equity method			
Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) ^(*)	36.9	36.4	1.4%
Dom Inwestycyjny Xelion sp. z o.o. ^(*)	2.6	2.2	18.2%
Exclusions and consolidation adjustments^(****)	267.7	(158.6)	x
Net profit of the Group attributable to equity holders of the Bank	2,475.1	2,279.3	8.6%

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

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

Net profit of aforementioned Companies for eleven months of 2017 was recognized under the equity method and net profit for December 2017 under full method.

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

(***) 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.

Loss incurred in 2017 is the consequence of agreement for which refer to the point 4.1. and assumption of non-going concern basis in financial statement of the Company.

(****) On September 20, 2016 Pekao Leasing Holding S.A. w likwidacji was removed from the National Court Register.

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

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

The results of Bank Pekao S.A.

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

(in PLN million)

	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 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%)
Net profit	2,088.1	2,278.4	(8.4%)

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%.

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

The main Bank's financial information are as follows:

	31.12.2017	31.12.2016	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	133,307.9	123,660.5	7.8%
Securities issued by non-monetary entities ^(**)	605.4	882.7	(31.4%)
Amounts due to customers	146,109.9	136,629.9	6.9%
Structured Certificates of Deposit	310.8	168.9	84.0%
Certificates of Deposit	1,150.0	130.0	> 100%
Subordinated bonds	1,250.0	-	x
Repo transactions	788.4	1,436.2	(45.1%)
Total assets	182,077.0	170,988.9	6.5%
Investment funds distributed through the Bank's network	17,203.9	15,583.6	10.4%
SELECTED RATIOS			
Impaired receivables to total receivables in % ^(***)	5.2%	5.8%	(0.6) p.p.
TCR (Basel III) in %	18.4%	18.2%	0.2 p.p.

(*) Including loans and non-quoted securities.

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

(***) Excluding reverse repo transactions.

As at the end of December 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. As at the end of December 2017, the volume of retail loans amounted to PLN 63,269.5 million and 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, the amounts due to the customers, Structured Certificates of Deposit, Certificates of Deposit and subordinated bonds amounted to PLN 148,820.7 million, an increase of PLN 11,891.9 million, i.e. 8.7% in comparison to the end of December 2016.

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

The value of net assets of investment funds managed by Pekao TFI S.A. (ex. Pioneer Pekao TFI S.A.) distributed through the Bank's network amounted to PLN 17,203.9 million as at the end of December 2017, an increase of PLN 1,620.3 million, i.e. 10.4% in comparison to the end of December 2016.

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

Results of the Bank's major related entities

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

In 2017, consolidated net profit of Pekao IM amounted to PLN 81.2 million compared with PLN 74.3 million in 2016 influenced by favourable situation on capital markets. The Bank's share in the company's profit valued under the equity method for eleven months of 2017 amounted to **PLN 36.9 million**. The Bank consolidated the Company's profit for December 2017 in the amount of **PLN 5.8 million** under full method.

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

In 2017, Pekao Leasing reported a net profit of **PLN 34.8 million** compared with PLN 40.0 million in 2016. In 2017, Pekao Leasing signed over 11 thousand new agreements, i.e. 6% increase year on year, while the value of leased assets was higher by 15.4% year on year and amounted to PLN 2,494.3 million.

Centralny Dom Maklerski Pekao S.A. – CDM

In 2017, net profit of CDM amounted to **PLN 33.1 million** compared with PLN 25.3 million profit earned in 2016, influenced by favourable situation on capital markets, higher turnover on the WSE and higher revenues on mutual funds.

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

In 2017, Pekao Faktoring reported a net profit of **PLN 11.0 million** compared with PLN 9.7 million in 2016 influenced by favourable situation on factoring market and increased factoring commitment (increase by 30.1% year on year).

Pekao Investment Banking S.A. – PIB

In 2017, PIB reported net profit of **PLN 4.7 million** compared with PLN 24.4 million in 2016 resulting from the realization of large transactions in 2016.

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

In 2017, PFS reported a net profit in the amount of **PLN 6.0 million** compared with PLN 7.5 million in 2016. 2016 profit was also influenced by additional income achieved from one-off services for customers.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In 2017, Pekao Bank Hipoteczny reported a net profit of **PLN 5.8 million** compared with PLN 8.7 million in 2016.

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

7.3 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2017 amounted to PLN 2,475.1 million and was higher by PLN 195.8 million, i.e. 8.6% than net profit for 2016.

Thanks to the effective commercial activity of the Group in 2017, a significant growth in loan volumes in the area of retail loans (an increase of 10.4% year on year) as well as in the area of corporate loans (an increase of 5.5% year on year) was reported. Such increase in lending was financed by higher volumes of retail deposits growing by 7.5% year on year and corporate deposits growing by 5.8% year on year as well as by higher volumes of Certificates of Deposit.

Total capital ratio (TCR) amounted to 17.1% as at the end of December 2017 and was slightly lower (0.5 p.p.) compared to 2016.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 88.5% as at the end of December 2017. This, together with high level of capital, enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

(in PLN million)

	2017	2016	CHANGE
Net interest income	4,593.5	4,382.0	4.8%
Dividend income and income from equity investments	59.2	55.4	6.9%
Total net interest income, dividend income and other income from equity investments	4,652.7	4,437.4	4.9%
Net fee and commission income	2,353.0	2,390.0	(1.5%)
Trading result	88.8	332.1	(73.3%)
Net other operating income and expenses	255.9	187.7	36.3%
Net non-interest income	2,697.7	2,909.8	(7.3%)
Operating income	7,350.4	7,347.2	0.0%
Operating costs	(3,263.3)	(3,211.9)	1.6%
Gross operating profit	4,087.1	4,135.3	(1.2%)
Net impairment losses on loans and off-balance sheet commitments	(521.3)	(500.6)	4.1%
Net operating profit	3,565.8	3,634.7	(1.9%)
Net result on other provisions	(36.0)	(14.5)	> 100%
Guarantee funds charges	(269.0)	(262.9)	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	414.5	5.3	> 100%
Profit before tax	3,153.0	2,896.5	8.9%
Income tax expense	(677.3)	(616.7)	9.8%
Net profit	2,475.7	2,279.8	8.6%
Attributable to equity holders of the Bank	2,475.1	2,279.3	8.6%
Attributable to non-controlling interest	0.6	0.5	20.0%

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

Operating income

In 2017, the Group's operating income amounted to PLN 7,350.4 million and was higher by 3.8% year on year excluding settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc in 2016 (nominally at comparable level to 2016).

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

(in PLN million)

	2017	2016	CHANGE
Interest income	5,640.7	5,448.5	3.5%
Interest expense	(1,047.2)	(1,066.5)	(1.8%)
Net interest income	4,593.5	4,382.0	4.8%
Dividend income	19.8	16.8	17.9%
Income from equity investments	39.4	38.6	2.1%
Total net interest income, dividend income and income from equity investments	4,652.7	4,437.4	4.9%

Total net interest income, dividend income and income from equity investments in 2017, amounted to PLN 4,652.7 million and was higher by PLN 215.3 million, i.e. 4.9% compared to 2016, mainly driven by higher volumes of loans as well as deposits.

Net non-interest income

(in PLN million)

	2017	2016	CHANGE
Fee and commission income	2,663.5	2,683.1	(0.7%)
Fee and commission expense	(310.5)	(293.1)	5.9%
Net fee and commission income	2,353.0	2,390.0	(1.5%)
Trading result	88.8	332.1	(73.3%)
of which gains on disposal of AFS assets	41.5	276.5	(85.0%)
Net other operating income and expense	255.9	187.7	36.3%
Net non-interest income	2,697.7	2,909.8	(7.3%)

Net non-interest income in 2017, amounted to PLN 2,697.7 million and was higher by PLN 50.7 million, i.e. 1.9% in comparison with 2016 excluding settlement of the transaction of the acquisition of Visa Europe Limited by Visa Inc in 2016 (nominally lower by -7.3% year on year), with net fee and commission income (including fees on margins on foreign exchange transactions with clients)^(*) lower by 1.5% compared to 2016 mainly due to lower net fee and commission income on loans, cards and other net fee and commission. Trading result was lower by 73.3% 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 Group introduced changes in presentation in the income statement of the margins on foreign exchange transactions with the Group'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. Group 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 5 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2017.

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

The Group's net fee and commission income in 2017, amounted to PLN 2,353.0 million and was lower by PLN 37.0 million, i.e. 1.5% in comparison with 2016, mainly due to 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 Group'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	2,353.0	2,390.0	(1.5%)
on loans	502.4	524.5	(4.2%)
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	283.8	248.1	14.4%
other	770.1	806.2	(4.5%)

Operating costs

The operating costs amounted to PLN 3,263.3 million in 2017. They were higher by PLN 51.4 million, i.e. 1.6% as compared with 2016, mainly due to higher personnel costs.

(in PLN million)

	2017	2016	CHANGE
Personnel expenses	(1,950.3)	(1,896.8)	2.8%
Other administrative expenses	(965.7)	(974.2)	(0.9%)
Depreciation and amortization	(347.3)	(340.9)	1.9%
Operating costs	(3,263.3)	(3,211.9)	1.6%

In 2017, cost / income ratio amounted to 44.4% in comparison with 43.7% in 2016.

As of December 31, 2017, the Group employed 17,339 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 17,757 employees as at the end of December 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 269.0 million, an increase of PLN 6.1 million, i.e. 2.3% in comparison with 2016.

Net result on investment activities

Net result on investment activities in 2017 amounted to PLN 414.5 million mainly due to remeasurement to fair value of previously held shares, related to the acquisition of remaining shares in Pioneer Pekao Investment Management S.A. and Dom Inwestycyjny Xelion Spółka z o.o.

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. Group for the year 2017

Net impairment losses

(in PLN million)

	2017	2016	CHANGE
Impairment losses on loans	(503.7)	(401.4)	25.5%
Impairment losses on off-balance sheet commitments	(17.6)	(99.2)	(82.3%)
Net impairment losses on loans and off-balance sheet commitments	(521.3)	(500.6)	4.1%

The Group's net impairment losses on loans and off-balance sheet 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. 0.44% (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	602.6	560.4	7.5%
of which:			
provisions for off-balance sheet commitments	236.9	221.0	7.2%
provisions for liabilities to employees	343.5	316.7	8.5%
other provisions	22.2	22.7	(2.2%)
Deferred tax liabilities	37.7	4.9	> 100%
Deferred tax assets	950.8	1,003.4	(5.2%)

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

7.4 Quarterly Income Statement

7.4.1 Consolidated income statement – long form

Consolidated income statement for 2017 - Provided for comparability purposes.

(in PLN thousand)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Interest income	1,459,134	1,414,047	1,392,566	1,374,967
Interest expense	(268,968)	(261,926)	(256,384)	(259,940)
Net interest income	1,190,166	1,152,121	1,136,182	1,115,027
Fee and commission income	703,574	658,913	659,104	641,974
Fee and commission expense	(86,381)	(78,829)	(76,818)	(68,492)
Net fee and commission income	617,193	580,084	582,286	573,482
Dividend income	131	223	19,269	149
Result on financial assets and liabilities held for trading	22,873	11,246	858	8,015
Result on fair value hedge accounting	650	919	1,334	1,713
Gains (losses) on disposal of:	159,337	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	15,682	19,841	5,120	809
financial liabilities	(120)	(72)	(29)	(51)
Operating income	1,990,350	1,766,475	1,745,047	1,699,210
Net impairment losses on financial assets and off-balance sheet commitments:	(152,797)	(138,579)	(114,848)	(115,126)
loans and other financial receivables	(137,896)	(129,100)	(112,254)	(124,470)
available for sale financial assets and held to maturity investments	-	(99)	-	-
off-balance sheet commitments	(14,901)	(9,380)	(2,594)	9,344
Net result on financial activity	1,837,553	1,627,896	1,630,199	1,584,084
Administrative expenses	(922,856)	(884,976)	(865,632)	(1,036,360)
personnel expenses	(504,800)	(493,184)	(482,349)	(469,969)
other administrative expenses ⁽¹⁾	(418,056)	(391,792)	(383,283)	(566,391)
Depreciation and amortization	(93,701)	(84,070)	(85,225)	(84,342)
Net result on other provisions	(14,053)	(7,968)	(8,467)	(5,535)
Net other operating income and expenses	24,926	39,630	12,153	35,739
Operating costs	(1,005,684)	(937,384)	(947,171)	(1,090,498)
Gains (losses) on subsidiaries and associates	421,755	11,105	10,444	10,110
Gains (losses) on disposal of property, plant and equipment, and intangible assets	181	375	(59)	125
Profit before income tax	1,253,805	701,992	693,413	503,821
Income tax expense	(199,674)	(165,406)	(158,214)	(154,029)
Net profit for the period	1,054,131	536,586	535,199	349,792
Attributable to equity holders of the Bank	1,054,131	536,220	535,069	349,709
Attributable to non-controlling interest	-	366	130	83

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

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

Consolidated income statement for 2016 - Provided for comparability purposes.

(in PLN thousand)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Interest income	1,374,829	1,382,257	1,338,188	1,353,216
Interest expense	(262,018)	(264,806)	(256,183)	(283,478)
Net interest income	1,112,811	1,117,451	1,082,005	1,069,738
Fee and commission income	690,629	666,331	689,289	636,862
Fee and commission expense	(78,191)	(69,592)	(70,648)	(74,690)
Net fee and commission income	612,438	596,739	618,641	562,172
Dividend income	236	151	16,410	1
Result on financial assets and liabilities held for trading	9,957	10,510	11,906	22,010
Result on fair value hedge accounting	5,265	1,449	(2,533)	(2,868)
Gains (losses) on disposal of:	4,209	7,811	273,500	150,383
loans and other financial receivables	3,773	-	5,796	149,924
available for sale financial assets and held to maturity investments	460	7,862	267,707	464
financial liabilities	(24)	(51)	(3)	(5)
Operating income	1,744,916	1,734,111	1,999,929	1,801,436
Net impairment losses on financial assets and off-balance sheet commitments:	(106,179)	(133,882)	(131,179)	(129,389)
loans and other financial receivables	(68,911)	(131,532)	(72,740)	(128,226)
available for sale financial assets and held to maturity investments	-	-	-	-
off-balance sheet commitments	(37,268)	(2,350)	(58,439)	(1,163)
Net result on financial activity	1,638,737	1,600,229	1,868,750	1,672,047
Administrative expenses	(920,340)	(895,948)	(911,446)	(874,590)
personnel expenses	(482,836)	(469,837)	(472,983)	(471,180)
other administrative expenses ⁽¹⁾	(437,504)	(426,111)	(438,463)	(403,410)
Depreciation and amortization	(84,359)	(85,037)	(85,677)	(85,793)
Net result on other provisions	(4,994)	(6,628)	(2,024)	(829)
Net other operating income and expenses	8,006	12,010	3,971	6,541
Operating costs	(1,001,687)	(975,603)	(995,176)	(954,671)
Gains (losses) on subsidiaries and associates	8,908	9,862	9,788	10,003
Gains (losses) on disposal of property, plant and equipment, and intangible assets	98	3,617	363	1,281
Profit before income tax	646,056	638,105	883,725	728,660
Income tax expense	(151,172)	(117,330)	(193,098)	(155,182)
Net profit for the period	494,884	520,775	690,627	573,478
Attributable to equity holders of the Bank	494,712	520,654	690,513	573,396
Attributable to non-controlling interest	172	121	114	82

⁽¹⁾ 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. Group for the year 2017

7.4.2 Consolidated statement of comprehensive income Consolidated statement of comprehensive income for 2017

(in PLN thousand)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net profit	1,054,131	536,586	535,199	349,792
Attributable to equity holders of the Bank	1,054,131	536,220	535,069	349,709
Attributable to non-controlling interest	-	366	130	83
Other comprehensive income				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Change in fair value of available-for-sale financial assets	(39,359)	2,986	94,566	172,399
Change in fair value of cash flow hedges	(26,332)	25,287	(27,607)	(4,491)
Income tax expense on other comprehensive income	12,482	(5,373)	(12,721)	(31,903)
<i>Items that will never be reclassified to profit or loss:</i>				
Re-measurements of the defined benefit liabilities	8,557	-	-	-
Share in re-measurements of the defined benefit liabilities of associates	-	-	-	-
Tax on items that will never be reclassified to profit or loss	(1,625)	-	-	-
Other comprehensive income (net)	(46,277)	22,900	54,238	136,005
Total comprehensive income	1,007,854	559,486	589,437	485,797
Attributable to equity holders of the Bank	1,007,854	559,120	589,307	485,714
Attributable to non-controlling interest	-	366	130	83

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.

Consolidated statement of comprehensive income for 2016

(in PLN thousand)

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

Note: 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. Group for the year 2017

7.4.3 Consolidated income statement – presentation form

Consolidated income statement for 2017

(in PLN thousand)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	1,190,166	1,152,121	1,136,182	1,115,027
Dividend income and income from equity investments	7,909	11,328	29,713	10,259
Total net interest income, dividend income and other income from equity investments	1,198,075	1,163,449	1,165,895	1,125,286
Net fee and commission income	617,193	580,084	582,286	573,482
Trading result	39,085	31,934	7,283	10,486
Net other operating income and expenses	168,043	41,106	11,609	35,125
Net non-interest income	824,321	653,124	601,178	619,093
Operating income	2,022,396	1,816,573	1,767,073	1,744,379
Operating costs	(854,489)	(814,899)	(800,246)	(793,716)
Gross operating profit	1,167,907	1,001,674	966,827	950,663
Net impairment losses on loans and off-balance sheet commitments	(152,797)	(138,480)	(114,848)	(115,126)
Net operating profit	1,015,110	863,194	851,979	835,537
Net result on other provisions	(14,053)	(7,968)	(8,467)	(5,535)
Guarantee funds charges	(22,609)	(22,715)	(22,509)	(201,152)
Tax on certain financial institutions	(138,801)	(130,795)	(127,531)	(125,154)
Net result on investment activities	414,158	276	(59)	125
Profit before income tax	1,253,805	701,992	693,413	503,821
Income tax expense	(199,674)	(165,406)	(158,214)	(154,029)
Net profit	1,054,131	536,586	535,199	349,792
Attributable to equity holders of the Bank	1,054,131	536,220	535,069	349,709
Attributable to non-controlling interest	-	366	130	83

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.

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

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

Consolidated income statement for 2016

(in PLN thousand)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	1,112,811	1,117,451	1,082,005	1,069,738
Dividend income and income from equity investments	9,143	10,033	26,198	10,004
Total net interest income, dividend income and other income from equity investments	1,121,954	1,127,484	1,108,203	1,079,742
Net fee and commission income	612,438	596,739	618,641	562,172
Trading result	15,658	19,770	277,077	19,601
Net other operating income and expenses	11,470	11,351	9,095	155,823
Net non-interest income	639,566	627,860	904,813	737,596
Operating income	1,761,520	1,755,344	2,013,016	1,817,338
Operating costs	(793,808)	(793,841)	(812,143)	(812,115)
Gross operating profit	967,712	961,503	1,200,873	1,005,223
Net impairment losses on loans and off-balance sheet commitments	(106,179)	(133,882)	(131,179)	(129,389)
Net operating profit	861,533	827,621	1,069,694	875,834
Net result on other provisions	(4,994)	(6,628)	(2,024)	(829)
Guarantee funds charges	(66,016)	(65,758)	(64,104)	(66,986)
One-off charge in favour of the Bank Guarantee Fund related to bankruptcy of Bank Spółdzielczy in Nadarzyn	(16,604)	-	-	-
Tax on certain financial institutions	(127,962)	(120,727)	(120,204)	(80,640)
Net result on investment activities	99	3,597	363	1,281
Profit before income tax	646,056	638,105	883,725	728,660
Income tax expense	(151,172)	(117,330)	(193,098)	(155,182)
Net profit	494,884	520,775	690,627	573,478
Attributable to equity holders of the Bank	494,712	520,654	690,513	573,396
Attributable to non-controlling interest	172	121	114	82

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

7.4.4 Reconciliation of income statement – presentation form and long form Consolidated 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		4,593,496	
Dividend income and income from equity investments		59,209	
	Dividend income	19,772	
	Gains (losses) on subsidiaries and associates	39,437	
Total net interest income, dividend income and other income from equity investments		4,652,705	
Net fee and commission income	Net fee and commission income	2,353,045	
Trading result		88,788	
	Result on financial assets and liabilities held for trading	42,992	
	Result on fair value hedge accounting	4,616	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	41,452	
	(Gains) losses on disposal of financial liabilities	(272)	
Net other operating income and expenses		255,883	
	Net other operating income and expenses	112,448	
	less - Refunding of administrative expenses	(2,546) /1	
	Gains (losses) on disposal of loans and other financial receivables	145,981	
Net non-interest income		2,697,716	
Operating income		7,350,421	
Operating costs		(3,263,350)	
	Personnel expenses	(1,950,302)	
	Other administrative expenses	(1,759,522)	
	less –Guarantee funds charges	268,985	
	less – Tax on certain financial institutions	522,281	
	Refunding of administrative expenses	2,546 /1	
	Depreciation and amortization	(347,338)	
Gross operating profit		4,087,071	
Net impairment losses on loans and off-balance sheet commitments		(521,251)	
	Net impairment losses on loans	(503,720)	
	Net impairment provision for off-balance sheet commitments	(17,531)	
Net operating profit		3,565,820	
Net result on other provisions	Net result on other provisions	(36,023)	
Guarantee funds charges	Guarantee funds charges	(268,985)	
Tax on certain financial institutions	Tax on certain financial institutions	(522,281)	
Net result on investment activities		414,500	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	622	
	Net impairment losses on available for sale financial assets and held to maturity investments	(99)	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	413,977	
Profit before income tax		3,153,031	
Income tax expense	Income tax expense	(677,323)	
Net profit for the period	Net profit for the period	2,475,708	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	2,475,129	
Attributable to non-controlling interest	Attributable to non-controlling interest	579	

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

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

Consolidated income statement for 2016

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2016	COMMENTS
Net interest income		<u>4,382,005</u>	
Dividend income and income from equity investments		<u>55,378</u>	
	Dividend income	16,798	
	Gains (losses) on subsidiaries and associates	38,580	
Total net interest income, dividend income and other income from equity investments		4,437,383	
Net fee and commission income	Net fee and commission income	<u>2,389,990</u>	
Trading result		<u>332,106</u>	
	Result on financial assets and liabilities held for trading	54,383	
	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>187,739</u>	
	Net other operating income and expenses	30,528	
	less - Refunding of administrative expenses	(2,282) /1	
	Gains (losses) on disposal of loans and other financial receivables	159,493	
Net non-interest income		2,909,835	
Operating income		7,347,218	
Operating costs		<u>(3,211,907)</u>	
	Personnel expenses	(1,896,836)	
	Other administrative expenses	(1,705,488)	
	less –Guarantee funds charges	262,864	
	less – One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	16,604	
	less – Tax on certain financial institution	449,533	
	Refunding of administrative expenses	2,282 /1	
	Depreciation and amortization	(340,866)	
Gross operating profit		4,135,311	
Net impairment losses on loans and off-balance sheet commitments		<u>(500,629)</u>	
	Net impairment losses on loans	(401,409)	
	Net impairment provision for off-balance sheet commitments	(99,220)	
Net operating profit		3,634,682	
Net result on other provisions	Net result on other provisions	<u>(14,475)</u>	
Guarantee funds charges	Guarantee funds charges	(262,864)	
One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	One-off charges related to bankruptcy of Bank Spółdzielczy in Nadarzyn	(16,604)	
Tax on certain financial institution	Tax on certain financial institution	(449,533)	
Net result on investment activities		<u>5,340</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	5,359	
	Impairment losses on subsidiaries and associates	-	
	(Gains) losses on disposal of subsidiaries and associates	(19)	
Profit before income tax		2,896,546	
Income tax expense	Income tax expense	<u>(616,782)</u>	
Net profit for the period	Net profit for the period	2,279,764	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	2,279,275	
Attributable to non-controlling interest	Attributable to non-controlling interest	489	

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

Report on the activities of Bank Pekao S.A. Group for the year 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 Group was 16,864 compared to 17,304 as at the end of 2016.

In 2017, the Group's operating income amounted to PLN 7,350.4 million, nominally at comparable level to 2016.

Profit before tax of Bank Pekao S.A. Group in 2017 amounted to PLN 3,153.0 million and was higher by PLN 256.5 million, i.e. 8.9% in comparison to 2016. Income tax expense in 2017 amounted to PLN 677.3 million vs. PLN 616.7 million in 2016 and was higher by 9.8%.

As at the end of December 2017, the return on assets (ROA) of the Group was 1.4% and was at the same level as 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. Group 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

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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.

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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. Group is presented in the table below.

(in PLN thousand)

	2017	2016
Fee for the audit of annual financial statements	4,300	3,295
Fee for other attestation services, including review of financial statements	2,298	2,362

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 Group's liabilities was 743 with the total value amounting to PLN 171,864.1 million. The number of legal proceedings in respect of receivables was 17,284 with the total value of PLN 1,350.7 million.

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

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 54 to the Consolidated Financial Statements of Bank Pekao S.A. Group 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 27 and 30 to the Consolidated Financial Statements of Bank Pekao S.A. Group 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 5 to the Consolidated Financial Statements of Bank Pekao S.A. Group 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.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of the company's liabilities due to covered bonds amounted to PLN 1,204.0 million (principal value) as at the end of December, 2017. The liabilities under covered bonds with maturity date up to 1 year account for 4.0%, with maturity date from 1 up to 3 years account for 26.2%, with maturity date from 3 up to 5 years account for 57.4% and with maturity date from 5 up to 10 years account for 12.4% of the total nominal value.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 99.0 million (principal value) as at the end of December, 2017 with the maturity date up to 6 months.

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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 Group

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

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:

- Consolidated Financial Statements of Bank Pekao S.A. Group 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. Group financial position and their results,
- Report on the activities of Bank Pekao S.A. Group for the year 2017 provides the true picture of Bank Pekao S.A. Group development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 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.UE.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

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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.

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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.

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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.

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

Paweł Surówka	Chairman of the Supervisory Board,
Joanna Błaszczyk	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. Group 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. Group 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.

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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

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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%

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12 Statement of Bank Pekao S.A. Group on Non-financial Data for 2017

Statement of Bank Pekao S.A. Group on non-financial data covering Bank Pekao S.A. and Bank Pekao S.A. Group is part of the Statement on non-financial data of the parent entity of Bank Pekao S.A., i.e. Powszechny Zakład Ubezpieczeń S.A. with headquarters in Warsaw at Al. Jana Pawła II 24.

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

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