

Dear Shareholders,

I am pleased to present you with the Management Report of Bank Pekao S.A. for 2018.

2018 was a breakthrough and successful year for the Bank as well as for the entire Polish economy. Polish GDP growth accelerated in excess of 5%, the highest pace in decade, and to a large extent helped Polish economy achieve the status of developed market under the FTSE methodology for stock market indices. Consumer optimism fuelled by historically low unemployment and inflation rate continued to be a major driver behind consumption spending, which in 2018 saw an additional boost from a corporate pick-up in investment activity.

From the Bank's perspective, 2018 was a year of proven delivery on ambitious targets, in particular double digit recurring earnings growth, which the Management Board outlined as a key ambition for 2018. Simultaneously, 2018 was also highly successful for the Bank's core business. This was reflected in both the financial results as well as the progress that we made in business and corporate development. It was the first full year of our strategic plan, which underpins the transformation of Bank Pekao into one of the profitability leaders among Polish banks by 2020. Strong profitability growth is founded on lasting client relationships and constant drive to increase operational efficiency. Increasing scale in a consolidating Polish bank market is a vital part of our strategy, therefore we want to cement our market position in the key and most profitable retail segment, continue dynamic expansion in SME segment and maintain undisputed leadership in corporate and investment banking thanks to a full realisation of the potential offered by stronger relationships with our clients.

We execute our strategy based on four pillars: leader of smart growth, expert in efficiency and quality, integrated risk management expert and employer of the best talent. Delivering on all four pillars will be critical in achieving all strategic milestones that we set for the Bank in a 2020 perspective. Through delivery on our strategic agenda in 2018, we made an important step closer in reaching our ambition. We demonstrated the progress achieved so far during our first-ever Investor Day organised in London in November 2018.

As a smart growth leader in the Polish banking sector, we have concentrated on growth in the most profitable and promising business segments. Key to achieve this goal is client acquisition, constant development of digital channels and realising potential that the cooperation with the PZU Group offers us. In 2018, the Bank continued its growth in key retail products, mortgage and cash loans, by ca. 13% y/y while strengthening its market position in the entire retail segment. In the most promising segment of cash lending, we grew volumes by 15% y/y and achieved nearly 60% increase in new sales in digital channels. Such a progress could not have been achieved without a constant development of our flagship mobile application PeoPay, awarded last year with a title of best innovation in the world in 'Phygital Distribution & Experience' by the EFMA Association.

Future success of Bank Pekao can only be achieved with customers' trust. Therefore, we are satisfied with exceeding a strategic milestone of 400k new current accounts that we opened in 2018, 60% acceleration in average number of current accounts opened in previous years. This success was underpinned by a comprehensive product offer, including our new current account 'Konto Przekorzystne', widely acclaimed by the market, press and most importantly, our customers, as well as constant innovation such as pioneering use of the biometric technology. Smart growth also means evolving product offer tailored to growing needs of our customers and leveraging the potential offered by bancassurance cooperation within the PZU Group, the largest financial group in the CEE. One of many tangible examples of such cooperation is a 5-fold increase in CPI insurance penetration on mortgage products in the distribution channels of Bank Pekao. In response to client needs and evolving business model of Bank Pekao, we also entered into a number of promising strategic partnerships including: cooperation with Lazard, global investment advisory firm, to further consolidate our leading footprint in the Polish corporate advisory market, creating the digital ecosystem together with Microsoft to serve tech-savvy clients as well as work together with Warsaw Genomics on the wellbeing of our employees.

Operational and cost efficiency will be a critical factor in dictating competitive advantage of the banking landscape going forward. Therefore, in 2018 we executed number of initiatives that improve service quality and effectiveness of our workforce. Those initiatives will enable the Bank to significantly increase automation and are vital contributors in achieving our strategic goal of reducing cost to income ratio below 40% in 2020. In 2018, we started a programme of digital transformation spanning more than 70 technologically advanced solutions supporting the development of sales processes and better customer experience in digital and direct channels as well as launching a wider range of digitally-proofed services.

A key element of our strategy is also an integrated risk management approach. We have demonstrated for years our leadership in balance sheet management and the lowest cost of risk among large Polish banks. We have put in place solutions and competences including behavioural analysis and artificial intelligence tools as well as a developed portfolio approach to management and distribution of risk, which enables us to continually lead the sector in this critical area of expertise.

We will not succeed in achieving our goals without full engagement, support and fulfilled potential of our employees. There was a number of initiatives that we successfully undertook in 2018 with a focus on building the competences in key areas, including set-up of the innovation lab, hire of managerial talent in Poland and abroad as well as simplification of corporate structure and leveraging the talent within the organisation. We want to continue strengthening the employer of the best talent brand in order to maintain the advantage in competing for talent and foster the environment to develop our workforce. Being an attractive employer is a priority goal for the Management Board.

Consistent strategy execution in 2018 was best reflected in financial results of the Bank. Net profit of nearly PLN 2.3bn was 11% higher r/r compared with recurring profit in 2017 and delivered on net profit ambition that the Management Board set for 2018. Focus on smart growth in all business segments delivered ca. 10% y/y growth in commercial revenues on the back of nearly 6% y/y growth in deployed lending volumes. We recorded a historically high net interest income of ca. PLN 5.0bn, 9% better y/y, achieved in a continually low interest rate environment. Double digit profit growth was delivered in spite of investment initiatives, which will drive acceleration in efficiency gains in next years.

Over 2018 we improved significantly key financial indicators that best illustrate a tangible progress on our strategic journey: RoE lifted by 100bps y/y in excess of 10% helped by fall in C/I ratio by 150bps and decrease in cost of risk to 38bps. We maintain capital prudence while diversifying capital structure. Dividend payout from 2018 profit recommended by the Management Board is again the highest among the Polish banks and one of the highest among European financials. Despite a marginal slowdown that we expect for the Polish economy after 2017-18 period of strong growth, I am of a view that the domestic economy will once again demonstrate its resilience in the region and on a global scale. We look with optimism at the volume and profitability growth prospects in the Polish banking sector in 2019 thanks economic stability and economic momentum: low public sector debt levels, balanced fiscal position and relatively low leverage of private sector compared with most European countries. We want to continue executing our strategy, which assumes double-digit volume growth in key retail products, better growth and cross-sell monetisation in SME and corporate segments. It will be yet another year, when we want to grow our business scale without compromising on the highest risk management standards. In 2019, we will also continue our critical strategic initiatives to accelerate operational efficiency of the bank. We believe that this will be another year of tangible progress in reaching our strategic milestones set for 2020. As the largest corporate bank in Poland, we want to be a first point of reach for inbound investors into Poland as well as the bank of choice for local corporates in their growing appetite for international expansion. We also want to play an active role in global economic debate and boost potential of the Polish economy. To meet those expectations, in 2018 we returned to our corporate heritage by opening a first representative office in one of the global financial centres, in London. We had an active voice at the World Economic Forum in Davos and together with Atlantic Council we organised first-ever CEO Summit in Warsaw to cement corporate relations between Poland and the US.

In 2018 we demonstrated that the chosen strategic path is the right one for Bank Pekao. Thanks to business expansion, high and stable earnings growth and highest dividend payout in the banking sector, we want to provide existing shareholders and new investors with a strong set of reasons to hold our shares.

At this point, I would like to thank all our employees, our clients and all shareholders. I would also like to thank the Supervisory Board for the trust, cooperation and support that the Board has given to Bank's Management in 2017.

Yours sincerely,

Michał Krupiński,

President of the Management Board of Bank Pekao S.A.