

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



Warsaw, February 2019

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1 Highlights of Bank Pekao S.A. Group

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

	2018	2017	2016	2015	2014	2013
INCOME STATEMENT CONTINUED OPERATIONS – SELECTED ITEMS^(*) (in PLN million)						
Operating income	7,757	7,350	7,347	7,059	7,346	7,494
Operating costs	(3,444)	(3,263)	(3,212)	(3,220)	(3,286)	(3,331)
Gross operating profit	4,313	4,087	4,135	3,839	4,060	4,162
Profit before income tax	3,047	3,153	2,897	2,831	3,360	3,433
Net profit for the period attributable to equity holders of the Bank	2,287	2,475	2,279	2,293	2,715	2,767
INCOME STATEMENT – SELECTED ITEMS (in PLN million)						
Operating income	7,757	7,350	7,347	7,059	7,346	7,565
Operating costs	(3,444)	(3,263)	(3,212)	(3,220)	(3,286)	(3,376)
Gross operating profit	4,313	4,087	4,135	3,839	4,060	4,189
Profit before income tax	3,047	3,153	2,897	2,831	3,360	3,454
Net profit for the period attributable to equity holders of the Bank	2,287	2,475	2,279	2,293	2,715	2,785
PROFITABILITY RATIOS						
Return on average equity (ROE)	10.2%	11.0%	9.8%	9.7%	11.5%	12.0%
Return on assets (ROA)	1.3%	1.4%	1.4%	1.4%	1.8%	1.9%
Net interest margin	2.8%	2.8%	2.8%	2.8%	3.1%	3.4%
Non-interest income / operating income	35.4%	36.7%	39.6%	40.0%	38.3%	39.6%
Cost / income	44.4%	44.4%	43.7%	45.6%	44.7%	44.6%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)						
Total assets	191,090	185,466	174,215	168,786	167,625	158,522
Customers' financing ^(†)	140,032	132,300	122,663	117,299	109,189	101,356
Amounts due to customers ^(**)	149,143	145,398	136,380	124,399	120,630	116,129
Debt securities issued and subordinated liabilities	7,243	4,029	1,523	2,903	3,857	3,064
Equity	22,808	23,268	22,912	23,424	24,046	23,514
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS						
Customers' financing ^(†) / total assets	73.3%	71.3%	70.4%	69.5%	65.1%	63.9%
Securities / total assets	15.0%	20.8%	20.6%	13.2%	15.0%	22.2%
Deposits ^(***) / total assets	81.8%	80.6%	79.2%	75.4%	74.3%	75.2%
Customers' financing ^(†) / deposits ^(***)	89.5%	88.5%	88.9%	92.1%	87.7%	85.0%
Equity / total assets	11.9%	12.5%	13.2%	13.9%	14.3%	14.8%
Total capital ratio	17.4%	17.1%	17.6%	17.7%	17.3%	18.3%
EMPLOYEES AND NETWORK						
Total number of employees	16,714	17,339	17,757	18,327	18,765	18,916
Number of outlets	825	851	928	975	1,034	1,001
Number of ATMs	1,708	1,745	1,761	1,759	1,825	1,847

(*) As financial data for the period 2014 – 2018 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 net investments in financial leases to customers, non-quoted securities and excluding reverse repo transactions.

(***) Excluding repo transactions.

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

Note: Since 2014, the financial data include data of Spółdzielcza Kasa Oszczędnościowo Kredytowa named Mikołaj Kopernik in Orontowice, 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 Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) and Dom Inwestycyjny Xelion Sp. z o.o. for eleven months of 2017 under the equity method and for December 2017 under full method.

Income statement data included in the table above and other notes to the Report on activities were presented according to income statement in a presentation form, which differs from the long form of the income statement presented in the Financial statements of the Group. Reconciliation of income statement in the presentation form and the long form is in the point 7.4.4 of the Report on activities.

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2 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2018 amounted to PLN 2,287.2 million and was higher by PLN 185.0 million, i.e. 8.8% than pro-forma net profit^(*) for 2017, and higher by 11% on nominal net profit excluding the gain on remeasurement of shares, related to the acquisition of Pioneer Pekao Investment Management S.A. and Dom Inwestycyjny Xelion Spółka z o.o. in 2017.

Thanks to the effective commercial activity of the Group in 2018, a significant growth in loan volumes in the area of retail loans (an increase of 10.5% year on year) as well as in the area of corporate loans (an increase of 5.4% year on year) was reported. Such increase in lending was financed by higher retail deposits growing by 11.8% year on year.

Total capital ratio (TCR) amounted to 17.4% as at the end of December 2018 and was higher (0.3 p.p.) compared to the end of December 2017.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 89.5% as at the end of December 2018. This, together with high level of capital, enables for further sound and stable development of the Group's activities.

Main P&L items

In 2018, the Group's operating income amounted to PLN 7,757.1 million and was higher by 5.9% year on year than pro-forma operating income in 2017, with the following trends:

- Total net interest income, dividend income and income from equity investments in 2018, amounted to PLN 5,014.2 million and was higher by PLN 397.3 million, i.e. 8.6 % compared to pro-forma total net interest income, dividend income and income from equity investments achieved in 2017, mainly driven by higher volumes of loans and deposits as well as higher margin,
- Net non-interest income in 2018, amounted to PLN 2,742.9 million and was higher by PLN 35.2 million, i.e. 1.3% compared to pro-forma net non-interest income for 2017, with net fee and commission income (including fees on margins on foreign exchange transactions with clients) lower by 1.7% compared to 2017 mainly due to lower net fee and commission income on loans and cards.

The operating costs amounted to PLN 3,444.4 million in 2018. They were higher by PLN 125.4 million, i.e. 3.8% as compared with pro-forma operating costs for 2017, mainly due to higher personnel costs (mainly due to costs in the amount ca. of PLN 50 million, related to the Program Dobrowolnych Odejsć – PDO) and other administrative expenses (including mainly marketing related expenses). Operating costs excluding PDO expenses was higher by PLN 75.8 million, i.e. 2.3% as compared with pro-forma operating costs for 2017.

Guarantee funds charges in 2018, amounted to PLN 265.5 million, a decrease of PLN 3.5 million, i.e. 1.3% in comparison with 2017.

Tax on certain financial institutions in 2018, it amounted to PLN 562.0 million and was higher by PLN 39.7 million, i.e. 7.6% in comparison with 2017.

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 511.0 million in the 2018, an increase of PLN 132.4 million, i.e. 35.0% in comparison with pro-forma for 2017.

(*) For comparability purpose of achieved results income statement data for 2017 was presented as pro-forma, i.e. includes full consolidation of results of Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) and Dom Inwestycyjny Xelion Sp. z o.o. acquired on December 11, 2017 and a change in the presentation of the gross result on the sale of loan receivables in the amount of PLN 142.7 million, which were recognized in the result of impairment losses on financial assets.

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

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Volumes

As at the end of December 2018, loans and advances at nominal value amounted to PLN 144,942.2 million, an increase of PLN 8,067.8 million, i.e. 5.9% in comparison to the end of December 2017 with the volume of retail loans growing by 10.5% and corporate loans growing by 5.4% (1,8% including non - quoted securities).

As at the end of December 2018, amounts due to the Bank's customers and debt securities issued amounted to PLN 156,386.7 million, an increase of PLN 6,960.3 million, i.e. 4.7% in comparison to the end of December 2017, with retail deposits growing by 11.8%.

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 19,403.4 million as at the end of December 2018, an increase of PLN 993.4 million, i.e. 5.4% in comparison to the end of December 2017.

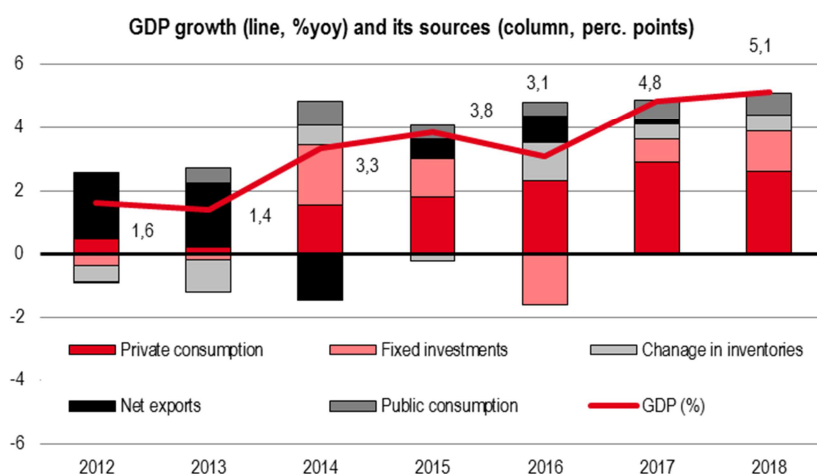
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3 External Activity Conditions

Economic growth

In 2018, economic growth accelerated to 5.1% from 4.8% in 2017, reaching the highest pace since 2011. Domestic demand expanded by 5.3% year on year and foreign trade had a neutral contribution to annual growth. Households consumption increased by 4.5% year on year against 4.9% in the previous year. Dynamic consumption growth was facilitated by further improvement on the labour market that boosted households disposable income amid still subdued inflation. In 2018 fixed investment growth accelerated further to 7.3% from 3.9% in 2017. In the first three quarters, increase in investments resulted mainly from increase in public investment. Change in inventories contributed ca. 0.5 p.p. to 2018 GDP growth.

In 2019, the GDP growth is expected to moderate to about 3.5%. Domestic demand is to remain supported by still solid growth in private consumption, however households consumption growth is to be slower than in 2018 amid expected slowdown in the growth of wages and employment. At the same time investments growth is projected to be continued at only slightly slower pace than in 2018. Signals of economic slowdown on the main exports market are expected to translate into somewhat slower growth of Polish exports and stronger negative contribution of net exports to GDP growth.



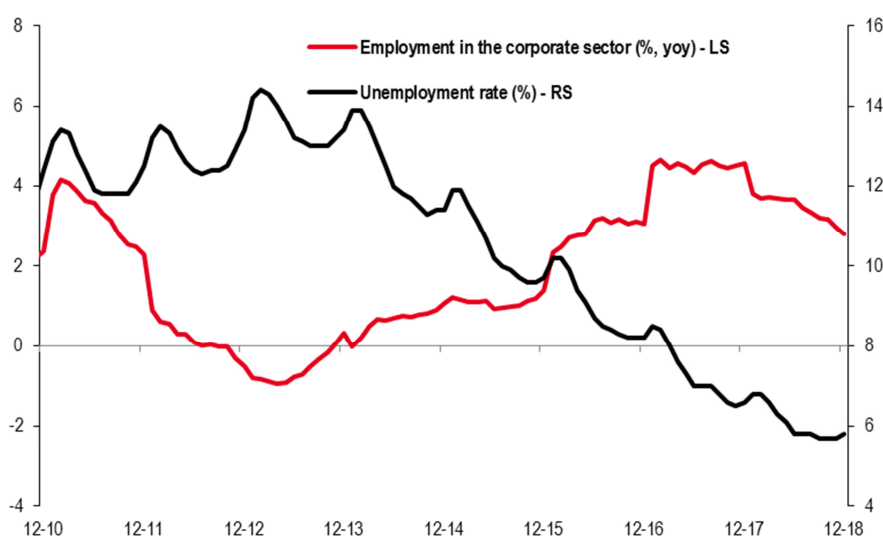
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Labour market

In December 2018 average employment in the Polish corporate sector amounted to 6,233 thousand, i.e. by 169 thousand more than in December 2017. The increase in employment in 2018 was a continuation of the upward trend in the number of jobs that began in mid-2013, but in 2018 it registered considerable slowdown. The centers of job creation in 2018 were still, as in the previous year, the manufacturing sector, trade and transportation, while job cuts still dominated in the mining industry (long-term trend). In turn, in construction sector there was further rebound of employment after the long period of job cuts in the years 2012-2016.

In 2018 there was a continuation of the downward trend in unemployment rate, which in December 2018 was at 5.8% compared to 6.6% in December 2017. However, the pace of unemployment decline significantly slowed down and 2019 is expected to end the downward trend in unemployment due to reaching levels close to the natural unemployment rate.

Wage growth rate in the Polish corporate sector in 2018 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 2018 by 7.1% compared with an increase of 5.9% in the previous year. As a result, wage bill in the corporate sector increased in 2018 in nominal terms by 10.8% against 10.7% in 2017, which after adjusting for inflation resulted in an increase in real terms by 9.0% compared to 8.5% in 2017.



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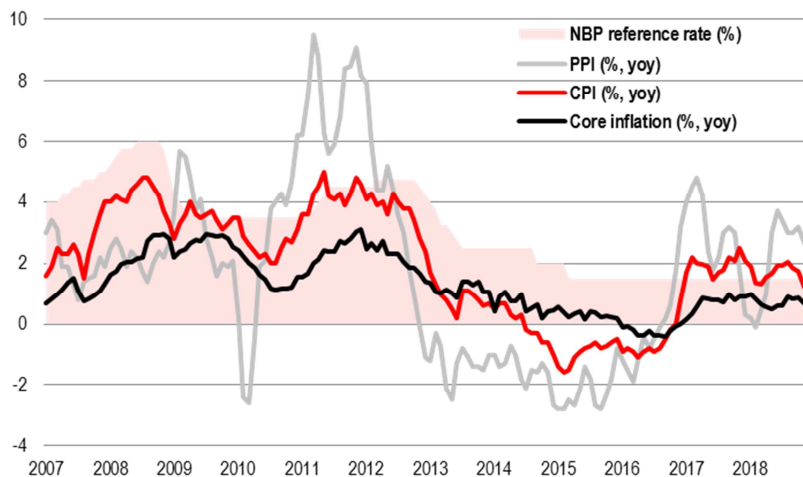
Inflation and monetary policy

According to the Central Statistical Office (GUS) data in 2018 consumer prices increased by 1.6% on average as compared with the CPI growth of 2.0% in 2017. In the final months of 2018 headline inflation declined below the lower bound of acceptable deviations from the National Bank of Poland (NBP) target of 2.5% (+/- 1 p.p.). In November 2018, the CPI reached 1.3% year on year and fell to 1.1% year on year at the end of the year.

In 2018 consumer inflation was predominantly driven by faster food price growth and higher prices of fuels to passenger cars. In 2018, core inflation excluding food and energy prices stood at 0.7% i.e. at the same level as in 2017. Producers' prices (PPI) went up by 2.2% in 2018 after rising by 2.9% in 2017.

The Monetary Policy Council (MPC) kept the main policy rates unchanged throughout 2018. The NBP reference rate stood at 1.50%, the lombard rate at 2.50% and the deposit rate at 0.50%.

In 2019, the CPI inflation is expected to remain moderate. Food prices growth is to be rather slow, while prices of transport may remain broadly unchanged thanks to among others stabilization of global oil prices at low levels. Headline inflation may exceed the NBP target of 2.5% only in the last months of 2019.



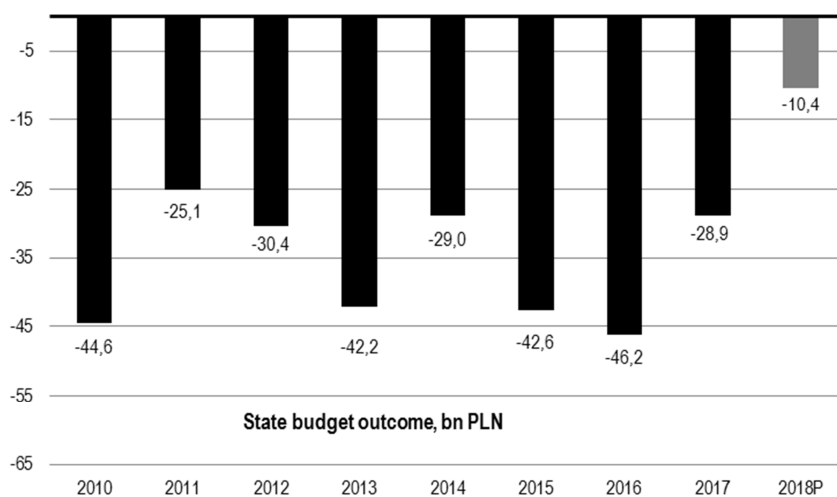
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Fiscal policy

Preliminary estimates of the Ministry of Finance indicate that in 2018 the state budget deficit amounted PLN 10.4 billion. In the 2018 state budget act the annual deficit limit was set at the level of PLN 41.5 billion. Lower than planned level of fiscal imbalance stemmed from both higher than assumed revenues and lower than planned expenditures. In 2018 the state budget revenues amounted to PLN 380.1 billion (106.9% of the annual plan) and were 8.5% higher than in 2017. At the same time budget expenditures totaled PLN 390.5 billion (98.3% of the annual plan) and were 3.9% higher than in 2017. Higher-than-expected level of revenues resulted mainly from substantial increase in VAT revenues that in 2018 were PLN 18.1 billion (11.5%) higher than in 2017. Revenues from direct taxes also rose robustly thanks to favourable economic conditions. Last year revenues from the personal income tax (PIT) were PLN 7.3 billion (13.8%) higher than in 2017 on the back of rising wages and employment. Revenues from the corporate income tax (CIT) increased by PLN 5.0 billion (16.8%) in 2018 as compared with 2017. In the case of expenditures the biggest savings were reported in the case of subsidy to the Social Security Funds (FUS) that in 2018 were PLN 5.2 billion lower than 2017.

The 2019 draft budget assumes budget revenues of PLN 387.6 billion and expenditures at PLN 416.1 billion. Therefore the budget deficit limit is proposed at no more than PLN 28.5 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 2019, the general government deficit according to the European Union methodology (ESA2010) will amount to 1.7% of the GDP.

The Ministry of Finance estimates that as at the end of 2018, the State Public Debt to the GDP ratio moderated to 47.0% from 48.4% reached at the end of 2017. *The general government debt management strategy for 2019-2022* envisage the State Public Debt at the end of 2019 at 46.6% of GDP.



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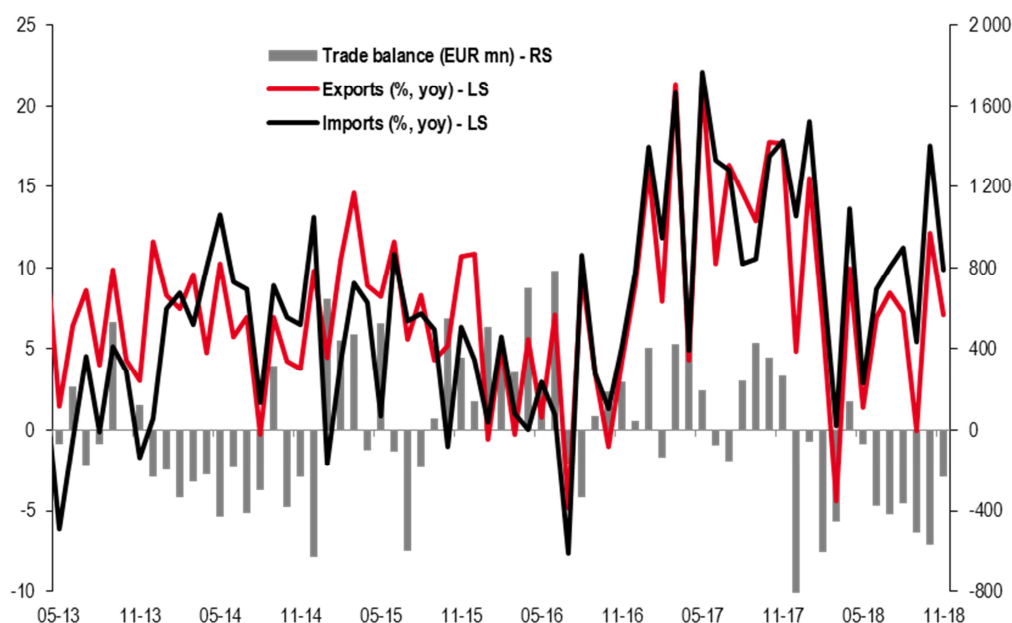
Foreign Sector

The NBP data indicate that in January-November 2018 the current account registered a deficit of EUR 2.0 billion vs. a one-off surplus of EUR 0.7 billion in 2017, which translates into a deficit of 0.5% of GDP against a surplus of 0.2% of GDP in 2017.

The current account deficit resulted mainly from a deficit in the trading account (EUR 3.5 billion in January-November 2018 against a surplus of EUR 1.4 billion in 2017) with a larger slowdown in exports growth (growth rate at 6.2% vs. 13.8% in 2017) than imports growth (growth rate at 9.6% vs. 14.9% in 2017). The trade deficit was mainly caused by economic slowdown in the euro-area hampering domestic exports as well as strong domestic internal demand supporting imports. The primary income account continued to be in high deficit (EUR 17.7 billion in January-November 2018 vs. a deficit of EUR 18.5 billion in 2017). In turn, the current account was positively affected by a surplus in the services account that increased another consecutive year (EUR 20.1 billion in January-November 2018 compared to EUR 18.0 billion in 2017).

As for the financing side, there was a rise in the inflow of foreign direct investment (FDI) – in January-November 2018, FDI inflow amounted to 11.0 EUR billion (EUR 7.1 billion - an inflow of funds within equity funds, EUR 4.0 billion - an inflow of funds within debt instruments) against 9.3 EUR billion in 2017. In the case of portfolio investment in January-November 2018 there was an outflow of funds at the level of EUR 3.0 billion (EUR 3.9 billion – an outflow of funds from the domestic debt market, EUR 0.8 billion - an inflow of funds from the equity market) against an inflow of EUR 5.5 billion in 2017.

In 2018, the level of the Treasury's foreign debt was similar in comparison to the previous year. According to the Ministry of Finance, as at the end of November 2018, the Treasury's foreign debt amounted to PLN 281.9 billion compared to PLN 283.9 billion at the end of 2017.



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Capital market

Equities attracted investors' demand at the beginning of 2018 and solid macroeconomic data from the largest economies were supported by growing companies' valuations. However, a multi-year upward trend in major European and Asian stock exchanges halted in the first half of the year after indices set fresh all-time high. Shares' prices fell later amid profit taking. Concerns about a global slowdown due to the Fed's monetary policy tightening and a trade war between the United States and China, affected optimistic assumptions regarding the prospects for equities. Consequently, US stock markets lost ground in the fourth quarter of 2018, what affected poor mood in other markets. The DAX lost 18.3%, the Nikkei 12.1%, the S&P 500 6.2%, and the Dow Jones 5.6% in 2018. Financial markets priced-in a global economic downturn, what is likely to maintain pressure for equities in the long term.

2018 was not successful period for Polish stock market. Equities performed quite well only in first few weeks of the year. Then the Warsaw Stock Exchange (WSE) remained under pressure despite still bullish foreign markets and solid economic growth in Poland. Internal adverse factors, including a sharp sell-off on corporate debt markets and outflows from investment funds focused on risky assets, affected overall investment mood. Under such circumstances investors re-priced companies, mainly these with lower capitalization. In the second half of 2018, indices' declines accelerated due to adverse external environment. As a result the WIG index lost 9.5% and WIG20 7.5% in 2018. Smaller companies fell even more. The mWIG40 index lost 19.4% and hit the worst levels since 2011, while the WIG80 dropped by 27.6% reaching the worst levels since 2014.

The capitalization of domestic companies fell in PLN 615.52 billion in 2018 from PLN 670.98 billion in 2017. Meanwhile foreign companies' capitalization decreased to PLN 549.56 billion from PLN 708.88 billion a year earlier. There were only seven new listings - the smallest since 2003 and delisting's amounted to twenty five, complementing the pessimistic picture of the WSE in 2018. The value of total turnover on the stock market amounted to PLN 211.85 billion and was clearly lower than in the previous year (PLN 260.98 billion).



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Banking sector

According to Financial Supervision Authority (KNF) data, in 2018 sector generated an aggregated net profit of PLN 14.7 billion, which translated into 7.5% year on year growth. It was above all a result of net interest income growth (+5.2% year on year, thanks to increase in both volumes and average interest margins), supported by increase in other operating income +4.6% year on year). A decline in comparison to previous year, however, was reported on income from fees and commission (-10.5% year on year), among others due to weaker performance of capital markets. At the same time banks' operating costs increased – staff expenses by 2.5% year on year (effect of market wage pressure and changes in employment structure) and general administrative expenses by 0.8% year on year (among others as a result of development activities). Risk costs declined by 0.2% year on year. It is important, however, to bear in mind that the comparability in yearly terms is to some extent disrupted by changes in accounting standards introduced by IFRS9 from the beginning of 2018.

According to KNF data banking sector assets at the end of 2018 were 6.7% higher in comparison to 2017 (the growth pace improved from +4.1% year on year at the end of 2017). Non-financial sector deposits rose by 8.5% year on year (compared to 4.1% year on year at the end of 2017), while receivables by 6.0% year on year (compared to 3.3% year on year after 2017).

According to National Bank of Poland (NBP) data, at the end of 2018 following developments were noted in terms of main deposit categories¹:

- the volume of households' deposits increased by 9.8% year on year. Growth pace accelerated strongly in comparison to 2017 (+4.0% year on year at the end of December). Substantial inflow of retail deposits throughout 2018 is on one hand effect of positive financial situation of households (favourable labour market – low unemployment, surge in wages), while on the other effect of deteriorating financial markets condition (outflow of assets from stock market or investment funds) and incentives from banks.
- the volume of enterprises' deposits rose by 4.3% year on year. The pace rebounded somewhat from 2017 (+2.4% year on year after December), but is still substantially lower in comparison to earlier years. Considering that financial conditions of firms remains positive, this situation was probably due to distortions resulting from changes in the settlement of taxes.
- other deposits grew by 8.5% year on year, in comparison to 10.4% year on year growth after December 2017.

At the end of 2018 household deposits accounted for 66.2% (65.3% at the end of 2017), corporate deposits for 23.0% (23.9% at the end of 2017), and other deposits for 10.8% (10.7% at the end of 2017) of all deposits.

2018 brought continuation of trends in terms of further changes in deposits structure – from term deposits to current deposits (result of relatively lower attractiveness of time deposits in low interest rates environment). At the end of 2018 share of funds on current deposits in total was 64.7%, in comparison to 62.5% year before. Such situation is favourable for banks, facilitating funding costs control.

In terms of main receivables categories², at the end of 2018 the following developments were noted:

- in yearly terms, volume of receivables from households increased by 7.0%, which meant significant rise in comparison to relatively weak result from the year before (+1.7% year on year at the end of December 2017). In particular, throughout last couple of quarters high growth pace was noted in terms of consumer loans. At the same time, despite systematically shrinking FX housing loans portfolio and repayments of PLN loans taken out in the past, growth in mortgage loans volume increased – ongoing, positive sentiment on housing market and growing house prices translated into high value of new mortgages.
- receivables from enterprises rose by 6.4% year on year, while after 2017 a growth of 5.4% year on year was noted. Improvement was achieved thanks to strong performance of operational loans. Bottom-line pace is still moderate though due to persistently sluggish revival of companies' investment outlays.
- other receivables grew by 11.2% year on year, in comparison to +6.2% year on year at the end of 2017.

¹ Excluding central government institutions.

² Excluding central government institutions. Receivables include debt securities.

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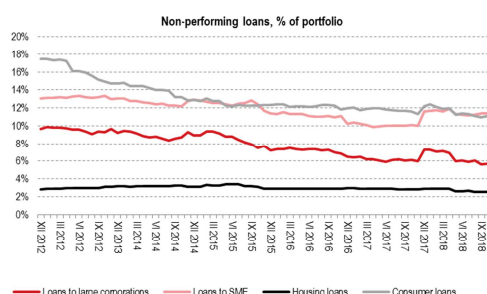
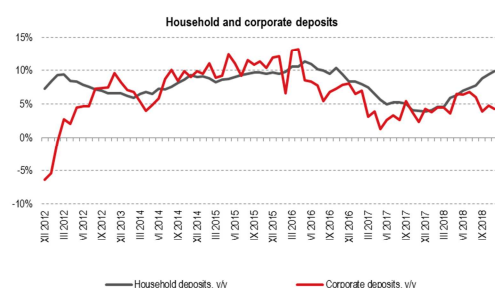
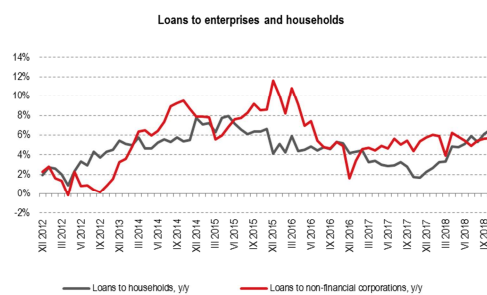
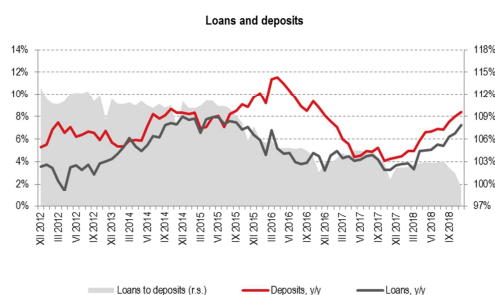
As of the end of 2018 loans to households accounted for 58.1% (in comparison to 58.2% year before), corporate loans for 30.6% (30.8% at the end of 2017) and other loans for 11.3% (10.9% at the end of 2017) of all loans.

In terms of loan portfolio quality, in 2018 changes in accounting standards with regards to IFRS9 introduction have had strong impact on reported figures. As an effect, volumes of impaired loans and NPL ratios jumped at the beginning of the year and were then adjusting to new environment during next months; comparability of newest data with previous periods is thus limited. In particular it is worth noting that:

- NPL indicator in enterprises segment stood at 8.7% after 2018, in comparison to 9.8% after January 2018 (and 8.3% at the end of December 2017). In terms of large corporations share of non-performing loans in portfolio was at 5.5% (in comparison to 7.3% after January 2018 and 6.0% after 2017), while in SME segment at 11.4% (in comparison to 11.6% and 10.0% respectively).
- NPL ratio for household loans amounted to 5.9% at the end of 2018, while after January 2018 it was 6.7% (and 6.1% after 2017). Introduction of IFRS9 standard had a relatively small impact on mortgage loans. At the end of 2018 share of non-performing loans in portfolio stood at a level of 2.5% (vs. 2.9% after January 2018 and 2.8% at the end of 2017). In terms of consumer loans NPL indicator was at 11.0% (vs. 12.2% and 11.4% respectively).

As far as the regulatory environment is concerned, the following important events took place in 2018:

- introduction of new accounting standards in accordance with IFRS9,
- implementation of General Data Protection Regulation (GDPR), as well as further adjustments to other regulations (MIFID II, PSD II, among others),
- reduction (from 1.35% to 0.50%) interest on reserve requirement set by the Monetary Policy Council,
- further augmentation of capital requirements.



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

4 Important Events and Achievements

4.1 Changes in the Group's 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, 2018.

The most significant changes concerning the Group occurred in 2018 are presented below.

Change of the Company names

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

On February 15, 2018, the registry court made an entry in the Register of Entrepreneurs of the KRS 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.

Transfer of management of Pekao OFE and DFE Pekao funds

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

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

Share Capital Increase

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

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

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

4.2 Changes in the Statutory Bodies of the Bank

Supervisory Board

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

DECEMBER 31, 2018	DECEMBER 31, 2017
Paweł Surówka Chairman of the Supervisory Board	Paweł Surówka Chairman of the Supervisory Board
Joanna Błaszczuk Deputy Chairman of the Supervisory Board	Joanna Błaszczuk Deputy Chairman of the Supervisory Board
Stanisław Ryszard Kaczoruk Deputy Chairman of the Supervisory Board	Stanisław Ryszard Kaczoruk Deputy Chairman of the Supervisory Board
Paweł Stopczyński Secretary of the Supervisory Board	Paweł Stopczyński Secretary of the Supervisory Board
Sabina Bigos-Jaworowska Member of the Supervisory Board	Sabina Bigos-Jaworowska Member of the Supervisory Board
Justyna Głębiowska-Michalak Member of the Supervisory Board	Justyna Głębiowska-Michalak Member of the Supervisory Board
Grzegorz Janas Member of the Supervisory Board	Grzegorz Janas Member of the Supervisory Board
Michał Kaszyński Member of the Supervisory Board	Michał Kaszyński Member of the Supervisory Board
Marian Majcher Member of the Supervisory Board	Marian Majcher Member of the Supervisory Board

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Management Board of the Bank

On 20 November 2018, the Management Board of Bank Pekao S.A. informed in the current report No. 30/2018 that on 19 November 2018, Mrs. Rokšana Ciurysek-Gedir and Mr. Andrzej Kopyrski resigned from the position of the Vice-Presidents of the Bank's Management Board, effective as of 30 November 2018.

On November 20, 2018 the Management Board of Bank Pekao S.A. informed in the current report No. 31/2018 that the Supervisory Board of the Bank, acting pursuant to the Article 368 § 4 and in connection with the Article 369 § 1 of the Code of Commercial Companies and taking into account the assessment of compliance with the suitability requirements, unanimously appointed on November 19, 2018 members of the Bank's Management Board for the new three-year joint term of office, effective as of the day following holding of the Ordinary General Meeting approving the financial statements of Bank for the financial year 2018.

The following persons were appointed to the Management Board of the Bank for the next three-year joint term of the office starting on the date indicated above:

- Michał Krupiński for the President of the Bank's Management Board,
- Marek Lusztyn for the Vice-President of the Bank's Management Board supervising the risk management significant in the Bank's operations,
- Tomasz Kubiak for the Vice-President of the Bank's Management Board,
- Michał Lehmann for the Vice-President of the Bank's Management Board,
- Tomasz Styczyński for the Vice-President of the Bank's Management Board,
- Marek Tomczuk for the Vice-President of the Bank's Management Board.

None of the persons appointed to the Management Board of the Bank, in accordance with submitted statements, conducts any business competitive to that of the Bank and none of them is involved in a competitive business as a shareholder or partner in a civil law company or partnership or a corporation or as a member of a corporate body of a competitive legal person. None of these persons is entered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

On 23 November 2018, the Management Board of Bank Pekao S.A. informed in the current report No. 32/2018 that on 23 November 2018, the Bank's Supervisory Board, taking into consideration the suitability assessment, appointed Ms. Magdalena Zmitrowicz to the Banks' Management Board for the current term of office and entrusted her with the position of Vice-President of the Bank, effective as of 1 December 2018. According to the submitted statement Ms. Magdalena Zmitrowicz does not conduct any business competitive to that of the Bank and she is not involved in a competitive business as a shareholder or partner in a civil law company or partnership or a corporation or as a member of a corporate body of a competitive legal person, 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.

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

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

DECEMBER 31, 2018	DECEMBER 31, 2017
Michał Krupiński President of the Management Board	Michał Krupiński 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	Tomasz Kubiak Vice President of the Management Board
Marek Lusztyn Vice President of the Management Board	Michał Lehmann Vice President of the Management Board
Tomasz Styczyński Vice President of the Management Board	Marek Lusztyn Vice President of the Management Board
Marek Tomczuk Vice President of the Management Board	Tomasz Styczyński Vice President of the Management Board
Magdalena Zmitrowicz Vice President of the Management Board	Marek Tomczuk Vice President of the Management Board

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, 2018, 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, security, corporate governance, 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. Tomasz Kubiak, Vice President of the Management Board of the Bank, supervises the activity of the Financial Division.

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Mr. Michał Lehmann, Vice President of the Management Board of the Bank, supervises the activity of the Operations and Services Division. 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 Corporate Banking and MIB Division.

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

Ms. Magdalena Zmitrowicz, Vice President of the Management Board of the Bank, supervises the activity of the SME Banking Division.

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

4.3 Organizational changes

In 2018, organizational changes in Bank's Head Office as well as in regional and branches structure of the Bank took place.

The position of Chief Transformation Officer (CTO) and dedicated unit Transformation Accelerator were established in order to create the development and acceleration of key transformational changes in the Bank.

Private Banking Division was liquidated and its operations have been incorporated into Retail Banking Division.

The structure of Risk Management Division was simplified. Corporate Credit Administration and Monitoring Department as well as Credit Risk Management & Control Department were liquidated. Management of key restructuring and debt collection was concentrated in one unit - Key Restructuring and Collection Department.

New structure of Corporate Banking and MIB Division was introduced. Among others, Structured Finance Department was separated; service of large companies and the public sector was concentrated in Strategic Clients Department. Custody activity was transferred from Transaction Banking Department to operating under new name Financial Institutions and Custody Department.

In Financial Division new units were created:

- Data Management Center grouping activities in the area of accounting, MIS and financial information as well as data quality management,
- Controlling Department which concentrated controlling functions performed so far in business divisions.

Security Department was transferred directly under supervision of the President of Management Board and Corporate Governance Department of Pekao Group was created in this area by merger of so far existing Transformation and Change Management Department and Corporate Bodies Service Office.

Transformation and Services Division was liquidated and IT Center and Operations Center were moved under direct supervision of the Vice President of Management Board responsible for Operations and Services Division. Data Protection Inspector Office was established.

In regional structure of the Bank, Small and Medium-sized Enterprises Centers were established to service clients of SME sector, number of Retail Banking Regions was reduced and its new territorial division was introduced. The structures dedicated to serving microenterprises at the level of the Retail Banking Region and in Bank's branches were implemented.

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

4.4 Awards and distinctions

The activities of Bank Pekao S.A. gained wide recognition by clients, industry specialists, the market and the media, as evidenced by numerous awards and distinctions granted by Polish and foreign institutions. Measures aimed at providing customers with the highest quality products and services, innovation of the proposed solutions have been appreciated.

The most relevant honors are presented below.

Financial Sector Leader

Bank Pekao S.A. Best Corporate Bank in Poland 2018

Bank Pekao received the title of the Best Corporate Bank in Poland for the second year in a row (Best Corporate Bank in Poland 2018), awarded by the international magazine Global Banking And Finance Review. This is an especially valuable award for our Bank, because the efforts of Pekao corporate banking have been noticed by foreign experts.

The awards of the Global Banking and Finance Review magazine are granted to companies that stand out in the global financial industry with their innovativeness, results or strategy in categories such as: banking, forex, hedge funds, pension funds, compliance. Global Banking & Finance Review is one of the leading international magazines dedicated to financial topics. Its awards, which are decided by a group of international experts, have been granted since 2011.

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 fourth time as the best in Poland by prestigious magazine Global Finance in the fourth 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 investment bank in Poland

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

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

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

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

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

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

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



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

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

Award of KDPW CCP for Bank Pekao S.A.

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

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

Bank Pekao S.A. in the forefront of rankings for the best bank 2018



Bank Pekao S.A. was a leader of "Forbes" and "Newsweek" rankings for the best bank in 2018. The Bank was the winner of the "Newsweek" ranking in the mortgage banking category and the second vice-leader in the "Forbes" ranking for the most friendly bank for companies. High notes were appreciated by partner-like treatment of clients and employees' competences.

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

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

Polskie Stowarzyszenie Marketingu SMB: employees of Call Center of Bank Pekao S.A. won three awards in the competition "Telemarketer of the Year"

During the gala of the X edition of the Telemarketer competition of 2018, Call Center employees of Bank Pekao S.A. won three statuettes for the best telemarketers in Poland. CBB also won the Grand Prix for "the best system for improving the quality of conversations and the highest communication standards". Nearly 200 consultants took part in the competition.

The competition apart from selection the best telemarketers and call center employees in Poland, aims to promote and increase the prestige of the telephone consultant's work, highlight its impact on the sales and marketing effectiveness of companies, as well as promote the best standards and practices in telephone communication.

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Centrum Bankowości Bezpośredniej Sp. z o.o. (CBB) - a laureate of the prestigious sales and customer service competition in Poland.

Representatives of Centrum Bankowości Bezpośredniej during the gala of the X edition of the Polish National Sales Awards competition won in three categories: "Sales Coach", "Customer Service Manager", "Telesaler" and received the special prize "Supersprzedawcy". In addition, the Director of the Sales Department received two distinctions in the categories: "Sales Director" and "Sales Team" and the President of the CBB Management Board received "Certificate for Investing in Sales Force".

Polish National Sales Awards is the first and only venture in Poland, whose task is to promote and implement modern standards of professional sales based on the principles of good practice. PNSA is distinguished for its outstanding competences, above-average achievements and high ethical standards.

Pekao Leasing Sp. z o.o. - „Laur Klienta 2018” for Pekao Leasing

The company was appreciated by entrepreneurs and honored with the bronze emblem of „Laur Klienta 2018”. The award confirms the Company's strong position on the market and the form of customer recommendations.

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

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

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

Innovative Bank Products

The PeoPay application of Bank Pekao S.A. the global innovation of 2018



PeoPay, the Bank Pekao S.A. mobile banking application recognized as the winner of the prestigious EFMA-Accenture Distribution & Marketing Innovation Awards 2018. The international jury recognized PeoPay application as the best innovation in the world in 2018 in the category of Phygital Distribution & Experience.

Mobile banking "PeoPay mobile banking application" was appreciated mainly for multifunctionality, biometric technology for logging and payments authorization and opportunity to pay directly from the account held in the foreign currency without any additional fees and commissions for currency conversion as well as to make contactless transactions without having a physical card .

The EFMA and Accenture identifies the most innovative projects in the global retail banking sector and encourages institutions to share best practices in the areas of distribution and marketing of retail banking.

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Bank Pekao S.A. – Inspiration in Business 2018

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

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

Konto Przekorzystne account appreciated by journalist

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

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

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

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

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

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

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The Best Employer

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

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

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

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



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

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

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5 Information for the Investors

5.1 The Bank's share capital and share ownership structure

As at December 31, 2018, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and remained unchanged until the date of submitting the report. The share capital of the Bank consisted of 262,470,034 shares of the following series:

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

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

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

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT FOR 2018		AS AT THE DATE OF SUBMITTING THE REPORT FOR 2017	
Powszechny Zakład Ubezpieczeń S.A.	52,494,007	20.00%	52,494,007	20.00%
Polski Fundusz Rozwoju S.A.	33,596,166	12.80%	33,596,166	12.80%
UniCredit S.p.A.	16,430,000	6.26%	16,430,000	6.26%
Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A.	13,357,769	5.09%	-	-
Other shareholders (below 5%)	146,592,092	55.85%	159,949,861	60.94%
Total	262,470,034	100.00%	262,470,034	100.00%

Powszechny Zakład Ubezpieczeń S.A. (PZU S.A.) and Polish Development Fund S.A. (PFR S.A.) remained the largest shareholders of the Bank as of 31 December 2018. 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.

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

In the current report No. 8/2018, the Management Board of Bank Pekao S.A. informed that on June 8, 2018 the Bank has received notice from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. (hereinafter NN PTE), about a change in the total number of votes at the General Meeting of the Bank.

According to the information provided in the received notification by NN PTE, as a result of the acquisition of the Bank's shares in transactions on the Warsaw Stock Exchange, settled on June 4, 2018, funds managed by NN PTE: Nationale-Nederlanden Otwarty Fundusz Emerytalny (hereinafter OFE) and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (hereinafter DFE) increased the ownership of the Bank's shares above 5% of votes at the General Meeting of the Bank.

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

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 the group of financial investors holding a significant equity interest in the Bank. Based on their publicly available financial reports, as of December 31, 2018 OFE held in aggregate 15.90% 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, 2018		DECEMBER 31, 2017	
Nationale-Nederlanden OFE	13,917,843	5.30%	11,983,198	4.57%
Aviva OFE Aviva BZ WBK	11,896,009	4.53%	11,481,412	4.37%
OFE PZU „Złota Jesień”	-	x	4,708,861	1.79%
Aegon OFE	3,738,418	1.42%	3,492,830	1.33%
AXA OFE	2,979,031	1.13%	2,988,062	1.14%
OFE MetLife	2,812,188	1.07%	2,672,028	1.02%
Generali OFE	2,364,124	0.90%	2,001,985	0.76%
Allianz Polska OFE	1,945,468	0.74%	1,791,131	0.68%
PKO BP Bankowy OFE	1,389,837	0.53%	1,082,441	0.41%
OFE Pocztylion	699,851	0.27%	701,972	0.27%
Razem	41,742,769	15.90%	42,903,920	16.35%

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.

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

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

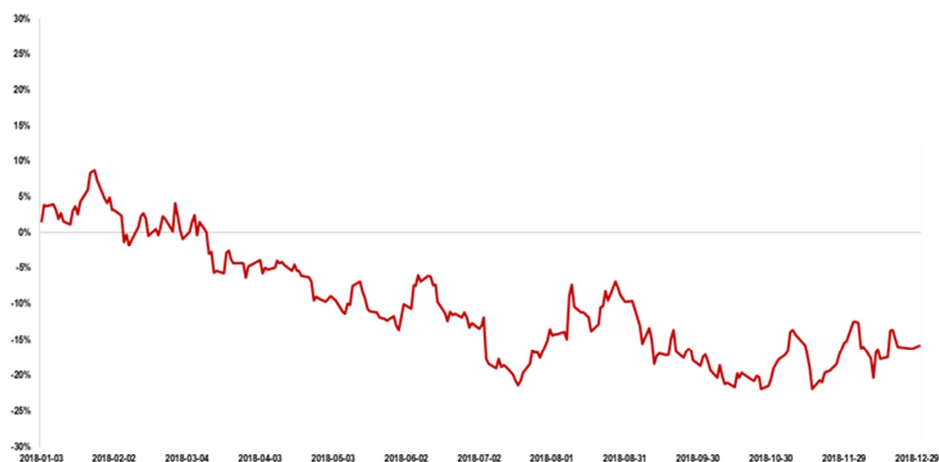
The shares of Bank Pekao S.A. have been listed on the Warsaw Stock Exchange since June 1998 and they are one of the most liquid equities in Poland and Central and Eastern Europe. Since 2000, the Bank maintains Global Depository Receipts (GDR) program. The Bank's GDRs are traded on London Stock Exchange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

The Bank's market capitalization as of December 31, 2018 amounted to PLN 28.6 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. In September the shares of Bank Pekao S.A were included in the STOXX Europe 600 Index, the index of the largest and most liquid securities in Europe and the FTSE Developed Equity Index, due to reclassification of Poland into developed market.

With the average daily turnover volume at the level of 672 thousand of shares and the worth of trading at PLN 19 billion in 2018, the share of the Bank's stock in trading on the WSE amounted to 9,4%.

The share price of Bank Pekao S.A. decreased by 15.8% year on year and reached to PLN 109 as at the end of December 2018 comparing to PLN 129.5 a year earlier. The share price adjusted for dividend was lower by 9.6% in 2018.

Performance of Bank Pekao S.A.'s shares in year 2018.



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

5.3 Dividend payment history

In 2018, the Bank paid dividend for 2017 in the amount of PLN 7,90 per share. Dividend yield amounted to 6.1%. The Bank has been distributing dividends every year since 2010. The total value of dividends distributed 2009-2017 exceeded PLN 18 billion. Consequently, the bank has been one of the most generous dividend payers among the Polish companies.

The dividend payments from 2003 to 2017 are presented below:

DATE	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	2,074
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	7.90

The Management Board of the Bank has decided to propose to the Ordinary General Meeting of Shareholders a dividend payment for 2018 in the amount of PLN 6.60 per share. Total dividend proposed to be paid amounts to PLN 1,732,302.22 thousand. The dividend has not been recognized as liabilities and there are no tax consequences for the Bank.

The final decision on the distribution of net profit and its allocating to dividend will be made by the General Meeting of Shareholders.

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. Furthermore, in 2018, the Bank organised Investor Day in London, for the first time. 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 2018, 20 analysts published reports and recommendations on the Bank.

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

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

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

5.5 Financial credibility ratings

5.5.1 Bank Pekao S.A financial credibility ratings

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

As of December 31, 2018, Bank Pekao S.A. had assigned following financial credibility ratings:

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

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

At the end of December 2018 Fitch Ratings agency assigned the "A-" rating to the covered bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A. The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity. The Fitch Ratings rating agency assigned to Pekao Bank Hipoteczny S.A. BBB + long-term assessment with a "stable" perspective.

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

6 Activity of Bank Pekao S.A. Group

6.1 Important factors influencing the Group's activities and results

In 2018, 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 in 2018. The expansion of GDP accelerated to 5.1% in 2018 compared to 4.8% in 2017, the highest in the last seven years. Private consumption remained the main driver of growth, supported by a robust growth of households' disposable income, driven by wage and employment growth as well as low inflation. In the case of private consumption, the main factor was the strong labour market with persistently low level of unemployment, supported by a social program Family 500+. On the other hand, the net export was the main drag on the economic growth due to weaker growth observed in major export countries and strong demand for imports.

In 2018, inflation remained below NBP target. Despite a stronger rebound in the second quarter, inflation fell below the level of acceptable deviation from the NBP target. Consequently, the Monetary Policy Council did not decide to change the level of interest rates, leaving the main reference rate at 1.5%.

Good economic condition in the Polish economy in a low interest rate environment supported high demand for loans. Household lending growth accelerated from 1.7% year on year in 2017 up to 7.0% year on year in 2018. The increase was driven by sustainable double-digit growth in mortgage loans denominated in PLN and a high single-digit year on year growth in consumer lending. The solid growth rate in both segments resulted primarily from low interest rates and the improving creditworthiness of creditors. In the case of mortgage loans, the strong labour market and low interest rate environment neutralised the tightening of credit requirements. Furthermore, the household expectations for higher rates of return from rentals than from financial instruments, were another factor supporting investment demand.

The favorable economic situation had only marginal impact on loan demand from the companies. The lending growth in corporate segment remained below the level observed in household segment. The corporate lending growth amounted to 6.4% in December 2018, as compared to 5.4% in December 2017.

In 2018 there was a significant increase in the volume of household deposits to the level of 9.8% year on year at the end of December 2018 against 4.0% year on year in 2017. This was the effect of good financial standing of households (favorable situation on the labor market, dynamic increase in wages) and deterioration of the situation on the capital markets. Due to the uncertainty in the capital markets, customers' interest in investment funds and financial instruments with a higher risk profile decreased. As a result, the trend of a strong increase in funds invested in investment funds observed in 2017 has weakened.

The growth in corporate deposits amounted to 4.3% year on year in 2018. The pace rebounded somewhat from 2017 (+2.4% year on year in 2017), but it remained substantially lower in comparison to the previous years.

In 2018, the net result of the banking sector increased by 7.5% year on year compared to 2017. This was mainly due to an improvement in banks' net interest income by 5.2% year on year, thanks to an increase in lending, an average interest margin, and an increase in other operating income. However, the result on fees and commissions was much weaker than a year before (-10.5% year on year), among others as a result of the downturn in capital markets. At the same time, the operating costs of banks slightly increased, mainly due to wage pressure. The capital position of the banking sector, expressed by the Tier 1 capital ratio, has improved further.

On 14 March, KNF adopted assumptions for the dividend policy of commercial banks in the medium term. The ultimate objective of the dividend policy is to ensure the stability of the banking sector through strengthening the capital base, as well as protection of recipients of financial services, including depositors. During the adoption of the dividend policy, KNF took into a consideration already included in the dividend policy announced in November 2017 recommendations of the European Central Bank (ECB) of 13 December 2018 on the principles of dividend distribution and maintained additional criteria for banks with foreign currency exposure.

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

On 15 January 2019, KNF announced the assumptions for the dividend policy of commercial banks, cooperative and associative banks, insurance and reinsurance companies, brokerage houses, investment fund companies and general pension management companies in 2019. Those assumptions are consistent with the dividend policy of commercial banks in the medium term announced on 14 March 2018. On 21 January 2019, the Bank received a letter from UKNF regarding general criteria for the commercial bank dividend policy in 2019. Highlighted in the abovementioned letter, the criteria for dividend payment of up to 75% of the profit earned in 2018, as well as the adjustments for dividend payment for the banks with the exposure to foreign loans are consistent with the criteria published on January 15, 2019 in the PFSA statement of the supervisory authority regarding the criteria for the dividend policy of commercial banks, cooperative and associative banks, insurance and reinsurance companies, brokerage houses, investment fund companies and general pension management companies in 2019. The criteria for dividend payment of up to 100% of the profit earned in 2018, additionally incorporate the bank's sensitivity to the adverse macroeconomic scenario (ST add-on). The sensitivity to the adverse macroeconomic scenario was defined as the difference between total capital ratio (TCR) in the reference scenario and TCR in the adverse scenario at the end of forecast period (2020). The results of stress tests, including supervisory adjustments, were taken into account in determining the ST add-on. Due to the assumption of the stability of the balance sheet, which is reflected by the banks' lack of ability to respond to adverse changes in external environment, the ST add-on was reduced by the conservation buffer at the level of 2.5 p.p., in force from January 2019. According to the UKNF letter, the ST add-on for the Bank was set at the level of 6.78 p.p. After the deduction of the conservation buffer, the ST add-on amounts to 4.28 p.p. In line with the abovementioned information, the Group is required to maintain CET1 ratio at the level of 11.99%, Tier 1 ratio at the level of 13.50%, and TCR at the level of 15.50%, in order to meet criteria for dividend payment of up to 75% of the 2018 net profit. In order to meet criteria for dividend payment of up to 100% of the 2018 net profit, the Bank is required to maintain CET1 ratio of at least 16.27%, Tier 1 ratio at the level of 17.78%, and TCR at level of 19.78%. The dividend criteria have to be fulfilled both on standalone as well as consolidated basis. As of January 2019, the Bank fulfilled the criteria for dividend payment of up to 75% of the 2018 net profit

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 p.p., 2) Tier I - 6.0 p.p. In addition, in 2018, the banks were obliged to maintain combined buffer (capital conservation buffer 1.875 p.p. and other systematically important institution buffer from 0.25% to 1% of risk exposure for a selection of 9 financial institutions). Moreover, the KNF imposed on banks recommended levels of capital ratios. For Bank Pekao S.A. Group, as of December 31, 2018, the minimum total capital ratio was 13.37 p.p. and the Tier 1 capital ratio was 11,37 p.p. The individual add-on related to exposure to household mortgage loans denominated in foreign currency. For the Group of Bank Pekao S.A. the add-on amounted to 0.01 p.p. on total capital ratio level and 0.0075 p.p. on Tier 1 level.

In 2018, the Bank was subject to the 2018 EU-wide stress test conducted by the European Banking Authority (EBA), in cooperation with the Polish Financial Supervision Authority (KNF), the European Central Bank (ECB), and the European Systemic Risk Board (ESRB). The 2018 EU-wide stress test did not contain a pass fail threshold and instead is designed to be used as an important source of information for the purposes of the supervisory review and evaluation process (SREP). The results assisted competent authorities in assessing Bank's ability to meet applicable prudential requirements under stressed scenarios. The adverse stress test scenario was set by the ECB/ESRB and covered a three-year time horizon (2018-2020). The stress test has been carried out applying a static balance sheet assumption as at December 2017, and therefore does not take into account future business strategies and management actions. Based on the results of the exercise and under the supervisor's control, the Bank will assess the impact of the results on the Bank's forward looking capital plans and its capacity to meet applicable prudential requirements; and determine whether any additional measures or changes to the Bank's capital plan are needed. According to the EU-wide stress test results, the consolidated Common Equity Tier 1 (CET1) ratio of Bank would be in 2020 at the level of 16.50% under the baseline scenario and at 15.47% under the adverse scenario. Consolidated CET1 ratio of Bank reflecting the full IFRS9 effect would be at the level of 16.14% and 14.55% respectively. The above results place Bank Pekao among the three most resistant European banks (out of 48 included in the sample), with the sensitivity of capital ratios to stress tests several times below the average of European banks. The results of the stress tests are not a forecast of Bank profits.

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

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.

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, market risks and operational risk. Moreover, the Group identifies the following risks as material in its business activity: business, real estate, financial investment, model, macroeconomic, reputation, compliance risks, the risk of excessive leverage and bancassurance risk.

The Group has adopted a comprehensive and consolidated approach to risk management. It extends to all units of the Bank and subsidiaries. Risks are monitored and managed taking into account business profitability and the capital required to cover the losses resulting from these risks.

The Management Board 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 and the Model Risk Committee in model risk management.

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

Detailed reports on credit, liquidity, market, operational and model risks are presented to the Management Board and the Supervisory Board.

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. for the period ended on December 31, 2018 and in the document "Information in respect to capital adequacy of Bank Pekao S.A. Group as at 31 December 2018" 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 obligor and 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 external regulations (CRR) 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, portfolio limits 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.

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

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.

Due to implementation of IFRS 9, the credit risk management process was adjusted to in terms of impairment measurement of the financial assets

Credit risk concentration limits

According to the applicable regulations 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 2018, the maximum exposure limits set forth in the external regulations were not exceeded.

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.

The group's risk management process

The Bank supervises the risk related of subsidiaries. In particular an assessment on size and profile of risk related with their activities is performed. Risk management processes are consistent throughout the Group and adapted to the complexity of the risk profile of individual entities, in accordance with the principle of proportionality.

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

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. 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 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 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.

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 organizational structure including appropriate location of Compliance Department,
- internal regulations on compliance matters,
- training,
- regular cooperation of 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.

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

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 article 171a of The Banking Act, Act of 5 August 2015 on macro-prudential supervision over financial system and crisis management in financial system (Act on macro-prudential supervision), as well as regulations of minister in charge of the finance institutions.

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

Minimal value of capital ratios on Pillar I level are:

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

Capital requirement of Pillar II for Pekao Group, results from individual requirement imposed on Pekao Bank Hipoteczny, by KNF, amounts to 0.01% for TCR.

Combined buffer requirement consists of:

- Capital conservation buffer in amount of 1.875%,
- Countercyclical capital buffer in amount of 0.01%³,
- Other systemically important institution buffer in amount of 0.75%,
- Systemic risk buffer in amount of 2.73%⁴.

In total, Group is required to maintain:

- Total capital ratio (TCR) in amount of 13.38%,
- Capital ratio Tier I (T1) in amount of 11.38%,
- Common Equity Tier (CET 1) in amount of 9.88%.

As of December 31, 2018 Pekao Group total capital ratio amounted to 17.4% and Tier I ratio amounted to 15.8%. The capital ratios were significantly above the minimum required by the law and the level recommended by PFSA.

³ Countercyclical capital buffer was calculated as of 31.12.2018 at the level 0.0058%

⁴ The systemic risk buffer rate is 3% of the total risk exposure amount for all exposures located only on the territory of the Republic of Poland

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

(in PLN thousand)

CAPITAL REQUIREMENT	31.12.2018	31.12.2017
Credit risk	9,300,015	8,833,498
Exceeding the exposure concentration limit and large exposures limit	-	-
Market risk	63,294	48,154
Counterparty credit risk including CVA	86,875	139,865
Operational risk	564,145	560,851
Total capital requirement	10,014,329	9,582,368
OWN FUNDS		
Common Equity Tier I Capital	19,796,894	19,252,010
Tier II Capital	2,000,000	1,250,000
Own funds for total capital ratio	21,796,894	20,502,010
Common Equity Tier I Capital ratio (%)	15.8%	16.1%
Total capital ratio TCR (%)	17.4%	17.1%

Total Capital Ratio of Pekao Group as at the end of December 2018 was higher by 0.3 p.p. compared to the end of December 2017 mainly due to higher own funds by 6.3%, partially compensated by higher capital requirements.

Increase in own funds for total capital ratio calculation resulted from including in Tier II Capital the amount of PLN 0.75 billion from the issue of subordinated bonds and change of HTC&S portfolio valuation.

Total capital requirement increased by 4.5%, mainly due to higher credit risk capital requirement resulting mainly from increase in loan volumes.

Common Equity Tier I capital ratio of Pekao Group as at the end of December 2018 was lower by 0.3 p.p. compared to December 2017 due increase of capital requirements partially compensated by higher Common Equity Tier I capital by 2.8%.

On September 11, 2018, the Management Board of the Bank adopted a resolution approving the issue of subordinated bonds by the Bank, which was announced in the current report No. 20/2018.

On October 4, 2018, the Management Board of the Bank adopted resolutions regarding the issue of two series (series B and series C) of subordinated bonds of the Bank (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. 22/2018.

The main conditions for the issue of the series B subordinate bonds of the Bank are as follows:

1. Type of bonds: bearer bonds; the bonds will not have a documentary form and the bonds will be registered on the issue date in the deposit of securities maintained by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.),
2. Total number of bonds to be issued: 1,100 (in words: one thousand one hundred),
3. The nominal value of one bond: PLN 500,000 (in words: five hundred thousand zlotys),
4. The total nominal value of bonds to be issued: PLN 550,000,000 (in words: five hundred and fifty million zlotys),
5. Interest rate: floating, based on the reference rate of WIBOR for six months deposits (WIBOR 6M) plus a margin of 1.55 p.p.,

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6. Format of issue: 10NC5, i.e. bonds with 10- year maturity, with a reserved call option giving the Bank the right to redeem the bonds earlier, after 5 years from the date of issue or in other cases indicated in the terms and conditions of the bonds (no approval by the PFSA for being classified as a Tier II instrument, changes in the regulatory classification of bonds, change in taxation of bonds), subject to the approval of the PFSA , if such approval will be required,
7. Issue price: equal to the nominal value,
8. Currency: Polish zloty,
9. Issue date: October 15, 2018,
10. Maturity date: October 16, 2028, subject to the possibility of their early redemption on the terms described in point 6 directly above,
11. Trading: Bonds are traded on the alternative trading system of debt securities on the Catalyst market maintained by the Bondspot S.A or Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.),
12. Purpose of the issue: the purpose of the issue, within the meaning of Article 32 sec. 1 of the Act of January 15, 2015 on bonds, has not been specified.

The main conditions for the issue of the series C subordinate bonds of the Bank are as follows:

1. Type of bonds: bearer bonds; the bonds will not have a documentary form and the bonds will be registered on the issue date in the deposit of securities maintained by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.),
2. Total number of bonds to be issued: 400 (in words: four hundred),
3. The nominal value of one bond: PLN 500,000 (in words: five hundred thousand zlotys),
4. The total nominal value of bonds to be issued: PLN 200,000,000 (in words: two hundred million zlotys),
5. Interest rate: floating, based on the reference rate of WIBOR for six months deposits (WIBOR 6M) plus a margin of 1.80 percentage points,
6. Format of issue: 15NC10, i.e. bonds with 15-year maturity, with a reserved call option giving the Bank the right to redeem the bonds earlier, after 10 years from the date of issue or in other cases indicated in the terms and conditions of the bonds (no approval by the PFSA for being classified as a Tier II instrument, changes in the regulatory classification of bonds, change in taxation of bonds), subject to the approval of the PFSA, if such approval will be required,
7. Issue price: equal to the nominal value,
8. Currency: Polish zloty,
9. Issue date: October 15, 2018,
10. Maturity date: October 14, 2033, subject to the possibility of their early redemption on the terms described in point 6 directly above,
11. Trading: Bonds are traded on the alternative trading system of debt securities on the Catalyst market maintained by the Bondspot S.A or Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.),
12. Purpose of the issue: the purpose of the issue, within the meaning of Article 32 Section 1 of the Act of January 15, 2015 on bonds, has not been specified.

On October 18, 2018, the Bank received the PFSA approval to increase own funds by the amount of PLN 200 million from the issue of subordinated bonds of the C series and on November 16, 2018, the Bank received the PFSA approval to increase own funds by the amount of PLN 550 million from the issue of subordinated bonds of the series B.

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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.

	31.12.2018	31.12.2017
Total number of outlets	825	851
Total number of own ATMs	1,708	1,745

As at the end of December 2018, the Bank maintained 5,949.4 thousand PLN-denominated current accounts, 378.0 thousand mortgage loan accounts and 678.1 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

(in thousand)

	31.12.2018	31.12.2017
Total number of PLN current accounts ^(*)	5,949.4	5,669.3
of which packages	4,359.8	4,172.7
Number of mortgage loans accounts ^(**)	378.0	354.1
of which PLN mortgage loans accounts	345.7	320.8
Number of "Pożyczka Ekspresowa" loan accounts ^(***)	678.1	620.8

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

(**) Retail customers accounts.

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

6.4.1 Individual clients

Since the beginning of 2018, Bank Pekao S.A. realizes the new strategy of development for 2018-2020 "Strength of the Polish Bison". The basis for the Bank's growth in the area of individual customer is a significant increase in account numbers thanks to, among others, a new offer of personal account and new offer for young customers, and the most modern mobile application with BLIK function.

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

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

In 2018 the Bank opened over 400 thousand of new accounts for individual clients, higher by 48% in comparison with 2017. The Bank continued the promotion of Konto Przekorzystne with multicurrency card addressed to the persons traveling abroad. In 2018 the sale of multicurrency cards amounted 482 thousand item and was 1.5 times higher as compared 2017.

Bank Pekao S.A. strengthens its leading position among banks focused on young customers. In 2018, the Bank recorded double-digit growth dynamics in the number of customers aged up to 26 (18.7% year on year). The largest growth in the number of customers concerned young people aged 13-17 (33.0% year on year). The Bank provides services for nearly 200 thousand students, which translated into a 14% market share. In 2018 as part of the acquisition of young clients, the Bank carried out nearly 2.2 thousand educational campaigns in schools and universities promoting personal finance management with the use of digital banking services.

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In addition, the Bank created OK, GO platform with free access to online training organized by ICAN Institute, publisher of Harvard Business Review Polska.

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

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

In July 2018, the Bank introduced to its offer a new Konto Świat Premium account for affluent client, which replaced previous existing line of Premium account. Konto Świat Premium account is the account of the Bank with full range of products and banking services such as: a high interest of Konto Oszczędnościowe Premium saving account, gold payment card, free of charge foreign currency accounts in thirteen currencies, no fees for SMS notifications and balance confirmation as well as free opening and maintenance account in Dom Maklerski. An additional advantage of the offer is free of charge cash withdrawals from all domestic and abroad ATMs, as well as cash payment in branch office by consultant or via electronic banking services.

In the second half of 2018, the Bank opened 7.4 thousand Świat Premium accounts, that translate to close six- hold increase in the average monthly sales of new Premium account as compared with 2017. In the period of six months, assets on the customer's accounts Świat Premium increased by over 25%.

The new offer Świat Premium account gives to the customers the opportunity to use interesting and various forms of the promotion on chosen banking product. The clients had a possibility to open a high interest rate Konto Oszczędnościowe Premium saving account – 3% up to PLN 100 thousand for a period six months. The new customers, who decide to open Świat Premium account will be able to benefit from a refund up to PLN 500 for a reservation any travel and stay anywhere in the world through the Booking.com portal.

Lending products

In 2018 the Bank continued activities aimed at building leading position on consumer goods financing market. Increase of cash loans portfolio for individual clients amounted to 16% year on year. Sale of cash loans was supported by competitive offer of Pożyczka Ekspresowa (Express Loan), individual loan offers with the use of CRM tools as well as active use of electronic channels including the PeoPay mobile banking and the Pekao24 Internet banking system.

The Bank significantly expended the group of customers who can receive a loan within the framework of process "na klik" ("by click") which allows them to receive funds on the account within 30 seconds after the loan approval. Fast and fully automated loan granting procedure is available in the Internet service and mobile applications PeoPay. Increase of the availability of the offer in electronic channels, supported by many marketing campaigns, impacted by sales in amounted 338 thousand. Net sales of cash loans amounted PLN 5.5 billion. Every third loan was granted by the "by click" process. The Bank also introduce to the offer loan for a period to 120 months and PZU insurance for customers applying for loan through the electronic channels.

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

In 2018, the Bank achieved a record-high result in a sale of mortgage loans, granting loans for the amount of nearly PLN 10 billion (increase by 12% year on year). Market share in sale of new loans amounted to close 19%. The record-high result was supported by the Bank's share in the sale of mortgage loans granted under the government program "Mieszkanie dla Młodych" ("Apartment for the Young") supporting the persons aged up to 35 in acquisition of the first new apartment. The "Mieszkanie dla Młodych" program ended at the end of 2018. Starting on the beginning of the "Mieszkanie dla Młodych" program the Bank granted over 41 thousand loans for nearly amount PLN 7.3 billion.

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

In 2018, in the area of credit cards, the Bank implemented a dedicated simplified process of issuing new cards for current customers (the Bank prepared on the basis of customer activity analysis the proposition of the credit limit). In the case of a credit card The flexible " by click" process is available both in the traditional website, as well as in mobile applications for both phone and tablet. The Bank issued almost 700 thousand credit cards and cards with deferred payment terms for individual customers.

Savings and investment products

In 2018 the Bank introduced to its offer a new saving account Konto Oszczędnościowe for individual clients and Konto Oszczędnościowe Premium dedicated to affluent client with Świat Premium account. The new account replaced Dobry Zysk account. New saving account provide attractive interest rates, and free of charge payments transfer between related account, executed with the use of PeoPay or mobile banking application.

The new opened saving account, could take an advantage from promotional interest rate of 2.7% up to the amount of PLN 10 thousand for a period of 6 months and 3% up to the amount of PLN 20 thousand for a period of 12 months, and 3% up to the amount of PLN 100 thousand for a period of 6 months, and attracted significant customers.

The Bank opened over 125 thousand new saving account on which PLN 1.8 billion invested. The average monthly sale of new account was more than 2.5 times higher than sales of Dobry Zysk in 2017.

In 2018 negotiated deposits available in branch and Internet deposits (e-lokata) placed through the Pekao24 Internet were also very popular among the customers.

The total of individual client deposit increased by PLN 8.2 billion and were higher by 12.4% in comparison to December 2017, thanks to new attractive offer savings account, especially for customers who transferred funds from other bank and dynamic growth in the number of personal account with regular impact.

The growth of volumes in the area of retail savings recorded positive dynamic on market share by 10.4% at the end of December 2017 and 10.6% at the end of December 2018.

The Bank introduced to its offer new investment products:

- 10 issue of Certificates of Deposits: Mocny Dolar, Mocny Dolar Plus, Mocny Dolar Plus2, Financial Companies, Financial Companies 2, Silny Złoty EURPLN, Mocny Złoty EURPLN, Mocny Złoty Plus EURPLN, Mocny Złoty Plus EURPLN 2, Amerykański Koszyk 2. All new products offer with 100% capital protection at the end of investment,

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- Investment funds Pekao Alternatywny Dynamiczny Absolutnej Stopy Zwrotu, fund benefiting from the potential of global markets and investing in various assets was introduced,
- IKZE in DFE (Dobrowolny Fundusz Emerytalny) PZU was introduced, which is another product facilitating saving for retirement and allowing the use of tax reliefs,
- Ubezpieczenie Inwestycyjne (new form of investment) - Świat Inwestycji Premium. The product combines the benefit of investing with insurance.

New proposals have made the offer more attractive by expanding the diversification of investment portfolios and products.

Insurance products

In 2018, in the area of bancassurance the Bank developed cooperation with PZU S.A. The Bank conducted trainings for 6.7 thousand employees of branches who received the KNF licenses to sell PZU insurance. The Bank provided also possibility to purchase voluntary CPI PZU insurance which is offered when applying for a loan within the framework of process “na klik” in the Pekao24 system and PeoPay system. The Bank's customers can take advantage of a new insurance of buildings or flats prepared by PZU S.A. In addition to the standard property insurance that may be used to secure the debts of the Bank's borrowers, the customers can choose between additional packages including home movables property, assistance and civil liability insurance.

In 2018, there was implemented the group insurance „PZU-PAKIET PODRÓŻNY – BIZNES” for users of business payment cards issued by Bank Pekao S.A. and a General insurance agreement on risk on mortgage loans repayment was signed. The Bank actively promoted the PZU travel insurance campaign in the electronic channels offered by the Moje PZU portal.

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 Dom Inwestycyjny Xelion Sp. z o.o. (DI Xelion).

As at the end of December 2018, the retail brokerage entities of the Group maintained 269.0 thousand investment accounts. The Group's brokerage entities were serving 171.5 thousand accounts with an active access to services through remote channels, in particular through the Internet and mobile applications. As at the end of December 2018, direct service of individual customers was conducted through nationwide network of 431 points of brokerage services.

As of December 31, 2018, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 20.8 billion.

In 2018, activities of the Group's brokerage entities focused on clients service on the secondary market, acquisition of new customers through public offers as well as development of tools and scope of services rendered through remote channels.

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

- 10 sales offers of Structured Certificates under Trzeci Program Emisji Strukturyzowanych Certyfikatów Depozytowych issued by Bank Pekao S.A., registering records for the total amount of PLN 539 million (Dom Maklerski),
- 13 sales offers of Structured Certificates for the total amount of PLN 130 million (CDM),
- 10 public bond offers, registering records for the total amount over PLN 72 million including one offer suspended after the subscription period (Dom Maklerski, CDM),
- 46 offers for the sale of non-public Investment Certificates of Zamknięte Investment Funds, registering records for the total amount of PLN 125 million (CDM),

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

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In 2018, CDM introduced to its offer modern investment platform eTrader Pekao, which basic advantage is to gather all the most important elements of the client's investment process in one place - from access to stock quotes and information from the market, through analyzes and data on companies, to full transactional service. eTrader Pekao platform is equipped with advanced functions allowing for planning, analysis and control of investments, and the intuitive interface and wide personalization options ensures comfort of service.

In 2018 CDM and DM obtained a leading positions in the ranking of KDPW participants maintaining accounts and acting as a clearing member in KDPW_CCP or a settlement agent in the field of organized cash market.

The KNF has issued to CDM Pekao the highest rating of the BION, which confirms the high quality solutions adopted in CDM Pekao, including the risk management system.

Within the framework of strategic "Strength of the Polish Bison" the started integration of the activities within all the Group's brokerage entities. The aim of these activities is to increase the quality and comprehensiveness of the products and services offered and to improve the effectiveness of the entities' operations. The implementation of the planned activities is conditioned by obtaining the required corporate and regulatory approvals.

Business clients - micro enterprises

The Bank intends dynamically increase share in the segment of micro enterprises thanks to its availability, attractive offer and effective and fast processes. In 2018, the acquisition of business clients increased by 15% compared to 2017. In 2018 business customers' deposits increased by 14.6% year on year. In 2018, the Bank implemented a new service model for micro enterprises (revenues up to PLN 5 million) and conducted activities aimed at optimization of products and processes in this area.

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

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

In 2018, the Bank provided a special offer for micro enterprises, which during the last year did not have POS terminal. Within the framework enterprises can be provided with three terminals free of charge in the period of 18 months as well as free additional services such as terminal installation, staff training and service. In addition, a new customer who will open a Konto Przekorzystne Biznes account with the POS terminal will provide a voucher worth 100 PLN.

The number of POS terminals issued to entrepreneurs in the fourth quarter of 2018 was almost 6 times higher as compared to the first quarter of 2018.

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

Thanks to cooperation between Bank Pekao S.A. and Pekao Leasing Sp. z.o.o, new business customers who sign a leasing agreement and open Konto Przekorzystne Biznes account can receive preferential leasing rates and free maintenance of Konta Przekorzystnego Biznes.

For business customers the Bank released Apple Pay services and extended payments in Blik system on the PeoPay application including cash deposit at the ATMs of two networks of payment networks - Euronet and Planet Cash. Thanks to the customer can use a wider network of ATMs for cash deposit. In addition, the Bank adjusted banking regulations to the regulation concerning Split Payment, GDPR and the Act on Payment Services.

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Private Banking

Private Banking of Bank Pekao S.A. has been present on the Polish financial market for over 20 years ensuring a high standard of services and innovative solutions addressed to the most demanding segment of wealthy clients. Client service model is based on cooperation with dedicated Relationship Managers, who provide customers with product solutions tailored to their individual needs and current market situation. A group of Relationship Managers consists of experienced employees who hold certificates of the European Financial Planning Association.

In 2018, the activity in the area of Private Banking focused on strengthening existing relations with customers, new client's acquisition and, through offering products solutions tailored to the customers' needs and market situation. In 2018, 400 new clients have been acquired. The clients bought investments products for almost PLN 900 million.

At the end of December 2018, assets under the Investment Advisory service amount to PLN 3.1 billion. An almost 90% growth in the activity of Private Banking customers in remote channels and over 90% increase in the number of operations performed via remote channels was observed.

The investment products offer available to Private Banking customers has been extended with new funds: Pekao Alternative Dynamic Absolute Return Rates Sub-Fund offered by Pekao TFI and NN Capital Plus closed-end fund offered by NN Investment Partners as well as specialized investment program Sejf + with Golden Capital Protection offered by TFI PZU S.A. (PZU) available through Centralny Dom Maklerski Pekao SA.

In September 2018, the product offer has been enriched with a Multi-Allocation Investment Program - life insurance with insurance capital funds. The new product was prepared jointly with PZU Życie S.A. The investment offer includes 83 funds in PLN, EUR and USD selected from the domestic investment fund companies and foreign investment companies and 3 model strategies, available in PLN, managed by TFI PZU S.A. In October 2018, Private Banking and Corporate Banking Divisions as well as Pekao TFI and CDM Pekao implemented investment fund Pekao Samorząd Plus FIZ (series C). The subscription conducted through Centralny Dom Maklerski Pekao SA gathered the amount of total PLN 54,4 million.

In cooperation with CDM Pekao in 2018 customers were offered thirteen issues of structured products in the form of certificates issued by UniCredit Bank AG, based on the valuation of HVB Robotics Fund Risk Control 9 Index, STOXX Europe 600 Basic Resources and STOXX HealthCare indexes as well as shares of Renault S.A., Volkswagen AG i AXA S.A., ArcelorMittal S.A., Adidas AG oraz Vestas A/S. Five issues of certificates ended with a positive result. The gross profit on ended investments ranged between 6.70% and 10.00% per annum. Numerous initiatives with the participation of current and potential clients as well as Private Banking representatives, have been organized, including World Economic Forum in Davos, Economic Forum in Krynica, CEO Summit in Warsaw organized by Bank Pekao S.A. in cooperation with Atlantic Council.

Another event contributing to strengthening the position of Private Banking as an expert in providing services to wealthy and demanding clients was a gala connected with the publication of the list of the 100 richest Poles organized by Forbes magazine, where Bank's representatives participated in discussion panels.

The area of succession is one of the significant elements of development of Private Banking activities in 2018. Therefore a new project - Next Generation was launched that allows for a deeper analysis of the succession area with the participation of experts and successors, who have experience in transferring family businesses or plan such activities and expect professional support and advice.

A series of meetings attended by the Bank's Management Board members responsible for business divisions as well as clients were held in major Polish cities. On the one hand, the aim of the action was to listen to the needs and expectations of customers, on the other hand, make the most of the potential of each region. Meetings have been held in Rzeszów, Poznań, Warsaw, Katowice, Kraków, Wrocław and Gdańsk.

Private Banking customers had the opportunity to participate in events such as the 26th Pekao Szczecin Open Tennis Tournament, the 12th Film and Art Festival "Dwa Brzegi", 23rd Silesian Gala of Business Center Club and many others. Also, initiatives and events of a relational and educational nature were organized for clients. The aim is to broaden the knowledge in the field of alternative investments and non-financial services - Customers had the opportunity to attend a meeting at the LAPADA Art & Antiques Fair in London.

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In September 2018, Bank Pekao S.A. opened its first foreign office in Great Britain. The office in London is representative and aims to provide support for Polish companies planning foreign expansion, supporting relations both business and private banking as well as private equity funds interested in Poland.

Electronic banking for Individuals

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

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

The Bank released the most modern in the country mobile banking application PeoPay which is both an application for banking operations and payments. The PeoPay application offers innovative solution in the market such as biometric technology for payments authorization: fingerprint and Face ID, payments for online shopping in mobile phone without logging into Internet banking, scanning banking account number directly from invoice instead of rewrite it to the application. In addition, the application gives the opportunity to pay by mobile phone also abroad (or a foreign online store) directly from the account held in the foreign currency without any additional fees and commissions for currency conversion. New PeoPay application, enables execution of transactions in PLN as well as in selected foreign currencies without FX conversion thanks to connection with corresponding currency accounts. The PeoPay application is available for devices with Android and iOS operational systems. Thanks to the PeoPay application it is possible to make payments in over 700 thousand of terminals in Poland (NPB data as at the end of the second quarter of 2018) i.e. ca. 99% of total number of POS and in ca. 6 million terminals abroad as well as in majority of on-line shops in Poland and on-line shops with Apple Pay or Masterpass logo abroad.

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

In of 2018, in the PeoPay mobile banking was offered 24 hours a day foreign currency service as well as management of payment cards that allows customers to activate or cancel payment card and change withdrawal and card payment limits. In June 2018, Bank Pekao S.A. implemented in the PeoPay application BLIK codes enabling cash withdrawals from ATMs, payments in POS terminals and online. Moreover, in June 2018, the Bank as one of the first banks in Poland provided Apple Pay service and as only one institution in Poland offers to its customers a possibility to connect Apple Pay with personal account through the PeoPay mobile banking without having payment card. The application user can also set the account balance on the PeoPy main screen without having to log into it. Thanks to the PeoPay application, it is also possible to verify the client during a conversation with a banking consultant. Both customers with individual and company accounts can use the PeoPay application and the BLIK system to cash withdrawals into their accounts at the ATMs of two networks of payment networks - Euronet and Planet Cash. The Bank released the Ukrainian version of PeoPay.

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.

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The functionality of the new application "Pekao24 na tablety" is systematically developed. In 2018, the Bank allowed customers of the Internet banking system to submit application within the framework of the government "Dobry start" as well as application in Family 500 plus Government Program for new period. In addition, customers with individual and company account at the Bank, thanks to the connection of accounts in online banking, have access to these accounts at the same login. Within the process "na klik" ("by click"), the customers who were not able to use this offer, were provided with possibility to sign an agreement in the Pekao24 system on electronic banking services, which allows them to apply remotely for cash loan and credit card. In the Pekao24 system, the Bank provided possibility to open a new Konto Oszczędnościowe saving account and for the customer using voluntary cash loan insurance – loan offer with preferential conditions.

The customers were also offered eDokumenty service, which enables to view electronic version of documentation submitted by the Bank. All new functions are available in the Internet and mobile service and the PeoPay application.

The number of individual clients actively using mobile banking increased by 31% year on year.

(in thousand)

	31.12.2018	31.12.2017
Number of individual users with an access to electronic banking Pekao24 as at the end of period ^(*)	2,045.4	1,846.3
Number of individual users actively using electronic banking Pekao24 as at the end of period ^(**)	1,829.0	1,541.0
Number of individual users with an access to mobile banking as at the end of period ^(***)	1,232.9	938.2

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

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

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

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6.4.2 Small and micro enterprises (SME)

Since the beginning of 2018, the Bank has been consistently implementing the growth strategy in the Small and Medium Enterprises segment. In order to achieve this goal the SME Banking Division has been created with dedicated Business Centers where client receives the support of qualified Advisors supported by Product Specialists (in the scope of FX transaction, leasing and factoring service, or EU Funds). Thanks to the Bank offered to customers modern products, solutions and specialist knowledge which supports their development at every stage of their business.

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

MŚP Standard and MŚP Premium packages consist of basic transactional service, including PLN and foreign currency accounts, electronic banking with FX currency exchange and deposit module, mobile banking and credit card. Other services, i.e. cash management, leasing, factoring and products supporting trade finance will be added depending on needs of corporate. Export companies will be additionally provided with trade finance services (LC, guarantee), while for the companies cooperating with wide range of customers and contractors, the Bank provides Pekao Collect service for mass payments identification. In the second half of the year, Bank has implemented the SME Universal Agreement, which is the basis of a comprehensive offer in the area of transactional banking and allows to build a multi-dimensional relationship with clients. The SME Universal Agreement was developed taking into account modern trends in the corporate banking where client receives a wide range of products and services.

The Bank provides for each clients of small and medium enterprises, an individual approach and comprehensive service. In order to meet the expectations of clients in the SME segment, the Bank a simplified a loans granting and renewing process. In the first half of 2018, the customers were provided with new products: multipurpose credit line (loan in current account, non-revolving loan, guarantees and letter of credit within one credit process and one agreement), revolving loan supporting short term financing needs and e-financing which finances short-term receivables. These products improve SMEs' financial liquidity and support daily operations of the customers. In the second half of the year the Bank extended the loan offer by a Mortgage Loan taking into account the needs of SME clients. The new loan allows to finance both trading and investments needs. In addition, it enables to refinance and consolidate loans taken in other banks.

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

In the result of an agreement between the Bank and the European Investment Fund signed in July 2018 regarding a portfolio guarantee line for loans with a record value of PLN 1.2 billion. In September 2018 the Bank provided to the offer loans with the EFI COSME guarantee. EFI COSME guarantees secure 50% of the capital and interests of investment or revolving loans and they are free of charge. This offer is dedicated to companies operating on market for up to 3 years and make the access to finance easier. For companies operating longer, the Bank is able to lower a required own contribution. In addition, Bank Pekao S.A. is the only Bank which signed this type of contract directly with the European Investment Fund.

The next unique ESIF Silesia program is dedicated for the companies operating in the Silesia region within the framework the Bank provides preferential investment and revolving loans The client receives part of the loan from the EU funds, without additional fees and commission. Bank Pekao S.A. is the only bank which signed the contract with the EIF under this program. In September, the SME Division launched a free of charge direct consultancy for companies wishing to use the EU Grant and Technological Credit under the 2014-2020 Funds, within the EU Funds Office.

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

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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) with the PeoPay application. Both systems are an integral part of Konto Przekorzystne Biznes and Pakiety Mój Biznes (My Business Packages).

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

From July 2018, a mechanism of a shared payment has been made available in electronic banking systems, which enables the execution of transfers using funds on the VAT account. From September, customers with a private and company account in the Bank or having several companies have the opportunity to view these accounts in online banking during a single login.

As at the end of December 2018, 190.4 thousand business users had an access to the electronic banking, and 135.5 thousand are active users.

As at the end of December 2018, 48.3 thousand business users had an access to the mobile banking application for SME clients, and 30.1 thousand were active users. The number of business users with an access to the mobile banking application increased by 13 thousand compared to the end of December 2017.

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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 in, among others, M&A area).

The Bank's services are used by every second large company in Poland. The Corporate Banking and MIB Division services nearly 13 thousand of entities, including c.a. 2.5 thousand foreign customers and over 2.5 thousand local government units and municipal companies.

The Bank maintains its position of a leading corporate bank and the leader in innovative product solutions for enterprises and institutions. A wide range of products, innovative solutions and an individual approach ensure comprehensive financial services to enterprises, institutions and public sector units. In 2018, the Bank signed partnership agreements with Bank Gospodarstwa Krajowego and Korporacja Ubezpieczeń Kredytów Eksportowych SA, which are aimed at supporting the foreign expansion of Polish enterprises.

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

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

Transactional services

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

Key achievements in the area of the Bank's transactional banking in 2018 include:

- an increase in the number and volume of domestic transfers by 12% and 10% year on year respectively,
- an increase in the number and volume of cash deposits in closed form by nearly 6% and 11% year on year respectively,
- an increase in the number and volume of cash withdrawals in closed form by nearly 9% and 4% year on year respectively,
- processing within the framework of Pekao Collect service (mass payments identification) a record-high number of over 140 million transactions with the total volume of PLN 180 billion, i.e. increase by nearly 3% and 15.5% year on year respectively,
- an increase in volumes of foreign incoming and outgoing payments by 15% and 17% year on year respectively and an increase in the number of foreign incoming and outgoing payments by 17% and 6% year on year.

The Bank offers a new standard for processing payments ordered with the use of the MT103 message. The Bank is the first in Poland to apply the SWIFT GPI standard to its fullest extent, i.e. in all settlement channels where the MT103 message is used (including SORBNET and Target2) and for the entire range of 21 currencies in which the Bank performs settlements. This increases the transparency and speed of the payment process and provides clients with information about the time when funds were booked on the beneficiary's account.

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Split Payment

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

Bank Pekao S.A. holds a leading position in Split Payments transactions with the largest market share of 23%.

Trade finance

In 2018, the Bank recorded a significant increase in turnover and involvement in the area of trade finance products. The largest increase in turnover related to bank guarantees - 7% year on year and products based on purchase of receivables - 13% year on year. The same group of products contributed to an increase in commitment at the level of 32% year on year in the case of bank guarantees and almost 30% year on year in the case of purchased receivables. Achieving such results was possible thanks to the continuous adjustment of trade finance products to the needs of clients and the increasing automation of processes.

In 2018 Bank Pekao S.A. signed an agreement with Bank Gospodarstwa Krajowego regarding participation in the Export Letters of Credit Program, which allows the Bank to confirm and discount export letters of credit from countries with higher risk, thus supporting Polish companies in their expansion on foreign markets. Bank Pekao S.A. was the first of the signatories of the agreement which finalized the transaction confirming the letter of credit under this program.

The Bank has enriched its offer with bank guarantees issued in the form of a pdf document with a qualified electronic signature (e-guarantees). E-guarantees are equivalent to guarantees issued in the form of a traditional paper document. The new form of the document is an important facility for entities participating in tenders for public procurements.

In 2018, the Bank launched the Open Financing Platform (OPF) – a modern tool for financing trade. The platform provides comprehensive, fully electronic service of the financing process and purchase of receivables. It enables to process and manage invoices both from the issuer's and recipient's side. Large corporations, medium and small-sized enterprises as well as the persons running a sole proprietorship business activity can benefit from the OPF. The platform will significantly accelerate the processes of handling the receivables of current and potential clients. In addition, thanks to the solutions applied, the platform will allow reaching the contractors of the Bank's clients who have not cooperated with the Bank so far.

Cooperation with international clients

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

A key element of support, and at the same time a condition for strengthening the presence of domestic entities on foreign markets, is providing the clients with more attractive products offer for financing foreign contracts. Within the scope of a wide range of banking products, companies operating in Poland are provided in the Bank with the package of the most advantageous financial solutions adapted to the business model. Departament Bankowości Międzynarodowej i Finansowania Eksportu (The Department of International Banking and Export Financing) has the competence to carry out the entire process of arranging and organizing the financing of the customers foreign activities.

In the area of export support Bank Pekao S.A. cooperates with Korporacja Ubezpieczeń Kredytów Eksportowych SA - KUKE (Export Credit Insurance Corporation Joint Stock Company - KUKE) which offers instruments for international transactions risk mitigation. In 2018, the Bank signed with KUKE framework agreement on joint offer for exporters and executed the first transactions on its basis. Under the agreement KUKE grants insurance guarantees for debt payment within the scope of LCs opened by foreign banks – confirmed, post-financed or discounted by the Bank. The agreement strengthens the Bank's role as an expert in the field of cross-border solutions for clients operating internationally, as export LCs on non-commercial markets expanded the available solutions for financing foreign trade. The development of cooperation with KUKE also covered other export financing products. The Bank executed the transactions of granting contractual guarantees and pre-financing the export contract with the use of collateral in the form of the KUKE insurance guarantee.

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Investment banking, structured finance and commercial real estates

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

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

In order to increase efficiency and internal synergies, the Bank decided - within its internal organizational structure - to establish a new Structured Finance Department, centralizing specialized financing for corporate clients. This change is intended to further support the process of strengthening the Bank's position as the leading institution financing corporations in Poland.

In 2018, the Bank participated, among others, in the following financing projects for corporate clients:

- financing the activity of one of the leaders in the chemical industry, total loan amount over PLN 3.5 billion,
- financing the current activity of one of the leaders in the fuel industry, total loan amount over PLN 1.5 billion,
- participation in syndicated financing granted to one of the leaders in the telecommunications services industry in the total amount PLN 930 million,
- financing the purchase of a company in the restaurant industry, total loan amount: EUR 190 million,
- participation in financing the acquisition made by a leader in the HoReCa industry, total loan amount: EUR 190 million,
- financing the infrastructure investment program, total loan amount: PLN 700 million,
- investment loan for expanding production capacities in the chemical and food industry, total amount of EUR 73 million,
- investment loan for the leader in the food processing industry, total loan amount of PLN 495 million,
- refinancing of the restaurant industry leader, total loan amount: PLN 280 million,
- financing of the development of market leaders in tests, inspection and certification in Poland, total loan amount: PLN 235 million,
- financing the development of one of the car rental market leaders, loan amount over PLN 225 million,
- loan granted for development of the leader operating on the Polish market of services related to quality control, financing amount: PLN 223 million,
- financing the activity of one of the major companies in the telecommunications industry, loan amount: PLN 200 million,
- financing of modern infrastructure for production of optical fibre, total loan amount of ca. PLN 200 million,
- financing the expansion of the logistics centre and photovoltaic installation, total loans amount of ca. PLN 125 million,
- financing the development of the leader in the food processing industry, loan amount over PLN 111 million,
- financing the activity of a leading e-commerce company; additional loan amount: PLN 100 million,
- financing of the production investment in the agricultural sector in the form of credit and leasing, total amount of PLN 76 million,
- financing the purchase of a producer of meat products, loan amount of ca. PLN 68 million,
- financing the acquisition of companies from the pharmaceutical industry, loan amount: PLN 61.5 million,
- financing the development of the leader in the Polish on-line airplane ticket market, loan amount over PLN 60 million,

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- financing the activity of one of the leaders in poultry farming, loan amount: PLN 50 million,
- financing the activity of one of the key companies in the waste management industry, the amount of financing: PLN 50 million,
- financing of activities of one of Polish leader on the design and manufacture of machinery and equipment for the energy and fuel sector, total financing amount PLN 50 million,
- financing the R&D activity of the company from technology sector, investment loan nearly PLN 50 million,
- financing of investment expenditures of a leader in the pharmaceutical industry, loan amount : PLN 45 million,
- financing the acquisition by a Polish entity of the producer of supermarket trolleys in France, loan amount: EUR 8 million,
- financing in the form of factoring provided to the capital group of companies operating in the electricity distribution sector, total amount of PLN 330 million (implemented by Pekao Faktoring together with GK PKPE Holding).

New loans for financing commercial real estate amounted to over PLN 3.6 billion and included, among others, the following transactions:

- granting of loans for innovative form of financing housing transaction, in the total amount of loan PLN 258 million,
- financing of an office building complex in Łódź, in the amount PLN 230 million,
- investment loan for financing a commercial real estate in Warsaw, financing amount: EUR 45 million,
- financing of the construction of a warehouse complex near Kielce in the amount of over PLN 150 million,
- financing of the construction of an office building in Kraków in the amount of over PLN 140 million,
- financing of the logistics park near Szczecin, in the amount nearly PLN 130 million,
- financing of the construction of an office building in Kraków in the amount of nearly PLN 100 million,
- financing of construction of office-shopping complex in Warsaw in the amount of nearly PLN 90 million,
- financing of a leader in warehouse sector in Poland in the amount of over PLN 65 million,
- loan for financing the construction of another warehouse park located in Central Poland, loan amount: PLN 54.5 million.

Issuance of debt instruments

In the area of arrangement and management of commercial debt securities, as of November 30 2018, Bank Pekao S.A. has 19% market share (the 2nd place), including 21% market share in organization of corporate bonds issues, 23% in the segment of bank debt securities and 28% market share in organization of municipal bonds issues.

As far as issues in 2018 are concerned, the Bank has the 1th place both in segment of mid-term bonds for enterprises (33% market share) and in bank debt securities (34% market share).

In 2018, the Bank issued debt securities (corporates, banks and local governments) for the total amount of ca. PLN 15.2 billion, including in particular the following mid-term bonds transactions:

- issue of 3-year bonds worth PLN 2.5 billion for a multilateral financial institution (the largest non-Treasury bond transaction on the Polish market carried out by one dealer),
- issue of two series of subordinated bonds of Bank Pekao S.A.: 10-year bonds in the amount of PLN 550 million and 15-year bonds in the amount of PLN 200 million,
- issuing several series of bonds for a leading packaging manufacturer for the total amount of EUR 190 million with a maturity of 7-10 years,
- issuing over a dozen of series of bonds with maturity of 1-2 years for leasing companies for the total amount of PLN 605 million,

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- issues of medium-term debt securities with a maturity of 2-5 years for developers in the total amount of nearly PLN 460 million,
- issue of three series of bonds with a maturity of 3-4 years for a bank operating in Poland in the total amount of PLN 250 million.

Cooperation with international and domestic financial institutions

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

As of December 31, 2018, the Bank maintains 74 nostro accounts with 47 banks in 26 countries; it runs 223 loro accounts for 204 foreign clients (banks and other financial institutions) from 48 countries and 44 current accounts for 40 foreign financial institutions.

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

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

Implementing the new strategy of the Bank regarding the development of cooperation between the Pekao Group and small and medium-sized companies, the subsidiary: Pekao Leasing Sp. z o.o. in the first half of 2018, concluded already the third credit line agreement with the Council of Europe Development Bank - this time in the amount of EUR 150 million, intended to support this segment of clients. The purpose of the credit line is to finance projects related to the creation and maintenance of jobs for micro, small and medium-sized enterprises. Bank Pekao S.A. was the arranger of the transaction and loan guarantor.

In the fourth quarter of 2018, the European Investment Bank launched another financing for Pekao Leasing Sp. z o.o. in the amount of EUR 100 million. The transaction is unique due to the loan collateral in the form of an insurance guarantee. The risk of the insurance company is secured with the guarantee of Bank Pekao S.A.

Also in the fourth quarter of 2018, Pekao Leasing Sp. z o.o. obtained a long-term financing in the amount of PLN 480 million from one of the Polish banks. The loan is secured with the guarantee of Bank Pekao S.A.

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Comprehensive service of the public sector finances

In 2018 Bank Pekao S.A. maintained the position of a leading bank in the area of ongoing service and financing of the Polish public sector. Bank Pekao S.A. is recognizable and effective both in cooperation with metropolises and smaller municipalities as well as with communal companies, co-creating and developing Polish infrastructure.

In 2018, the Bank provided financing in the amount of PLN 2.4 billion for the public sector's development projects, including PLN 1.2 billion for the waste treatment sector. The Bank's participation in financing various areas of municipal economy has contributed to a significant improvement in the life quality of local communities.

The most important transactions in 2018 are as follows:

- bond issue program of Miejskie Przedsiębiorstwo Oczyszczania w M. St. Warszawie Sp. z o.o. for the amount of PLN 1.2 billion for financing the construction of a waste incineration plant in Warsaw,
- bond issue program of Tramwaje Śląskie S.A. for the amount of PLN 328 million dedicated to the project of modernization and development of a tram infrastructure in the Silesian and Zagłębie Agglomeration together with the purchase of a tram rolling stock. The participation of the European Investment Bank (EIB), which provides indirect funding to banks involved in the transaction, allows the client to incur a lower financing cost (one of the largest transactions of this kind in the public transport sector in 2018),
- bond issue program of Państwowe "Porty Lotnicze" (State Airports) for the amount of PLN 300 million to improve the aviation infrastructure in Poland,
- bond issue program for the amount of PLN 276 million executed with the Wrocław Stadium for refinancing this facility. The city appreciated the new transaction structure, and the consortium of banks that previously financed the project has just an intention to buy back part of the bonds from the Bank,
- signing an annex for the amount PLN 119 million, changing the structure and expanding the bond issue program of the Ławica Airport in Poznań in order to adjust financing to the client's investment needs,
- bond issue program of MPK Łódź Spółka z o.o. for the amount of PLN 106.5 million for the purchase of buses as well as the extension and modernization of the tram depot in Łódź,
- the purchase by a State-owned company, bonds issued by Pekao Leasing Sp. z o.o. for the amount PLN 100 million. The client benefited from the diversified Bank offer and invested in the bonds of Pekao Leasing Sp. z o.o. with the guarantee of Bank Pekao S.A. as an alternative to deposit products,
- loan for financing current operations of one of the largest municipal companies dealing in waste management in the amount of PLN 60 million,
- financing 10-year lease of 46 modern buses for MPK-Łódź Spółka z o.o. in the amount of PLN 54 million, executed in cooperation with Pekao Leasing Sp. z o.o.,
- financial leasing, in cooperation with Pekao Leasing Sp. z o.o., for MPK S.A. in Krakow in the amount of PLN 36.4 million, providing 30 new ecological buses for Krakow.

In addition, Bank has realized projects such as:

- the first municipal investment fund on the Polish market - PLN 110 million of issued investment certificates based on municipal debt securities,
- the first issue of public mortgage bonds on the Polish market since 2012 for the total amount of PLN 350 million.

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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 2018, Pekao Bank Hipoteczny, as a specialized mortgage bank, continued activities on the market of commercial properties, local government units, as well as loans for purchase, construction, refurbishment or modernization of housing loans to individuals.

As at the end of 2018, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 2,234.8 million, a increase by PLN 460.0 million, i.e. 25.9% in comparison to 2017. Loans granted to corporates and local governments represent 38.6% and 19.4% respectively and loans granted to individual clients represent 42.0% of loan portfolio structure. Loans granted in 2018 were dedicated to finance local governments, commercial real estate, housing loans to individuals represent 59.4%, 24.4% and 16.2% respectively.

In 2018, within the Program of Covered Bonds to bearer, Pekao Bank Hipoteczny conducted two public issuances of covered bonds. The total value of liabilities due to covered bonds amounted to PLN 1,532.1 million as of December 31, 2018.

In addition in 2018, Pekao Bank Hipoteczny conducted the issue of bonds for the amount to PLN 300.0 million. The bonds were issued as part of the issuer's bonds issue program up to the amount of PLN 1 billion.

In 2018, Pekao Bank Hipoteczny S.A. received the The Covered Bond Label quality certificate, which confirms the quality of mortgage bonds issued and the highest standards for investors.

6.5.2 Assets management

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

Pekao IM, in which 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, 2018, the net asset value of investment funds of Pekao TFI S.A. amounted to PLN 19,403.4 million, an increase of PLN 993.4 million, i.e. 5.4% as compared to the end of 2017.

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 2018, the Company concluded 13,432 new agreements. The value of leased assets increased in comparison to 2017 by 27.6% and amounted to PLN 3,183.4 million, of which 61.7% were vehicles, 28.3% - plant and equipment, 6.8% - real estates and 3.2% - others.

Within the scope of the program of co-operation between Pekao Leasing and Bank Pekao S.A. the value of assets leased to the customers that were also the Bank's clients amounted to PLN 2,160.4 million and was higher by 28.8% in comparison with the 2017.

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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 2th on the Polish factoring market, with 11.5% of market share.

6.5.5 Transactional advisory

Pekao Investment Banking S.A. – Pekao IB

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

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

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 the Bank Pekao S.A., as a major customer, in the service of online banking, cards and call center products. The company within its operations serves customers through alternative channels of communication, including phone calls, mailing, sms, chat and video chat. The main channel of communication is phone calls - in 2018, CBB handled 15.8 million calls, (i.e. 5.8% decrease in comparison with the same period of 2017).

The company runs with the Bank a number of projects aimed at developing communication with customers of Bank Pekao S.A. 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. The acquisition transaction of the PZU Centrum Operacji S.A. by PFS - carried out in 2018 - enabled the takeover of PTE PZU S.A. and TFI PZU S.A. within the scope of the transfer agent service and extending the scope of service for PZU Życie S.A. As at the end of December 2018, the company maintained its leading position in the market of OFE using the services of external Transfer Agent.

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

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

In 2018, 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 2018 included the implementation of ApplePay mobile application for the clients of Bank Pekao S.A. and payments in Blik system on the PeoPay application and the implementation of new standards for electronic cards introduced by MasterCard and Visa organizations.

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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 engagement and satisfaction. Significant area of the Bank's HR policy is outstanding talents spotting within the organization and investing in development of their skills.

Training and professional development

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

In the year 2018, the main training priorities of the Bank were as follow:

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

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

The Bank realized training projects supporting personnel in proper distribution of banking products, including bancassurance products. In the cooperation with PZU, Bank Pekao S.A. exceeded 3.2 thousand of licensing examinations in scope of selling insurance products, above that, almost one thousand employees has been trained in scope of specialized bancassurance products in cooperation with Bank's partners.

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

Professional knowledge development of the Bank's employees

The Bank continued realization of training projects related with implementation of adopted business strategies. Additionally, training programs for employees with high potential and training for new employees were conducted.

In the year of 2018, the Bank delivered in form of class room over 195 thousand of training hours (class room and virtual sessions), in which attended over 11.6 thousand of employees confirming the Bank's determination in efficient implementation of products, methods, required regulations and customer care.

In addition to class room training, the Bank realized a series of training in a form of e-learning, including dedicated projects on newly implemented regulations, i.e. General Data Protection Regulation, Insurance Distribution Directive, RMF no. 1111 dated 29 of May 2018 (Mifid 2) and many more.

Development programs and initiatives

In the year of 2018, development programs and initiatives were provided for the Bank employees, aimed at providing support in the development of managerial and interpersonal skills supporting realization of Bank's strategic Goals.

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

- Managers development process, in the year of 2018, nearly 130 persons took part in this process, including inspirational meetings of managerial staff with representatives of business and culture world

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- Annual process of the professional development, potential and performance assessment, used to manage and develop talents in the Bank, which was attended by 40 persons, identified as part of the recruitment process, addressed to all employees of the Bank,
- Succession Plans, which are the key outcomes of the above mentioned processes and have fundamental importance in ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk,
- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In the year of 2018, more than 13 thousand of employees were invited to this process.

In the year 2018 additional managerial programs has been initiated dedicated to key managerial staff representatives of finance and risk divisions. Main goal of those programs were to deliver knowledge, consciousness development and reinforcement of attitudes oriented towards cooperation and team effectiveness.

Furthermore, the Bank offers the development initiatives focused on supporting the employees in their professional career development and improvement of their skills, knowledge, and competencies as well as e number of initiatives strengthening the employees' engagement.

In the year 2018 we initiated also new project addressing creation of friendly work environment.

Within this project in order to conduct proper diagnosis Bank conducted a survey aiming at measuring engagement, satisfaction and motivation of employees within 14 categories of work environment. Participation rate reached 80% of employees. Results confirmed that actions which are being delivered in scope of investing in new technologies, tools, simplification of processes, reduction of bureaucracy should be maintained and intensified.

Pro-Wellness activities

In the year 2018 we were able introduce to our company, on wider than before scale, also new patterns of behaviours connected with healthy diet, psycho and physical wellness, stress management and work-life balance. During those activities we completed two new projects: Health is New Direction and Power-ON. Within scope of those projects participated over 2 thousands of Employees having possibility to participate in diet specialist consultation, personal trainer, measurement of body composition, personal training, massage, consultation with physiotherapist and how to overcome stress and wellness workshops.

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:

- The Annual Apprenticeship Program addressed to Universities' students and graduates. 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.
- The Summer Apprenticeship Program addressed to Universities' students and graduates. The apprenticeships last 2 months and are good starting point for students who want to explore functioning one of the Bank's business area. Participants actively support units and realize individual projects. In the range of the Program Apprentices are also invited to participate in different soft skills and technical workshops.
- Internship Program addressed to final year students or graduates who plan their career development within IT or data analysis area. The Program lasts 3 months and provides Interns with intensive learning opportunities as well as implementation of ambitious plans and challenges. The key point is role of Mentor who shares with Interns his knowledge and experience.

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Compensation policy

The Compensation Policy of Bank Polska Kasa Opieki Spółka Akcyjna defines the rules and principles of determining, monitoring, and supervision over the compensation systems and practices used by the Bank. This Policy reflects the mission and values the Bank cherishes in its approach to the compensation systems, defines the compensation pillars, management of its structure, corporate and organizational processes. The Policy confirms the compliance requirements of the compensation systems with the generally binding law, defines the principles of market practice monitoring, and the approach to the matter of compensation systems which guarantees the sustainability of the Bank's functioning.

The valid policy was updated and approved on December 7, 2017, by the Supervisory Board of Bank Pekao S.A.

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.

In 2018, a resolution of the Bank's Shareholders General Meeting on adjusting the remuneration of Management Board Members to the requirements of the Act on the principles of shaping the remuneration of persons managing certain companies was implemented.

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 2017, according to the provisions of the Supervisory Board of Bank Pekao S.A. Regulation was presented for the General Meeting of Shareholders on June 21, 2018. After considering the report, the General Meeting of Shareholders estimated that the functioning of the Bank's Compensation Policy in 2017 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 risk assessment and 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 in Bank's shares or other financial instruments, including phantom shares based on the value of the Bank shares. At least 40% of the bonus is deferrable and paid after the end of the evaluation period it is payable for. If the variable remuneration is particularly high, at least 60% of variable remuneration is deferred. 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. In 2018, the possibility of a quarterly settlement of part of MBO bonus was implemented in the Bank. These payments are included in the bonus payment for achieving individual annual goals.

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 2018, the Long-Term Incentive Plans of UniCredit Group (edition 2008 within the scope of stock options) was accomplished. According to the rules the options has expired on the tenth anniversary of granting.

Additional benefits for employees

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

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

Suitability Assessment Policy

The Bank adopted the Policy of the suitability assessment of the proposed and appointed Members of the Management and the Supervisory Board and Key Function Holders in Bank Pekao S.A. In 2018, the Supervisory Board of the Bank assessed the suitability of the candidates for function of the Management Board including an individual assessment of their qualifications, reputation, additional criteria for management according to the mentioned policy and collective assessment.

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.

Corporate values

The Bank's employees in their daily professional relationships are guided by 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 behaviours, 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 2018, the Ombudsmen continued meetings with the Bank's individual employees in order to promote dialogue and the application of corporate values in employee relations.

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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 in the 2018 year 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. There were 24 meetings between the Bank and the Unions in that period.

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 workforce, 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 subjects of discussion with the Workers' Council in 2018 were topics specified in the law and the Co-operation with the Works Council progressed with respect to the mutual rights of the parties involved. Information from meetings of the employer with the Works Council are published on the intranet sites and are available to all employees of the Bank.

Workforce in number

As at the end of December 2018, the Group employed 16,714 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 17,339 employees as at the end of 2017.

As at the end of December 2018, the Bank employed 14,569 employees as compared to 15,316 employees as at the end of 2017. The average age of the employees was 46.5 years, 69.6% of the employees are university graduates (66.7% in 2017), women represent 76.8% 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: responsible development of the economy, promotion of the national brand and Polish values, culture, sport, aiding children in need and environmental protection.

The support provided by the Bank is made at two levels: national – within which the Bank sponsors strategic events with major impact on Polish culture, and local – supporting initiatives dedicated to local communities.

As a socially responsible institution, Bank Pekao S.A. has been striving to improve the quality of society life and develop and reinforce lasting relationships with the society relying on mutual understanding of needs. Therefore, in 2018 the bank was involved in supporting prestigious initiatives to commemorate the hundredth anniversary of Poland's independence. On the occasion the bank reminded his own story, which began in the revived Polish Republic. The Bank's mission is to promote the national brand and Polish values.

In 2018 the Bank supported financially, among others: expert debates, the exhibition "The Brightness of Orders in the 100th Anniversary of Independence", the Gala of the "Freedom Man", Polonia Forum in Toruń, the conference "Charting Poland's Future: spotlight on Growth & Innovation" in London, the conference "Economic Sovereignty", the 6th edition "No Future Without Entrepreneurship" under the slogan "100th anniversary of ambition - Polish business on the way to the future".

In order to promote the national brand, the bank also supported Andrzej Bargiel's expedition to the K2 summit. The expedition took place in the year of commemoration of the centenary of Poland's regaining independence.

Significant element of the Bank's activities is to support important economic initiatives. In 2018, the Bank was present, among others, in the World Economic Forum in Davos, CEO Summit, European Financial Congress in Sopot, Economic Congress in Krynica, the Financial Congress and the Corporate Banking Congress in Warsaw.

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.

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. The scope of the Foundation's charity and social activities is very wide. Its statutory objective is to support initiatives in the following scope: education of children and young people, scientific, R&D and teaching projects undertaken by academic institutions and schools, promoting knowledge in the field of banking, helping the ill and the disabled, environmental protection, promoting culture.

In 2018, due to organisational changes related to the Foundation, no new program were initiated. The Foundation has only continued projects, which were connected to the previous commitments assigning funds for scholarships awarded to talented pupils and students from poor backgrounds.

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 2018, among institutions supporting by the Bank was, among others, Foundation of the Great Orchestra of Christmas Charity (Wielka Orkiestra Świątecznej Pomocy).

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, 2018 and 2017 respectively is presented in the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2018.

The Report on activities of Bank Pekao S.A. Group for 2018 includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements are discussed.

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

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of December 2018, the total assets of Bank Pekao S.A. constitutes 96.5% of the total assets of the whole Group.

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

ASSETS	31.12.2018		31.12.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	13,026.6	6.8%	5,236.3	2.8%	148.8%
Loans and advances to banks ⁽¹⁾	2,268.8	1.2%	2,627.6	1.4%	(13.7%)
Customers' financing ⁽²⁾	140,032.3	73.3%	132,300.4	71.3%	5.8%
Reverse repo transactions	-	x	-	x	x
Securities ⁽³⁾	28,613.8	15.0%	38,636.2	20.8%	(25.9%)
Investments in associates	0.0	0.0%	0.0	0.0%	x
Property, plant and equipment and intangible assets	2,946.7	1.5%	2,951.1	1.6%	(0.1%)
Other assets	4,201.6	2.2%	3,714.0	2.1%	13.1%
Total assets	191,089.8	100.0%	185,465.6	100.0%	3.0%

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

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

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

EQUITY AND LIABILITIES	31.12.2018		31.12.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	5.1	0.0%	6.1	0.0%	(16.4%)
Amounts due to other banks	5,615.6	2.9%	4,981.3	2.7%	12.7%
Amounts due to customers	149,143.4	78.0%	145,397.8	78.4%	2.6%
Debt securities issued	5,230.8	2.7%	2,771.4	1.5%	88.7%
Subordinated liabilities	2,012.5	1.1%	1,257.2	0.7%	x
Repo transactions	347.7	0.2%	788.4	0.4%	(55.9%)
Other liabilities	5,926.5	3.1%	6,995.6	3.8%	(15.3%)
Total equity, including	22,808.2	11.9%	23,267.8	12.5%	(2.0%)
non-controlling interests	11.5	x	-	x	x
Total equity and liabilities	191,089.8	100.0%	185,465.6	100.0%	3.0%

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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 2018, they accounted for 73.3% and 15.0% of the total assets respectively in comparison with 71.3% and 20.8% respectively as at the end of 2017.

Cash and due from Central Bank

(in PLN million)

	31.12.2018	31.12.2017	CHANGE
Cash and due from Central Bank, including:	13,026.6	5,236.3	>100%
Cash	3,182.9	2,686.6	18.5%
Current account at Central Bank	9,790.5	2,259.0	>100%
Other	53.2	290.7	(81.7%)

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	31.12.2018	31.12.2017	CHANGE
Loans and advances at nominal value^(*)	144,942.2	136,874.4	5.9%
Loans ^(**)	134,199.7	124,188.5	8.1%
Retail	70,915.2	64,156.9	10.5%
Corporate	63,284.5	60,031.6	5.4%
Non - quoted securities	10,742.5	12,685.9	(15.3%)
Other ^(***)	1,369.4	703.9	94.5%
Nominal value adjustment	x	254.0	x
Impairment allowances	(6,279.3)	(5,531.9)	13.5%
Customers' financing	140,032.3	132,300.4	5.8%
Reverse repo transactions	-	-	x
Gross total customers' financing^(****)	144,942.2	136,874.4	5.9%

(*) Excluding reverse repo transactions.

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

(***) Including interest and receivables in transit.

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

As at the end of December 2018, loans and advances at nominal value amounted to PLN 144,942.2 million, an increase of PLN 8,067.8 million, i.e. 5.9% in comparison to the end of December 2017 with significant growth in key strategic areas.

As at the end of December 2018, the volume of retail loans amounted to PLN 70,915.2 million, an increase of PLN 6,758.3 million, i.e. 10.5% in comparison to the end of December 2017.

As at the end of December 2018, corporate loans amounted to PLN 63,284.5 million, an increase of PLN 3,252.9 million, i.e. 5.4% in comparison to the end of December 2017.

As at the end of December 2018, corporate loans and non - quoted securities amounted to PLN 74,027.0 million, an increase of PLN 1,309.5 million, i.e. 1.8% in comparison to the end of December 2017.

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Receivables and impairment losses^(*)

(in PLN million)

	31.12.2018	31.12.2017	CHANGE
Gross receivables	146,311.6	137,832.3	6.2%
Stage 1	118,098.0	x	x
Stage 2	20,342.2	x	x
Stage 3	7,871.4	x	x
Impairment allowances	(6,279.3)	(5,531.9)	13.5%
Stage 1	(389.7)	x	x
Stage 2	(661.4)	x	x
Stage 3	(5,228.2)	x	x
Total net receivables	140,032.3	132,300.4	5.8%

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

As at the end of December 2018 the ratio of impaired receivables (stage 3) to the gross receivables amounted 5.4%.

Loans and advances to customers by currency^(*)

	31.12.2018		31.12.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	121,224.0	82.9%	115,285.7	83.6%	5.2%
Denominated in foreign currencies ^(**)	25,087.6	17.1%	22,546.6	16.4%	11.3%
Total	146,311.6	100.0%	137,832.3	100.0%	6.2%
Impairment allowances	(6,279.3)	x	(5,531.9)	x	13.5%
Total net	140,032.3	x	132,300.4	x	5.8%

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

(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of December 2018, their share was 82.9%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (77.0%), CHF (13.7%) and USD (7.8%).

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

	31.12.2018		31.12.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	16,382.1	11.2%	14,778.9	10.7%	10.8%
1 to 3 months	4,430.3	3.0%	4,902.9	3.6%	(9.6%)
3 months to 1 year	15,572.0	10.6%	11,325.7	8.2%	37.5%
1 to 5 years	45,417.2	31.0%	44,549.8	32.3%	1.9%
Over 5 years	63,140.5	43.2%	61,571.1	44.7%	2.5%
Other	1,369.5	0.9%	703.9	0.5%	94.6%
Total	146,311.6	100.0%	137,832.3	100.0%	6.2%
Impairment allowances	(6,279.3)	x	(5,531.9)	x	13.5%
Total net	140,032.3	x	132,300.4	x	5.8%

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

As at the end of December 2018, loans and advances with maturity over 5 years represents 43.2% 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 29 and 30 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2018.

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

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 2018, amounts due to customers, debt securities issued and subordinated liabilities totaled PLN 156,386.7 million, and their share in the total assets was 81.9%, compared with 80.6% as at the end of 2017. The share of total shareholder's equity in the total assets was 11.9% as at the end of 2017, compared with 12.5% as at the end of 2017.

External sources of financing

(in PLN million)

	31.12.2018	31.12.2017	CHANGE
Amounts due to Central Bank	5.1	6.1	(16.4%)
Amounts due to other banks	5,615.6	4,981.3	12.7%
Amounts due to customers	149,143.4	145,397.8	2.6%
Debt securities issued	5,230.8	2,771.4	88.7%
Subordinated liabilities	2,012.5	1,257.2	60.1%
Repo transactions	347.7	788.4	(55.9%)
Total external sources of financing	162,355.1	155,202.2	4.6%

Amounts due to customers amounted to PLN 149,143.4 million, an increase by 2.6% 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 30 October 2017, the Bank issued 10 years subordinated bonds with a total nominal value of PLN 1.25 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 21 December 2017 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

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

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

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

As at the end of 2018, the geographical structure of deposits acquired through the Bank's domestic branches was as follows:

REGION	% OF TOTAL DEPOSITS
Warszawski	27.9%
Mazowiecki	16.0%
Małopolski	11.4%
Centralny	9.5%
Południowo-Wschodni	9.4%
Pomorski	5.6%
Wielkopolski	5.4%
Zachodni	5.4%
Śląski	5.0%
Dolnośląski	4.4%
Ogółem	100%

Amounts due to customers and debt securities issued

(in PLN million)

	31.12.2018	31.12.2017	CHANGE
Corporate deposits	64,402.0	69,561.8	(7.4%)
Non-financial entities	47,314.2	48,055.8	(1.5%)
Non-banking financial entities	6,142.2	9,318.3	(34.1%)
Budget entities	10,945.6	12,187.7	(10.2%)
Retail deposits	84,356.0	75,438.5	11.8%
Other ^(*)	385.4	397.5	(3.0%)
Amounts due to customers^(**)	149,143.4	145,397.8	2.6%
Debt securities issued, of which	7,243.3	4,028.6	79.8%
Structured Certificates of Deposit (SCD)	584.0	310.8	87.9%
Certificates of Deposit (CD)	1,140.4	1,150.0	(0.8%)
Subordinated bonds	2,000.0	1,250.0	60.0%
Pekao Bank Hipoteczny S.A. covered bonds	1,512.4	1,204.0	25.6%
Pekao Bank Hipoteczny S.A. bonds	299.7	-	x
Pekao Leasing Sp. z o.o. bonds	1,678.0	90.1	>100%
Interest	28.8	23.7	21.5%
Amounts due to customers and debt securities issued, total^(**)	156,386.7	149,426.4	4.7%
Repo transactions	347.7	788.4	(55.9%)
Investment funds of Pekao TFI S.A. (ex. Pioneer Pekao TFI)	19,403.4	18,410.0	5.4%
Bond and money market funds	15,448.3	13,350.4	15.7%
Balanced funds	2,226.8	2,666.4	(16.5%)
Equity funds	1,728.3	2,393.2	(27.8%)
including distributed through the Group's network	19,118.8	18,093.2	5.7%

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

(**) Excluding repo transactions.

As at the end of December 2018, amounts due to the Bank's customers and debt securities issued amounted to PLN 156,386.7 million, an increase of PLN 6,960.3 million, i.e. 4.7% in comparison to the end of December 2017.

Retail deposits amounted to PLN 84,356.0 million as at the end of December 2018, an increase of PLN 8,917.5 million, i.e. 11.8% in comparison to the end of December 2017.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 85,297.7 million as at the end of December 2018, an increase of PLN 9,190.5 million, i.e. 12.1% in comparison to the end of December 2017.

Corporate deposits amounted to PLN 64,402.0 million as at the end of December 2018, an decrease of PLN 5,159.8 million, i.e. 7.4% as compared to the end of December 2017.

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

The total volume of corporate deposits, Certificates of Deposit, subordinated bonds, Pekao Bank Hipoteczny S.A. covered bonds and bonds, Pekao Leasing Sp. z o.o. bonds, interest and other amounted to PLN 71,088.9 million as at the end of December 2018, an decrease of PLN 2,230.3 million, i.e. 3.0% as compared to the end of December 2017.

Repo transactions amounted to PLN 347.7 million as at the end of December 2018, an decrease by PLN 440.7 million, i.e. 55.9% as compared to the end of December 2017.

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 19,403.4 million as at the end of December 2018, an increase of PLN 993.4 million, i.e. 5.4% in comparison to the end of December 2017.

Amounts due to customers by currency^(*)

	31.12.2018		31.12.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	122,682.2	82.3%	119,157.4	82.0%	3.0%
Denominated in foreign currencies	26,461.2	17.7%	26,240.4	18.0%	0.8%
Total	149,143.4	100.0%	145,397.8	100.0%	2.6%

^(*) 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 2018 amounted to 82.3%. The majority of amounts due to customers denominated in foreign currencies were in EUR (62.6%) and USD (30.6%).

Amounts due to customers by contractual maturities^(*)

	31.12.2018		31.12.2017		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	98,953.0	66.5%	90,645.1	62.5%	9.2%
Term deposits	49,805.0	33.5%	54,355.2	37.5%	(8.4%)
Total deposits	148,758.0	100.0%	145,000.3	100.0%	2.6%
Interest accrued	174.4	x	166.4	x	4.8%
Funds in transit	211.0	x	231.1	x	(8.7%)
Total	149,143.4	x	145,397.8	x	2.6%

^(*) Excluding repo transactions.

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

7.1.3 Off-balance sheet items

Statement of Off-balance sheet items

(in PLN million)

	31.12.2018	31.12.2017	CHANGE
Contingent liabilities granted and received	66,835.9	59,635.0	12.1%
Liabilities granted:	45,568.9	45,378.6	0.4%
financial	32,954.1	33,880.0	(2.7%)
guarantees	12,614.8	11,498.6	9.7%
Liabilities received:	21,267.0	14,256.4	49.2%
financial	1,085.7	385.0	>100%
guarantees	20,181.3	13,871.4	45.5%
Derivative financial instruments	247,577.5	197,205.9	25.5%
interest rate transactions	143,093.7	98,249.4	45.6%
transactions in foreign currency and in gold	101,276.2	97,536.0	3.8%
transactions based on commodities and equity securities	3,207.6	1,420.5	>100%
Total off-balance sheet items	314,413.4	256,840.9	22.4%

More detailed information on off-balance-sheet items is included in the Notes 28 and 49 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2018.

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

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)

	2018	2017	CHANGE
Net profit of Bank Pekao S.A.	2,310.6	2,088.1	10.7%
Entities consolidated under full method			
Pekao Investment Management S.A. (d. Pioneer Pekao Investment Management S.A.) ⁽¹⁾	90.2	5.8	>100%
Pekao Leasing Sp. z o.o.	47.6	34.8	36.8%
Centralny Dom Maklerski Pekao S.A.	24.8	33.1	(25.1%)
Pekao Faktoring Sp. z o.o.	13.7	11.0	24.5%
Pekao Investment Banking S.A.	9.6	4.7	>100%
Dom Inwestycyjny Xelion Sp. z o.o. ⁽¹⁾	5.0	0.3	>100%
Pekao Financial Services Sp. z o.o. ^(**)	3.9	6.0	(35.0%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	3.2	3.8	(15.8%)
Pekao Powszechne Towarzystwo Emerytalne S.A. w likwidacji (d. Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.) ^(***)	3.0	(3.1)	x
Pekao Bank Hipoteczny S.A.	2.6	5.8	(55.2%)
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji	0.4	0.4	0.0%
Centrum Kart S.A.	0.3	0.8	(62.5%)
Pekao Property S.A.	(0.1)	(24.5)	(99.6%)
FPB "MEDIA" Sp. z o.o. ^(****)	(15.6)	0.9	x
Entities valued under the equity method			
Pekao Investment Management S.A. (d. Pioneer Pekao Investment Management S.A.) ⁽¹⁾	-	36.9	x
Dom Inwestycyjny Xelion Sp. z o.o. ⁽¹⁾	-	2.6	x
Exclusions and consolidation adjustments ^(****)	(212.0)	267.7	>100%
Net profit of the Group attributable to equity holders of the Bank	2,287.2	2,475.1	(7.6%)

⁽¹⁾ On December 11, 2017, the Bank and UniCredit S.p.A. (legal successor of Pioneer Global Asset Management S.p.A.) executed the final sale agreement regarding 14,746 shares in Pioneer Pekao Investment Management S.A. (PPIM) with registered office in Warsaw, constituting 51% stake in share capital and in the overall number of votes in the General Meeting of PPIM. In consequence, the Bank has become a stockholder holding 100% of PPIM shares. Currently PPIM operates under the name Pekao Investment Management S.A. (Pekao IM). Pekao IM owns a 100% stake in Pekao Towarzystwo Funduszy Inwestycyjnych S.A. with registered office in Warsaw (ex. Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A.).

In addition, on December 11, 2017, the Bank acquired 60,050 shares of Dom Inwestycyjny Xelion Sp. z o.o., constituting 50% of voting rights at the General Shareholder Meeting and 50% share in share capital. In consequence, the Bank is the only shareholder with 100% voting rights at the General Shareholders Meeting of Xelion and 100% in equity. Net profit of aforementioned Companies for the free quarters of 2017 was recognized under the equity method and net profit for the free quarters of 2018 under full method.

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

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

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

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

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

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

The results of Bank Pekao S.A.

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

(in PLN million)

	2018	2017	CHANGE
Net interest income	4,869.0	4,486.7	8.5%
Dividend income	255.4	188.1	35.8%
Total net interest income and dividend income	5,124.4	4,674.8	9.6%
Net non-interest income	2,272.6	2,410.5	(5.7%)
Operating income	7,396.9	7,085.3	4.4%
Operating costs	(3,119.0)	(3,024.5)	3.1%
Gross operating profit	4,278.0	4,060.8	5.3%
Net impairment losses on financial assets and off-balance sheet commitments	(500.4)	(515.9)	(3.0%)
Net operating profit	3,777.5	3,544.9	6.6%
Net result on other provisions	(14.7)	(28.5)	(48.4%)
Guarantee funds charges	(265.1)	(266.4)	(0.5%)
Tax on certain financial institutions	(562.0)	(522.3)	7.6%
Net result on investment activities	85.0	0.1	>100%
Profit before tax	3,020.8	2,727.8	10.7%
Net profit	2,310.6	2,088.1	10.7%

Net profit of the Bank for the 2018 amounted to PLN 2,310.6 million and was higher by PLN 222.5 million, i.e. 10.7% than net profit achieved in 2017.

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

The main Bank's financial information are as follows:

	31.12.2018	31.12.2017	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	137,914.8	133,307.9	3.5%
Amounts due to customers	149,784.4	146,109.9	2.5%
Structured Certificates of Deposit	584.0	310.8	87.9%
Certificates of Deposit	1,140.4	1,150.0	(0.8%)
Subordinated bonds	2,000.0	1,250.0	60.0%
Repo transactions	347.7	788.4	(55.9%)
Total assets	184,347.2	182,077.0	1.2%
Investment funds distributed through the Bank's network	18,203.7	17,203.9	5.8%
Total capital ratio in %	18.7%	18.4%	0.3 p.p.

(*) Including loans and non-quoted securities.

As at the end of December 2018, loans and advances at nominal value amounted to PLN 137,914.8 million, an increase of PLN 4,606.9 million, i.e. 3.5% in comparison to the end of December 2017. As at the end of December 2018, the volume of retail loans amounted to PLN 69,961.2 million and the volume of corporate loans amounted to PLN 57,211.1 million.

As at the end of December 2018, the amounts due to customers, Structured Certificates of Deposit, Certificates of Deposit and subordinated bonds amounted to PLN 153,508.8 million, an increase of PLN 4,688.1 million, i.e. 3.2% in comparison to the end of December 2017.

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

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

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

The value of net assets of investment funds managed by Pekao TFI S.A. (ex. Pioneer Pekao TFI S.A.) distributed through the Bank's network amounted to PLN 18,203.7 million as at the end of December 2018, an increase of PLN 999.8 million, i.e. 5.8% in comparison to the end of December 2017.

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

Results of the Bank's major related entities

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

In 2018, consolidated net profit of Pekao IM amounted to **PLN 90.3 million** compared with PLN 81.2 million in 2017. The higher result is related to the increase in net assets of investment funds managed by Pekao TFI S.A. by ca. 5.4% compared to 2017.

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

In 2018, Pekao Leasing reported a net profit of **PLN 47.6 million** compared with PLN 34.8 million in 2017. In 2018, Pekao Leasing signed over 13.4 thousand new agreements, i.e. 21.3% increase year on year, while the value of leased assets was higher by 27.6% year on year and amounted to PLN 3,183.4 million.

Centralny Dom Maklerski Pekao S.A. – CDM

In 2018, net profit of CDM amounted to **PLN 24.8 million** compared with PLN 33.1 million profit earned million in 2017, influenced by lower turnover on the WSE, caused by less favourable situation on capital markets.

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

In 2018, Pekao Faktoring reported a net profit of **PLN 13.7 million** compared with PLN 11.0 million in 2017 influenced by an increasing factoring commitment (increase by 70.5% year on year) and favourable situation on factoring market.

Pekao Investment Banking S.A. – PIB

In the three quarters of 2018, PIB reported net profit of **PLN 9.6 million** compared with PLN 4.7 million in 2017

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

In 2018, DI Xelion reported a net profit in the amount of **PLN 5.0 million** compared with PLN 5.4 million in 2017, caused by less favourable situation on capital markets.

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

In 2018, PFS reported a net profit in the amount of PLN 3.9 million (the Bank's share in the company's was **PLN 3.3 million**) compared with PLN 6.0 million 2017. In 2018, the acquisition of the PZU Centrum Operacji S.A. was finalized by PFS. This transaction made it possible to take over PTE PZU S.A. and TFI PZU S.A. within the scope of the transfer agent service and extending the scope of service to PZU Życie S.A.

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

In 2018, CBB reported a net profit in the amount of **PLN 3.2 million** compared with PLN 3.8 million in 2017, influenced by a larger number of marketing and sales campaigns and the implementation of new services provided to the Bank.

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

In 2018, Pekao PTE reported net profit of **PLN 3.0 million** compared with PLN 3.1 million in 2017.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In 2018, Pekao Bank Hipoteczny reported a net profit of **PLN 2.6 million** compared with PLN 5.8 million in 2017, as a result of the impact of a lower average level of assets due to the early repayment of credit exposures.

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

7.3 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2018 amounted to PLN 2,287.2 million and was lower by PLN 187.9 million, i.e. 7.6% than net profit reported for 2017. For comparability purpose of achieved results income statement data for 2017 was presented in this chapter as pro-forma, i.e. includes full consolidation of results of Pekao Investment Management S.A. (ex. Pioneer Pekao Investment Management S.A.) and Dom Inwestycyjny Xelion Sp. z o.o. acquired on December 11, 2017 and a change in the presentation of the gross result on the sale of loan receivables in the amount of PLN 142.7 million, which were recognized in the result of impairment losses on financial assets.

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2018 was higher by PLN 185.0 million, i.e. 8.8% than pro-forma net profit for 2017, and higher by 11% on nominal net profit excluding the gain on remeasurement of shares, related to the acquisition of Pioneer Pekao Investment Management S.A. and Dom Inwestycyjny Xelion Spółka z o.o. in 2017.

Thanks to the effective commercial activity of the Group in 2018, a significant growth in loan volumes in the area of retail loans (an increase of 10.5% year on year) as well as in the area of corporate loans (an increase of 5.4% year on year) was reported. Such increase in lending was financed by higher retail deposits growing by 11.8% year on year.

Total capital ratio (TCR) amounted to 17.4% as at the end of December 2018 and was higher (0.3 p.p.) compared to the end of December 2017.

The solid liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 89.5% as at the end of December 2018. This, together with high level of capital, enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

	2018	PRO-FORMA 2017	2017	CHANGE VS. PRO-FORMA
Net interest income	4,994.0	4,597.1	4,593.5	8.6%
Dividend income and income from equity investments	20.2	19.8	59.2	2.0%
Total net interest income, dividend income and other income from equity investments	5,014.2	4,616.9	4,652.7	8.6%
Net fee and commission income	2,462.6	2,505.0	2,353.0	(1.7%)
Trading result	216.8	89.0	88.8	>100%
Net other operating income and expenses	63.5	113.7	255.9	(44.1%)
Net non-interest income	2,742.9	2,707.7	2,697.7	1.3%
Operating income	7,757.1	7,324.5	7,350.4	5.9%
Operating costs	(3,444.4)	(3,319.0)	(3,263.3)	3.8%
Gross operating profit	4,312.7	4,005.5	4,087.1	7.7%
Net impairment losses on financial assets and off-balance sheet commitments	(511.0)	(378.6)	(521.3)	35.0%
Net operating profit	3,801.7	3,627.0	3,565.8	4.8%
Net result on other provisions	(14.0)	(36.3)	(36.0)	(61.5%)
Guarantee funds charges	(265.5)	(269.0)	(269.0)	(1.3%)
Tax on certain financial institutions	(562.0)	(522.3)	(522.3)	7.6%
Net result on investment activities	87.1	0.5	414.5	>100%
Profit before tax	3,047.3	2,799.9	3,153.0	8.8%
Income tax expense	(759.5)	(697.0)	(677.3)	9.0%
Net profit	2,287.8	2,102.8	2,475.7	8.8%
Attributable to equity holders of the Bank	2,287.2	2,102.2	2,475.1	8.8%
Attributable to non-controlling interest	0.7	0.6	0.6	16.7%

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

Operating income

In 2018, the Group's operating income amounted to PLN 7,757.1 million and was higher by 5.9% year on year than pro-forma operating income in 2017.

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

(in PLN million)

	2018	PRO-FORMA 2017	2017	CHANGE VS. PRO-FORMA
Interest income	6,122.3	5,644.3	5,640.7	8.5%
Interest expense	(1,128.3)	(1,047.2)	(1,047.2)	7.7%
Net interest income	4,994.0	4,597.1	4,593.5	8.6%
Dividend income	20.2	19.8	19.8	2.0%
Income from equity investments	-	-	39.4	x
Total net interest income, dividend income and income from equity investments	5,014.2	4,616.9	4,652.7	8.6%

Total net interest income, dividend income and income from equity investments in 2018, amounted to PLN 5,014.2 million and was higher by PLN 397.3 million, i.e. 8.6 % compared to pro-forma total net interest income, dividend income and income from equity investments achieved in 2017, mainly driven by higher volumes of loans and deposits as well as higher margin.

Net non-interest income

(in PLN million)

	2018	PRO-FORMA 2017	2017	CHANGE VS. PRO-FORMA
Fee and commission income	2,844.1	2,849.7	2,663.5	(0.2%)
Fee and commission expense	(381.5)	(344.8)	(310.5)	10.6%
Net fee and commission income	2,462.6	2,505.0	2,353.0	(1.7%)
Trading result	216.8	89.0	88.8	>100%
of which gains on disposal of AFS assets	141.8	41.5	41.5	>100%
Net other operating income and expense	63.5	113.7	255.9	(44.1%)
Net non-interest income	2,742.9	2,707.7	2,697.7	1.3%

Net non-interest income in 2018, amounted to PLN 2,742.9 million and was higher by PLN 35.2 million, i.e. 1.3% compared to pro-forma net non-interest income for 2017, with net fee and commission income (including fees on margins on foreign exchange transactions with clients) lower by 1.7% compared to 2017 mainly due to lower net fee and commission income on loans and cards.

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

The Group's net fee and commission income in 2018, amounted to PLN 2,462.6 million and was lower by PLN 42.4 million, i.e. 1.7% in comparison with pro-forma net fee and commission income for 2017, mainly due to lower fees on loans (partially due to presentation shift) and higher commission expenses on cards, partially compensated by higher income on margins on foreign exchange transactions with clients and mutual funds.

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

(in PLN million)

	2018	PRO-FORMA 2017	2017	CHANGE VS. PRO-FORMA
Net fee and commission income	2,462.6	2,505.0	2,353.0	(1.7%)
on loans	466.1	502.4	502.4	(7.2%)
on cards	327.9	357.1	357.1	(8.2%)
on margins on foreign exchange transactions with clients	461.3	439.6	439.6	4.9%
on mutual funds	444.0	435.4	283.8	2.0%
other	763.3	770.4	770.1	(0.9%)

Operating costs

The operating costs amounted to PLN 3,444.4 million in 2018. They were higher by PLN 125.4 million, i.e. 3.8% as compared with pro-forma operating costs for 2017, mainly due to higher personnel costs (mainly due to costs in the amount ca. of PLN 50 million, related to the Program Dobrowolnych Odejsć – PDO) and other administrative expenses (including mainly marketing related expenses). Operating costs excluding PDO expenses was higher by PLN 75.8 million, i.e. 2.3% as compared with pro-forma operating costs for 2017.

(in PLN million)

	2018	PRO-FORMA 2017	2017	CHANGE VS. PRO-FORMA
Personnel expenses	(2,036.6)	(1,981.5)	(1,950.3)	2.8%
Other administrative expenses	(1,036.4)	(988.3)	(965.7)	4.9%
Depreciation and amortization	(371.4)	(349.3)	(347.3)	6.3%
Operating costs	(3,444.4)	(3,319.0)	(3,263.3)	3.8%

In 2018, cost / income ratio amounted to 44.4% in comparison with pro-forma cost / income ratio of 45.3% in 2017.

As of December 31, 2018, the Group employed 16,714 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 17,339 employees as at the end of December 2017.

As of December 31, 2018, the Bank employed 14,569 employees as compared to 15,316 employees as at the end of December 2017.

Guarantee funds charges

Guarantee funds charges in 2018, amounted to PLN 265.5 million, a decrease of PLN 3.5 million, i.e. 1.3% in comparison with 2017.

Tax on certain financial institutions

Tax on certain financial institutions in 2018, it amounted to PLN 562.0 million and was higher by PLN 39.7 million, i.e. 7.6% in comparison with 2017.

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

Net impairment losses

(in PLN million)

	2018	PRO-FORMA 2017	2017	CHANGE VS. PRO-FORMA
financial assets measured at amortized cost	(475.9)	(361.0)	(503.7)	31.8%
financial assets measured at fair value through other comprehensive income	(0.4)	(0.1)	(0.1)	>100%
financial liabilities measured at amortized cost	(34.7)	(17.5)	(17.5)	98.3%
Net impairment losses on financial assets and off-balance sheet commitments	(511.0)	(378.6)	(521.3)	35.0%

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 511.0 million in the 2018, an increase of PLN 132.4 million, i.e. 35.0% in comparison with pro-forma for 2017.

For comparability purpose of achieved results income statement data for 2017 was presented in this chapter as pro-forma, i.e. includes a change in the presentation of the gross result on the sale of loan receivables in the amount of PLN 142.7 million, which were recognized in the result of impairment losses on financial assets. In 2018 the Bank sold loans and the realized gross result on the transaction was PLN 37.3 million

Provisions, deferred tax assets and liabilities

(in PLN million)

	31.12.2018	31.12.2017	CHANGE
Total provisions	635.1	602.6	5.4%
of which:			
provisions for off-balance sheet commitments	240.7	236.9	1.6%
provisions for liabilities to employees	338.3	343.5	(1.5%)
other provisions	56.1	22.2	152.7%
Deferred tax liabilities	32.7	37.7	(13.3%)
Deferred tax assets	1,131.1	950.8	19.0%

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

7.4 Quarterly Income Statement

7.4.1 Consolidated income statement – long form

Consolidated income statement for 2018 - Provided for comparability purposes.

(in PLN thousand)

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Interest income	1,583,797	1,544,067	1,515,910	1,478,564
Interest expense	(289,047)	(286,078)	(280,373)	(272,874)
Net interest income	1,294,750	1,257,989	1,235,537	1,205,690
Fee and commission income	746,940	714,682	707,067	675,428
Fee and commission expense	(108,670)	(95,695)	(89,794)	(87,374)
Net fee and commission income	638,270	618,987	617,273	588,054
Dividend income	161	245	19,623	157
Result on financial assets and liabilities measured at fair value through profit or loss	12,249	26,507	16,539	19,125
Result on fair value hedge accounting	(2,435)	1,159	662	1,337
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	76,333	14,261	27,245	23,832
Gains (losses) on disposal of financial assets and liabilities	-	-	-	-
Operating income	2,019,328	1,919,148	1,916,879	1,838,195
Net impairment losses on financial assets and off-balance sheet commitments	(104,855)	(155,277)	(123,932)	(126,961)
Net result on financial activity	1,914,473	1,763,871	1,792,947	1,711,234
Administrative expenses	(921,453)	(922,069)	(980,579)	(1,076,314)
personnel expenses	(490,883)	(490,526)	(554,827)	(500,346)
other administrative expenses ⁽¹⁾	(430,570)	(431,543)	(425,752)	(575,968)
Depreciation and amortization	(101,076)	(92,672)	(89,893)	(87,780)
Net result on other provisions	406	(297)	(13,768)	(299)
Net other operating income and expenses	24,222	13,574	12,095	13,625
Operating costs	(997,901)	(1,001,464)	(1,072,145)	(1,150,768)
Gains (losses) on subsidiaries and associates	-	-	-	-
Gains (losses) on disposal of property, plant and equipment, and intangible assets	60,194	30,843	(6,863)	2,923
Profit before income tax	976,766	793,250	713,939	563,389
Income tax expense	(227,567)	(186,941)	(173,962)	(171,064)
Net profit for the period	749,199	606,309	539,977	392,325
Attributable to equity holders of the Bank	749,227	605,793	539,815	392,325
Attributable to non-controlling interest	(28)	516	162	-

⁽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 2018

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 measured at fair value through profit or loss	22,873	11,246	858	8,015
Result on fair value hedge accounting	650	919	1,334	1,713
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	-	-
Gains (losses) on disposal of financial assets and liabilities	159,337	21,882	5,118	824
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)
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 2018

7.4.2 Consolidated statement of comprehensive income Consolidated statement of comprehensive income for 2018

(in PLN thousand)

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net profit	749,199	606,309	539,977	392,325
Other comprehensive income				
Item that are or may be reclassified subsequently to profit or loss:				
Change in fair value of financial assets measured at fair value through other comprehensive income	1,339	(43,433)	(51,033)	109,292
Profit or loss on fair value measurement	66,174	(29,511)	(23,939)	133,146
Profit or loss reclassification to income statement after derecognition	(64,835)	(13,922)	(27,094)	(23,854)
Change in fair value of available-for-sale financial assets	-	-	-	-
Change in fair value of cash flow hedges	94,773	(28,960)	(3,531)	(17,323)
Tax on items that are or may be reclassified subsequently to profit or loss	(18,261)	13,754	10,367	(17,474)
Items that will never be reclassified to profit or loss:				
Effects of the revaluation or sale of investments in equity instruments designated at fair value through other comprehensive	(11,786)	1,463	(13,940)	(5,431)
Remeasurements of the defined benefit liabilities	463	-	-	-
Tax on items that will never be reclassified to profit or loss	2,163	(279)	2,649	1,032
Other comprehensive income (net of tax)	68,691	(57,455)	(55,488)	70,096
Total comprehensive income	817,890	548,854	484,489	462,421
1. Attributable to equity holders of the Bank	817,925	548,338	484,327	462,421
2. Attributable to non-controlling interests	(35)	516	162	-

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

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
Other comprehensive income				
Item that are or may be reclassified subsequently to profit or loss:				
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	-
Profit or loss on fair value measurement	-	-	-	-
Profit or loss reclassification to income statement after derecognition	-	-	-	-
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)
Tax on items that are or may be reclassified subsequently to profit or loss	12,482	(5,373)	(12,721)	(31,903)
Items that will never be reclassified to profit or loss:				
Effects of the revaluation or sale of investments in equity instruments designated at fair value through other comprehensive	-	-	-	-
Remeasurements of the defined benefit liabilities	8,557	-	-	-
Tax on items that will never be reclassified to profit or loss	(1,625)	-	-	-
Other comprehensive income (net of tax)	(46,277)	22,900	54,238	136,005
Total comprehensive income	1,007,854	559,486	589,437	485,797
1. Attributable to equity holders of the Bank	1,007,854	559,120	589,307	-
2. Attributable to non-controlling interests	-	366	130	83

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

7.4.3 Consolidated income statement – presentation form

Consolidated income statement for 2018

(in PLN thousand)

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	1 294 750	1 257 989	1 235 537	1 205 690
Dividend income and income from equity investments	161	245	19 623	157
Total net interest income, dividend income and other income from equity investments	1 294 911	1 258 234	1 255 160	1 205 847
Net fee and commission income	638 270	618 987	617 273	588 054
Trading result	86 457	41 789	44 274	44 294
Net other operating income and expenses	23 927	13 712	12 267	13 625
Net non-interest income	748 654	674 488	673 814	645 973
Operating income	2 043 565	1 932 722	1 928 974	1 851 820
Operating costs	(847 725)	(843 295)	(901 896)	(851 480)
Gross operating profit	1 195 840	1 089 427	1 027 078	1 000 340
Net impairment losses on financial assets and off-balance sheet commitments	(104 855)	(155 277)	(123 932)	(126 961)
Net operating profit	1 090 985	934 150	903 146	873 379
Net result on other provisions	406	(297)	(13 768)	(299)
Guarantee funds charges	(30 655)	(30 512)	(29 983)	(174 313)
Tax on certain financial institutions	(144 164)	(140 934)	(138 593)	(138 301)
Net result on investment activities	60 194	30 843	(6 863)	2 923
Profit before income tax	976 766	793 250	713 939	563 389
Income tax expense	(227 567)	(186 941)	(173 962)	(171 064)
Net profit	749 199	606 309	539 977	392 325
Attributable to equity holders of the Bank	749 227	605 793	539 815	392 325
Attributable to non-controlling interest	(28)	516	162	-

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

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

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

7.4.4 Reconciliation of income statement – presentation form and long form Consolidated income statement for 2018

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2018
Net interest income		4,993,966
Dividend income		20,186
	Dividend income	20,186
Total net interest income and dividend income		5,014,152
Net fee and commission income	Net fee and commission income	2,462,584
Trading result		216,814
	Net result on other financial instruments at fair value through profit and loss	74,420
	Result on fair value hedge accounting	723
	Gains (losses) on derecognition of debt securities not measured at fair value through profit or loss	141,755
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(84)
Net other operating income and expenses		63,516
	Net other operating income and expenses	63,516
	Gains (losses) on derecognition of loans and other financial receivables not measured at fair value through profit or loss	-
Net non-interest income		2,742,914
Operating income		7,757,066
Operating costs		(3,444,381)
	Personnel expenses	(2,036,582)
	Other administrative expenses	(1,863,833)
	less – Guarantee funds charges	265,463
	less – Tax on certain financial institutions	561,992
	Depreciation and amortization	(371,421)
Gross operating profit		4,312,685
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	(511,025)
Net operating profit		3,801,660
Net result on other provisions	Net result on other provisions	(13,958)
Guarantee funds charges	Guarantee funds charges	(265,463)
Tax on certain financial institutions	Tax on certain financial institutions	(561,992)
Net result on investment activities		87,097
	(Gains) losses on disposal of property, plant and equipment and intangible assets.	87,097
	Impairment losses on subsidiaries and associates	-
	(Gains) losses on the sale of shares in subsidiaries and associates	-
Profit before income tax		3,047,344
Income tax expense	Income tax expense	(759,534)
Net profit for the period	Net profit for the period	2,287,810
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	2,287,160
Attributable to non-controlling interest	Attributable to non-controlling interest	650

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

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		<u>4,593,496</u>	
Dividend income and income from equity investments		<u>59,209</u>	
	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	<u>2,353,045</u>	
Trading result		<u>88,788</u>	
	Net result on other financial instruments at fair value through profit and loss	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		<u>255,883</u>	
	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		<u>(3,263,350)</u>	
	Personnel expenses	(1,950,302)	
	Other administrative expenses	(1,759,522)	
	less -Guarantee funds charges	268,985	
	less – tax on certain financial institution	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		<u>(521,251)</u>	
	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	<u>(36,023)</u>	
Guarantee funds charges	Guarantee funds charges	(268,985)	
Tax on certain financial institution	Tax on certain financial institution	(522,281)	
Net result on investment activities		<u>414,500</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	622	
	Net impairment losses: on financial assets available for sale 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	<u>(677,323)</u>	
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 2018

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 2018, the number of full-time jobs in the Group was 16,162 compared to 16,864 as at the end of 2017.

In 2018, the Group's operating income amounted to PLN 7,757.1 million, and was higher by PLN 406.7 million, i.e. 5.5% in comparison 2017.

Profit before tax of Bank Pekao S.A. Group in 2018 amounted to PLN 3,047.3 million and was lower by PLN 105.7 million, i.e. 3.4% in comparison to 2017. Income tax expense in 2018 amounted to PLN 759.5 million vs. PLN 677.3 million in 2017 and was higher by 12.1%.

As at the end of December 2018, the return on assets (ROA) of the Group was 1.3% vs. 1.4% at the end of December 2017.

In 2018, 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 2018.

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

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 2018.

(in PLN thousand)

	PERIOD	BASE SALARY	VARIABLE REMUNERATION ^(*)	OTHER BENEFITS ^(**)	TOTAL
Michał Krupiński	01.01.2018 – 31.12.2018	1,712	-	384	2,096
Roksana Ciurysek-Gedir	01.01.2018 – 30.11.2018	990	-	861	1,851
Andrzej Kopyrski	01.01.2018 – 30.11.2018	1,247	881	2,153	4,281
Tomasz Kubiak	01.01.2018 – 31.12.2018	849	-	140	989
Michał Lehmann	01.01.2018 – 31.12.2018	851	-	163	1,014
Marek Luszczyn	01.01.2018 – 31.12.2018	904	-	453	1,357
Tomasz Styczyński	01.01.2018 – 31.12.2018	904	-	158	1,062
Marek Tomczuk	01.01.2018 – 31.12.2018	1,105	-	211	1,316
Magdalena Zmitrowicz	01.12.2018 – 31.12.2018	69	-	8	77

(*) The variable remuneration consists of the paid in 2018 cash bonus for 2016 and phantom shares for the years 2013, 2014, 2015 resulting from the Executive Variable Compensation System.

(**) Other benefits include: severance pay for termination of the employment contract, insurance policies, medical care and outstanding leave entitlements.

Remuneration of former Management Board

The amount of remunerations or benefits (in cash, payments in kind or in any form) paid to former the Management Board Members in 2018.

(in PLN thousand)

	BASE SALARY ^(*)	VARIABLE REMUNERATION ^(**)	TOTAL
Diego Biondo	-	719	719
Luigi Lovaglio	-	4,831	4,831
Adam Niewiński	212	335	547
Grzegorz Piwowar	808	1,134	1,942
Stefano Santini	-	260	260
Marian Ważyński	149	428	577

(*) The remuneration includes payments resulting from the non-competition agreements.

(**) The variable remuneration consists of the paid in 2018 cash bonus for 2016 and phantom shares for the years 2013, 2014, 2015 resulting from the Executive Variable Compensation System.

Other information regarding the remuneration of the Management Board and former Members of the Management Board

Due portion of former Members of the Management Board i.e. Members of the Management Board not holding a position as at December 31, 2018, variable remuneration in phantom shares is 52,517 shares.

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

As of December 31, 2018, the remunerations or benefits for 2017 and 2018 for Members of the Management Board and eligible former Members of the Management Board resulting from the Executive Variable Compensation System were not granted. In accordance with the remuneration system applicable at the Bank, the above persons may be entitled to a bonus for 2017 and 2018, the payment of which will take place in subsequent periods. Therefore, a provision was created for the payment of the bonus for 2017 and 2018, which as at 31 December 2018 is PLN 6,406 thousand. The decision on the payment of the bonus will be made by the Supervisory Board of the Bank.

In 2018, the Management Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

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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 2018:

(in PLN thousand)

	PERIOD	TOTAL
Paweł Surówka	01.01.2018 – 31.12.2018	90
Sabina Bigos-Jaworowska	01.01.2018 – 31.12.2018	170
Joanna Błaszczuk	01.01.2018 – 31.12.2018	196
Justyna Głębiowska-Michalak	01.01.2018 – 31.12.2018	183
Grzegorz Janas	01.01.2018 – 31.12.2018	88
Stanisław Kaczoruk	01.01.2018 – 31.12.2018	171
Michał Kaszyński	01.01.2018 – 31.12.2018	170
Marian Majcher	01.01.2018 – 31.12.2018	145
Paweł Stopczyński	01.01.2018 – 31.12.2018	65

In 2018, 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

In 2018, the Long-Term Incentive Plans of UniCredit Group (edition 2008 within the scope of stock options) was accomplished. According to the rules the options has expired on the tenth anniversary of granting.

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

According to information available to the Bank, as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for 2018 and as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the three quarters 2018, the Members of the Bank's management and supervisory bodies did not held shares of Bank Pekao S.A.

Information regarding contracts for post termination benefits

The Following Members of the Management Board Mr. Michał Krupiński - 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. Magdalena Zmitrowicz - 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.

Liabilities due to pensions for former supervisors and managers

In 2018, there were no liabilities due to pension and similar benefits for former managers, supervisors or former members of the administrative authorities and liabilities incurred in relation to these pensions occurred.

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

Agreements with companies entitled to auditing of financial reports

On the basis of the agreement concluded on July 24, 2018, audit company KPMG Audyt sp. z o.o. 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 2018 – 2020.

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

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

(in PLN thousand)

	2018	2017
Fee for the audit of annual financial statements	2,538	4,300
Fee for other attestation services, including review of financial statements	1,438	2,298

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

Average interest rates in Bank Pekao S.A. in 2018

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	7.8% p.a.
Other	5.9% 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, 2018 amounted to PLN 1,916.8 million. For retail clients, the total value of the collateral for impaired transactions as at December 31, 2018 amounted to PLN 760.4 million. In 2018, there were no titles of execution issued on behalf of the Bank.

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Related party transactions

In 2018, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In 2018, the Bank and its subsidiaries did not provide any sureties in respect of loans or advances or did not provide any guarantees to an entity or a subsidiary of such entity, which the total value would be significant.

Detailed information on related party transactions is included in Note 54 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2018.

Information on significant agreements

In 2018, 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 28 and 31 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2018.

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 2018.

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 584.0 (principal value) as at the end of December 2018. There is 10 issuances of Structured Certificates of Deposit open in PLN with the maximum maturity date on August 16, 2021. The liabilities with the maturity date in 2019, 2020 and 2021 accounts for 60.4%, 31.2%, 8.4% and 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 1,140.4 million (principal value) as at the end of December 2018. There are 5 issuances of Certificates of Deposit. The liabilities with the maturity dates up to 3 months, up to 1 year and over 1 year represent 8.8%, 60.5% and 30.7% of its total value respectively.

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Subordinated bonds

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

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

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

Pekao Bank Hipoteczny S.A. covered bonds

The total value of the company's liabilities due to covered bonds amounted to PLN 1,512.3 million (principal value) as at the end of December, 2018. The liabilities under covered bonds with maturity date up to 1 year account for 14.7%, with maturity date from 1 up to 3 years account for 42.7%, with maturity date from 3 up to 5 years account for 13.1% and with maturity date from 5 up to 10 years account for 29.5% of the total nominal value.

Pekao Bank Hipoteczny S.A bonds

The total value of the company's liabilities under bonds with maturity date to 1 year, amounted to PLN 299.7 million (principal value) as of December 31, 2018,

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 1,678.0 million (principal value) as of December 31, 2018. The liabilities with the maturity date up to 1 months, up to 3 months, up to 6 months, up to 1 year, and up to 3 years accounts for 18.0%, 34.6%, 28.1%, 8.2% and 11.1% of its total value respectively.

Pending litigations

Information on significant legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of liabilities and receivables of the Bank and its subsidiaries is included in Note 48 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2018.

Subsequent events

Subsequent events are presented in Note 56 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2018.

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

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.

It is expected that GDP growth in Poland will decelerate to 3.5% in 2019, in comparison to high pace in 2017 and 2018. On one hand it will be affected by external factors, in particular deteriorating global market conditions, including slowdown on main export markets. In terms of worsening market conditions, a new wave of geopolitics-related tensions (e.g. Brexit, trade conflicts) cannot be ruled out. On the other hand, some internal factor will have negative impact. Given slower than in previous years growth of wages and employment, and at the same time accelerating inflation, real income growth of households is bound to slow down, leading to cooling down of (record-high in 2018) consumer sentiment and lower private consumption. Less favourable market conditions will be also experienced by enterprises, which simultaneously have to tackle challenges on the cost side (staff shortage and growth of costs, especially in some of the economy branches). Mature economic cycle, signals of upcoming GDP growth slowdown and persistent regulatory uncertainty will curb growth pace of private sector investment outlays.

Experienced by consumers and firms less favourable macroeconomic environment, as well as potentially high volatility of financial markets induced by global tensions, will have impact on market operating conditions for banking sector, including growth pace of business volumes and financial results of banks.

In 2019 tax and regulatory environment is bound to still 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 2019 the tax is going to be charged according to the same rules as in previous years,
- high and growing capital requirements, which is connected with business development, further adjustment to IFRS9 standards, as well as possibility to utilize capitals to gradually meet the MREL requirements,
- impact of regulations in terms of newest accounting standards (IFRS9) on volatility of costs of risk – in particular given the expected economic slowdown (higher sensitivity of costs to market conditions),
- maintained high level of contributions to Bank Guarantee Fund (BFG). Moreover, in addition to pre-defined yearly contributions an ad-hoc need for financing of the Fund may arise in case of problems with one of the banks, as it did in some previous years,
- costs of further adjustment to a number of regulatory solutions (MIFID II, GDPR or PSD II, MREL, among others),
- introduction in Poland of cap on asset management fees at 3.5% of net assets value, starting 2019 (and eventually, from 2022, reaching maximum 2.0% of assets value).

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

Household deposits growth pace in 2019 should remain relatively high, though may be lower than in 2018. This is due to, among others, somewhat weaker growth of wage bill in economy. In terms of corporate deposits a further, moderate increase in pace – from relatively low levels – can be expected.

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As for household loans, a slowdown can be expected in 2019. Somewhat weaker activity on housing market may have an impact on new mortgage loans' growth pace, while portfolio of FX mortgages is steadily diminishing (such loans are now virtually not being given in Poland) and existing loans portfolio repayments are growing in size. Moreover, slightly subdued consumer sentiment may translate into weaker growth of consumer loans (especially taking into consideration high activity and therefore base from 2018). Given the slowdown in GDP growth, growing risks in some of the economy's branches and persistent regulatory uncertainty, a rather flat growth pace of corporate loans can be expected.

Monetary policy has major impact on banks' results. With CPI lingering below Monetary Policy Council's inflation target, potential interest rate hikes in Poland are being postponed ever more. Nevertheless, current inflation outlook is heavily burdened with uncertainty – on one hand stemming from the discrepancy between CPI and growth of GDP and wages in Poland in last two years, while on the other hand from risks associated with energy and raw materials prices in upcoming periods as well as expected economic slowdown. Potential, significantly higher than expected prices growth might speed up the decision to raise interest rates (currently, a hike is expected no sooner than 2020), which would have a positive impact on banking sector financial results in medium term.

Taking into consideration the fact, that 2019 is election year, regulations on FX mortgages can be in the spotlight again. The Polish Parliament has received four regulatory propositions on the subject, including two Presidential, which are being under analysis of sub-commission specifically designated for this purpose. The Presidential project, which has comparatively highest probability of implementation proposes, among others, extended opportunities and lower requirements for getting aid by troubled credit holders, as well as introduction of special Conversion Fund with fees gathered from banks (the contribution may cost sector up to PLN 2.5 billion per year). The entry into force of this one or one of the other considered regulations may have a strong negative impact on the financial performance of banks with a significant portfolio of foreign currency denominated mortgages. However, taking into account the relatively minor share of these loans in the total assets of the Bank (almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007), Bank Pekao S.A. assesses that potentially taken solutions should not materially affect the financial standing of the Group.

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

9.2 Directions of the activities and business priorities

Bank Pekao S.A. is a universal commercial bank offering all financial services available in Poland for individual and institutional clients. A wide range of products, innovative solutions and individual approach ensure comprehensive financial support for clients and an integrated customer service model is a guarantee of the highest quality of services and optimal adjustment to changing customer needs. Since 2017, Bank Pekao S.A. is part of the PZU SA capital group, the largest financial institution in Central and Eastern Europe.

The Bank's business model is based on customer segmentation identifying the following groups of customers:

- **Retail Banking** - serving individual clients and micro firms, utilising a leading network of branches and partner outlets supported by the use of the Bank's leading remote channels,
- **Private Banking** - serving affluent clients and providing investment advisory in private banking centres and via remote channels. In the fourth quarter of 2018, due to organizational changes in the Bank, this segment was incorporated into the structure of the Retail Banking;
- **Small and Medium Enterprises (SME)** - 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 and 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 financing. Clients are served by relationship managers with the support of product specialists, which allows for optimization of quality and costs of the service. Customer advisors focus on providing high quality service, using the best practices and integrated sales management tools.

The Bank offers competitive products and services in 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 and strengthen market position in strategic areas of the Bank's operations.

Bank Pekao S.A. concentrates on organic growth and execution of its strategy. At the same time, the Bank observes consolidation trends on the Polish and European markets, which may affect its competitive position and monitors possibilities of supporting the Bank's strategy through inorganic growth initiatives. The Bank executes potential synergies resulting from cooperation within the PZU S.A. Capital Group. The indicated strategic direction of further increasing Bank's innovation, may also be an area for establishing partnerships with technology leaders, other financial institutions and consumer companies.

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

9.3 Strategic directions and business priorities

Directions outlined in the Bank's strategy have been reflected in the ongoing operationalization of the strategy, reflected in numerous strategic initiatives helping to exploit the potential of identified growth and cost optimization levers. The initiated as well as already implemented projects have significantly supported the Bank's operating activity, contributing to a dynamic business development, as well as consistently improved financial results and performance indicators over the past year. Bank Pekao S.A. consistently executes on strategic agenda set with respect to all its business priorities.

Key directions of the Bank's development outlined in the strategy translate into clearly defined business priorities:

- **Leader in smart growth** - the Bank has not only significantly improved the pace of its organic growth, but also has improved profitability, by focusing on the most prospective business segments and deepening its key relationships. It has been achieved through strengthening of client acquisition and improved product offer. These activities have been additionally supported by income and cost synergies resulting from a cooperation within the PZU capital group,
- **Expert in efficiency and quality** - the Bank has undertaken numerous actions aimed at continuous improvement of processes, cost discipline and service quality. Those are actions being implemented in both - traditional channels (incl. operational process optimization, focusing sales on consistent financial goals, implementation of new branch model and format) and constant development of remote channels. The cost efficiency improvement is additionally supported through the centralization of internal processes and their progressive automation and robotization,
- **Integrated risk management expert** - owing to its strong market position, the Bank has continued the development of this area, which is critical for business transformation and sustainable growth. These strategic actions focus primarily on the area of risk management and modelling, active cooperation between risk and business divisions in optimization of credit processes, as well as the implementation of advanced internal rating methods enabling optimization of capital and its use in lending growth and overall growth of the Bank,
- **Employer of the best talent** - the Bank's future success strongly relies on continuous development of key competences and effective cooperation within the organization. Active talent recruitment and constant development of experts in key areas of the Bank's activity including data analytics, technology, sales, customer service, are supported by strengthened employer branding initiatives improving its image as a modern institution and an employer of the best talents, offering attractive remuneration closely related to performance and unique development opportunities.

Aspirations outlined in the strategy are reflected by its financial goals:

- one of the highest profitability ratios in the Polish banking sector: RoE of at least 14% in 2020 (under assumption of interest rates hike by 125 p.p. and at least 12.5% in the flat rate scenario over the strategy implementation period),
- cost-income ratio at the level of efficiency leaders, i.e. below 40% and
- increase in annual profit in excess of PLN 3 billion in 2020 (dependent on the implementation of the positive interest rate scenario).

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Strategy execution in 2018

Directions outlined in the Bank's strategy have been reflected in the ongoing operationalization of the strategy, reflected in numerous strategic initiatives helping to exploit the potential of identified growth and cost optimization levers. The initiated as well as already implemented projects have significantly supported the Bank's operating activity, contributing to a dynamic business development, as well as consistently improved financial results and performance indicators over the past year. Bank Pekao S.A. consistently executes on strategic agenda set with respect to all its business priorities.

Leader in smart growth

Retail Banking

Due to the scale and growth potential, Retail Banking has been a priority area for the development of the Bank. The strategic activities carried out in 2018 were primarily aimed at: a significant and lasting acceleration of client acquisition, expansion in consumer lending and a continued profitable growth in mortgage lending, deepening relationships with clients through active cross-selling supported by improved investment, savings and insurance product offer, as well as faster development of the prospective business client segment (micro companies).

In 2018, the Bank focused strongly on strengthening acquisition activities, based on a new and simplified current account (Konto Przekorzystne) and payment card offer (including the multi-currency card), effective marketing campaigns and streamlined sales processes in all distribution channels. Those actions resulted in record sales of new accounts, which reached the gross level of 400 thousand pieces set in the strategy, improving annual client acquisition by 70% compared to with 2015-2017 on average. The Bank focused on key and long-term relationships, which was reflected by the growing share of clients with regular inflows, as well as on the acquisition of young and prospective customers through intensive marketing campaigns at leading Polish universities. The customers aged 18-26 were responsible for as much as 40% of all accounts opened in 2018.

In 2018, the Bank recorded a two-digit dynamics of the growth in the number of clients up to 26 years of age (18.7% year on year). The largest increase in the number of clients occurred in the group of youth aged 13-17 (33.0% year on year). The bank supports nearly 200,000 students which translated into a 14% market share. As part of the acquisition of young clients, the Bank carried out nearly 2.2 thousand educational campaigns in schools and colleges promoting personal finance management with the use of digital banking services.

In 2018, thanks to a wide offer, improved sales processes and the ability to negotiate interest rates on loans, the Bank successfully implemented a strategy of dynamic, profitable and safe growth in the mortgage and consumer loans segment granted both in the traditional channel as well as in remote channels in which the total number cash loans sold amounted to 30%. Thanks to these activities, the volume of cash loans increased significantly (+ 15% year on year, nearly two-times faster than the market) and mortgage loans (+ 12%, + 40 bps vs. the market), as well as closely related dynamic loans. increase in income (by 19% and 21% year on year respectively).

Bank Pekao S.A. also consistently expanded the development of the investment and savings products offer and enhanced cooperation within the PZU Group and conducted numerous marketing campaigns. These activities contributed to a dynamic increase in net sales of investment products at 5% year on year, increase in volume + 9% year on year, above-average deposit growth (+ 12.4% year on year vs. market + 9.4% year on year) and a clear increase in cross-selling of insurance (eg CPI for mortgage loans from 9% to over 66% at the end of the year).

The Business Customer segment is one of the most important and promising segments for the Bank. As part of the expansion in this area, the Bank implemented a number of activities increasing the attractiveness of the offer in 2018 (including the Przekorzystne Biznes Account or active promotion of payment terminals) and increasing the effectiveness of sales and acquisition through the optimization of service processes, including significant shortening of the account opening process, simplification of documentation. As a result of these activities, the deposit volumes and income in this area increased significantly (respectively 15% and 9% year on year), and the sales result improved significantly. In 2018, the number of new clients increased by 15% year on year.

The successful execution of the strategy for retail segment resulted in the strongest increase in the retail arm income in the last 10 years (+11% year on year).

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SME Banking

Implementation of the strategy in the SME Banking segment focused on three major areas: strengthening acquisition and cross-sell, development of the product offer, as well as expansion on the market of SME loans.

Starting from early beginning of the year, the Bank carried out numerous activities aimed at intensifying relationships with existing customers, which included in particular: implementation of the new service model (based on mobile advisors, remote channels and product specialists), development of employee competences through acquisition high-class specialists, a new unified management model, as well as a number of initiatives facilitating acquisition, including new SME Client recommendation program among Bank's employees. These initiatives helped to achieve a significant growth in the number of newly acquired clients, especially the most prospective ones, with revenues over PLN 5 million (93% year on year), as well as a double-digit growth (+19% year on year) of revenues on strategic cross-sell products such as leasing, factoring, treasury or cash management.

Over the past year, the Bank consistently developed its product offer for SME clients, positioning itself as a provider of personalized solutions based on the best practices in corporate banking and tailored to the specific needs of the SME segment. As part of these activities, the existing account offer has been replaced with attractive SME packages, while the list of products offered to SMEs has been significantly extended, including new types of financing (e.g. revolving loan, multi-purpose credit line, mortgage loan), treasury and trade finance products as well as services supporting foreign trade transaction (letters of credit, guarantees). The Bank has also set new trends in banking products linked with EU funding. These improvements were reflected among others in a significant increase in income of the SME Banking segment (14.5% year on year) and income generated on the average SME customer (18.9% year on year)

In 2018, Bank Pekao S.A. was also one of the growth leaders on the SME loans market, increasing their volume by 8.2% year on year and related revenues by 9.7% year on year.

Corporate and Investment Banking

Bank Pekao, maintaining the leading position in the corporate banking segment in Poland, undertook a number of initiatives aimed at strengthening relationships with the most promising clients and improving their profitability by increasing share of non-credit revenues. Dedicated commercial actions were supported by activity of product and sector specialists and focused mainly on the increasing sales of strategic cross-sell products such as leasing and factoring or transaction banking products. These initiatives have brought tangible effects, as share of non-credit revenues in the total segment revenues.

The Bank focused also on further development of prospective areas such as investment banking, via opening its offer also to medium-sized corporations, or international banking, The latter was supported by creating a unique offer of foreign trade financing, strengthening cooperation with exporters' supporting institutions, followed by establishing the first foreign representative office in London in years.

The Bank pursued different strategies depending on the specificity of the client segment. The priority area was the segment of medium-sized corporations, in which intensified sales activities, enhanced offer and processes optimization led to a dynamic growth in loans, as well as improved effectiveness of acquisition (with revenues per new client almost doubled in comparison with the 2015-17 period).

Expert in efficiency and quality

In 2018, in order to improve the Bank's business and cost effectiveness and service quality, a number of strategic projects was launched. In the retail banking segment, the Bank initiated The Digital Transformation Program, consisting of more than 70 technologically advanced initiatives aimed at faster development of remote channels, as well as enriching the offer with the most innovative digital services.

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Innovation is one of the strategic priorities, standing behind the establishment of the Innovation Lab, responsible for creating innovative concepts in interdisciplinary team in close cooperation with startup and fintech community. The Bank's activities in the area of digital transformation have been recognized internationally by the EFMA Association (The European Financial Management & Marketing Association) by awarding PeoPay with the title of the best innovation in the world in the Phygital Distribution & Experience category. The Bank's flagship product has gained wide recognition of global experts, mainly for its multi-functionality including multi-currency, the use of biometric data for logging in and acceptance of transactions, and the ability to make mobile transactions without obligation to possess a physical card.

The Bank concentrated also on consistent improvement of the digital experience of corporate clients. In 2018, the Bank launched the Open Financing Platform - a unique financing solution for suppliers, which can be used by both - the Bank's clients and companies that do not have an account at Bank Pekao S.A. At the same time the Bank was also working on further development of the PekaoBiznes24 internet banking platform.

Changes taking place in the Bank for several months have brought positive results also in the field of customer service quality. It was reflected, among others, by winning the contest organized by the Newsweek magazine in the "Mortgage Banking" category. The Bank was also ranked 2nd in the latest Forbes magazine contest for the most friendly bank for companies, moving from the 11th place in the previous edition.

In addition to consistent development of remote channels, the Bank initiated the project dedicated to increasing efficiency of the traditional retail sales network. Similar project organized in the Corporate and Investment Banking segment will concentrate on improving relationship management based on better understanding of customers' potential and needs, increasing sales network effectiveness through digitization and automation as well as optimization of key processes and activities. The set of strategic initiatives includes also a project aiming at increasing efficiency of the Bank's central functions, combining administrative costs optimization with streamlining key processes and reducing bureaucracy at the Bank's head office.

On the other hand, the Voluntary Leave Program helped to optimize employment costs and stimulate a generational change within the organization, the Program Dobrowolnych Odejść – PDO addressed to Bank's employees obtaining pension right in 2018 concerned 915 person. These initiatives were accompanied by actions aimed at simplifying the management structure. The number of directors' positions was reduced by 12% year on year.

The operational measures undertaken enabled business expansion accompanied by further improvement of cost effectiveness.

Integrated risk management expert

In 2018, the Bank remodeled the organizational structure of the risk area for the needs of better cooperation with business units, as well as developed competences in the field of "Risk Steering". As one of the priorities, a thorough optimization of credit processes in all business segments was initiated, with special focus on simplification of procedures, implementation of modern, universal and fully digitized tools to improve and automate the credit process, as well as extending the existing risk models (e.g. by including behavioral elements).

At the end of 2018, the CoR ratio amounted to 0.38% as compared to 0.40% in 2017 excluding the profit from the sale of non-performing loans. As the risk management leader, the Bank kept the risk costs at the lowest level among the largest Polish banks.

Employer of the best talent

In 2018, Bank Pekao S.A. carried out numerous initiatives focused on more effective employer branding as well as streamlining the recruitment activity in order to attract the best professionals in areas essential for achieving ambitious Strategy 2020 goals. It has concentrated on optimization of the onboarding process, investment in managerial competences, establishing strategic cooperation with the best universities in Poland (Warsaw School of Economics, Tischner European University, Koźmiński University), as well as the new internship program for Polish and European university students. At the same time, the Bank invested in the development of the training offer, resulting in over double-digit increase in the number of trained employees.

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Business priorities for 2019

According to strategic assumptions 2019 will be the key transformation year for Bank Pekao. In 2019 Bank Pekao will focus, in particular, on the implementation of key strategic projects: transformation of the retail sales network, increase in corporate banking profitability and optimization of credit processes. The Bank will also continue the process of digital transformation, focusing on improving customer service quality at various touch points, as well as activities in the field of process optimization and robotization.

The growth initiatives undertaken in 2018 will be continued. Dynamic acquisition and expansion in the area of consumer loans, as well as cross-sell and acceleration in the Business Client segment will remain key objectives of business development in the retail segment. These goals will be implemented through, among others, unlocking full potential of online acquisition, (eg by self-service onboarding by photo of the ID), fully automated and digital credit process for cash loans and strengthening cooperation with PZU Group on bancassurance and investment products. At the same time the Bank will support a lending action in the Business Client segment with planned credit process automation.

In the SME segment, the Bank will be intensifying client acquisition in key segments and strengthening relationships with existing clients through active cross-sell. It will be possible, among others, due to better leveraging internal and external data analysis, unique service model and systemic approach to managing customer satisfaction.

Activities in the corporate segment will focus on increasing the share of non-credit revenues (in particular on the increase in sales of strategic cross-sell products) and on further expansion in the segment of medium-sized corporations. In order to become even better partner in the development of corporations in Poland, the Bank will implement systemic sectoral approach, advanced data analytics and successively invest in salesforce competences.

The planned implementations will unlock full potential of the Bank's competitive advantages in 2020 and enable achievement of financial aspirations indicated in the Bank Pekao Strategy.

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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 2018 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 2018 provides the true picture of Bank Pekao S.A. Group development, achievements and situation, including the main threats and risks.

Acting on the basis of art. 66 par. 4 of the Act on accounting of 29 September 1994 and § 13 point 17 of the Statute of the Bank, the Ordinary General Meeting of June 21, 2018 selected KPMG Audyt Sp.z o.o. Sp.k. as an audit firm to audit and review the unconsolidated financial statements of Bank Polska Kasa Opieki Spółka Akcyjna and consolidated financial statements of the Capital Group of Bank Polska Kasa Opieki Spółka Akcyjna for the years 2018-2020.

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.

As a public interest entity, the Bank implemented, based on the resolutions of the Supervisory Board of the Bank, the policies and procedures set out in Article 130 para. 1 item 5-7 of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws of 2017, item 1089, hereinafter the "Act").

In order to meet the requirements of the Act, the following documents have been issued for use:

- The policy of selecting an audit firm to carry out statutory audit of Bank Pekao S.A. financial statements,
- The procedure of selecting an audit firm to carry out statutory audit of Bank Pekao S.A. financial statements,
- The policy of carrying out the permitted non-audit services by the audit firm conducting the audit, by entities related to this audit firm and by any member of the network to which the audit firm belongs.

Maximum duration of continued duration of statutory audits, carried out by the same audit firm or audit firm associated with this audit firm or any member of the network operating in the European Union countries to which these audit firms belong, must not exceed 5 years. This period also applies to the key statutory auditor.

After the maximum duration of the order, the Bank cannot commission a statutory audit to the audit firm or any entity from its network operating within the European Union for the next 4 years, and in the case of a key statutory auditor after at least 3 years from the end of the last statutory audit.

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11 Statement of Bank Polska Kasa Opieki Spółka Akcyjna on application of Corporate Governance Standards in 2018

According to §70 item 6 point 5 of the ordinance of Minister of Finance dated March 29, 2018 *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 state*⁵ (hereinafter referred to as “the ordinance of the Minister of Finance dated March 29, 2018”), Bank Polska Kasa Opieki Spółka Akcyjna (hereinafter referred to as 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.⁶

Corporate governance rules applied in the Bank 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 generally applicable law, especially from the Commercial Companies Code, the Banking Law and 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.

With the exception of the matters presented below in 2018, the Bank applied corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies 2016⁷ (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”)⁸. 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. In addition, in 2018 Bank also partially applied Recommendation No. VI.R.1 of “Best Practice” regarding inclusion in remuneration policy in the issue of remuneration of the company’s bodies members and key managers, because the remuneration of Supervisory Board members was determined by the General Meeting taking into account generally applicable legal regulations including requirements of Act of 9 June 2016 on the principles of shaping the remuneration of persons managing certain companies.

Furthermore, Recommendation No. IV.R.2 of Best Practice 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.

⁵ Journal of Laws 2018.757

⁶ Par. 70.6.5.a and b of the ordinance of the Minister of Finance of March 29, 2018

⁷ The document is publicly available on the WSE website:

⁸ Dz.U.JE.L.2005.52.5, the document is publicly available on the website: <http://eur-lex.europa.eu/legal-content/PL/TXT/?uri=CELEX%3A32005H0162>

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In 2018, the Bank also applied Corporate Governance Rules for the Supervised Institutions issued by the Polish Financial Supervision Authority on July 22, 2014⁹ 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.

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. The Bank also partially applied the Principle, defined in § 29 section 3 of the Corporate Governance Rules for the Supervised Institutions, regarding transparency and conclusion the rules for remuneration of members of the supervisory body in the relevant internal regulations of the Bank. The remuneration of the Bank Supervisory Board members is transparent and was determined by the General Meeting taking into account the generally applicable legal regulations including requirements of the Act of 9 June 2016 on the rules for determining the remuneration of persons managing certain companies.

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 2017, 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 6/2018 on May 25, 2018 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 2017, referred to in Article 402 ⁽⁵⁾ § 1 point 2 and 3 Commercial Companies Code (two-way on line communication and voting by means of electronic communication)."

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 2018, the Bank applied corporate governance rules laid down in the Code of Banking Ethics of Polish Bank Association.¹⁰

Furthermore, the Bank has introduced the Integrity Charter, constituting a set of basic values for the Bank's employees, which are based on honesty, recognized as a guarantee of permanent transformation of profit into value for all stakeholders (including shareholders and investors).

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

⁹ The document is publicly accessible on the Polish Financial Supervision Authority web site: https://www.knf.gov.pl/dla_nyiku/regulacje_i_praktyka/zasady_ladu_korporacyjnego

¹⁰ 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>

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Acting in compliance with par. 70.6.5c–m of above mentioned ordinance of Minister of Finance dated March 29, 2018, 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 statements¹¹

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.

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.

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 general meeting resulting from owned shares¹²

The main shareholders of the Bank from June 7, 2017 is Powszechny Zakład Ubezpieczeń S.A. ("PZU S.A.") and Polski Fundusz Rozwoju S.A. ("PFR"),

which as a result of the implementation of the Sale Agreement purchased the Bank's shares:

- 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.

¹¹ Par. 70.6.5.c of the ordinance of the Minister of Finance of March 29, 2018

¹² Par. 70.6.5d of the ordinance of the Minister of Finance of March 29, 2018

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On June 8, 2018 the Management Board of Bank Pekao S.A. informed about receiving on June 8, 2018 a notification (hereinafter referred to as "Notification") about a change in the total number of votes at the General Meeting of the Bank prepared on the basis of art. 69 in connection with art. 87 section 1 item 3 letter b of the Act of July 29th, 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to an Organized System Trading, and on Public Companies (Journal of Laws from 2009, No. 185, item 1439, as amended). The Notification was made by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne SA (hereinafter "NN PTE").

According to the information presented in the notification NN PTE as a result of the acquisition of the Bank's shares in transactions on the Warsaw Stock Exchange, settled on June 4th, 2018, funds managed by NN PTE: Nationale-Nederlanden Otwarty Fundusz Emerytalny (hereinafter "OFE") and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (hereinafter "DFE") increased the ownership of the Bank's shares above 5% of votes at the General Meeting of the Bank.

Before the settlement of the transaction, ie on June 1st, 2018, OFE and DFE held 13,017,769 (say: thirteen million seventeen thousand seven hundred and sixty-nine) shares of the Bank, which constituted 4.96% of the Bank's share capital and were entitled to 13,017,769 (in words: thirteen million seventeen thousand seven hundred and sixty-nine) votes at the General Meeting of the Bank, which constituted 4.96% of the total number of votes.

After the settlement of the transaction on June 4th, 2018, the securities accounts of OFE and DFE included 13,357,769 (say: thirteen million three hundred and fifty-seven thousand seven hundred and sixty-nine) shares of the Bank, which account for 5.09% of the Bank's share capital. These shares entitle to 13,357,769 (say: thirteen million three hundred and fifty-seven thousand seven hundred and sixty-nine) votes at the General Meeting of the Bank, which constitutes 5.09% of the total number of votes.

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.

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, 2018		DECEMBER 31, 2017	
PZU S.A.	52,494,007	20.00%	52,494,007	20.00%
PFR S.A.	33,596,166	12.80%	33,596,166	12.80%
UniCredit S.p.A.	16,430,000	6.26%	16,430,000	6.26%
Nationale-Nederlanden PTE SA	13,357,769	5.09%	-	-
Other shareholders (below 5%)	146,592,092	55.85%	159,949,861	60.94%
Total	262,470,034	100.00%	262,470,034	100.00%

3) Identification of holders of any securities with special control rights with description of those rights¹³

According to the Bank's Statute all the existing Bank's 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 Bank's shares result from generally applicable laws, in particular provisions of the Polish Commercial Companies Code.

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

¹³ Par. 70.6.5.e of the ordinance of the Minister of Finance of March 29, 2018

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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 rights resulting from securities are separated from the fact of holding those securities¹⁴

According to the Bank's Statute there are no restrictions regarding voting rights of Bank's shares (generally applicable laws may in certain circumstances restrict voting rights of shareholder).

5) Identification of any restrictions of ownership transfer of securities issued by the Bank¹⁵

According to the Bank's Statute there are no restrictions of ownership transfer of securities issued by the Bank (generally applicable laws may in certain circumstances restrict ownership transfer of securities issued by the Bank).

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 shares¹⁶

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.

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.

The Bank's Statute does not provide for the Management Board or its members right to decide whether to issue or purchase shares.

¹⁴ Par. 70.6.5.f of the ordinance of the Minister of Finance of March 29, 2018

¹⁵ Par70.6.5.g of the ordinance of the Minister of Finance of March 29, 2018

¹⁶ Par. 70.6.5.h of the ordinance of the Minister of Finance of March 29, 2018

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7) Description of rules governing amendment of the Statute of the Bank¹⁷

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 Bank¹⁸ 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.

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 law¹⁹

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 website²⁰.

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,

¹⁷ Par. 70.6.5.i of the ordinance of the Minister of Finance of March 29, 2018

¹⁸ Adopted by virtue of the Resolution of the General Shareholders Meeting No. 19 of April 8, 2003 as amended

¹⁹ Par. 70.6.5.j of the ordinance of the Minister of Finance of March 29, 2018

²⁰ <https://www.pekao.com.pl/o-banku/lad-korporacyjny.html>

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- 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.

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 six months after the end of each financial year. . 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 Bank's 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 place indicated in the announcement about convening the General Meeting, published 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.

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,

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- 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 twenty one days prior to the Meeting date. The demand can be submitted also in electronic form. 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 eighteen 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 opinion 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.

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.

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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.

Responsibilities and powers of the Chairperson of the General Shareholders Meeting include in particular taking care of the orderly and compliant with the agreed agenda conduct of the meeting, ensuring that the rights and interests of all shareholders are respected, counteracting any abuse of rights by the participants, and ensuring 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) Rules of procedure of the Bank's managerial, supervisory or administrative bodies and its committees, indicating its composition and changes that occurred during last financial year as ²¹

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. 405/XII/18 of December 12, 2018. 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 website²². 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 Management Board's 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, 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.

²¹ Par. 70.6.5.k-1 of the ordinance of the Minister of Finance of March 29, 2018

²² <https://www.pekao.com.pl/o-banku/lad-korporacyjny.html>

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As at January 1, 2018 the Management Board of the Bank was composed of the following persons:

Michał Krupiński	President of the Management Board,
Roksana Ciurysek-Gedir	Vice 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 Lusztyn	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.

On November 19, 2018 the resignation from the position of Vice President of the Management Board have been submitted by Mrs. Roksana Ciurysek Gedir and Mr. Andrzej Kopyrski, effective as of November 30, 2018.

The Supervisory Board on the day following the Ordinary General Meeting of the Bank approving Bank's financial statement for the financial year 2018, unanimously appointed members of the Management Board for a new three year joint term of office.

The following persons were appointed to the Management Board of the Bank for another three-year joint term starting on the date indicated above:

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

On November 23, 2018, the Supervisory Board of the Bank appointed Mrs. Magdalena Zmitrowicz for current joint term as of December 1, 2018 and entrusted her with the function of Vice Presidents of the Bank's Management Board.

As at December 31, 2018 the Management Board was composed of the following persons:

Michał Krupiński	President of the Management Board,
Magdalena Zmitrowicz	Vice President of the Management Board,
Tomasz Kubiak	Vice President of the Management Board,
Michał Lehmann	Vice President of the Management Board,
Marek Lusztyn	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.

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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. 9/18 of the Supervisory Board of March 13, 2018. The Rules of procedure of the Supervisory Board are available on the Bank's website.²³

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.

As at January 1, 2018 the Supervisory Board was composed of the following persons:

Paweł Surówka	Chairman of the Supervisory Board,
Joanna Błaszczuk	Deputy Chairman of the Supervisory Board,
Stanisław Ryszard Kaczoruk	Deputy Chairman of the Supervisory Board,
Paweł Stopczyński	Secretary of the Supervisory Board,
Sabina Bigos-Jaworowska	Member of the Supervisory Board,
Justyna Głębiowska-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.

and until December 31, 2018 remained unchanged.

²³ <https://www.pekao.com.pl/o-banku/lad-korporacyjny.html>

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Audit Committee

Audit Committee acts on the basis of the Rule of procedure of the Audit Committee of the Supervisory Board of Bank Pekao S.A., which 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, 2014 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.

The members of the Audit Committee have the skills necessary to properly perform the entrusted function, including appropriate education and professional experience.

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. In 2018 there were 8 meetings of the Audit Committee.

As at January 1, 2018 the Audit Committee was composed of the following persons:

Justyna Głębiowska-Michalak	President of the Committee (independent member, has the qualifications of a statutory auditor, graduate of the Faculty of Economics UMCS in Lublin and post-graduate studies "Accounting" at the University of Economics in Poznań),
Joanna Błaszczuk	Member of the Committee,
Grzegorz Janas	Member of the Committee,
Sabina Bigos-Jaworska	Member of the Committee (independent member),
Michał Kaszyński	Member of the Committee (independent member).

and until December 31, 2018 remained unchanged.

In 2018 the audit firm selected to audit and review the financial statements of Bank Polska Kasa Opieki Spółka Akcyjna and the consolidated financial statements of Bank Polska Kasa Opieki Spółka Akcyjna Group provided non-audit services to the Bank and its subsidiaries.

Pursuant to the provisions of the policy adopted by the Bank - "Policy for conducting permitted non-audit services by an audit firm carrying out the statutory audit, entities related to this audit firm and any member of the network to which the audit firm belongs", the Audit Committee of the Bank, the Audit Committee of the subsidiaries that are public interest entities and the Audit Committee of the Parent Entity granted an approval for provision of permitted services by the audit firm for the Bank and its subsidiaries.

Obtaining an approval was preceded by the Bank and its subsidiaries conducting an appropriate assessment of the threats and safeguards of independence referred to in art. 69-73 of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision.

As a public interest entity, the Bank implemented, based on the resolutions of the Supervisory Board of the Bank, the policies and procedures set out in Article 130 para. 1 item 5-7 of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws of 2017, item 1089, hereinafter the "Act").

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In order to meet the requirements of the Act, the following documents have been issued for use:

- 1) The policy of selecting an audit firm to carry out statutory audit of Bank Pekao S.A. financial statements,
- 2) The procedure of selecting an audit firm to carry out statutory audit of Bank Pekao S.A. financial statements,
- 3) The policy of carrying out the permitted non-audit services by the audit firm conducting the audit, by entities related to this audit firm and by any member of the network to which the audit firm belongs.

The main assumptions of the policies are as follows:

- A. The policy of selecting an audit firm to carry out statutory audit of Bank Pekao S.A. financial statements
 - The selection of a firm authorized to conduct statutory audit or review of the Bank's financial statements and the Group's consolidated financial statements is made by the General Meeting specifying the years for which the Bank's financial statements and the Group's consolidated financial statements will be subject to statutory audit and review by a selected audit firm based on proposal of the Supervisory Board.
 - The Supervisory Board presents to the General Meeting a proposal regarding the appointment of an audit firm. The proposal takes into account the recommendation and preferences of the Audit Committee. In its recommendation, the Audit Committee states that its recommendation is free from the influence of a third party and that the Bank did not conclude agreements containing clauses limiting the possibility of selecting an audit firm by the General Meeting.
 - Recommendation of the Audit Committee regarding the selection of an audit firm carrying out a statutory audit, which does not concern the extension of the contract for the audit of the financial statements:
 - contains at least two options for the selection of the audit firm with justification and indication of the justified preference of the Audit Committee with respect to one of them;
 - is prepared following a selection procedure organized by the Bank, carried out in accordance with the principles set out in the Procedure of selecting an audit firm to carry out statutory audit of Bank Pekao S.A. financial statements.
 - The first contract for the audit of the financial statements is concluded with the audit firm for a period of not less than 2 years with the possibility of extension for another period of at least two years.
 - Maximum duration of continued duration of statutory audits, carried out by the same audit firm or audit firm associated with this audit firm or any member of the network operating in the European Union countries to which these audit firms belong, must not exceed 5 years. This period also applies to the key statutory auditor.
 - After the maximum duration of the order, the Bank cannot commission a statutory audit to the audit firm or any entity from its network operating within the European Union for the next 4 years, and in the case of a key statutory auditor after at least 3 years from the end of the last statutory audit.
- B. The policy of carrying out the permitted non-audit services by the audit firm conducting the audit, by entities related to this audit firm and by any member of the network to which the audit firm belongs
 - The auditing firm carrying out the statutory audit of the Bank or any member of the network to which the audit firm belongs do not directly or indirectly provide to the Bank, its Parent Entity or its subsidiaries any prohibited services that are not audit of the financial statements in the following periods:
 - the period between the beginning of the period audited and the issuing of the audit report mentioned in the Article 5 para. 1 (without point e) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audits of public interest entities and repealing Commission Decision 2005/909/EC, and

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- the financial year immediately preceding the period between the beginning of the period audited and the issuing of the audit report in relation to the services of designing and implementing internal control or risk management procedures related to the preparation or control of financial information or designing and implementing financial information technology systems.
- The audit firm carrying out the statutory audit of the Bank and each member of the network to which the audit firm belongs may provide to the Bank, its Parent Entity or its controlled undertakings the so-called permitted services that are not statutory audits of financial statements subject to the approval of the Audit Committee after it has properly assessed threats to independence and the safeguards as referred to in art. 69-73 of the Act.
- The organizational unit of the Bank or entity controlled by the Bank requesting the purchase of services provided by the audit firm carrying out the statutory audit of the Bank or by members of the network to which the audit firm belongs must obtain the approval of the Audit Committee for the provision of a permitted service, after assessing whether the requested service is not a prohibited service and whether the requested permitted service will not exceed the limit for permitted services limited to no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audits of the Bank and of its Parent Entity, of its controlled undertakings and of consolidated financial statements of that group of undertakings.
- Entities belonging to the Pekao Group are required to obtain the approval of the Parent Entity's Audit Committee (PZU S.A.) for the purchase of a permitted service provided to these entities after the Parent Company's Audit Committee performs an assessment of threats to independence and the safeguards as referred to in art. 69-73 of the Act.

Recommendation of the Bank's Audit Committee regarding the selection of an audit firm carrying out statutory audit of the Bank's financial statements, which did not concern the extension of the contract for the audit of the financial statements:

- was drawn up following a selection procedure organized by the Bank, carried out in accordance with the principles set out in the Procedure of selecting an audit firm to carry out statutory audit of Bank Pekao S.A. financial statements.
- ensured the selection of an audit firm that meets the conditions for expressing unbiased and independent opinion on the financial statements of the Bank and of the Bank's Group.
- ensured the selection of an audit firm that has experience and knowledge to accurately assess the accuracy and reliability of recognition in the financial statements of any operations arising from the Bank's operations.
- it contained justification and two options for the selection of the audit firm, along with an indication of the justified preferences of the Audit Committee with respect to one of them.
- was free from third party influence.

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Nomination and Remuneration 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.

As at January 1, 2018 Nomination and Remuneration Committee was composed of the following persons:

Paweł Stopczyński	President of the Committee,
Sabina Bigos-Jaworowska	Member of the Committee,
Paweł Surówka	Member of the Committee.

On July 23, 2018 the Supervisory Board appointed Mrs. Joanna Błaszczyk as a member of Nomination and Remuneration Committee for the current joint term of the Supervisory Board.

As at December 31, 2018 Nomination and Remuneration Committee was composed of the following persons:

Paweł Stopczyński	President of the Committee,
Sabina Bigos-Jaworowska	Member of the Committee,
Joanna Błaszczyk	Member of the Committee,
Paweł Surówka	Member of the Committee.

Risk 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.

As at January 1, 2018 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.

and until December 31, 2018 remained unchanged.

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10. Description of the Bank's diversity Policy applied to governing, managing and supervising bodies with respect in particular to such factors as age, gender or education and professional experience, aims of the diversity policy, manner of its realisation and results in the given reporting period²⁴

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 policy takes place in decision making processes in scope of: external selection, internal appointment, succession planning, taking into account provisions on equal treatment in the field of establishing an employment relationship.

In 2016-2018 the share of men and women the Management of the Bank was following.

	December 31, 2016		December 31, 2017		December 31, 2018	
	No. of persons	%	No. of persons	%	No. of persons	%
Women		0%		0%	1	14%
Men	7	100%	7	100%	6	86%
Sum	7	100%	7	100%	7	100%

In 2016-2018 the share of men and women the Supervisory Board of the Bank was following.

	December 31, 2016		December 31, 2017		December 31, 2018	
	No. Of persons	%	No. Of persons	%	No. Of persons	%
Women	4	44%	3	33%	3	33%
Men	5	56%	6	67%	6	67%
Sum	9	100%	9	100%	9	100%

²⁴ § 70.6.5 m of the ordinance of the Minister of Finance of March 29, 2018

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12 Statement of Bank Pekao S.A. Group on Non-financial Data for 2018

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.

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Signatures of all Members of the Bank's Management Board

25.02.2019	Michał Krupiński	President of the Management Board	
Date	Name/Surname	Position/Function	Signature
25.02.2019	Tomasz Kubiak	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
25.02.2019	Michał Lehmann	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
25.02.2019	Marek Lusztyń	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
25.02.2019	Tomasz Styczyński	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
25.02.2019	Marek Tomczuk	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature
25.02.2019	Magdalena Zmitrowicz	Vice President of the Management Board	
Date	Name/Surname	Position/Function	Signature