



Bank Polski

Dear Sirs and/ or Madams,

It is with great pleasure that I am presenting the financial statements and the PKO Bank Polski Group Directors Report for the year 2018. This was a very intense and, at the same time, very fruitful period of implementing our strategy. Its effects include increase in the scale of operation, great financial results, reinforcement of the capital strength and improvement in key performance indicators. PKO Bank Polski sums up one hundred years of its activity in an excellent condition and is ready to face new challenges. We are building an eco-system of services going far beyond the traditionally understood banking in order to support the development of Poland and Poles in the next decades.

In 2018, we made full use of the very good economic situation in Poland, namely the rate of GDP growth exceeding 5 percent, increasing income of the population and improvement of the situation on the labour market. By perfecting the internal processes and offer, as well as focusing on the needs of its clients, our group increased the balance sheet sum up to PLN 324 billion, generating PLN 3,74 billion of consolidated net profit, which is over 20 percent higher than a year before.

Owing to a consistent cost discipline, the cost to income ratio was reduced to the level of 44,2 percent. Simultaneously, the quality of the credit portfolio grew, whereas cost of risk dropped down to the level of 0,59 percent. Efficiency measured with return on capital grew up to 10 percent and capital indices and other criteria specified by the financial supervision authority were on a level allowing for disbursement of dividend up to 50 percent from the profit for the previous year. Thus, already in 2018 we have fulfilled the main financial goals specified in our current strategy for 2020. This is a good basis for reviewing the strategy and for reformulating the priorities, which should take place in 2019.

PKO Bank Polski entered the second century of its existence as an unquestioned leader of the sector and simultaneously the most valuable company on the Warsaw Stock Exchange, with capitalisation reaching PLN 50 billion. In September, after Poland was re-classified from the basket of emerging markets to developed markets, PKO BP was the only Polish entity to form a part of the index of developed market companies of the global index agency FTSE Russell. This is a clear appreciation for the power of the Polish economy and also for the bank's position at the market, its hitherto successes and strategic potential for further development. Simultaneously, our shareholders and clients may be assured that we continue to develop on sound foundations. The results of most recent European stress tests confirmed high resilience of PKO Bank Polski to potential macro-economic turmoil and showed that it is the most resistant among over 50 largest banks in Europe that were covered by tests.

Further development of PKO Bank Polski Capital Group will be determined by our ability of using the potential embedded in digital transformation. This global trend is our greatest inspiration and its skilful adaptation offers quantifiable benefits confirmed by the success of IKO - our flagship mobile app. In 2018, that is merely 5 years from the market début, it was evaluated as the best in the world in the ranking of the British monthly Retail Banker International, relying on customers' opinions. In the next edition, announced in February 2019, IKO once again received most positive grades among 100 banks in the world included in the breakdown. Developing our mobile banking, we focus on making it as simple and intuitive in servicing as possible and the customers value these features most these days. Nowadays, IKO has over 3.2 million active apps and the number of transactions made from the smart phone level has spiked, which makes the bank the leader in mobile banking in Poland with a 25 percent share in the market.

Use of state-of-the-art technologies and innovative solutions is today the key to the success in almost every area of life. Therefore, we do not cease our efforts to make them the basic tools to improve our offer, build even closer relations with customers and, in consequence, create an added value for shareholders and the entire Polish economy. One of such initiatives was domestication of the blockchain technology. PKO Bank Polski used it to confirm authentication and consistency of documents sent electronically. The first dispatch of this type pertained to new product regulations and covered almost 5 million customers which has been, as of now, the largest application of the blockchain technology in the banking sector in Europe. This solution has been developed in collaboration with external partners as part of a signature platform for development of innovations and modern technologies, "Let's Fintech with PKO Bank Polski."

The scale of impact of PKO Bank Polski not only on the sector, but also economic processes which occur in the scale of the country results in the fact that we have a natural mandate to accept tasks that go beyond the world of finance. Such an enterprise is the establishment of Polish National Cloud (Operator Chmury Krajowej Sp. z o.o.), a technological company that offers services related to storage and remote processing of data, digital transformation and cyber-security to Polish entrepreneurs and the public administration. The clients of Polish National Cloud will gain access to a broad range of modern services, e.g. related to artificial intelligence and advanced data analytics, making use both of the infrastructure of the bank's capital group, as well as the solutions of our technological partners. This project will allow for significant acceleration of digitisation of domestic economy, simultaneously guaranteeing that data are processed and stored in Poland.

PKO Bank Polski enters the new century of its operation with pride, which results from the awareness of hitherto accomplishments and also with a feeling of liability for further development of then institution that binds the fates of millions of Poles. This is an immense privilege and also a liability which we will strive to meet on a daily basis.

Zbigniew Jagiełło

President of the Management Board of PKO Bank Polski