

Report on the activities of Bank Pekao S.A. Group for the year 2019



Warsaw, February 2020

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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.

	2019	2018	2017	2016	2015	2014
INCOME STATEMENT – SELECTED ITEMS						
	<i>(in PLN million)</i>					
Operating income	8,336	7,757	7,350	7,347	7,059	7,346
Operating costs	(3,537)	(3,444)	(3,263)	(3,212)	(3,220)	(3,286)
Gross operating profit	4,799	4,313	4,087	4,135	3,839	4,060
Profit before income tax	3,003	3,047	3,153	2,897	2,831	3,360
Net profit for the period attributable to equity holders of the Bank	2,165	2,287	2,475	2,279	2,293	2,715
PROFITABILITY RATIOS						
Return on average equity (ROE) - nominally	9.5%	10.2%	11.0%	9.8%	9.7%	11.5%
Return on assets (ROA)	1.1%	1.3%	1.4%	1.4%	1.4%	1.8%
Net interest margin	2.9%	2.8%	2.8%	2.8%	2.8%	3.1%
Non-interest income / operating income	34.4%	35.6%	37.5%	40.4%	41.0%	39.3%
Cost / income	42.4%	44.4%	44.4%	43.7%	45.6%	44.7%
Costs of risk	0.46%	0.36%	0.40%	0.45%	0.49%	0.56%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS						
	<i>(in PLN million)</i>					
Total assets	203,323	191,090	185,466	174,215	168,786	167,625
Customers' financing ^(*)	151,384	140,032	132,300	122,663	117,299	109,189
Amounts due to customers ^(**)	157,203	149,143	145,398	136,380	124,399	120,630
Debt securities issued and subordinated liabilities	9,072	7,243	4,029	1,523	2,903	3,857
Equity	23,398	22,808	23,268	22,912	23,424	24,046
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS						
Customers' financing ^(*) / total assets	74.5%	73.3%	71.3%	70.4%	69.5%	65.1%
Securities / total assets	17.8%	15.0%	20.8%	20.6%	13.2%	15.0%
Deposits ^(***) / total assets	81.8%	81.8%	80.6%	79.2%	75.4%	74.3%
Customers' financing ^(*) / deposits ^(***)	91.0%	89.5%	88.5%	88.9%	92.1%	87.7%
Equity / total assets	11.5%	11.9%	12.5%	13.2%	13.9%	14.3%
Total capital ratio	17.1%	17.4%	17.1%	17.6%	17.7%	17.3%
EMPLOYEES AND NETWORK						
Total number of employees	15,678	16,714	17,339	17,757	18,327	18,765
Number of outlets	805	818	843	952	1,022	1,121
Number of ATMs	1,648	1,708	1,745	1,761	1,759	1,825

(*) Including net investments in financial leases to customers, non-treasury debt securities and excluding reverse repo transactions.

(**) Excluding repo transactions and lease liabilities.

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

Note: 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 the Bank Pekao S.A. Group attributable to the Bank's shareholders in 2019 amounted to PLN 2,165.0 million and on comparable basis^(*) increased by 10.3% y/y, mainly due to the dynamic development of commercial activities, strict control of operating costs and lowest cost of risk compared to direct competitors. Nominal net profit was lower by 5.3% y/y, mainly due to a significant increase in contributions to the Bank Guarantee Fund and provision for legal risk related to foreign currency mortgage loans in CHF and provision for refunds of commission for early repayments of consumer loans.

Thanks to Group's commercial activities expressed in the growth of customers' financing by 8.1% y/y, as well as amounts due to customers by 5.4% (of which retail deposits by 8.8% y/y) total assets exceeded the level of PLN 200 billion..

The year 2019 was also a record year in terms of customer acquisitions. In 2019, the Bank opened a record number of 455,000 new accounts for individual clients (12% more than in the previous year and 65% more than in 2017) and nearly 129 thousand savings accounts. A significant increase in acquisitions was also recorded in the case of enterprises, especially in the micro, SME and medium-sized segments (double-digit growth dynamics y/y). Customer acquisition was supported by innovative solutions made available by the Bank in 2019, such as the customer's ability to open an account online on a computer or smartphone, with identity verification using face biometrics and an ID card..

The Group maintained the solid capital base (TCR amounted to 17.1% as at the end of December 2019) and the safe liquidity profile reflected by net loans to deposits ratio at 91.0%. This, together with high level of capital, enables for further solid and stable development of the Group's activities.

Main P&L items

In the 2019, the Group's operating income amounted to PLN 8,335.8 million and was higher by 7.5% y/y than operating income of 2018 mainly thanks to the acceleration of the dynamics of core revenues (an increase by 7.3% y/y). The dynamics of commercial income, which includes income from the Group's products offered in the Bank's network amounted to 12% y/y, compensating the decrease in income from the sale of securities from the investment portfolio and the drop in yields of the bonds portfolio.

- Net interest income in 2019, amounted to PLN 5,468.0 million and was higher by PLN 474.0 million, i.e. 9.5% compared to the 2018, mainly driven by higher volumes of loans and deposits as well as higher margin. Positive dynamics of commercial activities allowed to compensate the effect of a drop in interest rates on the bonds portfolio,
- The Group's net fee and commission income in the 2019, amounted to PLN 2,533.7 million and was higher by PLN 71.1 million, i.e. 2.9% compared to the 2018, mainly due to higher commission on loans growing by 10.9% year on year, higher income on cards and higher income on foreign exchange transactions with clients.
- In the 2019, other income amounted to PLN 334.1 million and was lower by PLN 33.6 million as compared to the 2018, mainly due to an increase in the result on commercial trading activities by PLN 59.5 million and other net operating income and expenses compensating the decrease in profits from the sale of securities.

The operating costs amounted to PLN 3,537.1 million in 2019 and on comparable basis were higher by 1.7% y/y, significantly below inflation and despite the costs of ongoing investments in operational transformation and digitization. Nominally, the costs were higher by PLN 93.4 million, i.e. 2.7% compared to the costs achieved in the 2018, mainly due to the restructuring provision for collective redundancies in the amount of PLN 85 million.

(*) excluding restructuring provision, costs of voluntary retirement program, costs of the return of commission for early repayment of consumer loans, provision for legal risk related to foreign currency mortgage loans in CHF, profits from the sale of property, plant and equipment and Bank Guarantee Fund (BGF) fee.

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The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 696.0 million in the 2019, with an increase of PLN 185.0 million, i.e. 36.2% as compared with 2018, mainly due to provision for legal risk related to foreign currency mortgage loans in CHF amounted to PLN 36.3 million and one-off recognition of additional write-offs in the amount of PLN 35.4 million gross, due to a change in the method of estimating impairment for the loan portfolio of stage 3 at Pekao Bank Hipoteczny S.A.

Bank Guarantee Fund fee in the 2019 amounted to PLN 454.7 million, an increase of PLN 188.5 million in comparison with the 2018, due to higher contribution to resolution fund of banks.

Tax on certain financial institutions in the 2019 amounted to PLN 591.4 million and was higher by PLN 29.4 million, i.e. 5.2% in comparison with the 2018, due to an increase in Group's assets by 6.4%.

Volumes

As at the end of December 2019, loans and advances at nominal value amounted to PLN 156,804.8 million, an increase of PLN 11,862.6 million, i.e. 8.2% in comparison to the end of December 2018. The volume of retail loans grew by 8.5% y/y thanks to dynamic growth of key products: consumer loans by 6.7% y/y and PLN mortgage loans by 9.8% y/y. The volume of corporate loans including non-treasury debt securities grew by 7.9% y/y thanks to strong dynamics in the medium-sized enterprise segment (17% y/y) and significant increasing leasing receivables.

As at the end of December 2019, amounts due to the Group's customers and debt securities issued amounted to PLN 166,275.7 million, an increase of PLN 9,889.0 million, i.e. 6.3% in comparison to the end of December 2018, with volume of retail deposits growing by 8.8% y/y and systematically increasing share in the financing structure.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 21,584.0 million as at the end of December 2019, an increase of PLN 2,180.6 million, i.e. 11.2% in comparison to the end of December 2018.

Strategy execution key financial ratios

The Bank Pekao S.A. Group consistently implements the strategy adopted for 2018-2020 "Strength of the Polish Bison" based on four pillars: Leader of smart growth, Expert in efficiency and quality, Integrated risk management expert and Employer for the best talents. The aspirations outlined in the strategy are reflected in ambitious financial goals, in particular return on average equity (ROE) and the cost / income ratio.

In the 2019, the return on average equity (ROE) amounted to 10.1%^(*) (nominally 9.5%), despite the negative impact of the increase of BGF fees in the amount of -0.8 p.p.

In the 2019, cost / income ratio amounted to 41.3% on comparable basis and was lower by 2.5 p.p. y/y, approaching the strategic target of 40% set for 2020.

The table below presents key financial ratios against the Strategy's goals:

	2019	2018	STRATEGIC GOAL ON 2020
Growth of customers' financing	8%	6%	7-8%
Growth of commercial revenues	12%	10%	10%
Dynamic of operating costs ^(**)	1.4%	2.3%	below inflation
Cost / income ^(**)	41.3%	43.8%	~ 40%
Cost of risk ^(**)	0.43%	0.36%	~ 0.50%
Return on average equity (ROE) ^(*)	10.1%	10.2%	11%-12%

(*) Excluding costs of voluntary retirement program in the amount of PLN 50 million in 2018, excluding restructuring provision in amount PLN 85 million provision for the return of commission for early repayment of consumer loans in amount PLN 29.1 million and provision for legal risk related to foreign currency mortgage loans in CHF in amount PLN 58.7 million PLN.

(**) On comparable basis.

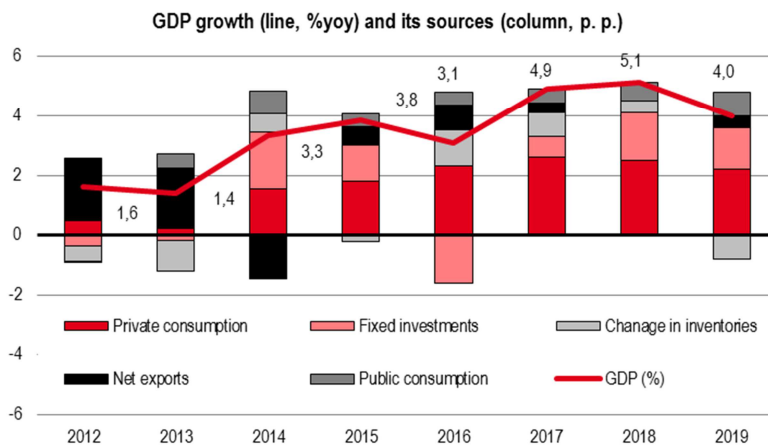
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3 External Activity Conditions

Economic growth

In 2019, economic growth moderated to 4.0% from 5.1% in 2018 as the economy entered a downturn phase of the business cycle. Domestic demand expanded by 3.8% and foreign trade contributed 0.4 percentage point to Gross Domestic Product (GDP) growth. Households consumption remained the main source of economic growth as it increased by 3.9% against 4.3% growth in 2018. Households disposable income expanded buoyantly amid rising labour income and higher social transfers (child benefits scheme expanded on the first child in the family). Fixed investment growth declined to 7.8% from 8.9% in 2018 on the back of slower growth of public investment. Change in inventories knocked-off ca. 0.8 p.p. from 2019 GDP growth.

In 2020 the GDP growth is expected to moderate further to about 3.4%. Domestic demand is to remain supported by still robust growth of private consumption, supported by continued expansion in labour income, higher social transfers and personal income tax cuts. At the same time investments growth is projected ease further hand in hand with downturn phase of the business cycle. Slower growth on the main exports markets will translate into slower expansion of Polish exports.



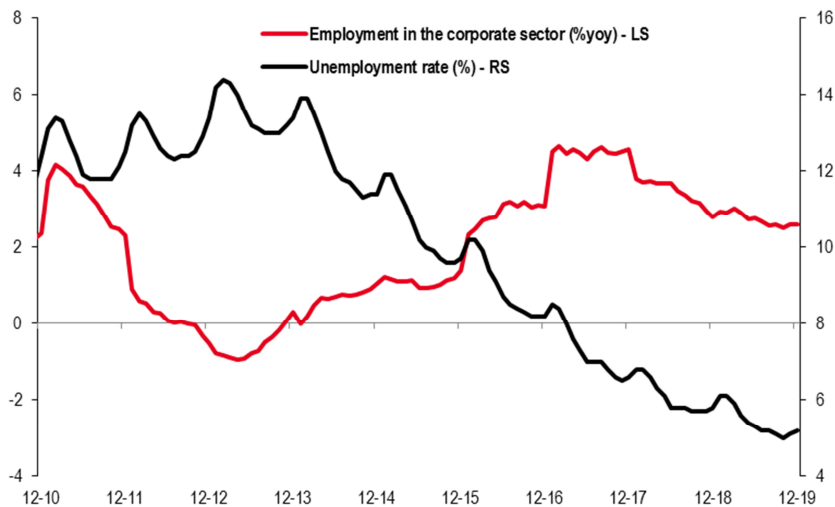
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Labour market

In December 2019 average employment in the Polish enterprise sector amounted to 6,396 thousand, i.e. by 163 thousand more than in December 2018. The increase in employment in 2019 was a continuation of the upward trend in the number of jobs that began in mid-2013, while it registered considerable slowdown. The centers of job creation in 2019 were still, as in the previous years, the manufacturing sector, trade and transportation, while job cuts still dominated in the mining industry (long-term trend). In construction the process of employment rebound from the previous two years faded.

In 2019 there was a continuation of the downward trend in unemployment rate, which in December 2019 was at 5.2% compared to 5.8% in December 2018. However, the pace of unemployment decline slowed down further and 2019 is expected to be the last year of considerable drop in unemployment due to reaching levels close to the natural unemployment rate.

Wage growth rate in the Polish enterprise sector in 2019 registered slight slowdown, which was supported by easing tensions in the domestic labour market due to the weakening labour demand amid economic slowdown. The average wage in the enterprise sector increased in 2019 by 6.5% compared with an increase of 7.1% in the previous year. As a result, wage bill in the enterprise sector increased in 2019 in nominal terms by 9.4% against 10.8% in 2018, which after adjusting for inflation resulted in an increase in real terms by 6.9% compared to 9.1% in 2018.



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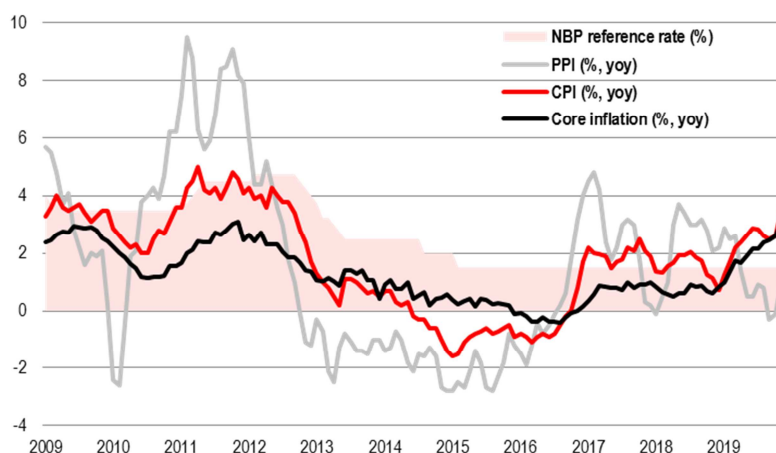
Inflation and monetary policy

According to the Central Statistical Office (GUS) data in 2019 consumer prices increased by 2.3% on average as compared with the CPI growth of 1.6% in 2018. At the end of 2019 headline inflation exceeded the National Bank of Poland (NBP) target of 2.5%.

In 2019 consumer inflation was predominantly driven by faster food price growth (mainly meat and vegetables) and higher core inflation. In 2019 core inflation excluding food and energy prices amounted to 2.0% due to fast growth of services prices vs. 0.7% reported in 2018. Producers' prices (PPI) went up by 1.2% in 2019 after rising by 2.2% in 2018.

The Monetary Policy Council (MPC) kept the main policy rates unchanged throughout 2019. The NBP reference rate stood at 1.50%, the lombard rate at 2.50% and the deposit rate at 0.50%.

In 2020 the CPI inflation is expected to increase - mainly due to the strong rise in electricity prices. However, after the increase of inflation at the turn of 2019/2020 to above 4% y/y, it is expected to fall gradually towards the NBP target later in the year. As regards monetary policy, it is widely expected that interest rates will remain at their record low in 2020, because the MPC estimates the current inflation jump as temporary.



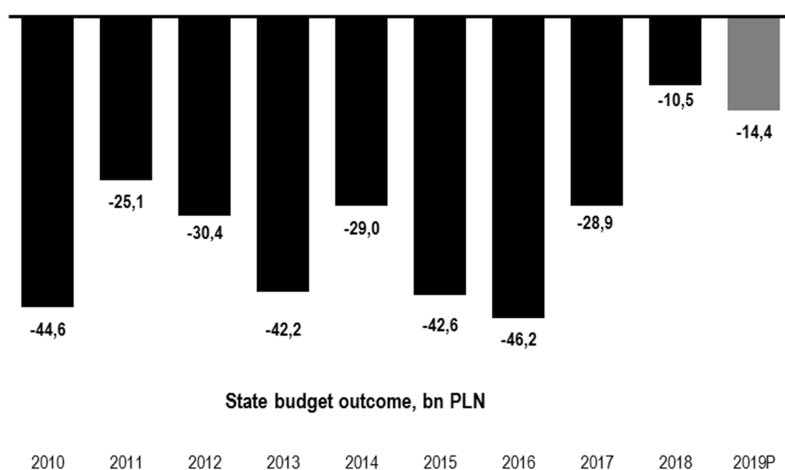
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Fiscal policy

The 2020 draft budget bill envisages 2019 state budget deficit at PLN 14.4 bn. In the 2019 budget act the annual deficit limit was set at the level of PLN 28.5 billion. Lower than planned estimated level of fiscal imbalance in 2019 results from higher than assumed revenues. The Ministry of Finance projects that in 2019 the state budget revenues amounted to PLN 401.8 bn (103.6% of the annual plan) and were PLN 21.8 bn (5.7%) higher than in 2018. Expenditures are still estimated at PLN 416.2 bn (100% of the target), what translates into PLN 25.7 bn (6.6%) increase vs. 2018. Higher-than-projected level of tax revenues stems from substantial increase in proceeds from direct taxes. Government estimates that personal income tax (PIT) collections were some PLN 5.5 bn higher than expected last year. At the same time VAT collections exceeded planned revenues by about PLN 2.4 bn. On the top of that non-tax revenues were also higher than planned by about PLN 6 bn due to higher than projected revenues from sales of CO₂ emission permits.

The 2020 draft budget assumes budget revenues and expenditures at PLN 435.3 bn. Therefore the state budget is planned to be balanced for the first time from the beginning of economic transformation. The draft budget is based on the assumption of 3.7% increase in the real GDP and the average CPI inflation of 2.5%. According to the Ministry of Finance estimates in 2020, the general government deficit according to the European Union methodology (ESA2010) will amount to 1.2% of the GDP. The deficit excluding one-off measures (charge on transfer of open pension funds into capital accounts and additional proceeds from CO₂ emission permits sales) is projected at 2.2% of GDP.

The Ministry of Finance estimates that as at the end of 2019, the State Public Debt to the GDP ratio moderated to 44.4% from 46.5% at the end of 2018. *The general government debt management strategy for 2020-2023* envisage the State Public Debt at the end of 2020 at 43.8% of GDP.



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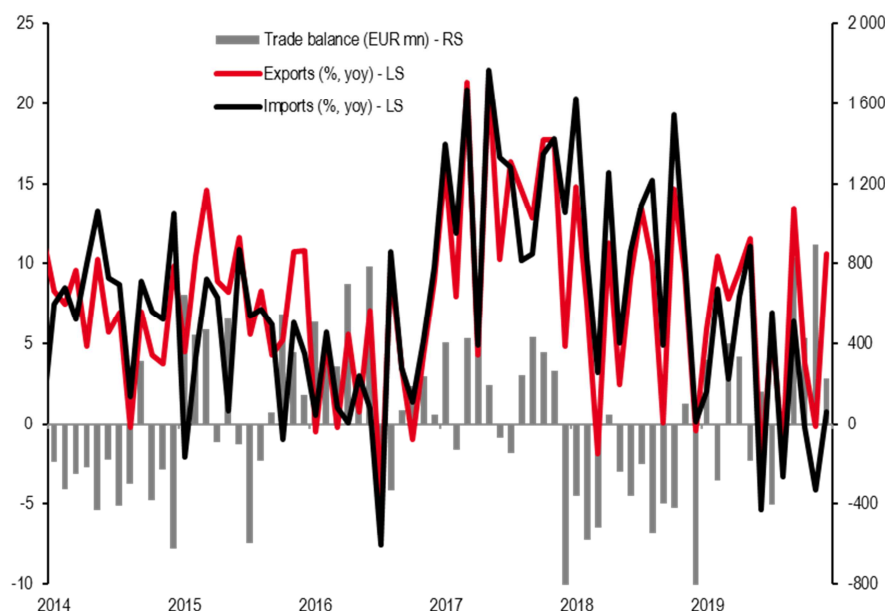
Foreign Sector

The NBP data indicate that in 2019 the current account registered a surplus of EUR 5.9 bn vs. a deficit of EUR 5.0 bn in 2018, which translates into a surplus of 1.1% of GDP against a deficit of 1.0% of GDP in 2018. This is the highest result in the history of the NBP balance of payments data (since 2004 according to new BPM6 methodology).

The current account surplus resulted mainly from a surplus in the trading account (EUR 2.5 bn in 2019 against a deficit of EUR 4.8 bn in 2018) with a stronger slowdown in imports growth (growth rate at 2.6% vs. 10.6% in 2018) than exports growth (growth rate at 6.0% vs. 7.4% in 2018). Poland's exports showed high resistance to economic slowdown in the euro area. Its impact was mitigated by high flexibility of Polish exporters in searching for new markets, which was evidenced by noticeable increase in Poland's exports to countries outside the EU. In 2020, expected next year of low global economic growth will leave an increasing negative mark on Polish exports.

The current account was still positively affected by a surplus in the services account that increased another consecutive year (EUR 24.3 bn in 2019 compared to EUR 21.7 bn in 2018). In turn, the primary income account continued to be in high deficit (EUR 19.1 bn in 2019 vs. a deficit of EUR 20.5 bn in 2018).

As for the financing side, there was a decrease in the inflow of foreign direct investment (FDI) – in 2019 FDI inflow amounted to 9.0 EUR bn (predominantly in equity funds) against 14.0 EUR bn in 2018. In the case of portfolio investment in 2019 there was a high outflow of funds at the level of EUR 11.5 bn (EUR 11.3 bn – an outflow of funds from the domestic debt market, EUR 0.2 bn - an outflow of funds from the equity market) against an outflow of EUR 3.3 bn in 2018.

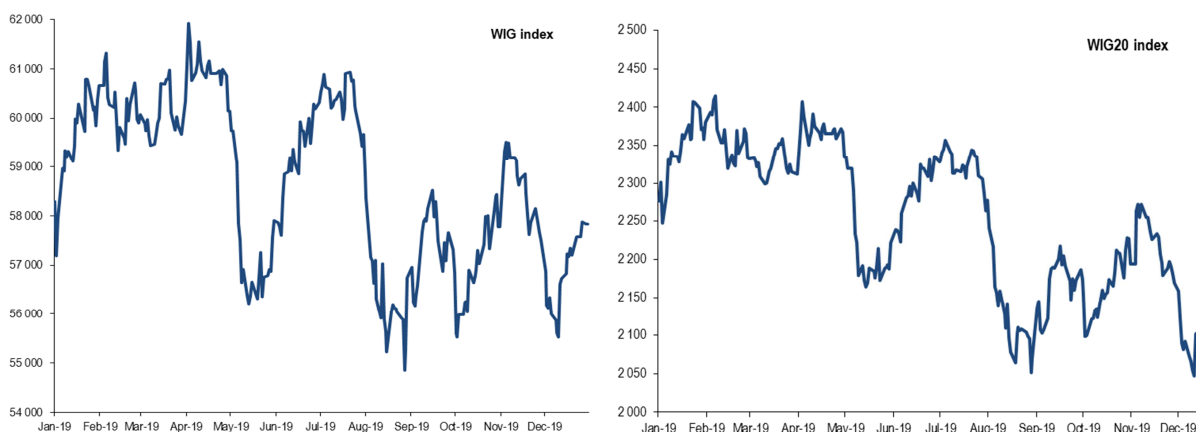


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Capital market

Major stock indices recorded a solid return in 2019 despite persistent concerns about a slowdown in the global economy, including a recessionary scenario in the United States. An unexpected change in the central banks' stance, mainly Federal Reserve, was a key market trigger improving market sentiment. The Fed eased its monetary policy bias after the ninth in the cycle, interest rate hike in December 2018. Then policymakers relaxed monetary conditions using different tools, including a balance sheet's normalization and three federal funds rate cuts, by 75 bp in total, done in environment of a reversal of the US Treasuries yield curve (a signal of recession) and tensions on trade wars with China. A "dovish" European Central Bank monetary policy was another supportive factors for markets. The ECB reduced deposit rate and returned to the asset purchase program. Over the year German DAX gained 25.5%, British FTSE 28.3%, French CAC 26.4%, and US S&P 500 indexes 28.9% and Dow Jones 22.3%.

Last year, like 2018, was not a successful period for shareholders of domestic companies, although the performance was more diversified within segments that time. The rate of return of the WIG broad market index was 0.3% and -5.6% in the case of the WIG20. The sWIG80, grouping companies with smaller capitalization, outperformed other indices and increased by 13.9% (the best return since 2013). Despite rally across developed markets and still solid prospects for economic growth in Poland, a downward tendency was dominating on the Warsaw Stock Exchange (GPW) in Warsaw. Lack of appetite for equities was an echo of a solid declines in 2018 as well as the accumulation of unfavourable factors on domestic financial market. An uncertainty associated with the pension system, including a key issue of the future of funds accumulated in the Open Pension Funds, also increased concerns about additional supply of equities on the secondary market. Capital outflows from the equity market prevailed in 2019. In the period of January - December 2019 outflows from equity funds amounted to PLN 2.4 bn, from absolute return funds to PLN 1.6 bn and from mixed funds to PLN 1.4 bn (source: IZFiA). The capitalization of domestic listed companies fell in 2019 to PLN 550.2 bn (the lowest level since 2015) from PLN 615.52 bn in 2018. In turn, in the case of foreign companies, capitalization increased slightly to PLN 553.6 bn from PLN 549.56 bn year earlier. The number of debuts was only seven and the number of withdrawals as much as twenty-three, completing the pessimistic picture of the Warsaw Stock Exchange in 2019. The total turnover on the stock market amounted to PLN 195.27 bn and was clearly lower than in the previous year (PLN 211.85 bn) and at the same time the lowest since 2009.



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Banking sector

According to the Financial Supervision Authority (KNF) data, in 2019 the sector generated an aggregated net profit of PLN 14.7 bn, which translated into 12.5% growth vs. 2018. Net interest income remains the main growth engine (+9.8%), mainly thanks to continued high credit activity of the households segment, but solid growth was recorded in fees and provisions income (+8.3%) and other operating income (+12.1%) as well. At the same time, however, cost pressure translated into rise of operating costs by 4.1%; this was due to both an increase in staff costs (+4.7%) and general administrative expenses (+3.6%). Moreover, the cost of risk surged by 11.7%.

According to KNF data, at the end of 2019 the banking sector assets increased by 5.6%. The growth rate was slightly lower than in 2018 (6.6%). Deposits from the non-financial sector grew by 9.6% vs. 8.2% in 2018, while receivables grew by 4.5% (compared to 6.0% in 2018).

According to National Bank of Poland (NBP) data, at the end of 2019 following developments were noted in terms of main deposit categories¹:

- the volume of households' deposits increased by 9.5% y/y (vs. +9.8% y/y after December 2018). The growth rate in this area is consistently high, mainly as a result of good financial situation of households (favourable labour market and social transfers) and low attractiveness of the capital market as an investment option
- the volume of enterprises' deposits rose by 10.0% y/y, which marked significant increase from +4.3% y/y pace recorded after 2018. This is due to the good financial situation of companies in a favourable economic environment (high turnover as a result of strong internal demand)
- other deposits grew by 0.8% y/y, in comparison to 8.5% y/y growth after 2018

At the end of 2019 household deposits accounted for 66.8% (66.2% at the end of 2018), corporate deposits for 23.4% (23.0% at the end of 2018), and other deposits for 9.8% (10.8% at the end of 2018) of all deposits. Around 69% of them were covered by current deposits.

In terms of main receivables categories², at the end of 2019 the following developments were noted:

- in yearly terms, volume of receivables from households increased by 6.0%. The pace was slower compared with the one observed a year earlier (+6.9% y/y). Thanks to consumer optimism, consumer loans and PLN mortgages are still presenting high growth pace (in case of the latter, the increase in housing prices and the resulting higher nominal value of loans also have an impact). However, the general pace of the category is curbed by systematically shrinking portfolio of FX mortgage loans.
- receivables from enterprises rose by 1.2% y/y, while after 2018 a growth of 6.4% y/y was noted. Despite a relatively favourable economic environment, the pace is low and in a downward trend – the growth of investment loans is still weak, while after a period of dynamic growth it has also significantly slowed down in the case of current loans.
- other receivables increased by 9.4% y/y (in comparison to 11.2% y/y at the end of 2018)

¹ Excluding central government institutions.

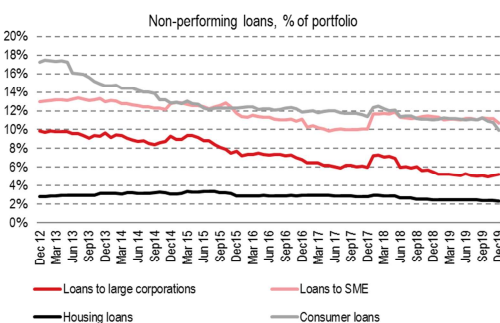
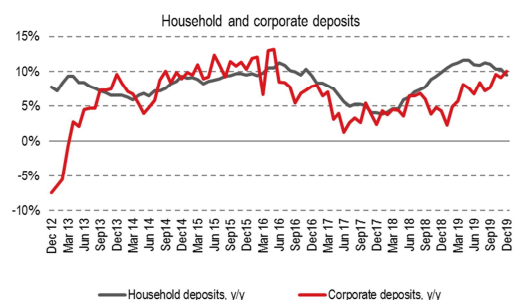
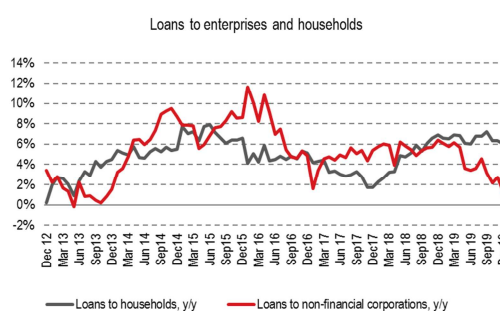
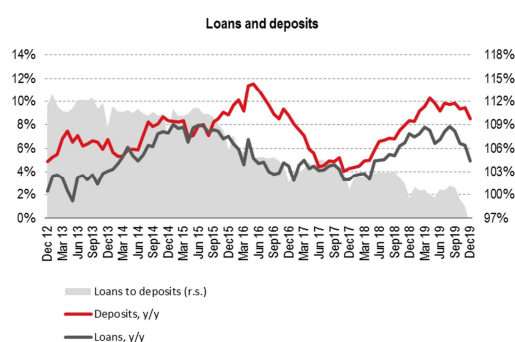
² Excluding central government institutions. Receivables include debt securities.

Report on the activities of Bank Pekao S.A. Group for the year 2019

As of the end of 2019 loans to households accounted for 58.7% (vs. 58.1% the year before), corporate loans for 29.5% (30.6% at the end of 2018) and other loans for 11.8% (11.3% at the end of 2018) of all loans.

In terms of loan portfolio quality, 2019 in general marked an improvement for the sector. In particular:

- NPL ratio for corporate loans at the end of 2019 amounted to 8.1%, down from 8.7% year before. Bigger decrease characterized small and medium enterprises (down from 11.4% to 10.7%) than large companies (from 5.5% to 5.2%),
- the share of non-performing loans in the portfolio of loans to households reached 5.5% at the end of 2019, lower than after 2018 (5.9%). The ratio decreased both for housing loans (from 2.5% to 2.3%) and consumer loans (from 11.0% to 9.9%).



Report on the activities of Bank Pekao S.A. Group for the year 2019

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 year ended on 31 December 2019.

The most significant changes concerning the Group occurred in 2019 are presented below.

Opening of liquidation of the Pekao Property S.A. company

On March 1, 2019, the Extraordinary General Meeting of Shareholders of Pekao Property S.A. took the resolution to dissolve the company and to open its liquidation from that date. Currently, the company will operate under the name Pekao Property S.A. in liquidation.

Declaration of bankruptcy of FPB-Media Sp. z o.o

On 11 April, 2019, the District Court for the Capital City of Warsaw, 10th Economic Department for bankruptcy and restructuring, declared the bankruptcy of FPB-Media Sp. z o.o. The decision on the declaration of bankruptcy became valid on 8 May, 2019. FPB Media is a 100% subsidiary of Pekao Property S.A. in liquidation. Currently, the company operates under the name FPB Media Sp. z o.o. in bankruptcy.

The split of Centralny Dom Maklerski Pekao S.A.

On 25 June, 2019, the Ordinary General Meeting of Centralny Dom Maklerski Pekao S.A. (CDM Pekao S.A.) and the Extraordinary General Meeting of CBB Sp. z o.o. and on 26 June, 2019, the Ordinary General Meeting of the Bank adopted resolutions accepting the division of CDM Pekao S.A.

The division plan was agreed by the management boards of the companies participating in the division on 27 February, 2019 and assumed that the division will be effected in accordance with art. 529 § 1 Section 1 of the Commercial Companies Code, i.e.:

- by transferring to the Bank part of the assets (assets and liabilities) and the rights and obligations of CDM Pekao S.A. in the form of an organized part of the company CDM Pekao S.A. related to the provision of brokerage services,
- by transferring to CBB Sp. z o.o. part of assets (assets and liabilities) and rights and obligations of CDM Pekao S.A. in the form of an organized part of the company CDM Pekao S.A. related to call center services.

The formal completion of the division process took place in the third quarter of 2019 by increasing the share capital in CBB Sp. z o.o. and cancellation of CDM Pekao S.A. from the national court register.

Planned sale of the organised part of the enterprise of Pekao Investment Banking S.A.

It is planned to sell the organised part of the enterprise of Pekao Investment Banking S.A. connected with the providing of brokerage services to the Bank's organizational unit - Dom Maklerski Pekao. Other operations of Pekao Investment Banking S.A. connected with offering of investment banking services will remain in the Company.

Report on the activities of Bank Pekao S.A. Group for the year 2019

4.2 Changes in the Statutory Bodies of the Bank

Supervisory Board

As of 31 December, 2019, the composition of the Supervisory Board of Bank Pekao S.A. has not changed in comparison with 31 December, 2018 and it was as follows:

31 DECEMBER, 2019	31 DECEMBER, 2018
Paweł Surówka Chairman of the Supervisory Board	Paweł Surówka Chairman of the Supervisory Board
Joanna Dynysiuk (maiden name Błaszczyk) Deputy Chairman of the Supervisory Board	Joanna Błaszczyk 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

Report on the activities of Bank Pekao S.A. Group for the year 2019

Management Board of the Bank

As at 31 December 2019, the Management Board of Bank Pekao S.A. is composed of seven members. Members of the Management Board are appointed by the Supervisory Board for a joint three-year term of office. 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, reliability and confidentiality.



MAREK LUSZTYN
President of the
Management Board

Marek Lusztyn for 20 years professionally associated with the Bank Pekao S.A. Group, from November 2019 as the President of the Bank's Management Board, previously as the Vice President of the Bank's Management Board supervising the Risk Management Division.

Till June 2017, he worked in Unicredit SpA (Milan) as a Senior Vice President, with a global responsibility for market and traded credit risk management and a member of Unicredit Corporate and Investment Banking Markets; Executive Committee, in charge of risk management.

From 2010 to 2013, he worked in Unicredit Bank AG (formerly Hypovereinsbank) in Munich, supervising market, counterparty credit and operational risks management. In years 2008 to 2010, he worked in the Unicredit Group in London, where he was responsible for the methodology and market risk infrastructure for the entire Unicredit Group. Previously, from 2000 to 2008, he acted as Director of Market Risk Unit and later Managing Director of Financial Risk Department in Bank Pekao S.A.

For 8 years he has been a Member and Secretary of the Supervisory Board of Pekao Central Brokerage House - CDM Pekao S.A.

He started his professional career in 1996 as a trader in Treasury Department of Bank Handlowy SA in Warsaw.

He holds Ph.D. in Economics from SGH Warsaw School of Economics, and he is also an alumnus of University of Illinois (Executive MBA) and INSEAD. In 2014 he was named the Future Leader in Global Finance by the Institute of International Finance. Since September 2019, he has been appointed by the Senate of the Warsaw School of Economics as a member of the first University Council, as a representative of the SGH WSE Partner Club.

Marek Lusztyn meets suitability requirements determined in art. 22aa of the Banking Law Act.



MARCIN GADOMSKI
Vice President of the
Management Board
supervising the Risk
Management Division

Marcin Gadomski graduated from SGH Warsaw School of Economics, majoring in Finance and Banking. He was also a scholarship holder studying at the University of Kiel (Germany) and completed doctoral studies at SGH Warsaw School of Economics. He passed a number of professional certification exams, including: Financial Risk Manager (FRM), Association of Chartered Certified Accountants (ACCA), Project Management Professional (PMP). He participated in the Leadership Development Program run by The John Maxwell Team as well as the Deloitte Leadership Program.

Member of the Supervisory Boards of Pekao Bank Hipoteczny, Pekao Investment Banking and Pekao Leasing.

Marcin Gadomski started his professional career at the consulting company Ernst & Young (now EY) in 2002, where he conducted projects in the area of risk, finance and internal audit in financial institutions and non-financial enterprises. During this period, for several years he supported the Pekao Group in implementing, among others, requirements of IAS 39, Basel II and solutions regarding capital management as well as assets and liabilities management.

Next, he continued his career with Deloitte Advisory, first in 2008-2012 as a Senior Manager, and after a break, in 2016-2018 as a Director. As part of Deloitte Advisory, Marcin Gadomski provided solutions for the largest financial institutions in Poland and abroad (banks, insurers, leasing companies, brokerage houses), among others in the field

Report on the activities of Bank Pekao S.A. Group for the year 2019

of credit policy, risk models, improving the credit process for retail and corporate clients, market and liquidity risk management, regulatory requirements (e.g. IFRS 9, PFSA/KNF recommendations, regulations regarding capital requirements, liquidity, information or reporting obligations), due diligence for takeover purposes.

In the years 2012 – 2016, Marcin Gadomski was the Director of Retail Credit Risk Unit in Risk Department at Bank Millennium. He was responsible for credit risk strategy, risk appetite, credit policy, credit assessment models, credit decision engines, risk reporting, credit product profitability assessment and credit process support for such business lines as unsecured consumer loans, mortgage loans and small business.

From August 2018 to November 2019, Marcin Gadomski was a Member of the Management Board of Pekao Bank Hipoteczny S.A., where on November 20, 2018 he obtained the consent of the Polish Financial Supervision Authority to entrust the function of a Member of the Management Board supervising the management of material risks in the Bank's operations.

Marcin Gadomski meets suitability requirements determined in art. 22aa of the Banking Law Act.



TOMASZ KUBIAK
Vice President of the
Management Board
supervising the activity
of Financial Division

Tomasz Kubiak, since 2001 has been professionally associated with Bank Pekao S.A. In addition, since 2018 he has been the Chairman of the Supervisory Board of Pekao Bank Hipoteczny S.A., where in 2011 - 2015 he was a Member of the Supervisory Board, whereas from 2017 he has been a Member of the Supervisory Board of Pekao Investment Banking and the Supervisory Board of Pekao Investment Management.

He started his career in Finance Division in controlling area. In last years, he held the position of Managing Director of the Department of Capital Allocation and Asset and Liability Management, responsible for managing the balance sheet, liquidity and capital of the Bank.

He graduated of the Warsaw University of Technology, Faculty of Technical Physics and Applied Mathematics. He holds CFA and PRM (Professional Risk Manager) certificates, he was honored by Award of Merit by the international PRMIA organization, associating risk managers.

Tomasz Kubiak meets suitability requirements determined in art. 22aa of the Banking Law Act.



MAREK TOMCZUK
Vice President of
Management Board
supervising the Retail
Banking Division

Marek Tomczuk started his 20-year professional career in the banking sector at Bank Handlowy in Warsaw (Citigroup). Currently, as the Vice President of the Management Board of Bank Pekao S.A. he is supervising Retail Banking Division.

Over the years, he held managerial positions in Bank DnB NORD (DNB Group), Bank Zachodni WBK S.A. (Santander Group) and Raiffeisen Polbank (Raiffeisen Bank International AG).

He is the Chairman of the Supervisory Board of Pekao Direct, Credit Information Bureau (Biuo Informacji Kredytowej S.A.) and he is a member of the Supervisory Board of Pekao Bank Hipoteczny.

He graduated from the Faculty of Economics and International Relations at the Cracow University of Economics.

Marek Tomczuk meets suitability requirements determined in art. 22aa of the Banking Law Act.

Report on the activities of Bank Pekao S.A. Group for the year 2019



TOMASZ STYCZYŃSKI

Vice President of the Management Board supervising the Corporate Banking and MIB Division

Tomasz Styczyński, Vice President of the Management Board of Bank Pekao S.A., since December 2018 supervising the Corporate Banking and MIB Division.

From July 2017 to December 2018, he managed SME Banking Division at Bank Pekao S.A. He started his professional career in 2001 in Bank Handlowy w Warszawie S.A. in Corporate Banking Division. He was the Director of Corporate Banking responsible for managing the sales structures. He was also the Director of Relations with Customers in Large Corporate Department and Director of Corporate Banking Development and Acquisition Department. He also worked in the European structures of the Citigroup Bank as a Director in the Management Development Program for CEEMEA. He is the Chairman of the Supervisory Board of Pekao Leasing, the Supervisory Board of Pekao Faktoring and the Supervisory Board of Pekao Investment Banking. In 2016-2017, he was a member of the Supervisory Board of Globe Trade Center.

He graduated from the Faculty of Finance and Banking and the Faculty of Management and Marketing of the Cracow University of Economics. He participated in a number of domestic and foreign trainings in management, banking and finance.

Tomasz Styczyński meets suitability requirements determined in art. 22aa of the Banking Law Act.



MAGDALENA ZMITROWICZ

Vice President of the Management Board supervising the activity of SME Banking Division

Magdalena Zmitrowicz, Vice President of the Management Board supervising the SME Banking Division. In 2018 she started working in Bank Pekao S.A. as Managing Director in Corporate Banking Department and from December 1st, 2018 she was appointed as the Vice President of the Management Board of the Bank. She started her professional career in 1999 in Bank Handlowy w Warszawie S.A. in Retail Banking Sector. She pursued her career in Corporate Banking Division, holding various leadership roles in regional structures of the Bank, including a position of Head of Sales for Northern Region and Head of Public Sector for Regions in the Public Sector Department. Having worked for almost twenty years in the banking industry, she has gained extensive experience both in general banking operations, including in particular the areas of sales, risk, operations and foreign-currency market, as well as in various customers segments, such as retail clients, small, medium and large companies, institutional clients, public sector and international corporations. In 2016-2017, she managed the Corporate Banking Department in the structures of the CEEMEA Commercial Banking Group - Citigroup. She managed the activities of the Strategy Champions Group at Bank Handlowy w Warszawie S.A.

Member of the Supervisory Boards of Pekao Leasing and Pekao Faktoring.

She graduated from the Faculty of Social Sciences at the University of Gdańsk and post-graduate studies at the Faculty of Management at the University of Gdańsk. She completed many local and foreign trainings, including those in credit risk management, financial analysis and sales. In 2013, she graduated from Commercial Credit College in the USA New York as part of Citigroup.

Magdalena Zmitrowicz meets suitability requirements determined in art. 22aa of the Banking Law Act.

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**GRZEGORZ
OLSZEWSKI**
Member of the
Management Board
supervising the
Technology and
Operations Division

Grzegorz Olszewski was appointed a member of the Management Board on April 1st, 2019. He joined Bank Pekao S.A. from the PZU Group, where from October 2017 he was the director of Investment Products Sales Office and where he supervised the process of launching the first sales platform for passive investment funds in Poland. From April 2019, he supervised Investment and Insurance Products Management Division. He is the Chairman of the Supervisory Board of Pekao Financial Services and Pekao Investment Management.

He started his career in the financial sector in 2008 at Bank Millennium. From 2010, he worked in sales, and after that supported the implementation of new solutions in the area of investment funds, treasury products and the Forex market in Alior Bank. In Alior Brokerage House he acted as the director of Sales of Investment Products. From there, he moved to AgioFunds TFI SA, where he took the position of Director of Sales and Marketing Department.

Grzegorz Olszewski is a graduate of High School of Management (currently the Vistula Academy of Finance and Business in Warsaw) in the Faculty of Finance Management and holds Bachelor of Arts (B.A.) degree in Finance at the Oxford Brookes University.

Grzegorz Olszewski fulfills suitability requirements determined in art. 22aa of Banking Law Act.

Report on the activities of Bank Pekao S.A. Group for the year 2019

Changes in the Bank's Management Board

On 6 March, 2019, the Bank's Supervisory Board, taking into consideration suitability assessment, appointed Mr Piotr Wetmański and Mr Grzegorz Olszewski to the Banks' Management Board for the current term of office and entrusted them with the position of Management Board Members of the Bank. The appointment is effective as of 7 March 2019 in case of Mr Piotr Wetmański and 1 April 2019 in case of Grzegorz Olszewski. Additionally, Mr Grzegorz Olszewski was appointed Member of the 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.

According to the submitted statement Mr Piotr Wetmański did not conduct any business competitive to that of the Bank and was 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, was not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

According to the submitted statement Mr Grzegorz Olszewski was 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 and declared termination of professional activity with respect to entities of the PZU Group before effective appointment as a Member of the Management Board. Mr Grzegorz Olszewski was not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

On 24 May, 2019 the Bank's Supervisory Board, taking into consideration the suitability assessment, appointed Ms Magdalena Zmitrowicz entrusting her with the position of the Vice President of the Bank's Management Board and Mr Piotr Wetmański entrusting him with the position of a Member of the Bank's Management Board for the new three-year joint term of office, effective as of the day following the Ordinary General Meeting of the Bank approving the financial statements of Bank for the financial year of 2018.

According to the submitted statement Ms Magdalena Zmitrowicz did not conduct any business competitive to that of the Bank and she was 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. Ms Magdalena Zmitrowicz was not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

On 29 November, 2019, Mr. Michał Krupiński, resigned from the position of the President of the Bank's Management Board.

On 29 November, 2019, Mr. Michał Lehmann and Mr. Piotr Wetmański resigned from the position of the Vice-President of the Bank's Management Board and Member of the Bank's Management Board, respectively.

On 29 November, 2019, the Bank's Supervisory Board, taking into account suitability assessment, appointed Mr. Marek Lusztyn to the position of the President of the Management Board, with subject to obtaining consent of the Polish Financial Supervision Authority and upon obtaining such consent. On 4 February, 2020, the Polish Financial Supervision Authority unanimously expressed consent to the appointment of Mr. Marek Lusztyn as the President of the Management Board of the Bank Pekao S.A.

On 29 November, 2019, the Bank's Supervisory Board, taking into account suitability assessment, appointed Mr. Marcin Gadowski to the Bank's Management Board. Upon obtaining the consent of the Polish Financial Supervision Authority entrusting him with the position of the Vice-President of the Bank's Management Board.

According to the submitted statement Mr. Marcin Gadowski did not conduct any business competitive to that of the Bank and he was 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 or competitive legal person. Mr. Marcin Gadowski was not registered in the register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

On 4 February 2020, the Supervisory Board of the Bank, after assessing suitability, appointed Mr. Jarosław Fuchs to the Management Board of the Bank for the current joint term of office as the Vice President of the Management Board of the Bank, effective from 15 February 2020. Mr. Jarosław Fuchs is supervising the operations of the Private Banking and Investment Products Division.

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According to the submitted statement Mr. Jarosław Fuchs did not conduct any business competitive to that of the Bank and was not involved in a competitive business as a shareholder or partner in a civil law company, a partnership or a corporation or a member of a corporate body of a legal person. Mr. Jarosław Fuchs was not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.



JAROSŁAW FUCHS
Vice President of the Management Board supervising the Private Banking and Investment Products Division

Jarosław Fuchs received his Master degree with honors in Marketing and Management, in the Faculty of Management of AGH (University of Science and Technology) in Cracow, as well as he graduated from Banking and Finance studies in Cracow University of Economics.

He started his professional career in 1994 in Big Bank S.A. and AGH (University of Science and Technology) in Cracow, where he acted as a teaching assistant in Management Faculty. From 1996 to 1997, he worked for Raiffeisen Centrobank S.A. Branch in Cracow, where he was responsible for building relationships with corporate customers. From September 1997, Jarosław Fuchs worked for Societe Generale Warsaw Branch as a Senior Marketing Specialist in the Trade Office in Cracow. In October 2000, he moved to Fortis Bank Polska S.A., as a Senior Customer Advisor in Medium and Large Enterprises Service Center.

From March 2003, Jarosław Fuchs worked for Bank Millennium S.A. in the position of the Senior Expert and, subsequently – Director of Malopolskie Customer Cooperation Center (Medium and Large Enterprises). From August 2004, he was associated with Bank BPH S.A. in Cracow and next, from December 2007 with Bank Pekao S.A. in managerial positions responsible for corporate customer relations. Starting from March 2011, Jarosław Fuchs was responsible for managing relations with private banking clients and managing a team of private banking advisors as the Director of Regional Sales Office in Krakow. At the same time, from 2013, Jarosław Fuchs was working for Pekao Central Brokerage House (CDM) as a Director in the Region in Strategic Customers Office, where he was responsible for investment product distribution for strategic customers.

Jarosław Fuchs meets suitability requirements determined in art. 22aa of the Banking Law Act.

The composition of the Management Board of Bank Pekao S.A. has as follows:

AS AT THE DATE OF SUBMITTING THE REPORT FOR 2019	31 DECEMBER, 2019	31 DECEMBER, 2018
Marek Lusztyn President of the Management Board	Marek Lusztyn Vice President of the Management Board managing the work of the Bank's Management Board	Michał Krupiński President of the Management Board
Jarosław Fuchs Vice President of the Management Board	Marcin Gadomski Vice President of the Management Board	Tomasz Kubiak Vice President of the Management Board
Marcin Gadomski Vice President of the Management Board	Tomasz Kubiak Vice President of the Management Board	Michał Lehmann Vice President of the Management Board
Tomasz Kubiak Vice President of the Management Board	Tomasz Styczyński Vice President of the Management Board	Marek Lusztyn Vice President of the Management Board
Tomasz Styczyński Vice President of the Management Board	Marek Tomczuk Vice President of the Management Board	Tomasz Styczyński Vice President of the Management Board
Marek Tomczuk Vice President of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board	Marek Tomczuk Vice President of the Management Board
Magdalena Zmitrowicz Vice President of the Management Board	Grzegorz Olszewski Member of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board
Grzegorz Olszewski Member of the Management Board		

Report on the activities of Bank Pekao S.A. Group for the year 2019

As of December 31, 2019, the split of competences between the Members of the Management Board of the Bank was as follows:

Mr. Marek Lusztyń, Vice President of the Management Board managing the work of the Bank's Management Board was coordinating the activities of Members of the Management Board of the Bank, supervising also, in particular, the following areas of the Bank's activity: legal risk, strategy and development of the Group, investor relations, security, corporate governance, communication, including marketing and research, and HR.

Mr. Marek Lusztyń convened and chaired the Management Board meetings, presented its stance to other governing bodies of the Bank and in relations with third parties, in particular with the State authorities, and issued ordinances according to the Bank's internal regulations.

Mr. Tomasz Kubiak, Vice-President of the Management Board of the Bank, was supervising the activity of the Financial Division, Operation Center and Data Management and Big Data Office. He was appointed as the Member of the Management Board to whom breaches of the whistleblowing law are reported and who is responsible for the day-to-day functioning of the whistleblowing procedure.

Mr. Marcin Gądomski, Vice-President of the Management Board of the Bank, was supervising the activity of the Risk Management Division. He supervised the realization of the Bank's Policy on counteracting money laundering and financing of terrorism.

Mr. Tomasz Styczyński, Vice-President of the Management Board of the Bank, was supervising the activity of the Corporate Banking and MIB Division.

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

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

Mr. Grzegorz Olszewski, Member of the Management Board, was supervising the activity of the Investment and Insurance Products Management Division, Operations and Services Division excluding the Operation Center. He coordinated the activities aimed at adequate management of risk related to IT environment security.

The supervision over the compliance unit was supervised collectively by Bank's Management Board.

Until the date of obtaining the consent of the Polish Financial Supervision Authority for Mr. Marcin Gądomski to act as a Vice-President of the Management Board of the Bank the area of bancassurance risk management is supervised collectively by Bank's Management Board.

Report on the activities of Bank Pekao S.A. Group for the year 2019

4.3 Organizational changes

In 2019, the following organizational changes in Bank's Head Office as well as in regional and branches structure of the Bank took place.

Two new divisions were created:

- Investment and Insurance Products Management Division within which investment and insurance activities were concentrated as well as brokerage activities integrated within Pekao Brokerage House,
- Strategy Division, within which the strategic management and transformation activities (implemented within Transformation Accelerator unit) as well as data management and Big Data activities have been integrated.

In Corporate Banking and MIB Division the Public Sector Department was created, by separating this activity from Strategic Clients Department. New structure of Corporate Banking Macroregions was implemented (including reduction in the number of Macroregions and implementation of their new territorial division) as well as new structure of Corporate Centers.

In Financial Division, Accounting Department and Management and Financial Information Systems Department were separated from the Data Management Center and, as a consequence, the Center was liquidated within this Division's structure. Tasks related to data management and data quality improvement have been located in new Data Management and Big Data Office in Strategy Division. Accounting Department was transformed into two separate units – Bookkeeping and Settlements Department and Accounting and Reporting Department.

In Risk Management Division the Real Estate Analysis and Valuations Office was created by transferring this activity from Investment Banking and Property Finance Department in Corporate Banking and MIB Division.

New organizational structure of Human Resources Division has been implemented. Among others, the activities carried out so far by Remuneration and Benefits Department and HR Project Office were included in Employee Experience Management Department, which operates under new name - HR Strategy Department.

Back office functions were separated from retail network and moved to Operations Center in Bank's Head Office.

New structure of retail banking sales network was implemented at Region and Branch level (including implementation of Macroregions and Areas, simplification of regional management structure and implementation of new branch structure).

The activities of Central Brokerage House, so far operated as a Bank's subsidiary, have been incorporated into the Bank - to Private Banking and Brokerage Services Distribution Department and to the Pekao Brokerage House, which changed its name to Pekao Brokerage Office.

Report on the activities of Bank Pekao S.A. Group for the year 2019

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

Pekao S.A. The Best Corporate Bank in Poland

Bank Pekao S.A. for the third time in a row it became the Best Corporate Bank in Poland, according to the Global Banking and Finance Review. The Global Banking and Finance Review awards are given to companies that stand out in the international financial industry due to their innovation, results or strategy. The award means recognition of product and service competences, relationality and a professional approach in the search for individual solutions for clients.

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



For the fourth consecutive time, Bank Pekao S.A. was awarded with the title of the "Best Trade Finance Provider in Poland 2018" according to the survey organized by prestigious Euromoney magazine. The Bank received the titles of Market Leader in Poland and Best Services in Poland. Award is granted base on a survey in which the customers selected the best trade finance solutions in three banks where they use trade finance products. Bank Pekao S.A. again received the most votes among banks operating in Poland.

WSE: Bank Pekao S.A. as the largest organizer of bonds issues on Catalyst market

The Bank was awarded by the Management Board of the Warsaw Stock Exchange for the highest value non-treasury debt securities arranged and introduced in 2018 on the Catalyst market. In 2018 the value of issues issued through Bank Pekao is over PLN 17 billion. Bank Pekao S.A. it has been the leader of the DCM market in Poland for over a dozen years.

Bank Pekao S.A. The Best Investment Bank in Poland

Bank Pekao S.A. for the fourth year in a row received the title of "The Best Investment Bank in Poland 2020" by the international magazine Global Finance. An international group of experts has analyzed transactions in which the Bank participated in 2019. It is the result of specialist knowledge, experience and cooperation of experts from the Corporate Banking Division as well as Pekao Investment Banking.

Bank Pekao S.A. The Best Investment Bank in Central & Eastern Europe

Bank Pekao S.A. for the first time received the title of "Best Investment Bank in Central & Eastern Europe 2020" by the international magazine Global Finance. The quality of services provided by the Bank, the ability to find market opportunities and the ability to adapt solutions to customer needs have been appreciated.

Bank Pekao – the best sub-custodian bank in Poland

The Global Finance Magazine awarded the title of the "Best Sub-Custodian Bank 2019" to Pekao. It is worth-emphasising that Bank Pekao received this award already for the seventh time since 2012. The criteria taken into account by Global Finance when assessing banks included: relationship with customers, quality of service, competitive pricing, smooth handling of exception items, technology platforms and operational activity in terms of settlement of transactions involving securities.



Report on the activities of Bank Pekao S.A. Group for the year 2019

Bank Pekao S.A. The Best Treasury and Cash Management Provider 2020 in Poland

For the first time in history, Bank Pekao received the title of Best Treasury and Cash Management Provider 2020. The prestigious Global Finance magazine award is granted by a group of independent experts assessing the activities of banks based on criteria such as knowledge of local conditions and needs of corporate clients, offer quality, financial strength and security, or market position.

The best bank financing mergers and acquisitions



Bank Pekao S.A. was once again honoured with the prestigious title of the Bank of the Year in the CEE M&A Awards 2019 competition.

Private Equity fund managers, international experts on mergers and acquisitions recognized the leading role of Bank Pekao S.A. in arranging acquisition financing for transactions that were completed in 2018 in Central and Eastern Europe.

Leader of services

The title of „Instytucji Roku 2018” awarded by the MojeBankowanie.pl

The Bank received the title of the institution of the year in two categories:

- The best quality of business customer service,
- Friendly opening of a company account.

The Bank's activities aimed at achieving the position of an efficiency and quality expert on the market were appreciated.

Bank Pekao S.A. took the second place in the "Banking" category of the Leader 2018

Gazeta Bankowa once again awarded prizes for the best technological implementations in 2018 and for the best products available on the market. The Bank was recognized by the jury, taking second place in the Leader contest 2018. The competition jury awarded the innovative method of setting up a savings and settlement account using selfies.

Second place for Bank Pekao S.A. in the Złoty Bankier competition 2019 in the category "Mortgage Loan"

In the Złoty Bankier 2019 plebiscite the Bank took the second place in the "Mortgage Loan" category. The jury of the competition appreciated attractive financing conditions, a flexible approach to setting maximum creditworthiness, as well as procedures increasing product availability (including the possibility of joint commitment by many borrowers).

First place for the Konto Przekorzystne in the Bankier.pl ranking

Konto Przekorzystne has been recognized many times by independent experts, who have appreciated the attractive terms of account management.

First place of the "Newsweek" ranking in the mortgage category

The Bank was the winner of the "Newsweek" ranking in the mortgage banking category. For the second year in a row, the Bank received the highest scores in terms of quality customer service in the housing loan category.

Private Banking of Bank Pekao S.A. the best in Poland in the Private Bank Awards 2020 ranking

Private Banking of Bank Pekao S.A. for the fifth time in a row was recognized as the best in Poland, according to Global Finance magazine. The ranking of the Global Finance magazine is one of the most comprehensive studies classifying bank offers for the wealthiest client sector.

The highest note for Private Banking services

Private Banking has already received the highest note for the third time - a prestigious five-star rating in private banking services, carried out by the Polish edition of the Forbes magazine. The quality of private banking offers is assessed by a representative group using private banking services, with special emphasis on solutions that correspond to market trends.

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Highest Quality Services QI SERVICES for investment advisory

Investment advisory, offered to the clients was honored the title of the Highest Quality Services in QI Services category by the Quality International Program held under the patronage of the Polish Agency for Entrepreneurship, the Department of Quality Management at the Cracow University of Economics and the Polish Committee for Standardization.

Second place in the ranking of investment accounts

In 2019, Biuro Maklerskie Pekao took second place in the ranking of investment accounts organized by Puls Biznesu, as a part of competition, among others solutions affecting the quality of service and the amount of transaction costs.

Bank Pekao S.A. receive the Top Employers 2019 certificate



For the ninth time in a row, Bank Pekao received the Best Employers certification and thus become one of the few best employers in Poland. The award is granted to companies that exceed the international standards set in the HR, are focused on supporting the development of a group of potential employees, strengthening their competences and skills, as well as transparent work based on adopted values.

Bank Pekao S.A. has been awarded with the prestigious Premium Employer Brand 2019 award

The award was granted based on a survey conducted by the Employer Branding Institute. The three most important criteria that were taken into account: consumer brand recognition, willingness to work for a consumer brand and the perception of a consumer brand as a potential good employer.

Partner of the Year 2019 award for Bank Pekao S.A. in the competition organized by Technical Universities Forum

During the Student Gala organized by the Technical Colleges Forum, the Bank was awarded in the Partner of the Year 2019 category. The award goes to organizations that stand out among others for commitment to the development of competences of students from technical university.

Contact Center employees of Bank Pekao S.A. from the Centrum Bankowości Bezpośredniej won in three out of eight categories in the competition „Telemarketer Roku”

Call Center employees once again won the competition "Telemarketer of the Year". In the 11th edition of the competition organized by the Polish Marketing Association SMB, Call Center employees received statuettes in three categories: Help Desk for clients, External Help Desk and video calling.

The best infolinia according to the magazin ARC Rynek i Opinia

Infolinia Pekao Direct Sp. z o.o. is considered one of the best in Poland. According to ranking ARC Market and Opinion ranking, Pekao Direct consultants carry out phone calls and help customers Pekao Direct includes on its best the best multi-channel users, successively developing digital communication channels, and thus facilitating everyday banking.

Złoty Laur Klienta 2019 for Pekao TFI

Pekao Investment Fund Company took first place in the 15th edition of the nationwide popularity plebiscite "Złoty Laur Klienta 2019" in the category of "Investment Fund Companies". This award is a nationwide consumer project with the purpose to select the most popular products and brands in their categories. This award is granted by customers, who confirm that they have confidence in the solutions and services offered by Pekao TFI.

Pekao TFI among the best investment fund companies on the market (3rd place in the Rzeczpospolita ranking).

Four Pekao TFI funds managed was honored in 2019 by the independent analytical company Analizy Online in the "Alfa 2018" ranking:

- Pekao Obligacji – Dynamiczna Alokacja FIO and Pekao Obligacji – Dynamiczna Alokacja 2 in the Polish debt securities category,
- Pekao Obligacji Plus in the category of Polish treasury securities funds,
- Pekao Spokojna Inwestycja in the bestseller category - best-selling fund in 2018.

The prize is awarded to products that provide above average returns adjusted by the level of risk incurred against the background of the comparative group.

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5 Information for the Investors

5.1 The Bank's share capital and share ownership structure

As at 31 December, 2019, 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 Bank's share capital was divided into 262 470 034 shares in 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 2019		AS AT THE DATE OF SUBMITTING THE REPORT FOR THE THIRD QUARTER OF 2019	
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%
Nationale-Nederlanden Powszechno Towarzystwo Emerytalne S.A.	13,201,655	5.03%	13,357,769	5.09%
BlackRock, Inc.	13,129,549	5.00%	-	-
UniCredit S.p.A.	-	-	16,430,000	6.26%
Other shareholders (below 5%)	150,048,657	57.17%	146,592,092	55.85%
Total	262,470,034	100.00%	262,470,034	100.00%

On 28 June, 2019, in the current report No. 21/2019, Bank Pekao S.A. informed that on 27 June, 2019, it received the Notification from Nationale-Nederlanden Powszechno Towarzystwo Emerytalne S.A. (NN PTE) on reducing its stake below the 5% of total numbers of votes at the General Meeting of the Bank.

On 6 September, 2019, in the current Report No. 26/2019, Bank Pekao S.A. informed that on 5 September, 2019, it received a notification from BlackRock, Inc. on increasing its stake above 5% of the total number of votes at the General Meeting of the Bank, taking into account also securities lending and contracts for difference (CFD). The total sum of the number of votes is 13 359 626 votes from shares, representing 5.09% of the Bank's share capital and the total number of votes in the Bank.

On 27 November, 2019, in the current Report No. 31/2019, Bank Pekao S.A. informed that on November 27, 2019, it received a notification from BlackRock, Inc. on reducing the voting share below the threshold of 5% of the total number of votes in the Bank, taking into account also securities lending and contracts for difference (CFD).

Report on the activities of Bank Pekao S.A. Group for the year 2019

On 17 December, 2019, in the current Report No. 36/2019, Bank Pekao S.A. informed that on December 16, 2019, it received a Notification from UniCredit SpA on reducing its stake below the 5% of total numbers of votes at the General Meeting of the Bank as a result of expiry date and mandatory settlement of UniCredit secured equity linked certificates related to the shares of the Bank. Before the change in the share, UniCredit held 16,430,000 shares and votes in the Bank representing 6.26% of the Bank's share capital and the total number of votes in the Bank. As a result of the expiry date and mandatory settlement of UniCredit secured equity linked certificates related to the shares of Bank, the UniCredit disposed 16,430,000 of the Bank's shares to the holders of the certificates. The number of shares and votes held by UniCredit in the Bank was 0, which constituted 0.0% of the Bank's share capital and the total number of votes in the Bank.

On 24 January, 2020, in the current Report No. 1/2020, Bank Pekao S.A. informed that on 23 January, 2020, it received a notification from BlackRock, Inc. on increasing its stake above 5% of the total number of votes at the General Meeting of the Bank, taking into account also securities lending and contracts for difference (CFD). The total sum of the number of votes was 13 129 549 votes from shares, representing 5.00% of the Bank's share capital and the total number of votes in the Bank.

On 29 January, 2020, in the current Report No. 2/2020, Bank Pekao S.A. informed that on 29 January, 2020, it received a notification from Nationale-Nederlanden Powszechno Towarzystwo Emerytalne S.A. (NN PTE) on increasing its stake above 5% of the total number of votes at the General Meeting of the Bank. According to the notification after the settlement of the transaction regarding acquisition of shares on January 24th, 2020:

- OFE held 13,170,209 shares of the Bank, which constituted 5.02% of the Bank's share capital. These shares entitle to 13,170,209 votes at the General Meeting of the Bank, which constituted 5.02% of the total number of votes at the General Meeting of the Bank;
- OFE, DFE, FZD 2025, FZD 2030, FZD 2035, FZD 2040, FZD 2045, FZD 2050, FZD 2055, FZD 2060 held together 13,201,655 shares of the Bank, which constituted 5.03% of the Bank's share capital. These shares entitle to 13,201,655 votes at the General Meeting of the Bank, which constituted 5.03% of the total number of votes at the General Meeting of the Bank.

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, 2019 OFE's held in aggregate 16.40% 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, 2019		DECEMBER 31, 2018	
Nationale-Nederlanden OFE	12,827,975	4.89%	13,917,843	5.30%
Aviva OFE	12,511,680	4.77%	11,896,009	4.53%
Aegon OFE	3,894,258	1.48%	3,738,418	1.42%
AXA OFE	2,983,684	1.14%	2,979,031	1.13%
MetLife OFE	3,741,781	1.43%	2,812,188	1.07%
Generali OFE	2,492,839	0.95%	2,364,124	0.90%
Allianz Polska OFE	1,948,507	0.74%	1,945,468	0.74%
PKO BP Bankowy OFE	1,953,190	0.74%	1,389,837	0.53%
OFE Pocztylion	700,944	0.27%	699,851	0.27%
Total	43,054,858	16.40%	41,742,769	15.90%

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 2019

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, 2019 amounted to PLN 26.4 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 WIG30, banking sector index WIG- Banks as well as MSCI Emerging markets. Since 2016, the shares of Bank Pekao S.A. had been included in RESPECT Index run by the Warsaw Stock Exchange, the index of responsible companies. In September 2019 RESPECT Index was replaced with WIG-ESG index. Pekao share in WIG-ESG index constitute 5.7%.

In September 2018 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 643 thousand of shares and the worth of trading at PLN 17 billion in 2019, the share of the Bank's stock in trading on the WSE amounted to 8.9%.

The share price of Bank Pekao S.A. decreased by 7.8% y/y and reached to PLN 100.45 as at the end of December 2019 comparing to PLN 109 a year earlier. After adjustment for dividend total shareholder's return was -1.8% in 2019. Despite slight decrease, the total return for the Bank's shareholders was higher than the return for the WIG Banks index, which fell by 9.2% in 2019.

Polish banks' share price performance was affected by local and global trends. Limited demand from local institutional investors (low inflows to Polish mutual funds, negative net flows in Polish pension funds driven by so-called retirement zipper, pension funds investment limits for the company and the Group), increase in the regulatory burdens of Polish banks (substantial increase in BGF contribution), sector risks (courts' rulings regarding CHF mortgage loans and early repayment fees for consumer loans) and the visible slowdown in the most global economies as well as trade wars negatively influenced the overall sentiment. In addition, interest rate cuts by key central banks increased uncertainty about the level of interest rates in the country. Poland's share in the MSCI EMEMEA index decreased from 8.5% to 6.8% in favor of China, Argentina and Saudi Arabia due to index rebalancing, affecting index investors activity.

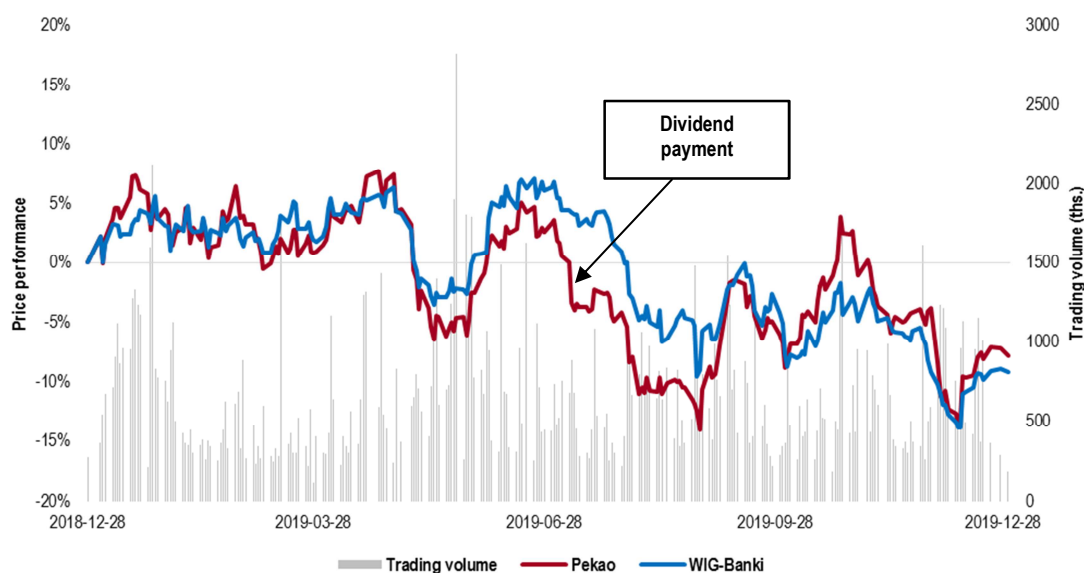
Basic information about Bank Pekao S.A. shares

	2019	2018
Share price at the end of the year (PLN)	100.45	109.00
Maximum share price (PLN)	118.25	141.35
Minimum share price (PLN)	91.26	97.30
Number of shares	262,470,034	262,470,034
Capitalization at the end of the year (PLN billion)	26.4	28.6
Average trading volume	642,925	672,006
Earnings per share (PLN)	8.49	9.88
Book value per share (PLN)	86.91	83.78
Dividend per share paid in a given year (PLN)	6.60	7.90
P/E (x)	11.8	11.0
P/BV (x)	1.16	1.30

Data based on GPW statistics.

Report on the activities of Bank Pekao S.A. Group for the year 2019

Performance of Bank Pekao S.A.'s shares in year 2019.



5.3 Dividend payment history

In 2019, the Bank paid dividend for 2018 in the amount of PLN 6,60 per share. Dividend yield amounted to 6.6%. The Bank has been distributing dividends every year since 2010. The total value of dividends distributed 2007-2018 was close to PLN 23 billion. Consequently, the bank has been one of the most generous dividend payers among the Polish companies.

The dividend payments from 2007 to 2018 are presented below:

DATE	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Dividend for the year (in PLN million)	2,517	-	761	1,785	1,412	2,202	2,614	2,625	2,283	2,278	2,074	1,732
Dividend per 1 share (in PLN)	9.60	-	2.90	6.80	5.38	8.39	9.96	10.00	8.70	8.68	7.90	6.60

The final decision on the distribution of net profit for 2019 and its allocating to dividend will be made by the General Meeting of Shareholders.

Report on the activities of Bank Pekao S.A. Group for the year 2019

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. In total, in 2019, the bank participated in 31 investor conferences and roadshows meetings with institutional investors in 17 key financial centers around the world. Furthermore, in 2019, the Bank organised Investor Day in London, for the second time in its history and for the first time participated in the largest individual investor conference in Karpacz in May 2019. 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 2019, 21 analysts published reports and recommendations on the Bank.

Recommendation structure for Bank Pekao S.A. shares for 31 December 2019

Buy/Accumulate	14
Hold/Neutral	4
Reduce/Sell	0

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:

<https://www.pekao.com.pl/en/investors-relations.html>

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".

Contact details for the Investor Relations Office

e-mail: bri@pekao.com.pl tel.: +48 22 524 55 27

Report on the activities of Bank Pekao S.A. Group for the year 2019

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 31 December, 2019, 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
National Long-Term Rating	AA(pol) (stable outlook)	-
National Short-Term Rating	F1+(pol)	-
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	Positive	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	-

On 17 June 2019 rating agency S&P Global Ratings ("S&P") informed Bank that it has revised the outlook for the Bank's ratings up from "Stable" to "Positive", upgraded the stand-alone credit profile rating from "bbb" to "bbb+" and affirmed the long-term and short-term ratings of the Bank at the current level. The decision to upgrade the Bank's stand-alone credit profile is based on the S&P opinion that the Bank's capitalization has strengthened in the environment of lower economic risk in Poland. The positive outlook of the Bank's ratings is a reflection of the same outlook for PZU S.A., the Bank's main shareholder.

Report on the activities of Bank Pekao S.A. Group for the year 2019

On 7 October, 2019 the rating agency Fitch Ratings ("Fitch") informed the Bank about maintaining all the Bank's ratings on unchanged level. Additionally, rating agency assigned two additional ratings reflecting the Bank's creditworthiness relative to Polish peers', as follows: National Long-Term Rating: assigned at "AA(pol)", Outlook: "Stable", National Short-Term Rating: assigned at "F1+(pol)".

In Fitch opinion the IDRs of the Bank are driven by the Bank's intrinsic strength, as reflected in its VR. The Stable Outlook on the Bank reflects the expectations of little change to its intrinsic creditworthiness in the near term. Bank's VR reflects its strong capitalisation and liquidity, solid profitability as well as good asset quality underpinned by conservative risk appetite. It also reflects its stable and well diversified business model with a solid domestic franchise in both retail and corporate banking.

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

At the end of December 2019 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.

On 7 October, 2019 the rating agency Fitch informed the Pekao Bank Hipoteczny S.A. about maintaining all the Bank's ratings on unchanged levels.

Report on the activities of Bank Pekao S.A. Group for the year 2019

6 Activity of Bank Pekao S.A. Group

6.1 Important factors influencing the Group's activities and results

In 2019, the Group's activity was to large extent determined by the macroeconomic situation in Poland and abroad as well as by the trends observed in the banking sector and court's ruling regarding disputes on retail loans.

Polish economy continued to grow strongly in 2019 by 4%, despite a slight slowdown compared to 2018, remaining one of the growth leaders in the entire European Union. Significant growth of real GDP was driven by strong private consumption growth with positive contribution of investments and net exports.

Due to strength of internal demand and relatively smaller share of foreign trade in the GDP structure compared to other European economies, Poland managed to minimize the negative impact of economic slowdown visible in Western Europe, in particular with our largest business partner, Germany. Export dynamics remained at a good level of + 6% y/y, which proves high flexibility of Polish exporters and its ability to find new market outlets.

Increasing employment, solid wage growth, historically low unemployment (the lowest level since 1989) and government social programs supported private consumption. Investment growth in 2019 remained at a high level (6.2% y/y) and was supported by European funds inflows in the framework of the financial perspective 2014-2020.

Good economic situation was driving further development of the banking sector and increase in loans and deposits volumes. Loan growth in the Polish banking sector in 2019 remained at a high, single-digit level, with a slightly higher increase of PLN mortgage loans, over 10% y/y and an increase of 6-7% y/y in consumer and corporate loans. The increase in loan volumes translated into a high single-digit increase of net interest income and moreover basic revenues in the sector. Good financial standing of the customers fuelled product offer expansion and cross-selling, which translated into an improvement of fees and commissions results.

Despite credit expansion of the banking sector, indebtedness of the households and domestic enterprises remained at one of the lowest levels in the European Union, leaving significant space for further growth in the future. The NPL ratio in the Polish banking sector further decreased, which confirms good situation of the households and solid standing of Polish companies. Cost of risk in the sector increased as the banks started to prepare for expected slowdown and additionally provisioned its loan portfolios, in particular in corporate segment.

In 2019, as in the previous years, banks in Poland operated in historically low interest rates environment. The Monetary Policy Council consistently kept interest rates unchanged, despite of inflation growth acceleration in the second half of the year. Despite persistent real negative interest rates environment, growth rate of the deposit base remained at a high level, mainly due to the inflow of retail deposits. Due to high level of liquidity, banks continued their efforts to optimize costs of financing. Banks also improved assets structure, focusing on the most profitable products, mainly on consumer loans and loans to small and medium-sized enterprises.

Banks' results, despite favourable macroeconomic environment, were under pressure mainly due to significant increase in regulatory burdens in the first half of 2019 and unfavourable courts ruling on foreign currency mortgage loans and consumer loans in the second half of 2019.

In 2019, contribution to the Bank Guarantee Fund ('BFG') (deposit guarantee fund and restructuring fund) increased significantly by 27% y/y, from PLN 2.2 billion to PLN 2.8 billion in the sector and fee allocation structure between funds changed, additionally negatively impacting some banks BGF cost, including Bank Pekao.

Banks also incurred, as in the previous years, high costs of adaptation to numerous regulatory solutions (including MIFID II, RODO, PSD II).

In addition, capital requirements for the banking sector had increased in the last few years due to the implementation of EU regulations.

Report on the activities of Bank Pekao S.A. Group for the year 2019

According to the law, the Bank should maintain minimum values of capital ratios at Pillar I regulatory level resulting from the CRR Regulation, the combined buffer requirement resulting from the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system ("Act on Supervision Macroprudential ") and the Pillar II requirement under the Banking Law.

Pursuant to the CRR Regulation, the minimum level of capital ratios maintained by the Group and the Bank should be as follows:

1. Total capital ratio TCR - 8.0%,
2. Tier I capital ratio - 6.0%,
3. Common Equity Tier 1 capital ratio - 4.5%.

In addition, Banks were obliged to maintain the combined buffer in accordance with the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system, which includes:

- conservation buffer at 2.5%, that came into force on January the 1st, 2019 (final buffer level),
- other systemically important institution buffer from 0% to 1.00% of risk exposure, (0,75% for Bank Pekao S.A. and Pekao Group),
- countercyclical buffer, which is calculated in the weighted average of the countercyclical buffer ratios set by respective authorities of the states in which the Group has exposures, 0% for credit exposures in Poland, (0.01% for Bank Pekao S.A. and Pekao Group),
- systemic risk buffer for exposures in Poland at 3%. Additionally, banks with exposure to foreign currency mortgage loans receive an additional, individual capital injection (2.89% for Bank Pekao S.A. and 2.9% for Pekao Group).

Under Pillar II, banks with foreign currency mortgage exposure receive an additional individual capital requirement. Bank Pekao does not have such a requirement, while the requirement for the Capital Group is 0.01% for TCR and results from the individual requirement imposed on Pekao Bank Hipoteczny by the KNF.

For Pekao Group, as at December 31st, 2019, the minimum total capital ratio was 14.17%, Tier 1 capital ratio was 12.16%, and Common Equity Tier 1 ratio was 10.66%.

In 2019, BFG informed the banks about minimum levels of own funds and eligible liabilities subject to redemption or conversion of so-called MREL (minimum requirement for own funds and eligible liabilities) that the sector must meet at the end of 2022. For Bank Pekao, the level of MREL on consolidated basis is 14.325% of the total own funds and liabilities, which is 21.533% of the total risk exposure, while on standalone basis is 13.738% of the total own funds and liabilities and 21.535% of the total risk exposure. The above levels should be achieved by the Bank by December 31st, 2022. Additionally BFG set the path to reach the above mentioned requirements on standalone and consolidated basis. Meeting these requirements will require from the banks a significant scale of debt securities issue eligible for MREL.

EU Court of Justice (CJEU) ruling on CHF mortgage and consumer loans resulted in significant provisions and a negative impact on the interest income in the sector in the second half of the year regarding the reimbursement of the fees for early repayment of consumer loans and in the case of CHF mortgage loans increased the risk of unfavorable court verdicts in coming years and moreover increased the level of banks provisioning.

On September 11, 2019, CJEU issued a verdict in the individual case, stating that the consumer's right to reduce the total cost of the credit in case of early repayment includes all costs that were imposed on the consumer. This interpretation was confirmed by local regulatory institutions, resulting in partial fees reimbursement by the banks in case of early repayment of the loan by the client.

On October 3, 2019, CJEU issued a verdict in the individual case regarding unfair terms in a loan agreement, indexed to CHF. CJEU did not preclude that in case of abusiveness identified by local court, the court should cancel the entire contract

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automatically. The decision in this respect should be undertaken by the local court, but CJEU didn't ruled out the possibility of agreement supplementation with local disposable provisions. At the current stage, it is difficult to estimate the scale and final impact of litigation regarding CHF mortgage loans on the banks' results. It will depend on the number of lawsuits, the length of the process, courts ruling and the structure and size of CHF mortgage loans in each bank. Bank Pekao, due to the marginal share of these loans in the loan portfolio, is less exposed to this risk than other banks in the sector.

The growing burdens of the banking sector stimulating the banks to improve its operational efficiency by streamlining processes, reducing employment, closing unprofitable branches, while paying more attention to omni-channels and remote access to banking services. Bank Pekao also continued its operational transformation and employment optimization in 2019.

In 2019, banks were competing in the implementation of new technological solutions that on the one hand will allow them to compete on the market, also with technological companies due to the implementation of PSD2 directive, as well as to limit the costs of doing business in the long run. The cybersecurity and personal data protection GDPR still remained one of the most important topics in the sector.

All of the above mentioned events translated into limited sector profit growth. After 9 months of 2019, the net profit of the banking sector in Poland increased by 3% y/y, and the profitability measured by the ROE after 9 months was at 7.7% and was below the cost of capital. The differences in profitability between the banks were visible. The largest 8 banks ROE was significantly higher (9.3% after 9 months of 2019), while other banks had a profitability at the level of inflation..

Banks' capital base remained at the stable and solid level. At the same time, dividends paid by the sector had increased. The eight largest banks in the sector paid PLN 5.4 billion of dividends in 2019, growing 27% compared to 2018.

On December 3, 2019, the KNF published the criteria dividend regarding dividend policy of commercial banks, cooperative and associating banks, insurance and reinsurance companies in 2020. On December 24, 2019, the Bank received a letter from the KNF regarding individual criteria for the commercial bank dividend policy in 2020. The criteria for dividend payment of up to 50% and up to 75% of the profit earned in 2019, as well as the rules for adjustments of dividend payment for the banks with the exposure to loans denominated in foreign currency are consistent with the criteria published on December 3, 2019 in the KNF statement. The criteria for dividend payment of up to 100% of the profit earned in 2019, additionally incorporate the Bank's sensitivity to the adverse macroeconomic scenario (ST add-on), set at the level of 2.26 percentage points for the Bank in 2019. Taking into account the abovementioned criteria and values of capital buffers for Bank standalone and consolidated levels as of December 31, 2019, to make dividend payment:

- up to 50% of the 2019 net profit, the Bank is required to maintain at least Common Equity Tier 1 (CET1) ratio at the level of 10.65%, Tier 1 (T1) ratio at the level of 12.15%, and TCR at the level of 14.15% on standalone level; and at least CET1 ratio at the level of 10.66%, T1 ratio at the level of 12.16%, and TCR at the level of 14.17% on consolidated level,
- up to 75% of the 2019 net profit, the Bank is required to maintain at least CET1 ratio at the level of 12.15%, T1 ratio at the level of 13.65%, and TCR at the level of 15.65% on standalone level; and at least CET1 ratio at the level of 12.16%, T1 ratio at the level of 13.66%, and TCR at the level of 15.67% on consolidated level,
- up to 100% of the 2019 net profit, the Bank is required to maintain at least CET1 ratio at the level of 14.41%, T1 ratio at the level of 15.91%, and TCR at the level of 17.91% on standalone level; and at least CET1 ratio at the level of 14.42%, T1 ratio at the level of 15.92%, and TCR at the level of 17.93% on consolidated level.

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6.2 Major sources of risk and threats

Risk management

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

The key risks material for the Group include credit risk, liquidity, 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 investment strategy and policies and the operational risk management strategy and policy accepted annually by the Management Board and approved by the Supervisory Board.

Detailed reports in particular 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, 2019 and in the document "Information in respect to capital adequacy of Bank Pekao S.A Group as at 31 December 2019" 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 concentration risk management.

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.

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.

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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 2019, the maximum exposure limits set forth in the external regulations were not exceeded.

Sector concentration

In order to mitigate credit risk associated with excessive sector concentration the Bank sets up a system for shaping the sectoral structure of credit exposure. Every year within Credit Policy the Bank defines sector limits for particular sectors of economy. These limits are subject to ongoing monitoring. The system applies to credit exposure in particular types of business activity according to the classification based on the Polish Classification of Economic Activities (Polska Klasyfikacja Działalności – PKD).

Concentration limits are set based on the Bank's current credit exposure and risk assessment of each sector. Periodic monitoring of the Bank's exposure allows for ongoing identification of the sectors in which the concentration of sector risk may be too excessive. In such cases, an analysis of the economic situation of the sector is performed including both the current and forecast trends and an assessment of quality of the current exposure to that sector. These measures enable the Bank to formulate the activities to reduce sector concentration risk and ongoing adaptation of the Bank's Credit Policy 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.

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.

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

- supervision of the Supervisory Board and responsibility of the Management Board for the effective management of compliance risk and observance of the Compliance Policy,
- responsibility of the Bank's employees for ensuring compliance within the scope of their duties,
- properly defined 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.

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6.3 Capital adequacy

Capital ratios are the basic measure applied for the measurement of capital adequacy according to Regulation of the European Parliament and of the Council (EU) No 575/2013 of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, which entered into force since January 1, 2014 together with further amendments, in particular Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, as well as Commission Implementing Regulations or Delegated Regulations (EU) (CRR Regulation).

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 2.50%,
- 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 2.90%⁴.

In total, Group is required to maintain:

- Total capital ratio (TCR) in amount of 14.17%,
- Capital ratio Tier I (T1) in amount of 12.16%,
- Common Equity Tier (CET 1) in amount of 10.66%.

As of December 31, 2019 Pekao Group total capital ratio amounted to 17.1% and Tier I ratio amounted to 15.0%. The capital ratios were significantly above the minimum required by the law.

³ Countercyclical capital buffer was calculated as of 31.12.2019 at the level 0.0086%

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 (as of 31.12.2019 exact number amounts to 2.8979%)

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The table below presents the basic information concerning the Group capital adequacy as of December 31, 2019 and December 31, 2018 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	31.12.2019	31.12.2018
Credit Risk	10,107,188	9,300,015
Exceeding the exposure concentration limit and large exposures limit	-	-
Market Risk	87,596	63,294
Counterparty credit risk including CVA	119,803	86,875
Operational risk	527,844	564,145
Total capital requirement	10,842,431	10,014,329
OWN FUNDS		
Common Equity Tier I Capital	20,387,099	19,796,894
Tier II Capital	2,750,000	2,000,000
Own funds for total capital ratio	23,137,099	21,796,894
Common Equity Tier I Capital ratio (%)	15.0%	15.8%
Total capital ratio TCR (%)	17.1%	17.4%

Total Capital Ratio of Pekao Group as at the end of December 2019 was lower by 0.3 p.p. compared to the end of December 2018 mainly due increase of capital requirements by 8.3% partially compensated by higher own funds by 6.1%.

Increase in own funds for total capital ratio results from increase of the TI capital due to retention of 25% of Bank's net profit for year 2018 and inclusion in Tier II capital the amount of PLN 0.75 bn from the issue of subordinated bonds after KNF approval.

Higher total capital requirement mainly due to growth of 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 2019 was lower by 0.8 p.p. compared to December 2018 due to increase of capital requirements partially compensated by higher Common Equity Tier I capital by 3.0%.

On May 9, 2019, the Management Board of the Bank adopted a resolution approving the issue of subordinated bonds by the Bank, which was announces in the current report No. 12/2019.

On May 22, 2019, the Management Board of the Bank adopted resolutions regarding the issue of subordinated bonds series D (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 own 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. 13/2019.

The main conditions for the issue of the series D subordinated bonds of the Bank are as follows:

1. Type of bonds: bearer bonds; the bonds will not have a documentary form and will be registered on the issue date in the deposit of securities maintained by the National Depository for Securities S.A. (Krajowy Depozyt Papierów Wartościowych S.A.);
2. Total number of bonds to be issued: 700,
3. The nominal value of one bond: PLN 500,000,
4. The total nominal value of bonds to be issued: PLN 350,000,000,
5. Interest rate: floating, based on the benchmark of WIBOR for six months deposits (WIBOR 6M) plus a margin of 1.70 percentage points,

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6. Format of issue: 12NC7, i.e. bonds with 12-year maturity, with a reserved call option giving the Bank the right to redeem the bonds earlier, after 7 years from the date of issue or in other cases indicated in the terms and conditions of the bonds (lack of approval by the Polish Financial Supervision Authority to qualify the bonds as a Tier 2 instrument, changes in the regulatory classification of bonds, change in taxation of bonds), subject to the approval of the Polish Financial Supervision Authority, if such approval will be required;
7. Issue price: equal to the nominal value;
8. Currency: Polish zloty;
9. Issue date: June 4, 2019;
10. Maturity date: June 4, 2031, subject to the possibility of their early redemption on the terms described in point 6;
11. Trading: bonds to be traded on the alternative trading system of debt financial instruments –the Catalyst market maintained by the BondSpot S.A. or Warsaw Stock Exchange S.A. (Gielda 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 July 3, 2019, the Bank received the KNF approval to increase own funds in the amount of PLN 350 million from the issue of subordinated bonds of the D series.

On November 6, 2019, 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. 29/2019.

On November 13, 2019, the Management Board of the Bank adopted resolutions regarding the issue of subordinated bonds series D1 (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 own 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. 30/2019.

The main conditions for the issue of the series D1 subordinated bonds of the Bank are as follows:

1. Type of bonds to be issued: bearer bonds; the bonds will not have a documentary form and will be registered on the issue date in the deposit of securities maintained by the National Depository for Securities S.A. (Krajowy Depozyt Papierów Wartościowych S.A.),
2. Total number of bonds to be issued: 800,
3. The nominal value of one bond: PLN 500,000,
4. The total nominal value of bonds to be issued: PLN 400,000,000,
5. Interest rate: floating, based on the benchmark of WIBOR for six months deposits (WIBOR 6M) plus a margin of 1.70 percentage points,
6. Early redemption date: the Bank is entitled to an early redemption on 4th June 2026 or in other cases indicated in the terms and conditions for the issue of the bonds, subject to the approval of the Polish Financial Supervision Authority, if such an approval will be required;
7. Issue price: equal to the nominal value,
8. Currency: Polish zloty,
9. Issue date: 4th June 2019,
10. Maturity date: 4th June 2031, subject to the possibility of their early redemption on the terms described in point 6;
11. Trading: bonds to be traded on the alternative trading system of debt financial instruments – the Catalyst market maintained by the BondSpot S.A. or Warsaw Stock Exchange S.A. (Gielda 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 15th January 2015 on bonds, has not been specified.

On December 11, 2019, the Bank received the KNF approval to increase own funds in the amount of PLN 400 million from the issue of subordinated bonds of the series D1.

As of December 30, 2019, bonds of the series D1 were assimilated with bonds of the series D and marked by KDPW with one ISIN code (PLPEKAO00313).

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

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 S.A. capital group, the largest financial institution in Central and Eastern Europe.

A wide product offer, innovative solutions and individual approach provide comprehensive financial service to clients and the integrated customer service model provides the highest quality of services and their optimal adaptation to changing needs. The Bank has measurable advantages that allow it to compete effectively on the market and strengthen its market position in the strategic areas of the Bank's operations. The Bank offers competitive products and services on the Polish market, and high level of customer service and a well-developed distribution network.

Distribution channels

The Bank offers to its clients a broad distribution network with ATMs and outlets conveniently located throughout Poland as well as a professional call center and a competitive online and mobile banking platform for individual, corporate and small customers and micro companies.

	31.12.2019	31.12.2018
Total number of outlets	805	818
own outlets	734	741
partner branches	71	77
Total number of own ATMs	1,648	1,708

The number of accounts

As at the end of December 2019, the Bank maintained 6,215.9 thousand PLN-denominated current accounts, 394.3 thousand mortgage loan accounts and 717.2 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

	31.12.2019	31.12.2018
Total number of PLN current accounts ^(*)	6,215.9	5,949.4
of which packages	4,505.1	4,359.8
Number of mortgage loans accounts ^(**)	394.3	378.0
of which PLN mortgage loans accounts	362.8	345.7
Number of Pożyczka Ekspresowa loan accounts ^(***)	717.2	678.1

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

(**) Retail customers accounts.

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

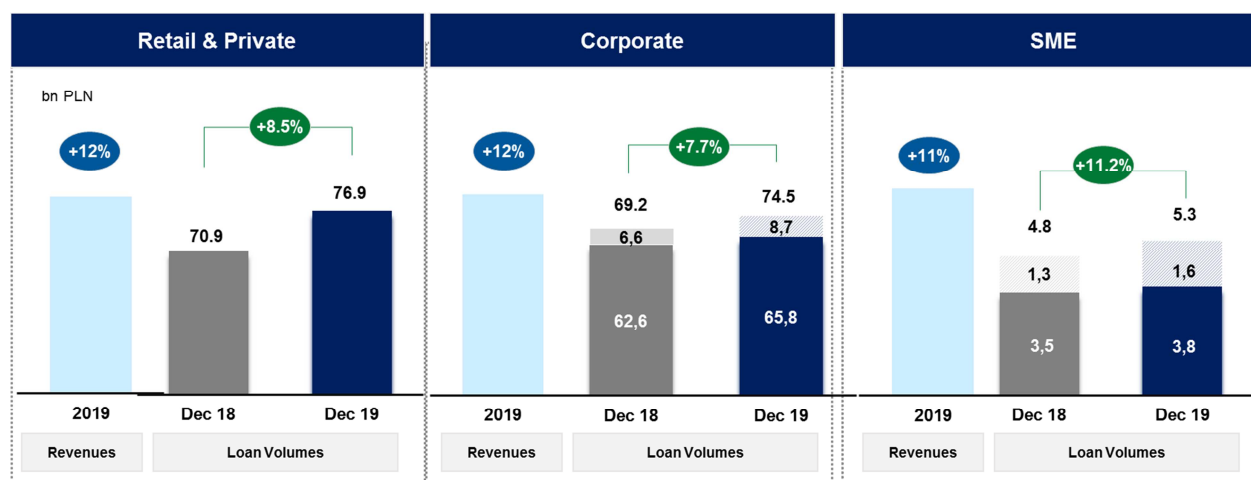
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Business model

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

- **Retail and Private Banking** – serving individual clients, including affluent private banking clients and micro enterprises. Private banking clients are offered investment advisory through private banking centers and remote channels, while all individual clients and micro-enterprises are served through a wide network of branches and partner outlets supported by market-leading remote service channels, including digital channels,
- **Small and Medium Enterprises (SME)** – providing financial services to clients from the SME sector who are served by relationship managers with the support of product specialists. The service is carried out in specialized Business Customer Centers and universal retail branches. Customers are offered products and services tailored to their individual needs based on solutions proven in corporate banking and adapted to the needs of the SME segment,
- **Corporate Banking** – providing financial services to medium and large enterprises (segmentation by revenues of companies), public sector entities, financial institutions and entities from the commercial real estate financing sector. Corporate and investment banking clients are served by relationship managers with the support of product specialists.

In 2019, the Bank recorded a double-digit growth rate of commercial income +12%, which includes income from the Group's products offered in the Bank's network achieved in three business divisions: Retail and Private Banking (+12%), Small and Medium Banking (+11%) and Corporate Banking (+12%) - supported by a dynamic increase in the volume of loans in individual segments and effective acquisition of new customers.



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6.4.1 Individual clients and Private Banking

In 2019, Bank achieved the highest double-digit growth rate of commercial income in retail and private banking (+12% y/y). Supported by record acquisitions of new clients, sales of accounts for individual and business clients (micro enterprises), an increase in the volume of retail loans by +8%, volume of retail deposits by +9% and assets of investment funds by +11%.

Record acquisition of new customers

In 2019, the Bank opened a record number of 455,000 new accounts for individual clients (higher by 12% y/y and 65% as compared with 2017), and nearly 129 thousand of savings accounts. In 2019, assets on savings accounts more than doubled compared to the end of 2018.

In 2019 the Bank carried out two large marketing campaigns conducted on television, cinemas, public transport, social media and the Internet supporting the sale of Konto Przekorzystne and karty rewolucyjnej, as well as by building an attractive image of the Bank as part of the new communication platform "Bierz życie za rogi". In 2019, the Bank provided the option of the customer opening an account online on a computer or on a smartphone. Identity verification is done using face biometrics and ID card. In the fourth quarter of 2019, the share of sales of accounts initiated in remote channels was about 13%, and in the best month of the year it reached 20%.

The bank strengthened the leading position among banks focused on young customers. Every second Konto Przekorzystne opened in 2019 was established by people up to 26 years old. In the 13-17 year old group, the number of newly acquired customers increased by 60% compared to 2018. For young customers who open an Konto Przekorzystne another edition of the OK GO! online development program has been launched with free access to selected online training organized by ICAN Institute, publisher of Harvard Business Review Polska. The Bank, in cooperation with the European Fund for the Development of Polish Villages, began another edition of an educational project addressed to primary school children from rural areas, aimed at developing the knowledge, entrepreneurial attitude and developing banking skills.

The Bank actively promoted the possibility to submit applications for benefits under the Rodzina 500+ and Dobry Start 300+ programs in Pekao24 online banking. The Bank serviced 576 thousand applications submitted online, occupying a leading position among banks in Poland with a share of nearly 13% in the number of applications submitted. Bank customers who have submitted an application in electronic banking had the opportunity to open a 3.0% interest-bearing Mój Skarb saving account for their children, receive PLN 50 for opening Konta Przekorzystnego for young people, and take advantage of the attractive rebates. In 2019, savings on Mój Skarb accounts increased by 34%.

Bank Pekao S.A. is a leading bank in providing services for foreigners, the largest group among foreigners using banking services in Poland are Ukrainian citizens for whom the Bank has prepared a wide range of products and services, including infoline in Ukrainian, the Bank's regulations in Ukrainian, PeoPay mobile banking and m.Pekao24.pl, Konto Przekorzystne, multicurrency card with the option of free withdrawals from ATMs abroad, including Ukraine.

Customers who have "Świat Premium" account the Bank provides comprehensive service based on a personal advisor model and a specialized premium personal banking hotline, attractive terms of transaction services and competitive interest on deposit products, in particular the "Konta Oszczędnościowego Premium". In 2019, new customers could invest up to 100,000 PLN for 6 months on the "Konto Oszczędnościowe Premium" and gain up to 3% per annum.

Growth in key retail loans: PEX cash loans and mortgage loans

In 2019, the Bank achieved a double-digit growth rate of income in key retail loans at +11% in consumer loans (PEX cash loans) and +17% in mortgage loans. This was supported by an increase in the retail loan portfolio by +8.5% and a consistent pricing policy.

In the "Newsweek Friendly Bank 2019" ranking, the Bank took first place in the "Mortgage Banking" category. For the second year in a row, the Bank received the highest scores in terms of quality customer service in the housing loan category.

In 2019, the sale of housing loans amounted to nearly PLN 9.7 billion, which translated into growth of the loan portfolio by 9.8% y/y.

In the fourth quarter of 2019, the net interest margin on new mortgage loan sales increased by 9 bps. higher compared to the fourth quarter of the previous year. The share in the housing loan market is at the level of 17.6%.

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The Bank adjusted the housing loan offer to changing market conditions on an on-going basis and consistently focused activities supporting the optimization of housing loan granting and servicing. The bank has introduced solutions thanks to which the loan agreement - based on the collected data - is generated automatically. The Bank provided a tool supporting sales talks with customers, enabling quick transfer of information on the amount of the loan installment.

In the area of consumer loans, the Bank achieved a significant increase in income of +11% y/y and the value of the individual loan portfolio increased by 6.7% y/y. The value of cash loans granted amounted to PLN 5.1 billion. Net sales of cash loans were supported by a competitive offer, individual loan offers using CRM tools and a gradual increase in the availability of loan offers as part of the "click" process. A quick and fully automatic process that allows you to receive a loan without leaving your home within 30 seconds of accepting the contract, is available to customers via the Bank's websites and mobile services, including the PeoPay mobile application. In 2019, sales of loans in electronic processes on clicks, supported by numerous marketing campaigns, systematically increased. In electronic click-through channels, the Bank granted loans worth over PLN 1 billion, i.e. 28% more than in 2018 and more than twice as much as in 2017. The share of electronic sales in loan items increased to 40% in the fourth quarter of 2019 (an increase of +8 p.p. compared to the fourth quarter of 2018).

In all branches of the Bank, new loan application processing system for cash loans was implemented, and reduced the process of granting and the client's waiting time for loan payment by more than half. The implemented solutions also ensure the highest quality of loans granted. For customers with a cash loan, the Bank has expanded its product offer with new PZU insurance packages, available to customers buying loans both in remote channels and in branches.

Insurance products

In 2019 the Bank continued the development of cooperation with PZU in the area of bancassurance, expanding its offer in the Bank's branches by two insurance products securing the repayment of credit products, thanks to which the Bank's borrowers and borrowers can take advantage of new insurance packages tailored to their needs:

- insurance for cash loan with CPI protection in the event of death, job loss and other random events,
- home loan insurance covering accident insurance and job loss.

In cooperation with PZU, the Bank conducted a number of activities supporting the sales network in the area of expanding insurance product knowledge and sales skills. Almost 3,000 employees took part in product training, over 750 new employees took the professional certificate examinations. In the Bank's electronic channels were ongoing PZU's travel insurance campaigns, offered via portal "Moje PZU".

In the fourth quarter of 2019, the share of PEX cash loans sold from CPI amounted 38% and was higher by +5 p.p. than in the same period of the previous year.

In the case of mortgage loans, the share of loans sold from the CPI was 72% and was +7 p.p. higher than in the same period of the previous year.

At the same time, as part of cooperation with PZU, activities in the area of assurbanking are being developed, which translate into an increase in the number of new clients acquired for the bank - in the 4th quarter of 2019 the number of new clients was 2x higher than in the 4th quarter of the previous year. As part of the development of cooperation, the possibility of opening accounts in more than 100 PZU branches was implemented, offering customers a 10% discount on PZU Auto OC and bonuses for opening an account for customers. Growth in the area of savings and investment products.

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Savings, investment products

In 2019, deposits of individual clients at Bank Pekao S.A. increased by PLN 7.5 billion. The annual growth rate of deposits of individual clients amounted to 10% y/y and was higher than the market. The Bank actively promoted the Savings Account and Premium Savings Account with a promotional interest rate of 3.00% per annum for 6 months from the date of opening of the account. Among the deposits, e-deposits and negotiated deposits were very popular. The most significant impact on the growth of savings volumes were regular inflows to the accounts of retail clients.

In 2019, the Bank participated, among others in the issue of 30 series of structured products. Among individual customers, the new product line of certificates of deposit (with 100% capital protection at the end of the investment) called "Akumulator" enjoyed the greatest interest.

The offer of subscription products and the wide offer of investment funds contributed to the increase in net sales of investment products by + 20% y/y to the level of PLN 2.4 billion in 2019 (compared to PLN 1.5 billion in 2018).

Assets of Pekao TFI investment funds increased by + 11% (almost PLN + 2.2 billion) to the level of over PLN 21.5 billion.

Private Banking

In 2019, activities in the area of Private Banking focused on acquiring of new customers, deepening relationships with existing customers by offering products tailored to customer expectations and the market situation. [The customer service](#) model is based on cooperation with bank advisors - experienced employees with European Financial Planning Association certificates.

The acquisition and relational activities in the area of Private Banking were supported by initiatives with the participation of current and potential affluent clients and representatives of Private Banking, such as World Economic Forum in Davos, CEO Summit organized in Warsaw by Bank Pekao S.A. in cooperation with the Atlantic Council and the 1st Congress of Forbes Family Business and the Congress of Generations of the Family Business Foundation.

The event strengthening the position of Private Banking as an expert in servicing affluent and demanding clients was a meeting related to the publication of the list of 100 richest Poles organized by the publisher of the monthly Forbes, which has been the partner of the bank for 6 years. Private Banking customers had the opportunity to participate in numerous events sponsored by the Bank, such as the 27th Pekao Szczecin Open Tennis Tournament, the 13th Film and Art Festival "Dwa Brzegi" or the 24th Silesian Gala Business Center Club.

Brokerage activity

In 2019, brokerage activities in the Bank Pekao S.A. Capital Group were consolidated, as a result of which brokerage activities conducted by Centralny Dom Maklerski Pekao S.A. was transferred to the Pekao Brokerage Office - a separate organizational unit that provides clients with broad access to capital market services and products (in December 2019, the name of the Pekao Brokerage House changed to Pekao Brokerage House). In addition, as a result of the ongoing consolidation project, Dom Inwestycyjny Xelion Sp. z o.o. (DI Xelion) has ceased brokerage activities, and DI Xelion customers have received an attractive offer to transfer assets to the Pekao Brokerage House.

In 2019, the activities of brokerage entities focused on the implementation of public offers for structured certificates, customer service on the secondary market, acquisition of new investors, development of tools and scope of services, as well as product offer, in particular services provided in remote channels.

At the end of December 2019, the Pekao Brokerage Office maintained 257.4 thousand investment accounts. The Group's brokerage entities were serving 165.9 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 2019, direct service of individual customers was conducted through nationwide network of 379 points of brokerage services.

As at December 31, 2019, the value of assets of retail clients of the Pekao Brokerage Office was PLN 21.4 billion.

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

- sales of 14 series of Structured Certificates under The Third Program of SCD issued by Bank Pekao S.A., (registering orders PLN 0,6 billion.)

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- 30 public bond offers, registering orders for the total amount of PLN 0,4 billion,
- 1 public offer of mortgage covered bonds issued by Pekao Bank Hipoteczny S.A. worth EUR 50 million,
- 2 offers for the sale of non-public Investment Certificates of Closed Investment Funds, registering orders for the total amount of PLN 34.8 million.
- public offering of structured certificates with a capital guarantee without a capital guarantee issued by UniCredit Bank AG and Raiffeisen Centrobank AG.

In the cooperation of the Corporate Banking Division, Pekao TFI and the Brokerage House was prepared another subscription for Pekao Samorząd Plus FIZ and UniAbsolute Return Debt FIZ certificates dedicated to Private Banking clients.

In 2019, Pekao Brokerage Office cooperated with the intermediary entity Pekao Investment Banking S.A. as an entity accepting subscriptions in three calls for the sale of shares.

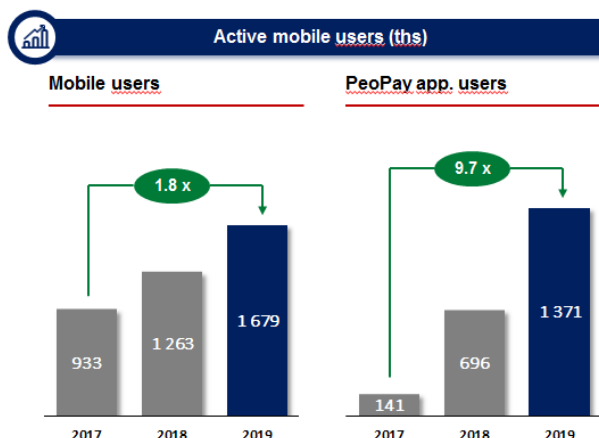
Pekao Brokerage House clients have access to a modern eTrader Pekao investment platform, whose main advantage is to gather all the most important elements of the client's investment process in one place - from access to stock exchange listings and market information, through analyzes and data about companies, to full service of transactions. The eTrader Pekao system is equipped with advanced functions enabling investment planning, analysis and control, while the intuitive interface and extensive personalization options ensure comfort of use.

In 2019, Pekao Brokerage Office extended the availability of investment advisory services by reducing the minimum value of assets required to issue a recommendation and increasing the number of Service Points where the service is provided, as well as an offer on foreign markets, enabling clients to invest in securities listed on US markets .

An increase in the number of active mobile banking and PeoPay customers

The goal of the Bank's strategy is to increase the number of clients actively using mobile banking and the PeoPay application. In 2019, the number of mobile banking customers increased by +416,000 (+33% y/y) and was 1.8 times higher than two years ago. The number of active mobile clients using PeoPay is growing increased 2x over the past year and was almost 10 times higher than 2 years ago.

In electronic channels, 20% of new accounts are created using remote channels, and 40% of cash loans are sold online or through the PeoPay mobile application.



(*) Unique user actively using electronic banking is a user who logged in to the system and the mobile service m.pekao24.pl, at least once during the last quarter.

(**) Unique user using mobile banking application (PeoPay application), who logged in to the system PeoPay at least once during the last quarter. (when using different mobile channels, the customer counts only once).

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The Bank consistently developed the modern PeoPay mobile application. The application offers a number of innovative solutions, including

- receiving a loan as part of the "click" process, without leaving your home - within 30 seconds of accepting the contract,
- finger or face biometric approval of transfers and payments,
- paying for online purchases immediately on your phone without logging in to online banking,
- scanning invoice numbers without having to rewrite invoice numbers to the application,
- paying by phone abroad (or in a foreign online store) directly from the currency account without any additional fees and commissions for currency conversion,
- executing transactions both in PLN and selected foreign currencies without currency conversion, due to the link to the relevant currency accounts,
- the ability to manage cards - from the application level the client can activate or block the card, as well as change card withdrawal and payment limits,
- the user can set the application to display the account balance on the PeoPay main screen before logging in,
- the ability to verify the customer during a conversation with a bank consultant,
- the possibility of depositing and withdrawing cash to their accounts by individual and company account holders,
- possibility of contacting a consultant via text messages (chat). The service is available to logged in users and allows the customer to obtain full information about their products and order instructions,
- the possibility of making recurring payments with the BLIK code, which allow for quick and cyclical transactions, such as paying invoices from a given issuer, subscriptions. The service is available only in two banks.

Bank Pekao has made it possible for clients to make transfers to a BLIK phone. Ordering transfers using the bank's mobile application directly to a number from the phone book is one of the most convenient forms of payment currently available. It is not required to have the recipient's bank account number to complete the transaction - all you need is the phone number associated with the bank account.

Using the BLIK code, holders of individual and business accounts can withdraw cash from all ATMs with the BLIK logo and make cash deposits to their accounts at Euronet and Planet Cash cash machines.

The bank has provided its clients with the voice support for the mobile application. PeoPay users can quickly and conveniently check their account balance, contact the helpline, generate a BLIK code or order a transfer using Google Assistant. Voice support of the PeoPay application using Google Assistant is available on Android devices, and some functions require logging in to the application.

Bank Pekao S.A. as one of the first banks in Poland, made Apple Pay service available and is the only one that allows customers to link Apple Pay with their personal account via PeoPay mobile banking even without a card. In the August 2019, the Bank expanded its contactless payment offer with a Garmin and Fitbit mobile device by offering access to Garmin Pay and Fitbit Pay electronic wallets.

The bank systematically expanded the range of functions that can be implemented through remote access channels. The most important projects implemented in 2019 in the electronic banking system for individual clients included, among others:

- providing the possibility to submit applications for family benefits under the Family 500+ and Dobry Start 300+ programs,

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- implementation of the PekaolD service, secure and intuitive digital identity confirmation in electronic banking system, based on the MojeID service provided by the National Clearing House. Thanks to the PekaolD service, customers of the Bank can, for example, extend their contract with a mobile network operator, energy provider or take out a life insurance policy without leaving home,
- adapting to the requirements of the PSD2 directive the method of logging into electronic banking Pekao24 and the PeoPay mobile application by implementing additional verification of customer identity, the so-called strong authentication,
- providing a new, free method of transfer authorization using push notifications in PeoPay, which allows you to quickly and conveniently accept transactions without having to rewrite SMS codes.

In 2019, as part of the Digital Transformation Project implemented at the Bank, the Bank made available to new customers an electronic version of the electronic banking service - the new Pekao24. The new website is based on responsive technology (RWD - Responsive Web Design), which is characterized by intuitive navigation facilitating the use of the website regardless of the type of device used by the customer. The website has a rich financial analysis module supporting clients in daily financial management, a modern and intuitive interface that allows optimization of transaction processes most often performed by users of electronic banking

As part of the implementation of the new electronic banking service - Pekao24, work has also begun to provide comfortable access and use of online and mobile banking to customers with special needs (people with disabilities, seniors) - based on the international accessibility standard WCAG 2.1 and the Act of on April 4, 2019 on the digital availability of websites and mobile applications of public entities.

Acceleration of acquisitions in the segment of business clients (micro-entrepreneurs)

In 2019, the Bank recorded a significant increase in the number of new business customers (micro-entrepreneurs) thanks to the attractive offer of the Przekorzystne Biznes Account - in the whole year sales exceeded 31 thousand and was +46% higher than in the previous year. The fourth quarter of 2019 was particularly successful, in which sales amounted to 13.7 thousand and was 2x higher than realized in the fourth quarter of 2018.

Bank Pekao S.A. as the first in Poland implemented a simple, convenient and short process of opening an online account for micro-entrepreneurs, without the need to visit a branch. Individuals conducting business activity can open a company account remotely, on a computer. Identity verification is carried out online by taking your own 'selfie' photo and ID card photo. The service is available 24 hours a day, 7 days a week. In the third quarter of 2019, business customers were given the opportunity to contact the bank via: chat, video and voice connection to the bank's helpline via the internet.

Entrepreneurs who did not have an account at the Bank for the last year, Bank Pekao S.A. prepared special offers where the customer could receive a refund of 3 x PLN 200 each, including for opening a Konto Przekorzystne Biznes, contract for a payment terminal, contract for a credit, loan or credit card contract and to deposit money via the PeoPay app in approx. 4 thousand Euronet and Planet Cash deposit machines. In cooperation with Harvard Business Review Polska, the "OK, GO Biznes!" Training and educational portal has been made available to new business clients of the Bank. The portal enables clients, among others, free implementation of 3 online training modules, obtaining the prestigious ICAN Institute, HBRP and Bank certification Pekao SA after completed training, 3-month free access to the digital subscription of the monthly Harvard Business Review Polska.

The Bank has introduced into its offer on very favorable terms the "Pożyczkę Przekorzystną Biznes dla profesjonalistów", dedicated to clients conducting legal services, medical or dental practice. The loan is available for any purpose without material collateral, as well as without certificates from the Social Insurance Institution and the Tax Office.

The Bank also supports projects related to the installation of photovoltaic panels, offering customers a "Kredyt Przekorzystny" granted without material security and without a business plan.

Customers from the Śląskie Voivodeship have a preferential loan from the ESIF Silesia line, which is financed in 50% from the European Regional Development Fund.

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Entrepreneurs who for the last year did not have a payment terminal were offered a lease of up to three payment terminals for a period of 18 months, fee-free up to PLN 100,000, turnover on one device as well as additional, free services, among others terminal installation, service or staff training.

Bank launched a new payment terminal distribution process in 265 branches, which allows the customer within a few minutes of signing the contract to pick up the payment terminal at the Bank branch and activate it based on the SMS code received from the Bank. In the second part of 2019 about 40% of all payment terminals were activated as part of the new process. The total number of payment terminals issued to business customers in 2019 was 32% higher compared to 2018.

In 2019, in over 4,500 payment terminals, a new innovative contactless cashback function has been made available. The service allows you to withdraw cash when making purchases by bringing a card or other item with a mobile payment function close to the terminal. The service is available to Visa and MasterCard holders. The Bank also implemented the function of handling contactless transactions in the transaction currency conversion (DCC) service. The DCC service allows you to make transactions in the currency in which the payment card is issued. The currency conversion service can be used by both payment card users and mobile payments Apple Pay, Google Pay or HCE.

Customers with a payment terminal had the opportunity to participate in the program of commands www.zyskujzpekao.pl under which they could receive a prize in the form of vouchers worth PLN 150, while each new, registered entrepreneur could receive a voucher worth PLN 100 for concluding an agreement on using from the card acceptance service

As part of Pekao24 electronic banking for companies, business customers have access to modern PeoPay mobile banking, whose scope of functionality and available services is as wide as for an individual customer. The PeoPay application offers innovative solutions on the market such as:

- finger or face biometric approval of transfers and payments,
- 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.
- paying for internet purchases by phone abroad (or in a foreign online store) directly from the currency account maintained without any additional fees and commissions for currency conversion.

As at the end of December 2019, 74.4 thousand business users had an access to the mobile banking application for SME clients, and 49.7 thousand were active users. The number of business users with an access to the mobile banking application increased by 26 thousand compared to the end of 2018, 154.5 thousand customers actively used electronic banking

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6.4.2 Small and micro enterprises (SME)

In 2019, the Bank achieved a double-digit growth rate of commercial revenues in Small and Medium Enterprises (SME) Banking (+11% y/y) supported by an increase the volume of bank loans, leasing and factoring by +11% y/y and the acquisition of new SME clients increased by +18% y/y as well as the increase of average customer income per client by +18% y/y.

Small Medium Enterprises banking arm handles 47.000 clients. We run 57 Business Centers where clients receive the best service from the most qualified Advisors and Product Specialists (in the field of FX, Leasing, Factoring, Cash Management, Union funding or CRE). Our product offer embrace transaction banking (accounts, transfers, cash withdrawals and payments) as well as business funding supported by UE donations, treasury activities products, leasing or factoring.

In 2019, Bank concentrated on client satisfaction activities by providing new improvements in products and services area and key processes optimization. Thanks to these factors the amount of acquired clients raised up to 18% more than in 2018.

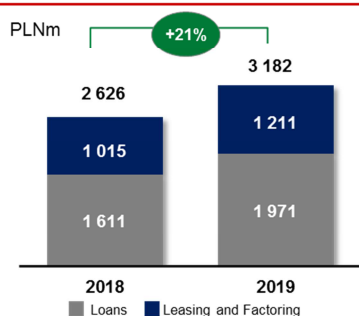
The Bank supports the "Polska Bezgotówkowa Program" offering attractive offer of payment terminals (POS). In 2019 the general amount of terminals increased 71% from 2018 levels in the analogical period.

For SME clients we provide a wide offer of FX Spot transactions and foreign currency risk security, which were offered only for corporate clients so far. FX transactions trading increased 12%, interest rate risk secure transactions volume – 6 times and foreign currency risk security – 7 times.

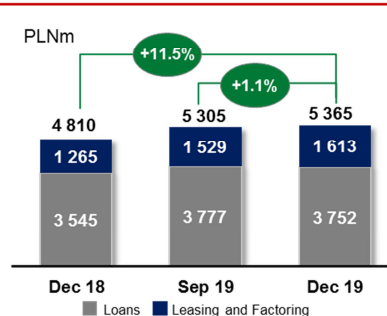
The increase in revenues from strategic cross-sell products, such as treasury products, leasing, factoring and cash management amounted to + 21% y/y.

In the credit area, processes related to obtaining financing by customers were simplified and accelerated. This contributed to the increase in the volume of loans (including leasing and factoring) by + 11% y/y to the level of PLN 5.37 billion. This was supported by an increase in new sales of + 21% y/y.

Loan sales



Loan volumes



Our credit guarantee and preferential financing is one of the widest offer in the market. In 2019 we signed with BGK successive contract according the credit guarantees for telecommunications companies. The guarantees offered for our clients by "Polska Cyfrowa" program are free, the access to the funds is also facilitated. It is another instrument for enterprises support besides the BGK Biznesmax Guarantee, EFI COSME Guarantee and EaSI. For the clients of Kuyavian-Pomeranian Voivodeship Bank prepared the special offer of the low-interest rates credits EFI line with the support by regional operational program.

In 2019 bank provided new credit offers connected with ecological operations. For example Kredyt PrzekOrzystny is dedicated for financing renewable energy sources with the use of solar panels for own use. Credit is secured with the free guarantee BGK Biznesmax so the clients are able to get the preferential credit rates and for the first 3 years of repayment of credits may obtain reimbursement of a percentage at the rate 5%.

Bank signed a contract with EBI for financing the projects that improve the energetic efficiency including thermo-modernisation, machine exchange or renewable energy sources. Thanks to that the entrepreneurs operating in Kuyavian-

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Pomeranian Voivodship may get the low-interest loan. Kredyt Energooszczędny is available only at Pekao S.A. The low-interest rates are possible by using the European Union funds offered by regional operational program.

Another year our bank presented the "Report of situation of the micro, small and medium enterprises in Poland". The report were created on basis of telephone interviews with the owners of 7.5 thousand enterprises employing up to 249 workers. Special subject of this year's edition was an expansion of polish enterprises for international markets. In the report were presented the official statistics data according the micro, small and medium enterprises as well as the macroeconomic prognoses for the polish economy for the forthcoming year. The results of the report are presented during the conferences organized in all the Voivodships which are the best opportunity for direct contact with the entrepreneurs.

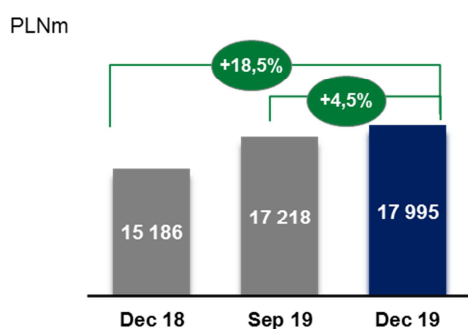
In October 2019 our Bank became again a strategic business partner for IX European Congress of Small and Medium Enterprises in Katowice. During the 3 days of the meeting took place expert discussions, workshops and debates. The clients had an opportunity to talk to the Business Experts about the most important issues about running the enterprises.

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6.4.3 Corporate customers

In 2019, the Bank achieved a double-digit growth rate of commercial revenues in Corporate Banking (+12% y/y) - supported by an increase in the volume of bank loans, leasing and factoring by +7.7% y/y (the highest growth rate in the MID segment where the increase assets amounted to +18.5% y/y and the acquisition of new MID clients increased by +15% y/y) as well as the increase in average customer income by +12% y/y. High income growth dynamics was achieved in all segments within the Corporate Banking Division due to the development of customer relations, focus on clients with the highest income growth potential, price discipline and activities in improving margins and optimal development of volumes as well as an increase in productization in the field of leasing, factoring and treasury products.

MID banking: Total assets



Market position and main directions of the activities

Bank Pekao S.A. is consistently implementing the adopted strategy according to which it strengthens its market position and 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, as well as highly advanced treasury and capital market products).

Bank Pekao S.A. is a leading financial partner for large and mid-sized enterprises as well as self-government units and financial institutions. The Bank's services are currently used by 12.6 thousand entities, including c.a. 3 thousand foreign clients and over 2.5 thousand local self-government units and municipal companies.

A wide range of products and services, innovative solutions, customised approach and comprehensive financial services rendered to enterprises, institutions and public sector units determine the strength and development potential of the Bank.

The Bank is available to clients at every stage of their business activity. The Bank supports the financial management processes in production and sales, automation of service processes, finances development and current liquidity as well as 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 expertise 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 and numerous awards are a proof of confidence in the expertise and experience of the Bank's specialists and the value the Bank creates for its clients.

The Bank implements the "Transformation Corporation 2.0" ,which is aimed at adjusting still better the offer and service model to the needs of corporate clients and it provides relationship managers with the necessary tools to identify these needs. The emphasis is put on strengthening the Bank's competitive advantages resulting also from the strong relationship of corporate business.

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Transactional services

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

The key achievements in the area of the Bank's transactional banking in 2019 include:

- an increase in the number and volume of domestic transfers by 13% and 8% year on year respectively,
- processing within the framework of Pekao Collect service (identification of Clients' mass payments) over 155 million transactions with the total volume of more than PLN 200 billion, i.e. an increase by 7% and 9% year on year respectively,
- an increase in volumes of foreign incoming and outgoing transfers by 6% and 15% y/y respectively,

Taking advantage of development of new technologies, the Bank is consistently implementing a number of innovative changes to its product offer.

In March of 2019, Bank Pekao was the first bank on the Polish market to provide corporate clients holding payment cards with an opportunity to use the Apple Pay service.

Another innovative solution designed for corporate card holders was the introduction of the possibility of making proximity payments with the use of Garmin and Fitbit watches. The Bank's solutions in the area of alternative methods of making card payments, addressed to corporate clients, fit in with modern market trends.

In 2019, Bank Pekao was the first bank on the market to provide corporate clients with the option of using the VAT "White List" tool, which allows you to verify contractors with the VAT white list directly from the level of the PekaoBiznes24 platform. The new functionality will allow clients to fully manage their settlements, in the scope resulting from the Act.

Trade finance

The Bank recorded a further increase in the area of financed receivables noted double-digit dynamics as compared to 2018. The Bank's involvement in eFinancing service increased by +12%. This increase was possible thanks to the continuous adjustment of the offer to clients' expectations, and also due to further development of the Open Financing Platform (OPF). In 2019, the Bank financed over 8.5 thousand invoices for a total amount PLN 180 million.

In 2019, the amount of newly granted guarantees and sureties increased by over 16%. The Bank's exposure resulting from the issued guarantees rose by approximately 22% as compared to the previous year.

Bank Pekao S.A. continued cooperation with Bank Gospodarstwa Krajowego regarding participation in the Export Letters of Credit Program. This Program allows the Bank to confirm and discount export letters of credit from countries with higher risk, having executed consecutive deals supporting Polish companies in their expansion on foreign markets.

The Bank introduced a number of modifications and improvements to the processes and systems for handling trade finance products, adjusting them to changing regulations regarding, among others, anti-money laundering and terrorist financing, split payment methods and VAT white list.

Cooperation with international clients

The Department of International Banking and Export Financing has the mission of supporting export plans of the Polish companies present on foreign markets or considering expansion abroad. Companies operating in Poland are provided in the Bank with the package of the most advantageous financial solutions adjusted to the business model.

A key element of support, and at the same time a condition for strengthening the presence of domestic entities on foreign markets, is providing clients with more attractive products offer for financing foreign contracts.

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The Bank granted loans and prepared comprehensive offers for both short and long-term financing of international operations. The granted loans finance the expansion of Polish enterprises both on the European markets as well as in developing countries. When carrying out transactions, the Bank cooperated, among others with KUKI, using the framework agreement concluded in 2018.

In the first half of 2019, the Bank signed a Cooperation Agreement with the PolChambers, associating more than 5 thousand companies on five continents. Thanks to this Agreement the Bank has gained an easier access to companies operating worldwide and is able to provide them with a wide range of services, including a special offer for financing exports from Poland.

In 2019, the Bank prolonged the cooperation agreement with the UniCredit Group, which provides for servicing UniCredit clients on the Polish market and Polish clients on foreign markets. The agreement allows to support Polish clients in conducting business in the countries where the UniCredit Group operates, which facilitates the foreign expansion of Polish companies. The agreement also strengthens the role of the Bank as an expert in cross-border solutions for international clients and it positions Bank Pekao S.A. as a Polish bank acting on European market.

Investment banking, structured finance and commercial real estates

The Bank consistently supports the development of enterprises and infrastructure through long-term financing of investments in different segments of economy. It offers clients a wide range of services in the field of investment banking, structured financing and commercial real estate project financing, including financing of hotels. The Bank also finances projects aimed at redevelopment of brownfield sites in order to improve common space and also provides financing allowing Polish enterprises to carry out mergers and acquisitions, including cross-border acquisitions.

The most important projects financed by the Bank in 2019 include:

- syndicated financing for a leading company from the energy industry in total amount of PLN 10 billion; the Bank participated as a loan agent and lender,
- syndicated financing for an entity from the mining industry in total amount of USD 1,5 billion, the Bank participated as the loan agent, lead arranger and one of the major lenders,
- syndicated financing for a leading company from the e-commerce sector; total loan amount: PLN 2 billion,
- significant participation in the placement of bonds issued under the bonds issue program in the amount of PLN 2 billion for a company from the mining industry,
- syndicated financing for a leading entity from the fuel industry in total amount of USD 500 million; the Bank participated as the loan agent, bookrunner and arranger of the transaction,
- arranged financing for a leading company from the commercial sector, the Bank performed the role of Physical Bookrunner. Financing for the amount of PLN 1,8 million,
- arranged issue of corporate bonds for the amount of ca. PLN 1,4 billion for a client from the energy industry; the Bank participated as the sole arranger of bonds issue,
- syndicated financing for an entity from the infrastructure sector; total loan amount: ca. PLN 1.3 billion,

In 2019, new loans for financing commercial real estate amounted to PLN 3.3 billion and included, among others, the following transactions:

- participation in financing the construction of the biggest office building complex in Poland, the total loan amount: EUR 350 million,
- co-financing the construction of one of the most modern office buildings in Warsaw, the total loan amount: PLN 600 million,
- participation in financing the construction of a high-rise building in the centre of Warsaw; the total loan amount: EUR 140 million,

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- loan for financing the construction - by the Polish developers - of office buildings in Warsaw, the total loan amount: EUR 87 million,
- financing the construction of an office building in Katowice; the total loan amount: PLN 293 million.

Issuance of debt instruments

In the area of arrangement and management of commercial debt securities (above 365 days), taking into account outstanding debt, as at 30 November 2019, Bank Pekao S.A. had a 19% market share, including:

- 21% market share in arrangement of corporate bonds issues,
- 14% in the segment of bank debt securities (including pledge letters),
- 24% market share in arrangement of municipal bonds issues.

The Bank's market share in corporate bonds issues (above 365 days) carried out on the Polish market in the period of January-November 2019 was 35%.

In 2019, the debt securities of large enterprises, banks and municipal units were issued through the Bank for the total amount of nearly PLN 17.6 billion, of which the following transactions deserve special attention:

- issue of bonds for a leading company from the mining and steel sector operating in Poland and worldwide, for the total amount of PLN 2 billion,
- issue of bonds for the total amount of PLN 2 billion for one of the leading companies from the power sector in Poland, issue of bonds for the top enterprise from the power sector in Poland for the total amount of PLN 1,4 billion; Bank Pekao was the sole arranger and dealer in these transactions,
- issues for local government and subsidiaries for a total amount of almost PLN 1.4 billion,
- issue of 7-year bonds in the amount of PLN 1 billion for the largest provider of pay television in Poland and satellite platform in Europe,
- issue of one's own subordinated bonds in the 12NC7 format in the amount of PLN 750 million,
- issue of 5-year bonds for the amount of PLN 300 million for the largest Polish company involved in designing, production and distribution of clothes,
- issue of mortgage pledge letters with maturity of 5,5 years in the amount of EUR 50 million for Bank Hipoteczny belonging to the Bank Pekao S.A. Capital Group,
- bond issues for the companies operating in the developer sector, including two series of 3-year and 3,5-year bonds for an international developer in the total amount of PLN 275 million, the issue of 4-year bonds in the amount of PLN 160 million for one of the largest entities in Poland operating in the commercial real estate sector, the majority shareholder of which is State Treasury; the issue of 3,5-year bonds in the amount of PLN 60 million for one of the leading Polish developers and the issue of 3-year bonds in the amount of PLN 41 million for one of the best-known Polish developers from the premium segment,
- issues of seven series of bonds with maturity up to 3 years for a leasing company belonging to an international financial group for the total amount of PLN 360 million.

Cooperation with international and domestic financial institutions

As at 31 December 2019, the Bank maintains 75 nostro accounts with 47 banks in 26 countries; it runs 232 loro accounts for 208 foreign clients (banks and other financial institutions) from 48 countries and 51 current accounts for 43 foreign financial institutions.

The Bank also intermediates in the execution of transactions on behalf of clients of other domestic banks, running 34 loro accounts for 14 Polish banks and maintaining 6 nostro accounts with 1 Polish bank.

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Implementing the strategy aimed at development of cooperation of the Bank Pekao S.A. Capital Group with small and mid-sized companies, in 2019, Pekao Leasing Sp. z o.o. subsidiary company concluded the already fourth credit line agreement in the amount of EUR 100 million with the Council of Europe Development Bank. The agreement provides for financing projects creating and retaining jobs in micro, small and mid-sized enterprises. The total loan amount granted to Pekao Leasing by the Council of Europe Development Bank reached EUR 400 million. Bank Pekao both arranged the transaction and guaranteed the loan.

In addition, Pekao Leasing signed another, sixth loan agreement with the European Investment Bank for the amount of EUR 100 million secured with the guarantee issued by Bank Pekao S.A. Thus, the total amount of the loan granted to Pekao Leasing by the European Investment Bank rose up to EUR 473 million. The proceeds from the new loan agreement will be used for financing small and medium-sized enterprises. A distinctive feature is the commitment of Pekao Leasing to promote women's entrepreneurship and environmental protection. Bank Pekao S.A. also arranged the transaction.

In 2019, Pekao Leasing also signed a long-term loan agreement with Bank Gospodarstwa Krajowego for the amount of PLN 350 million. It is already the second loan granted by this bank. Pekao Leasing is committed to offer competitive leasing conditions to Polish small and medium-sized companies. A collateral for the loan is the bank guarantee issued by Bank Pekao S.A. which was also the transaction arranger.

Comprehensive service of public sector finances

In 2019, 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 municipal companies, co-creating and developing Polish infrastructure.

In 2019, the Bank granted about PLN 2 billion of loans to municipal companies for the public sector's development projects. The Bank's participation in financing different areas of municipal economy has contributed to a significant improvement in the quality of life of local communities.

The most important transactions of the Bank concluded in 2019 are as follows:

- a loan granted for the first Air Port City in Poland and development of the airport infrastructure in the amount of PLN 453 million,
- another financing provided for development of public transport in Gdańsk in the amount of PLN 410 million,
- a loan granted for development of municipal housing in Poznań in the amount of PLN 117 million,
- a loan granted for building an educational water park in Szczecin in the amount of PLN 330 million (the bank's participation in the consortium 33%),
- loans granted to a company providing waste collection services in Warsaw in total amount of PLN 121 million,
- an open-end municipal bond investment fund established by Pekao TFI in 2019 with the share of min. 50% of pledge letters and municipal bonds issued by Bank Pekao.

In 2019, the Bank carried out 4 issues of investment certificates of closed-end municipal investment fund for a total amount of ca. PLN 200 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

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 December 2019, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 2,365.3 million, a increase by PLN 130.5 million, i.e. 5.8% in comparison to end of December 2018. Loans granted to corporates and local governments represents 37.0% and 16.6% respectively and loans granted to individual clients represents 46.4% of loan portfolio. Loans granted in the 2019 were dedicated to finance commercial real estate, housing loans to individuals represent 56.4%, 43.6% respectively.

In 2019, Pekao Bank Hipoteczny conducted covered bonds denominated in EUR. The total value of liabilities due to covered bonds amounted PLN 1,478.6 million as of December 31, 2019.

In addition in 2019, Pekao Bank Hipoteczny conducted two issue of bonds each for the amount to PLN 150.0 million. The bonds were issued as part of the issuer's bonds issue program up to the amount of PLN 1 billion.

The Pekao Bank Hipoteczny S.A. possess 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.– 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 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. The Pekao TFI offer includes also a portfolio management service and Employee Capital Plans (PPK). The company has been entered into the PPK register, and its offer is available on the portal mojeppk.pl.

As of 31 December, 2019, the net asset value of investment funds of Pekao TFI S.A. (including PPK) amounted to PLN 21.6 billion, an increase of PLN 2.2 billion, i.e. +11.2% as compared to the end of December 2018.

At the end of the year, Pekao TFI was in third place in terms of net asset value with an 8.1% market share, compared to the fourth position a year earlier and a 7.6% share.

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6.5.3 Leasing activity

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

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

In 2019, the Company concluded 16.5 thousand new agreements. The value of leased assets increased in comparison in 2018 by 38.5% and amounted to PLN 4.4 billion, of which 64.8% were vehicles, 29.6% - plant and equipment, 3.7% - real estates and 1.9% - others. Under the program of co-operation between Pekao Leasing and Bank Pekao S.A. in the area of sale, the value of assets leased via the Bank's branches amounted to nearly PLN 3 billion and increased by +12.4% in comparison to 2018.

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 1st on the Polish factoring market, with 17.4% 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 Pekao IB 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 2019, Pekao IB acted as an intermediary entity in a public tender of a company listed on the Warsaw Stock Exchange (WSE), as well as two share buyback conducted by the WSE-listed companies. Additionally, acted also as the Offeror in 37 bond issues and as market maker both on equities as well as on derivative instruments market, being one of the most active entity of this market. At the end of December 2019, Pekao IB was the market maker for 19 companies and 28 series of derivatives.

6.5.6 Other financial services

Pekao Direct Sp. z o.o. (previously Centrum Bankowości Bezpośredniej Sp. z o.o.) – Pekao Direct

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

Pekao Direct supports Bank as the main customer, in the field of internet banking, cards and call centre product. Pekao Direct serves clients through alternative channels communication, including telephone conversation, e-mail and chat.

The main channel of communication is phone calls - in 2019 Pekao Direct handled 15.6 million calls. Pekao Direct participates in the innovative process of setting up selfie accounts, introduced by Bank Pekao S.A. in 2019 (verification of over 10 thousand accounts opened for selfies by Pekao Direct). In June 2019, the chat service was launched as part of the PeoPay application - currently 38.8% of chat traffic comes from the mobile channel. The development of communication in the chat channel caused the company to record a 108.5% increase in interaction compared to last year. In 2019, the sales of cash loans with the support of Pekao Direct increased by + 14% y/y, and the sales of mortgage loans in a remote process at Pekao Direct increased by + 30% y/y.

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

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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 and PPK.

Among the clients served by the PFS there are companies with established market position. At the end of 2019 the company was the only entity that supports OFE funds using the services of an 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.

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 2019, was the implementation of new services i.e. opening an account for a selfie (in PeoPay application) and extending BLIK mobile payment services.

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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 2019, the main training priorities of the Bank were as follows:

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

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

The Bank realized training projects supporting personnel in proper distribution of banking products, including bancassurance products. In the cooperation with PZU, Bank conducted 750 licensing examinations in scope of selling insurance products, above that, almost 1.3 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 modern sales techniques for employees serving clients from the medium enterprises sector and employees offering financial instruments.

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 2019, the Bank delivered in form of class room over 226 thousand of training hours (class room and virtual sessions), in which attended over 9.7 thousand of employees confirming the Bank's determination in efficient implementation of products, methods, required regulations and customer care. E-learning courses and trainings were completed at a similar lever of over 278 thousand hours.

In addition the Bank realized a series of training in a form of e-learning, including dedicated projects on newly implemented regulations, i.e. rules for managing confidential information or new products, i.e. Investment Consulting, Employee Capital Plans. Widelearnings courses on the current situation in the financial markets were also launched. In cooperation with PZU, the Bank conducted a series of professional trainings for natural persons performing agency activities.

Development programs and initiatives

In 2019, 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 the following processes:

- 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,

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- 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 2019, more than 12,6 thousand of employees were invited to this process,
- Assessment Center / Development Center sessions – an evaluation of the professional potential, the results of AC/DC were used in decision-making processes regarding employment, promotion and employee development. Over 900 employees were invited to participate in the sessions in 2019.

In 2019 the programs has been initiated dedicated to the employees responsible for finance and risk management. Main goal of those programs were to deliver knowledge enabling the increase of their analytical competences.

In 2019, furthermore, fulfilling the development needs of employees from the areas of finance, risk management and service of branches the programs have also been launched that focus on leadership competencies of the managerial staff. A development program was also implemented for employees responsible for purchases in the Bank, meeting their development needs, in terms of competences diagnosed as areas to be strengthened on the basis of Development Center sessions.

Taking into consideration particular support for the top managerial staff, a special, dedicated training project was launched, enabling the quick and direct use of acquired knowledge in practice.

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.

Pro-Wellness activities

In 2019, activities were continued to provide employees with a health protection system, including through training and development initiatives under the name Kierunek Zdrowie and Power-ON, promoting behavior patterns related to a healthy diet, mental and physical health, stress management and work-life balance. Over 2 thousand took part in these projects. employees who could benefit from comprehensive help of a dietitian, personal trainer, body composition measurement, training, massage and consultation with a physiotherapist, workshops on how to tame stress and how to fight for your health.

Apprenticeship programs

One of the annual objectives of the Bank is to obtain a certain number of graduates of the best universities in Poland and abroad, 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:

- A year-long internship program addressed to university students and graduates. The internships last from 2 weeks to 3 months and give the opportunity to gather experience in various banking areas, in all organizational units of the Bank.
- Summer Internship Program "Akademia Żubra" addressed to university students and graduates. The program lasts for 2 months and is a good start for students who want to learn about functioning of the Bank's business areas. Participants actively support units and implement individual projects. In the range of the Program Apprentices are invited to participate in workshops on soft and technical competences.
- "Banking Champions" Internship Program is a unique internship offer on the market. The program is addressed to students who are currently in Poland and abroad and want to create modern solutions in the Polish banking sector. The program offers development in the areas of Investment Banking and Strategic Management of the Bank. The role of the Mentor is key, as he shares his knowledge and experience with the Interns.

Compensation policy

The Compensation Policy of Bank 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.

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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.

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 2018, according to the provisions of the Supervisory Board of Bank Pekao S.A. Regulation was presented for the General Meeting of Shareholders on June 26, 2019. After considering the report, the General Meeting of Shareholders estimated that the functioning of the Bank's Compensation Policy in 2018 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.

The Subsidiaries of the Bank's capital group have and apply the Policy on the same principles as those applicable at the Bank, including general provisions regarding the Subsidiaries operations.

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 behavior 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 5 years by considering economic cycle and the risk resulting from conducted activity.

Since 2019, the rules of Variable Compensation Systems for Members of the Management Board have changed, which introduced the provisions set out in Resolution No. 42 of the Annual General Meeting of Bank Polska Kasa Opieki Spółka Akcyjna dated on June 21, 2018 regarding the principles of determining the remuneration of Management Board members.

Variable remuneration systems implemented in the Bank's subsidiaries have schemes similar to the Bank for the division of remuneration into cash and financial instruments, taking into account general provisions and guidelines of market regulators regarding the sectors in which the subsidiaries operate.

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 goals.

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According to the provisions of the Corporate Collective Labour Agreement (CCLA) 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. At the same time, in 2019, in consultation with trade unions, guidelines were introduced regarding variable remuneration, i.e. the quarterly bonus for Employees of sales networks covered by the CCLA. This change is aimed at increasing the efficiency of sales forces in retail banking.

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. Due to changes in the composition of the Bank's Management Board in 2019 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. This fact is confirmed by the Bank's accepted and implemented commitment related to the presence of both sexes at each level of management and supervision at the Bank.

Corporate values

The Bank's employees in their daily relations are guided by the corporate values. The Bank's values defined in the Integrity Charter are the following: 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 independent, experienced, retired manager 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 2019 the Ombudsmen continued the individual meetings with Bank's employees in order to apply the corporate values in the employee relations.

Relations with Trade Union Organizations

In 2019 the cooperation between the Bank and Trade Unions in the range of consultation, negotiations and other agreements were led pursuant to the rules defined in the labour law, with respect for both sides' interests and social dialog rules.

In 2019, 30 meetings between the Bank and Trade Unions were taken place. The meetings and agreements between both sides concerned the topics resulted from the company – internal labour law and the generally applicable regulations, changes in the company – internal labour law, including those concerned the Collective Labour Agreement, the agreement concerning the rules of Company Social Benefits Fund usage and other topics regarding the collective employees labour rights.

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Additionally, in 2019 the Employer consulted with Trade Unions the plan to carry out the groups dismissals based on article 2 of Act dated March 13 2003 about specific rules of termination of Employment due to Reasons not Attributable to Employees. On April 25, 2019, the Bank concluded an agreement with all Trade Union organizations operating in the Bank defining the principles of collective redundancies with all trade unions operating at the Bank. The parties to the agreement, among others selection criteria for employees whose employment contracts will be terminated and whose terms and conditions of employment will be amended as part of collective redundancies, severance pay conditions and additional compensation and the scope of the assistance program for dismissed employees. It was also agreed that collective redundancies will cover not more than 900 employees in case of termination of employment contracts and not more than 620 employees in case of amendment of terms and conditions of employment until 31 October 2019.

Additionally, during year 2019, the meetings and negotiations with some of the Trade Unions operating in the Bank were taken place in the range of the disputes initiated by Trade Unions:

- as the result of conducted negotiations on April, 25 2019 Bank ended the dispute commenced by two Trade Unions and signed „the Agreement of closure of group dispute”. The above mentioned dispute concerned among others the payment demands and bonuses' principles;
- Bank conducts the negotiations with one of the Trade Unions in order to settle the frames and scope, but also the possibilities to end the dispute. The existence of above mentioned dispute as the result of written claims presented in 2016 was confirmed by the Court of Appeals judgment on April, 9 2019 that changed the previous District Court in Warsaw sentence that dismissed the lawsuit. Apart from the process of negotiations, the Bank brought the appeal against this judgment in cassation in its entirety. Since now, the High Court did not make the decision whether to accept or to reject the acceptance of cassation review and did not review it;
- Bank started to talk with one of the Trade Unions, which informed in written about 'the commencement of the group dispute' on September, 30 2019 about the claims concerning the employees job descriptions and conducting the research. The talks conducted till now were aimed at explaining the scope of presented requirements and Trade Unions expectations.

Trade Unions are entitled to place on the Bank's intranet web sides their newsletters and information concerning the crucial employees matters, including dialogue conducted with the Employer.

Relations with the Works Council

On June 2019 Pekao S.A. Bank Works Council 4-year term of office has ended. The Works Council as the Employees' representative is entitled to get information and to conduct the consultations with the employees on matters defined by the Worker Information and Consultation Act of April 7, 2006 which concerns the information and consultation duties. The discussions with the Works Council in 2019, concerned issues covered by the relevant legal regulations and co-operation with the Works Council progressed with respect to the mutual rights of the parties involved. Information from meetings of the Work Council with the Employer is published on the Intranet available to the all Bank's employees. Because of the fact, that the Bank received the 10% of written Employees' motions concerns the elections execution according to article 8 of Act dated April 7 2006, Bank will organize the elections to Works Council for the next term of office in 2020.

Workforce in number

As at the end of December 2019, the Group employed 15 678 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 16 714 employees as at the end of 2018.

The average age of the employees was 46.5 years, 70.5% of the employees are university graduates (69,6% in 2018), women represent 75.0% 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.

In 2019, Bank Pekao celebrated its 90th birthday. Therefore, in this unique year, the Bank engaged in a number of events that highlighted historical achievements, the pioneering nature of operations in the financial sector as well as the Bank's social responsibility and patriotism documented during all the years of operation since 1929. History of Pekao S.A. means the history of Polish banking: Pekao, as the first bank in Poland launched an ATM, issued the first credit card, launched a brokerage house and applied biometrics in banking.

The celebration of the 90th anniversary of the Bank's establishment began on March 18, 2019 with a grand gala at the National Theater in Warsaw. The ceremony was attended by distinguished guests, headed by the President of the Republic of Poland. The gala in Warsaw began a series of jubilee events in many different Polish cities. In the following months, similar events were organized in major Polish cities, such as Szczecin, Katowice, Kraków, Poznań, Lublin, Gdańsk, Bydgoszcz and Wrocław. During the ceremonies a documentary movie illustrating the history of the Bank was presented, as well as an artistic program performed by outstanding Polish artists based on the hits of the Second Polish Republic.

In 2019, the Bank financially supported, among others: the 17th Podkarpacka Football Gala NIKE, Olsztyn's Juveniles "Kortowiada 2019", Summer with a Book 2019, Gala "Heart for Animals", International Congress of Generations, Concert "100th Anniversary of the Silesian Uprisings", International Polish Music Competition in Rzeszów, VIII International Festival We Discover Paderewski, I Congress of Family Businesses.

Significant element of the Bank's activities is to support important economic initiatives. In 2019, the Bank was present, among others, for the second time at the World Economic Forum in Davos, where, together with PZU, we opened and ran the Polish House - a place dedicated to international meetings, debates and conferences. The Polish House in Davos allowed to promote the Polish economy and its achievements, as well as showing the values and potential of Central and Eastern Europe. The debates run in the Polish House were attended by presidents and prime ministers of the countries from CEE region, prominent economists, as well as representatives of the largest companies from our part of Europe.

Other key initiatives attended by Bank Pekao S.A. were CEO Summit, European Financial Congress in Sopot, Economic Forum 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). In 2019, for the third time in history (2002, 2016), the Pekao Szczecin Open Tournament received the prestigious THE BEST CHALLENGER AWARD distinction.

Report on the activities of Bank Pekao S.A. Group for the year 2019

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 2019, the jubilee year for the Bank, the Foundation was also involved in celebrating the 90th anniversary of the Bank's existence. The Foundation organized, among others grant competition supporting employee volunteering. 90 projects were organized countrywide for the 90th anniversary of Bank Pekao S.A. under the slogan "We are close". Volunteering projects covered a number of initiatives in such categories as ecology, education, sport, culture and art, health promotion and help for animals. Such a wide range of initiatives decided that every employee could propose a project related to topics close to the needs of the local community.

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.

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.

Report on the activities of Bank Pekao S.A. Group for the year 2019

7 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 31 December, 2019 and 2018 respectively is presented in the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2019,

The Report on activities of Bank Pekao S.A. Group for 2019 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 The consolidated income statement – presentation form

The consolidated income statement – presentation form

(in PLN million)

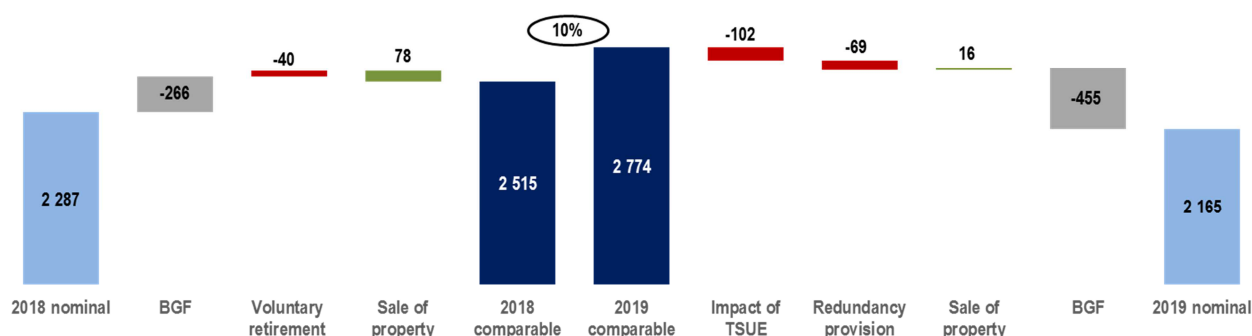
	2019	2018	CHANGE
Net interest income	5,468.0	4,994.0	9.5%
Net fee and commission income	2,533.7	2,462.6	2.9%
Dividend income	22.4	20.2	10.9%
Trading result	214.1	216.8	(1.2%)
Net other operating income and expenses	97.6	63.5	53.7%
Net non-interest income	2,867.8	2,763.1	3.8%
Operating income	8,335.8	7,757.1	7.5%
Operating costs	(3,537.1)	(3,443.7)	2.7%
Gross operating profit	4,798.7	4,313.4	11.3%
Net impairment losses on financial assets and off-balance sheet commitments	(696.0)	(511.0)	36.2%
Net operating profit	4,102.7	3,802.4	7.9%
Net result on other provisions	(71.3)	(14.0)	> 100%
Bank Guarantee Fund fee	(454.7)	(266.2)	70.8%
Tax on certain financial institutions	(591.4)	(562.0)	5.2%
Net result on investment activities	17.2	87.1	(80.3%)
Profit before tax	3,002.5	3,047.3	(1.5%)
Income tax expense	(835.9)	(759.5)	10.1%
Net profit	2,166.6	2,287.8	(5.3%)
Attributable to equity holders of the Bank	2,165.0	2,287.2	(5.3%)
Attributable to non-controlling interest	1.6	0.7	> 100%

Net profit of the Bank Pekao S.A. Group attributable to the Bank's shareholders in 2019 amounted to PLN 2,165.0 million and on comparable basis^(*) increased by 10.3% y/y, mainly due to the dynamic development of commercial activities, strict control of operating costs and lowest cost of risk compared to direct competitors. Nominal net profit was lower by 5.3% y/y, mainly due to a significant increase in contributions to the Bank Guarantee Fund and provision for legal risk related to foreign currency mortgage loans in CHF and provision for refunds of commission for early repayments of consumer loans.

(*) excluding restructuring provision, costs of voluntary retirement program, costs of the return of commission for early repayment of consumer loans, provision for legal risk related to foreign currency mortgage loans in CHF, profits from the sale of property, plant and equipment and Bank Guarantee Fund (BGF) fee.

Report on the activities of Bank Pekao S.A. Group for the year 2019

The chart below illustrates the above-mentioned exclusions and dynamics of net profit for shareholders



Operating income

In 2019, the Group's operating income amounted to PLN 8,335.8 million and was higher by 7.5% y/y than operating income in 2018 mainly thanks to the acceleration of the dynamics of core revenues (an increase by 7.3% y/y). The dynamics of commercial income which includes income from the Group's products offered in the Bank's network amounted to 12% y/y, compensating a decrease in income from the sale of securities from the investment and a decrease in the interest rate on the treasury bond.

Total net interest income

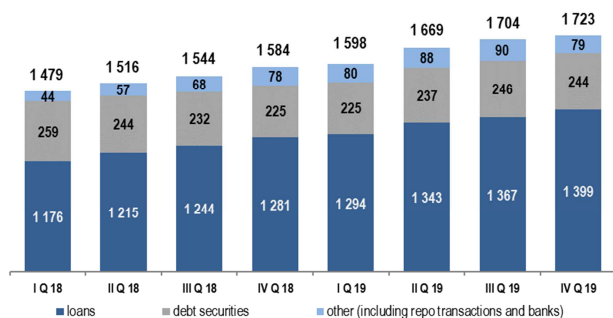
(in PLN million)

	2019	2018	CHANGE
Interest income	6,692.9	6,122.3	9.3%
Interest expense	(1,224.9)	(1,128.3)	8.6%
of which on leasing	(13.4)	(1.5)	> 100%
Net interest income	5,468.0	4,994.0	9.5%

Net interest income in 2019, amounted to PLN 5,468.0 million and was higher by PLN 474.0 million, i.e. 9.5% compared to the 2018, mainly driven by higher volumes of loans and deposits as well as higher margin. Positive dynamics of commercial activities allowed to compensate the effect of a drop in interest rates on the bonds portfolio.

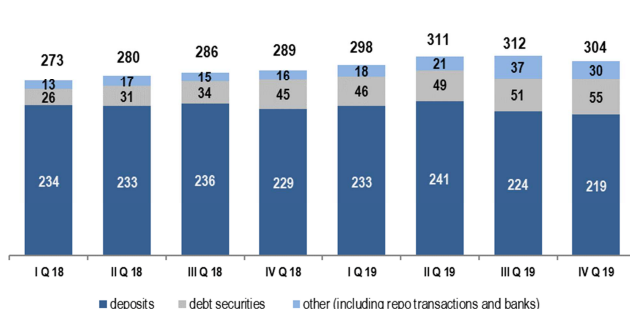
Report on the activities of Bank Pekao S.A. Group for the year 2019

Interest income



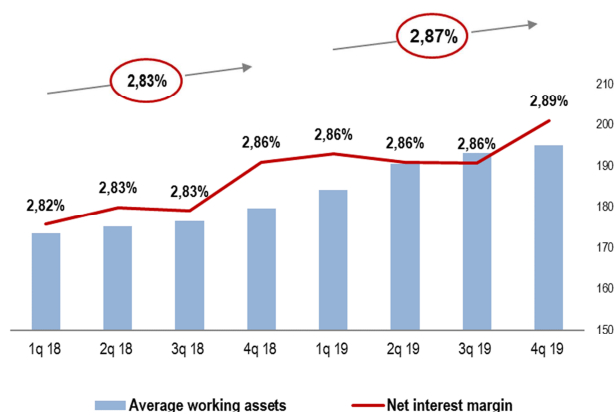
In 2019, the interest income amounted to PLN 6,692.9 million and was higher by PLN 570.6 million year on year thanks to higher income from loans and advances to customers by PLN 475.7 million, as a result of an increase in loan volumes by 8.6% year on year, in particular in the area of small and medium enterprises segment, growing with strong double-digit dynamics.

Interest expense



In 2019, the interest expense amounted to PLN 1,224.9 million and was higher by PLN 96.6 million year on year, mainly due to the increase in expenses related to on issue of debt securities, with lower due to customer deposits despite an increase in volumes by 5.4% year to year. Excluding the effect of the regulations on International Financial Reporting Standard No. 16, the growth rate of interest costs decreased to 7.5% y/y, below the growth rate of interest income.

Interest margin



The interest margin achieved in 2019 amounted to 2.87% and was higher by 4 b.p.

Report on the activities of Bank Pekao S.A. Group for the year 2019

Net non-interest income

(in PLN million)

	2019	2018	CHANGE
Fee and commission income	2,912.5	2,844.1	2.4%
Fee and commission expense	(378.8)	(381.5)	(0.7%)
Net fee and commission income	2,533.7	2,462.6	2.9%
Dividend income	22.4	20.2	10.9%
Trading result	214.1	216.8	(1.2%)
of which gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	71.9	141.8	(49.3%)
Net other operating income and expense	97.6	63.5	53.7%
Net non-interest income	2,867.8	2,763.1	3.8%

The Group's net fee and commission income in the 2019, amounted to PLN 2,533.7 million and was higher by PLN 71.1 million, i.e. 2.9% compared to the 2018, mainly due to:

- higher commission on loans by 10.9% year on year, supported by a dynamic increase in financing of corporate clients and higher sales in key retail products, income on cards and higher income on foreign exchange transactions with clients,
- higher commissions related to card activities, thanks to the increase in the number of customers actively using payment cards (increase in the volume of non-cash transactions by 17% y/y) and leading position on the card acceptance market,
- higher revenues related to foreign exchange transactions with clients, thanks to the higher volumes in all business segments.

In the 2019, other income amounted to PLN 334.1 million and was lower by PLN 33.6 million as compared to the 2018, mainly due to an increase in the result on commercial trading activities by PLN 59.5 million and other net operating income and expenses compensating the decrease in profits from the sale of securities.

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

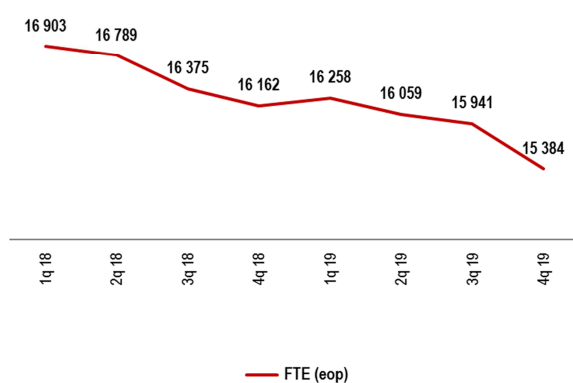
(in PLN million)

	2019	2018	CHANGE
Net fee and commission income	2,533.7	2,462.5	2.9%
on loans	516.9	466.1	10.9%
on cards	346.2	327.9	5.6%
on mutual funds	435.7	444.0	(1.9%)
on brokerage activate	63.0	83.4	(24.5%)
on margins on foreign exchange transactions with clients	491.8	461.3	6.6%
other	680.1	679.8	0.0%

Report on the activities of Bank Pekao S.A. Group for the year 2019

Operating costs

The operating costs amounted to PLN 3,537.1 million in 2019 and in comparable conditions were higher by 1.7% y/y, significantly below inflation and despite the costs of ongoing investments in operational transformation and digitization. Nominally, the costs were higher by PLN 93.4 million, i.e. 2.7% compared to the costs achieved in the 2018, mainly due to the restructuring provision for collective redundancies in the amount of PLN 85 million



On 1 January, 2019, the Group has adopted International Financial Reporting Standard No.16, as a result of which the operating cost structure changed by increasing depreciation costs while reducing other administrative expenses.

(in PLN million)

	2019	2018	CHANGE
Personnel expenses	(2,077.7)	(2,036.6)	2.0%
Other administrative expenses	(955.2)	(1,035.6)	(7.8%)
of which Financial supervision authority fee (KNF)	(25.2)	(18.4)	37.0%
Depreciation and amortization	(504.2)	(371.4)	35.8%
Operating costs	(3,537.1)	(3,443.6)	2.7%

In 2019, cost / income ratio excluding restructuring provision in 2019 and the cost related to the Program Dobrowolnych Odejść in 2018 amounted to 41,3% and was lower by 2.5 p.p. y/y, approaching the strategic target of 40% set for 2020.

As of 31 December, 2019, the Group employed 15,678 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 16,714 employees as at the end of December 2018.

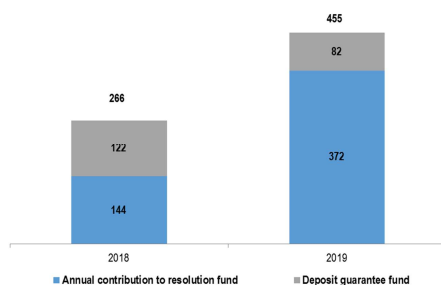
Result on other provisions

Result on other provisions in 2019 amounted to PLN 71.3 million and was higher by PLN 57.4 million than in 2018 mainly due to the creation of a provision for the return of commission for early repayment of loans for a total amount of PLN 29.1 million and provision for legal risk regarding foreign currency mortgage loans in CHF in amount PLN 22,4 million w 2019 r.

Report on the activities of Bank Pekao S.A. Group for the year 2019

Bank Guarantee Fund fee

Bank Guarantee Fund fee in 2019, amounted to PLN 454.7 million, an increase of PLN 188.5 million, i.e. in comparison to 2018 due to the increase fee for contribution to resolution fund of banks.



Tax on certain financial institutions

Tax on certain financial institutions in 2019 amounted to PLN 591.4 million and was higher by PLN 29.4 million, i.e. 5.2% in comparison to 2018, due to an increase in Group's assets by 6.4%.

Net impairment losses

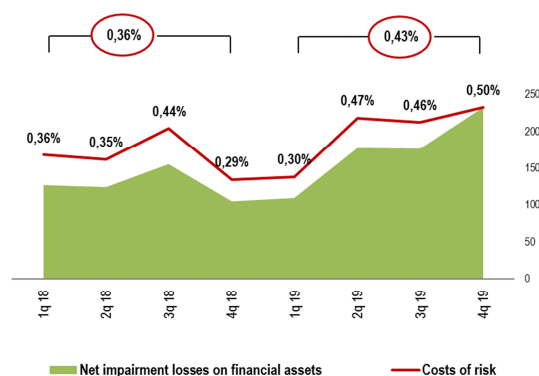
(in PLN million)

	2019	2018	CHANGE
financial assets measured at amortized cost	(635.1)	(475.9)	33.5%
financial assets measured at fair value through other comprehensive income	(10.8)	(0.4)	>100%
financial liabilities measured at amortized cost	(50.1)	(34.7)	44.4%
Net impairment losses on financial assets and off-balance sheet commitments	(696.0)	(511.0)	36.2%

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 696.0 million in the 2019, with an increase of PLN 185.0 million, i.e. 36.2% as compared with 2018, mainly due to provision for legal risk related to foreign currency mortgage loans in CHF amounted to PLN 36.3 million and one-off recognition of additional write-offs in the amount of PLN 35.4 million gross, due to a change in the method of estimating impairment for the loan portfolio of stage 3 at Pekao Bank Hipoteczny S.A.

The costs of risk in 2019 excluding amounted to 0.43% and was higher by 7 bps y/y, consistent with strategic assumptions reflecting a prudent risk management policy.

Costs of risk



Report on the activities of Bank Pekao S.A. Group for the year 2019

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)

	2019	2018	CHANGE
Net profit of Bank Pekao S.A.	2,247.5	2,310.6	(2.7%)
Entities consolidated under full method			
Pekao Investment Management S.A.	126.0	90.2	39.7%
Pekao Leasing Sp. z o.o.	83.5	47.6	75.4%
Pekao Faktoring Sp. z o.o.	19.2	13.7	40.1%
Centralny Dom Maklerski Pekao S.A. ⁽¹⁾	12.0	24.8	(51.6%)
Pekao Financial Services Sp. z o.o.	4.7	3.9	20.5%
Pekao Direct Sp. z o.o. (d. Centrum Bankowości Bezpośredniej Sp. z o.o.) ⁽²⁾	2.2	3.2	(31.3%)
Pekao Powszechne Towarzystwo Emerytalne S.A. w likwidacji	0.7	3.0	(76.7%)
Centrum Kart S.A.	0.6	0.3	100.0%
Dom Inwestycyjny Xelion Sp. z o.o.	0.5	5.0	(90.0%)
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji	0.4	0.4	0.0%
FPB "MEDIA" Sp. z o.o. w upadłości ⁽³⁾	0.0	(15.6)	x
Pekao Property S.A. w likwidacji ⁽⁴⁾	(0.1)	(0.1)	0.0%
Pekao Investment Banking S.A.	(19.0)	9.6	x
Pekao Bank Hipoteczny S.A.	(37.7)	2.6	x
Exclusions and consolidation adjustments ⁽⁵⁾	(275.5)	(212.0)	30.0%
Net profit of the Group attributable to equity holders of the Bank	2,165.0	2,287.2	(5.3%)

⁽¹⁾ On 25 June, 2019, the Ordinary General Meeting of Centralny Dom Maklerski Pekao S.A. (CDM Pekao S.A.) and the Extraordinary General Meeting of CBB Sp. z o.o. and on 26 June, 2019, the Ordinary General Meeting of the Bank adopted resolutions accepting the division of (CDM Pekao S.A.).

The division plan was agreed by the management boards of the companies participating in the division on 27 February, 2019 and assumed that the division will be effected in accordance with art. 529 § 1 Section 1 of the Commercial Companies Code, i.e.:

- by transferring to the Bank part of the assets (assets and liabilities) and the rights and obligations of CDM Pekao S.A. in the form of an organized part of the company CDM Pekao S.A. related to the provision of brokerage services,
- by transferring to CBB Sp. z o.o. part of assets (assets and liabilities) and rights and obligations of CDM Pekao S.A. in the form of an organized part of the company CDM Pekao S.A. related to call center services.

⁽²⁾ On 11 April, 2019, the District Court for the Capital City of Warsaw, 10th Economic Department for bankruptcy and restructuring, declared the bankruptcy of FPB-Media Sp. z o.o. The decision on the declaration of bankruptcy became valid on 8 May, 2019. FPB Media is a 100% subsidiary of Pekao Property S.A. in liquidation. Currently, the company operates under the name FPB Media Sp. z o.o. in bankruptcy.

⁽³⁾ On March 1, 2019, the Extraordinary General Meeting of Shareholders of Pekao Property S.A. took the resolution to dissolve the company and to open its liquidation from that date. Currently, the company will operate under the name Pekao Property S.A. in liquidation.

⁽⁴⁾ Includes, among others, transactions within the Group (including dividends from subsidiaries for the previous years), and net profit attributable to non-controlling interest.

Report on the activities of Bank Pekao S.A. Group for the year 2019

Results of the Bank's major related entities

Pekao Investment Management S.A. – Pekao IM

In 2019, consolidated net profit of Pekao IM amounted to **PLN 126.0 million** compared with PLN 90.2 million in 2018. The higher result is related to the increase net assets of investment funds managed by Pekao TFI S.A. by ca. 11.2% compared to the end of 2018 as well as changes in the remuneration model for distributors of TFI units adjusted to MIFID II regulatory requirements.

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

In 2019, Pekao Leasing reported a net profit of **PLN 83.5 million** compared with PLN 47.6 million in the 2018. A significant increase in the result (+ 75.4% y/y) was due to both higher revenues and strict cost control. Cost/income ratio was 34.9% as compared to 44.3% of the end of 2018. In of 2019, Pekao Leasing signed over 16.5 thousand new agreements, i.e. 22.9% increase year on year, while the value of leased assets was higher by 38.5% year on year and amounted to PLN 4,408.1 million.

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

In the three quarters of 2019, Pekao Faktoring reported a net profit of PLN 19.2 million compared with PLN 13.7 million in 2018. The increase in the result by over 40% year on year was mainly caused by a significant increase in the average factoring exposure (+ 76.0% year on year). Pekao Faktoring took first place in turnover on the Polish factoring market in 2019

Centralny Dom Maklerski Pekao S.A. – CDM

As of August 30, 2019, CDM Pekao was removed from the national court register. The net results of the Group in the three quarters of 2019 include the net profit of CDM earned by August 31, 2019 in the amount of **PLN 12.0 million**. The financial result for September 2019 is included in the result of Dom Maklerski Pekao (organizational unit of the Bank).

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

In 2019, PFS reported a net profit in the amount of PLN 4.7 million (the Bank's share in the company's was **PLN 3.1 million**) compared with PLN 3.9 million in 2018. The 2019 result was affected by the acquisition of PZU Centrum Operacji S.A. finalized in the second half of 2018. by Pekao FS and and starting to provide services under the PPK program. This transaction allows take over PTE PZU S.A. and TFI PZU S.A. within the scope of the transfer agent services and extend the scope of service to PZU Życie S.A.

Pekao Direct Sp. z o.o. (previously Centrum Bankowości Bezpośredniej Sp. z o.o.) – Pekao Direct

In 2019, Pekao Direct reported a net profit in the amount of PLN 2.2 million compared with PLN 3.2 million in 2018. The result was influenced by the improvement in the quality of databases and more effective reaching of the customer in the framework of supported marketing and sales campaigns, but also the increase in costs resulting from the growing pressure on telemarketers' remuneration.

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

In 2019, Pekao PTE reported net profit of **PLN 0.7 million** compared with PLN 3.0 million in 2018. Pekao PTE is in liquidation from June 1, 2018 and does not conduct activities.

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

In 2019, DI Xelion reported a net profit in the amount of **PLN 0.5 million** compared with PLN 5.0 million in 2018, influenced by unfavorable situation on capital markets and the change in the method of remuneration of TFI distributors adapted to the MIFID II regulatory requirements and the change in customer preferences regarding the level of accepted risk.

Pekao Investment Banking S.A. – Pekao IB

In the three quarters of 2019, Pekao IB reported a loss of **PLN 19.0 million** compared with net profit of PLN 9.6 million in 2018. The result of the current period was influenced by lower number of advisory transactions and lower revenues from brokerage activities provided to institutional clients.

Report on the activities of Bank Pekao S.A. Group for the year 2019

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In 2019, Pekao Bank Hipoteczny reported a net loss **PLN 37.7 million** compared with PLN 2.6 million in the three quarters of 2018. The results were affected by a one-off recognition of additional write-offs in the amount of PLN 35.4 million gross due to a change in the methodology for estimating impairment of basket loan portfolio 3 dictated by the preparation for the transfer of receivables (pooling) and a review of the applied approach to estimating basket write-offs 3. Write-offs relate to exposure loans granted in the years 2004-2008. In addition, the Bank decided to create a provision for litigation related to its portfolio of loans denominated to CHF in the amount of PLN 12.0 million. Both items charged to the Bank's result for 2019

Report on the activities of Bank Pekao S.A. Group for the year 2019

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)

	2019	2018	CHANGE
Net interest income	5,309.6	4,869.0	9.0%
Net non-interest income	2,628.0	2,527.9	4.0%
Operating income	7,937.6	7,396.9	7.3%
Operating costs	(3,203.6)	(3,119.0)	2.7%
Gross operating profit	4,734.0	4,278.0	10.7%
Net impairment losses on financial assets and off-balance sheet commitments	(624.1)	(500.4)	24.7%
Net operating profit	4,109.9	3,777.5	8.8%
Net result on other provisions	(67.6)	(14.7)	> 100%
Bank Guarantee Fund fee	(452.1)	(265.1)	70.5%
Tax on certain financial institutions	(591.4)	(562.0)	5.2%
Net result on investment activities	17.0	85.0	(80.0%)
Profit before tax	3,015.8	3,020.8	(0.2%)
Net profit	2,247.5	2,310.6	(2.7%)

Net profit of the Bank Pekao S.A. in 2019 amounted to PLN 2,247.5 million and on comparable basis⁽¹⁾ increased by 12.0% y/y, mainly thanks to dynamic development of commercial activities expressed in the growth of the customers' financing by 6.8% y/y as well as amounts due to customers (5.3% y/y, including retail deposits by 9.7% y/y), strict control of operating costs and lowest cost of risk compared to direct competitors. Net profit was nominally lower by 2.7% mainly due to a significant increase in contributions to the Bank Guarantee Fund and provision for legal risk related to foreign currency mortgage loans in CHF and provision for refunds of commission for early repayments of consumer loans.

The main Bank's financial information are as follows:

	31.12.2019	31.12.2018	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ⁽¹⁾	147,429.0	137,914.8	6.9%
Amounts due to customers	157,750.4	149,784.4	5.3%
Structured Certificates of Deposit	831.3	584.0	42.3%
Certificates of Deposit	767.0	1,140.4	(32.7%)
Subordinated bonds	2,750.0	2,000.0	37.5%
Repo transactions	379.8	347.7	9.2%
Total assets	194,650.0	184,347.2	5.6%
Investment funds distributed through the Bank's network	20,239.9	18,203.7	11.2%
Total capital ratio in %	18.7%	18.7%	0.0 p.p.

⁽¹⁾ Including loans and non-treasury debt securities.

As at the end of December 2019, loans and advances at nominal value amounted to PLN 147,429.0 million, an increase of PLN 9,514.2 million, i.e. 6.9% in comparison to the end of December 2018. As at the end of December 2019, the volume of retail loans amounted to PLN 75,776.2 million and the volume of corporate loans amounted to PLN 60,653.9 million.

As at the end of December 2019, the amounts due to customers, Structured Certificates of Deposit, Certificates of Deposit and subordinated bonds amounted to PLN 162,098.7 million, an increase of PLN 8,589.9 million, i.e. 5.6% in comparison to the end of December 2018.

The value of net assets of investment funds managed by Pekao TFI S.A. distributed through the Bank's network amounted to PLN 20,239.9 million as at the end of December 2019, an increase of PLN 2,036.2 million, i.e. 11.2% in comparison to the end of December 2018.

⁽¹⁾ excluding restructuring provision, costs of voluntary retirement program, costs for the refunds of commission for early repayment of consumer loans, provision for legal risk regarding foreign currency mortgage loans in CHF, profits from the sale of property, plant and equipment and Bank Guarantee Fund (BGF) fee.

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7.3 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 2019, the total assets of Bank Pekao S.A. constitutes 95.7% of the total assets of the whole Group.

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

ASSETS	31.12.2019		31.12.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	5,162.7	2.5%	13,026.6	6.8%	(60.4%)
Loans and advances to banks	1,791.6	0.9%	2,268.8	1.2%	(21.0%)
Loans and advances to customers ^(*)	151,383.8	74.5%	140,032.3	73.3%	8.1%
Reverse repo transactions	502.3	0.2%	-	x	x
Securities ^(**)	36,201.9	17.8%	28,613.8	15.0%	26.5%
Property, plant and equipment and intangible assets	3,537.8	1.7%	2,946.7	1.5%	20.1%
Other assets	4,742.8	2.3%	4,201.6	2.2%	12.9%
Total assets	203,322.9	100.0%	191,089.8	100.0%	6.4%

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

(**) Including net investments in financial leases to customers and non-treasury debt securities.

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

EQUITY AND LIABILITIES	31.12.2019		31.12.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	4.5	0.0%	5.1	0.0%	(11.8%)
Amounts due to other banks	6,539.5	3.2%	5,615.6	2.9%	16.5%
Amounts due to customers	157,203.4	77.3%	149,143.4	78.0%	5.4%
Debt securities issued	6,307.8	3.1%	5,230.8	2.7%	20.6%
Subordinated liabilities	2,764.5	1.4%	2,012.5	1.1%	37.4%
Repo transactions	379.8	0.2%	347.7	0.2%	9.2%
Lease liabilities	406.5	0.2%	-	x	x
Other liabilities	6,318.9	3.1%	5,926.5	3.1%	6.6%
Total equity, including non-controlling interests	23,398.0	11.5%	22,808.2	11.9%	2.6%
	11.7	x	11.5	x	1.7%
Total equity and liabilities	203,322.9	100.0%	191,089.8	100.0%	6.4%

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7.3.1 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 2019, they accounted for 74.5% and 17.8% of the total assets respectively in comparison with 73.3% and 15.0% respectively as at the end of 2018.

Cash and due from Central Bank

(in PLN million)

	31.12.2019	31.12.2018	CHANGE
Cash and due from Central Bank, including:	5,162.7	13,026.6	(60.4%)
Cash	3,037.0	3,182.9	(4.6%)
Current account at Central Bank	2,101.8	9,790.5	(78.5%)
Other	23.9	53.2	(55.1%)

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	31.12.2019	31.12.2018	CHANGE
Loans and advances at nominal value ^(*)	156,804.8	144,942.2	8.2%
Loans and investments in financial leases	145,805.9	134,199.7	8.6%
Retail	76,921.1	70,915.2	8.5%
Corporate	68,884.8	63,284.5	8.8%
Non-treasury debt securities	10,998.9	10,742.5	2.4%
Other ^(**)	1,122.8	1,369.4	(18.0%)
Impairment allowances	(6,543.8)	(6,279.3)	4.2%
Total net receivables	151,383.8	140,032.3	8.1%
Reverse repo transactions	502.0	-	x
Total Customers' financing ^(***)	157,306.8	144,942.2	8.5%

(*) Excluding reverse repo transactions.

(**) Including interest and receivables in transit.

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

As at the end of December 2019, loans and advances at nominal value amounted to PLN 156,804.8 million, an increase of PLN 11,862.6million, i.e. 8.2% in comparison to the end of December 2018.

As at the end of December 2019, the volume of retail loans amounted to PLN 76,921.1 million, an increase of PLN 6,005.9 million, i.e. 8.5% in comparison to the end of December 2018, thanks to dynamic growth of key products: consumer loans by 6.7% y/y and PLN mortgage loans by 9.8% y/y.

As at the end of December 2019, corporate loans and non-treasury debt securities amounted to PLN 79,883.7 million, an increase of PLN 5,856.7 million, i.e. 7.9% in comparison to the end of December 2018, thanks to strong dynamics in the medium-sized enterprise segment and leasing receivables.

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Receivables and impairment losses^(*)

(in PLN million)

	31.12.2019	31.12.2018	CHANGE
Gross receivables	157,927.6	146,311.6	7.9%
Stage 1	129,127.6	118,098.0	9.3%
Stage 2	20,588.6	20,342.2	1.2%
Stage 3	8,211.4	7,871.4	4.3%
Impairment allowances	(6,543.8)	(6,279.3)	4.2%
Stage 1	(329.3)	(389.7)	(15.5%)
Stage 2	(729.3)	(661.4)	10.3%
Stage 3	(5,485.2)	(5,228.2)	4.9%
Total net receivables	151,383.8	140,032.3	8.1%

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

As at the end of December 2019 the ratio of impaired receivables (stage 3) to the gross receivables amounted to 5.2%.

Loans and advances to customers by currency^(*)

	31.12.2019		31.12.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	130,635.9	82.7%	121,224.0	82.9%	7.8%
Denominated in foreign currencies ^(**)	27,291.7	17.3%	25,087.6	17.1%	8.8%
Total	157,927.6	100.0%	146,311.6	100.0%	7.9%
Impairment allowances	(6,543.8)	x	(6,279.3)	x	4.2%
Total net	151,383.8	x	140,032.3	x	8.1%

(*) Including net investments in financial leases to customers, non-treasury debt 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 2019, their share was 82.7%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (81.2%), CHF (11.5%) and USD (5.6%).

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

	31.12.2019		31.12.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	16,094.5	10.2%	16,382.1	11.2%	(1.8%)
1 to 3 months	5,512.1	3.5%	4,430.3	3.0%	24.4%
3 months to 1 year	15,157.0	9.6%	15,572.0	10.6%	(2.7%)
1 to 5 years	52,856.7	33.5%	45,417.2	31.0%	16.4%
Over 5 years	62,858.5	39.8%	58,962.1	40.3%	6.6%
Past due	4,326.0	2.7%	4,178.4	2.9%	3.5%
Other	1,122.8	0.7%	1,369.5	0.9%	(18.0%)
Total	157,927.6	100.0%	146,311.6	100.0%	7.9%
Impairment allowances	(6,543.8)	x	(6,279.3)	x	4.2%
Total net	151,383.8	x	140,032.3	x	8.1%

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

As at the end of December 2019, loans and advances with maturity over 5 years represents 39.8% of total loans and advances (mainly attributed to mortgage loans, investment loans, and non-treasury debt securities).

Information on loan concentration is included in the Note 26 and 27 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2019,

Report on the activities of Bank Pekao S.A. Group for the year 2019

7.3.2 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 2019, amounts due to customers, debt securities issued and subordinated liabilities totaled PLN 166,275.7 million, and their share in the total assets was 81.8%, compared with 81.9% as at the end of 2018. The share of total shareholder's equity in the total assets was 11.5% as at the end of 2019, compared with 11.9% as at the end of 2018.

External sources of financing

(in PLN million)

	31.12.2019	31.12.2018	CHANGE
Amounts due to Central Bank	4.5	5.1	(11.8%)
Amounts due to other banks	6,539.5	5,615.6	16.5%
Amounts due to customers	157,203.4	149,143.4	5.4%
Debt securities issued	6,307.8	5,230.8	20.6%
Subordinated liabilities	2,764.5	2,012.5	37.4%
Repo transactions	379.8	347.7	9.2%
Total external sources of financing	173,199.5	162,355.1	6.7%

Amounts due to customers amounted to PLN 157,203.4 million, an increase by 5.4% 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.

As at the end of 2019, the geographical structure of deposits acquired through the Bank's domestic branches was as follows:

REGION	% OF TOTAL DEPOSITS
Warszawski	29.7%
Małopolski	12.5%
Południowo-Wschodni	11.5%
Mazowiecki	10.9%
Centralny	10.6%
Śląski	8.5%
Pomorski	8.3%
Zachodni	8.0%
Total	100.0%

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Amounts due to customers and debt securities issued

(in PLN million)

	31.12.2019	31.12.2018	CHANGE
Corporate deposits	65,044.6	64,402.0	1.0%
Non-financial entities	47,157.1	47,314.2	(0.3%)
Non-banking financial entities	6,972.1	6,142.2	13.5%
Budget entities	10,915.4	10,945.6	(0.3%)
Retail deposits	91,741.8	84,356.0	8.8%
Other ⁽¹⁾	417.0	385.4	8.2%
Amounts due to customers⁽²⁾	157,203.4	149,143.4	5.4%
Debt securities issued, of which	9,072.3	7,243.3	25.3%
Structured Certificates of Deposit (SCD)	831.3	584.0	42.3%
Certificates of Deposit (CD)	767.0	1,140.4	(32.7%)
Subordinated bonds	2,750.0	2,000.0	37.5%
Pekao Bank Hipoteczny S.A. covered bonds	1,335.6	1,512.4	(11.7%)
Pekao Bank Hipoteczny S.A. bonds	299.2	299.7	x
Pekao Leasing Sp. z o.o. bonds	2,113.0	1,678.0	25.9%
Pekao Faktoring Sp. z o.o. bonds	948.6	-	x
Interest	27.6	28.8	(4.2%)
Amounts due to customers and debt securities issued⁽³⁾	166,275.7	156,386.7	6.3%
Repo transactions	379.8	347.7	9.2%
Lease liabilities	406.5	-	x
Amounts due to customers and debt securities issued, total⁽⁴⁾	167,062.0	156,734.4	6.6%
Investment funds of Pekao TFI S.A. (ex. Pioneer Pekao TFI)	21,584.0	19,403.4	11.2%
Bond and money market funds	17,676.7	15,448.3	14.4%
Balanced funds	2,167.8	2,226.8	(2.6%)
Equity funds	1,736.3	1,728.3	0.5%
PPK	3.1	-	x
including distributed through the Group's network	21,168.4	19,118.8	10.7%

⁽¹⁾ Other item includes interest and funds in transit.

⁽²⁾ Excluding repo transactions and lease liabilities.

⁽³⁾ Including repo transactions and lease liabilities.

As at the end of December 2019, amounts due to the Group's customers and debt securities issued amounted to PLN 166,275.7 million, an increase of PLN 9,889.0 million, i.e. 6.3% in comparison to the end of December 2018.

The total volume of retail deposits, Structured Certificates of Deposit and other amounted to PLN 92,965.4 million as at the end of December 2019, an increase of PLN 7,667.7 million, i.e. 9.0% in comparison to the end of December 2018 and they increased their share in the structure of financing.

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, Pekao Faktoring Sp. z o.o. bonds interest and other amounted to PLN 73,310.3 million as at the end of December 2019, an increase of PLN 2,221.4 million, i.e. 3.1% as compared to the end of December 2018.

Repo transactions amounted to PLN 379.8 million as at the end of December 2019, an increase by PLN 32.1 million, i.e. 9.2% as compared to the end of December 2018.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 21,584.0 million as at the end of December 2019, an increase of PLN 2,180.6 million, i.e. 11.2% in comparison to the end of December 2018.

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Amounts due to customers by currency^(*)

	31.12.2019		31.12.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	129,921.0	82.6%	122,682.2	82.3%	5.9%
Denominated in foreign currencies	27,282.4	17.4%	26,461.2	17.7%	3.1%
Total	157,203.4	100.0%	149,143.4	100.0%	5.4%

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

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of December 2019 amounted to 82.6%. The majority of amounts due to customers denominated in foreign currencies were in EUR (63.0%) and USD (30.3%).

Amounts due to customers by contractual maturities^(*)

	31.12.2019		31.12.2018		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	109,738.4	70.0%	98,953.0	66.5%	10.9%
Term deposits	47,048.0	30.0%	49,805.0	33.5%	(5.5%)
Total deposits	156,786.3	100.0%	148,758.0	100.0%	5.4%
Interest accrued	176.6	x	174.4	x	1.3%
Funds in transit	240.4	x	211.0	x	13.9%
Total	157,203.4	x	149,143.4	x	5.4%

^(*) Excluding repo transactions and lease liabilities.

Provisions, deferred tax assets and liabilities

(in PLN million)

	31.12.2019	31.12.2018	CHANGE
Total provisions	752.6	635.1	18.5%
of which:			
provisions for off-balance sheet commitments	290.9	240.7	20.9%
provisions for liabilities to employees	357.4	338.3	5.6%
other provisions	104.3	56.1	85.9%
Deferred tax liabilities	29.9	32.7	(8.6%)
Deferred tax assets	1,094.6	1,131.1	(3.2%)

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7.3.3 Off-balance sheet items

Statement of Off-balance sheet items

(in PLN million)

	31.12.2019	31.12.2018	CHANGE
Contingent liabilities granted and received	68,722.0	66,835.9	2.8%
Liabilities granted:	49,352.9	45,568.9	8.3%
financial	36,713.9	32,954.1	11.4%
guarantees	12,639.0	12,614.8	0.2%
Liabilities received:	19,369.1	21,267.0	(8.9%)
financial	1,297.6	1,085.7	19.5%
guarantees	18,071.5	20,181.3	(10.5%)
Derivative financial instruments	348,317.4	247,577.5	40.7%
interest rate transactions	219,255.0	143,093.7	53.2%
transactions in foreign currency and in gold	126,037.5	101,276.2	24.4%
transactions based on commodities and equity securities	3,024.9	3,207.6	(5.7%)
Total off-balance sheet items	417,039.4	314,413.4	32.6%

Information on loan concentration is included in the Note 28 and 49 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2019,

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Presentation changes in the profit and loss account

From the first quarter of 2020, presentation changes will be made to the income statement so that the information presented is more transparent and understandable to users of the financial statements.

Below is a description of the changes and their impact on the comparative data of the profit and loss account.

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2019
Net interest income	Net interest income	5,468,046
Net fee and commission income	Net fee and commission income	2,533,664
Dividend income	Dividend income	22,407
Trading result	-	214,106
	Net result on other financial instruments at fair value through profit and loss	143,871
	Result on fair value hedge accounting	(1,666)
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	71,901
Net other operating income and expenses	Net other operating income and expenses	43,506
Net non-interest income	-	2,813,683
Operating income	-	8,281,729
Operating costs	-	(3,537,073)
	Personnel expenses	(2,077,696)
	Other administrative expenses	(2,001,289)
	less – Bank Guarantee Fund fee	454,726
	less – Tax on certain financial institutions	591,403
	Depreciation and amortization	(504,217)
Gross operating profit	-	4,744,656
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	(696,038)
Net operating profit	-	4,048,618
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(454,726)
Tax on certain financial institutions	Tax on certain financial institutions	(591,403)
Net result on investment activities	(Gains) losses on the sale of shares in subsidiaries and associates	-
Profit before income tax	Profit before income tax	3,002,489
Income tax expense	Income tax expense	(835,872)
Net profit for the period	Net profit for the period	2,166,617
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	2,165,047
Attributable to non-controlling interest	Attributable to non-controlling interest	1,570

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7.4 Consolidated income statement – long form

7.4.1 Consolidated income statement – long form

Consolidated income statement for 2019 - Provided for comparability purposes.

(in PLN thousand)

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Interest income	1,722,641	1,703,631	1,668,660	1,597,982
Financial assets measured at amortised cost	1,504,302	1,474,538	1,436,541	1,377,505
Financial assets measured at fair value through other comprehensive income	156,604	158,718	167,013	159,844
Financial assets measured at fair value through profit or loss	61,735	70,375	65,106	60,633
Interest expense	(303,969)	(312,201)	(311,112)	(297,586)
Net interest income	1,418,672	1,391,430	1,357,548	1,300,396
Fee and commission income	758,856	743,649	725,062	684,885
Fee and commission expense	(104,230)	(100,872)	(92,380)	(81,306)
Net fee and commission income	654,626	642,777	632,682	603,579
Dividend income	220	535	21,266	386
Result on financial assets and liabilities measured at fair value through profit or loss	74,393	20,752	31,063	17,663
Result on fair value hedge accounting	2,010	(1,972)	(728)	(976)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	32,447	19,592	8,430	11,432
Net impairment losses on financial assets and off-balance sheet commitments	(232,654)	(176,463)	(177,238)	(109,683)
Net other operating income and expenses	16,545	(10,582)	23,246	14,297
Administrative expenses	(908,456)	(905,268)	(993,200)	(1,272,061)
Personnel expenses	(509,580)	(502,264)	(586,428)	(479,424)
Other administrative expenses	(398,876)	(403,004)	(406,772)	(792,637)
Depreciation and amortization	(125,416)	(123,578)	(126,576)	(128,647)
Gains (losses) on subsidiaries and associates	-	-	-	-
PROFIT BEFORE INCOME TAX	932,387	857,223	776,493	436,386
Income tax expense	(248,662)	(200,329)	(193,560)	(193,321)
NET PROFIT	683,725	656,894	582,933	243,065
1. Attributable to equity holders of the Bank	684,386	656,214	582,106	242,341
2. Attributable to non-controlling interests	(661)	680	827	724

(*) Other administrative expenses includes tax on certain financial institutions and Bank Guarantee Fund fee.

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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
Financial assets measured at amortised cost	1,361,602	1,330,570	1,299,482	1,259,881
Financial assets measured at fair value through other comprehensive income	165,486	166,448	176,523	188,651
Financial assets measured at fair value through profit or loss	56,709	47,049	39,905	30,032
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
Net impairment losses on financial assets and off-balance sheet commitments	(104,855)	(155,277)	(123,932)	(126,961)
Net other operating income and expenses	84,822	44,120	(8,536)	16,249
Administrative expenses	(921,453)	(922,069)	(980,579)	(1,076,314)
Personnel expenses	(490,883)	(490,526)	(554,827)	(500,346)
Other administrative expenses	(430,570)	(431,543)	(425,752)	(575,968)
Depreciation and amortization	(101,076)	(92,672)	(89,893)	(87,780)
Gains (losses) on subsidiaries and associates	-	-	-	-
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
1. Attributable to equity holders of the Bank	749,227	605,793	539,815	392,325
2. Attributable to non-controlling interests	(28)	516	162	-

(*) Other administrative expenses includes tax on certain financial institutions and Bank Guarantee Fund fee.

Report on the activities of Bank Pekao S.A. Group for the year 2019

7.4.2 Consolidated statement of comprehensive income Consolidated statement of comprehensive income for 2019

(in PLN thousand)

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net profit	683,725	656,894	582,933	243,065
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	(10,426)	69,776	130,615	1,806
Profit or loss reclassification to income statement after derecognition	(28,909)	(14,939)	(7,281)	(11,556)
Change in fair value of cash flow hedges	(76,199)	59,352	27,302	64,768
Tax on items that are or may be reclassified subsequently to profit or loss	21,952	(21,696)	(28,621)	(10,453)
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	(17,025)	(7,795)	16,556	802
Remeasurements of the defined benefit liabilities	(2,783)	-	-	-
Tax on items that will never be reclassified to profit or loss	3,763	1,481	(3,146)	(152)
Other comprehensive income (net of tax)	(109,627)	86,179	135,425	45,215
Total comprehensive income	574,098	743,073	718,358	288,280
1. Attributable to equity holders of the Bank	574,767	742,393	717,531	287,556
2. Attributable to non-controlling interests	(669)	680	827	724

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:				
Profit or loss on fair value measurement	66,174	(29,511)	(23,939)	133,146
Profit or loss reclassification to income statement after derecognition	(64,836)	(13,921)	(27,094)	(23,854)
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)	68,690	(57,454)	(55,488)	70,096
Total comprehensive income	817,889	548,855	484,489	462,421
1. Attributable to equity holders of the Bank	817,924	548,339	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 2019

7.4.3 Consolidated income statement – presentation form

Consolidated income statement for 2019

(in PLN thousand)

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net interest income	1,418,672	1,391,430	1,357,548	1,300,396
Net fee and commission income	654,626	642,777	632,682	603,579
Dividend income	220	535	21,266	386
Trading result	108,850	38,372	38,765	28,119
Net other operating income and expenses	42,608	20,983	17,132	16,918
Net non-interest income	806,304	702,667	709,845	649,002
Operating income	2,224,976	2,094,097	2,067,393	1,949,398
Operating costs	(864,770)	(862,737)	(950,881)	(858,685)
Gross operating profit	1,360,206	1,231,360	1,116,512	1,090,713
Net impairment losses on financial assets and off-balance sheet commitments	(232,654)	(176,463)	(177,238)	(109,683)
Net operating profit	1,127,552	1,054,897	939,274	981,030
Net result on other provisions	(30,570)	(32,576)	(3,467)	(4,729)
Bank Guarantee Fund fee	(20,562)	(20,530)	(20,472)	(393,162)
Tax on certain financial institutions	(148,540)	(145,579)	(148,423)	(148,861)
Net result on investment activities	4,507	1,011	9,581	2,108
Profit before income tax	932,387	857,223	776,493	436,386
Income tax expense	(248,662)	(200,329)	(193,560)	(193,321)
Net profit	683,725	656,894	582,933	243,065
Attributable to equity holders of the Bank	684,386	656,214	582,106	242,341
Attributable to non-controlling interest	(661)	680	827	724

Report on the activities of Bank Pekao S.A. Group for the year 2019

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
Net fee and commission income	638,270	618,987	617,273	588,054
Dividend income	161	245	19,623	157
Trading result	86,147	41,927	44,446	44,294
Net other operating income and expenses	24,222	13,574	12,095	13,625
Net non-interest income	748,800	674,733	693,437	646,130
Operating income	2,043,550	1,932,722	1,928,974	1,851,820
Operating costs	(847,710)	(843,295)	(901,896)	(850,751)
Gross operating profit	1,195,840	1,089,427	1,027,078	1,001,069
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	874,108
Net result on other provisions	406	(297)	(13,768)	(299)
Bank Guarantee Fund fee	(30,655)	(30,512)	(29,983)	(175,042)
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 2019

7.4.4 Reconciliation of income statement – presentation form and long form

Consolidated income statement for 2019

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2019
Net interest income		5,468,046
Net fee and commission income	Net fee and commission income	2,533,664
Dividend income	Dividend income	22,407
Trading result		214,106
	Net result on other financial instruments at fair value through profit and loss	143,871
	Result on fair value hedge accounting	(1,666)
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	71,901
Net other operating income and expenses		97,641
Net non-interest income		2,867,818
Operating income		8,335,864
Operating costs		(3,537,073)
	Personnel expenses	(2,077,696)
	Other administrative expenses	(2,001,289)
	less – Bank Guarantee Fund fee	454,726
	less – Tax on certain financial institutions	591,403
	Depreciation and amortization	(504,217)
Gross operating profit		4,798,791
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	(696,038)
Net operating profit		4,102,753
Net result on other provisions	Net result on other provisions	(71,342)
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(454,726)
Tax on certain financial institutions	Tax on certain financial institutions	(591,403)
Net result on investment activities		17,207
	(Gains) losses on disposal of property plant and equipment and intangible assets	17,207
	(Gains) losses on the sale of shares in subsidiaries and associates	-
Profit before income tax		3,002,489
Income tax expense	Income tax expense	(835,872)
Net profit for the period	Net profit for the period	2,166,617
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	2,165,047
Attributable to non-controlling interest	Attributable to non-controlling interest	1,570

Report on the activities of Bank Pekao S.A. Group for the year 2019

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
Net fee and commission income	Net fee and commission income	2,462,584
Dividend income	Dividend income	20,186
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 disposal of available for sale financial assets and held to maturity investments	141,671
	(Gains) losses on disposal of financial liabilities	-
Net other operating income and expenses		63,516
Net non-interest income		2,763,100
Operating income		7,757,066
Operating costs		(3,443,652)
	Personnel expenses	(2,036,582)
	Other administrative expenses	(1,863,833)
	less – Bank Guarantee Fund fee	266,192
	less – tax on certain financial institution	561,992
	Depreciation and amortization	(371,421)
Gross operating profit		4,313,414
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		3,802,389
Net result on other provisions	Net result on other provisions	(13,958)
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(266,192)
Tax on certain financial institution	Tax on certain financial institution	(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 disposal of 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 2019

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 2019, the number of full-time jobs in the Group was 15,384 compared to 16,162 as at the end of 2018.

In 2019, the Group's operating income amounted to PLN 8,335.8 million, and was higher by PLN 578.7 million, i.e. 7.5% in comparison 2018.

Profit before tax of Bank Pekao S.A. Group in 2019 amounted to PLN 3,002.5 million and was lower by PLN 44.8 million, i.e. 1.5% in comparison to 2018. Income tax expense in 2019 amounted to PLN 835.9 million vs. PLN 759.5 million in 2018 and was higher by 10.3%.

As at the end of December 2019, the return on assets (ROA) of the Group was 1.1% vs. 1.3% at the end of December 2018.

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 2019.

Report on the activities of Bank Pekao S.A. Group for the year 2019

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 2019.

(in PLN thousand)

NAME	PERIOD	BASE SALARY	VARIABLE REMUNERATION ^(*)	OTHER BENEFITS ^(**)
Marek Lusztyń	01.01.2019 - 31.12.2019	885	381	680
Michał Krupiński	01.01.2019 - 29.11.2019	837	1 475	1 417
Marcin Gadomski	29.11.2019 - 31.12.2019	78	0	0
Tomasz Kubiak	01.01.2019 - 31.12.2019	882	519	493
Michał Lehmann	01.01.2019 - 29.11.2019	809	383	576
Grzegorz Olszewski	01.04.2019 - 31.12.2019	593	0	25
Tomasz Styczyński	01.01.2019 - 31.12.2019	882	396	650
Marek Tomczuk	01.01.2019 - 31.12.2019	882	728	689
Piotr Wetmański	07.03.2019 - 29.11.2019	581	100	79
Magdalena Zmitrowicz	01.01.2019 - 31.12.2019	882	151	175

(*) The variable remuneration includes cash bonuses paid in 2019 for the 2017 and 2018 years resulting from the Variable Compensation System for Management.

(**) Other benefits include: severance pay for termination of employment, insurance policies, medical care and others.

The present Members of the Bank's Management Board and former Members of the Bank's Management Board, who held the positions during 2019 did not exercise the rights from phantom shares, which will be settled in subsequent years in accordance with the adopted rules. The retaining part of the variable remuneration in phantom shares of present Members of the Bank's Management Board and former Members of the Bank's Management Board, who held the positions in the Management Board in 2019 equals 31,484 shares. The value of this part of the variable remuneration as at December 31, 2019 amounts to 3,163 thousand PLN at the Bank Pekao share price as at December 30, 2019 amounting to PLN 100.45.

The present Members of the Bank's Management Board and former Members of the Bank's Management Board, who held the position in the Management Board during 2019, did not receive any remuneration or have no receivables in this respect from the Bank's subsidiaries and associates.

Former Members of the Bank's Management Board remuneration

(in PLN thousand)

NAME	VARIABLE REMUNERATION	OTHER BENEFITS ^(*)
Diego Biondo	601	-
Luigi Lovaglio	5 263	3 690
Adam Niewiński	459	-
Grzegorz Płowowar	1 277	-
Roksana Ciurysek Gedir	283	540
Andrzej Kopyrski	1 536	1 012
Stefano Santini	15	-
Marian Ważyński	478	-

(*) other benefits include equivalents for unused vacation, severance pay, compensation for non-competition agreement.

The part of the variable remuneration in phantom shares due to former Members of the Bank's Management Board, who held the position of members of the Bank's Management Board before 01/01/2019, remaining in retention equals 52,421 shares. The value of this part of the variable remuneration as at December 31, 2019 is 5,266 thousand PLN according to the Bank Pekao share price of December 30, amounting to PLN 100.45.

Report on the activities of Bank Pekao S.A. Group for the year 2019

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 2019:

(in PLN thousand)

	PERIOD	TOTAL
Paweł Surówka	01.01.2019 - 31.12.2019	0
Sabina Bigos-Jaworowska	01.01.2019 - 31.12.2019	167
Joanna Dynysiuk (maiden name Błaszczyk)	01.01.2019 - 31.12.2019	183
Justyna Głębiowska-Michalak	01.01.2019 - 31.12.2019	183
Grzegorz Janas	01.01.2019 - 31.12.2019	0
Stanisław Kaczoruk	01.01.2019 - 31.12.2019	183
Michał Kaszyński	01.01.2019 - 31.12.2019	167
Marian Majcher	01.01.2019 - 31.12.2019	167
Paweł Stopczyński	01.01.2019 - 31.12.2019	0

In 2019, 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 2019, was increased number of managers covered by the Incentive System based on the valuation of phantom shares which basis are Bank Pekao S.A. shares listed on the WSE. Their realization is postponed up to four years, and the population already includes all strategic managerial positions. Considering the above, in 2019 no additional Loyalty Program, based on a financial instrument with an extended payment period, was launched.

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 2019 and as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the three quarters 2019, 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. Marek Lusztyn – Vice-president of the Management Board leading the Management Board, Mr. Tomasz Styczyński - Vice-president of the Management Board, Mr. Marcin Gadomski - 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, Mr. Grzegorz Olszewski - Member 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.

Members of the Management Board who resigned and stopped performing their functions from November 29, 2019 were also covered by non-competition agreements and these agreements are being implemented.

Liabilities due to pensions for former supervisors and managers

In 2019, 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 2019

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.

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

(in PLN thousand)

	2019	2018
Fee for the audit of annual financial statements	2,449	2,538
Fee for other attestation services, including review of financial statements	1,434	1,438

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

Average interest rates in Bank Pekao S.A. in 2019

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	0.6% p.a.

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

Total retail loans	4.4% p.a.
Mortgage	3.5% p.a.
Consumption	7.9% p.a.
Other	5.9% p.a.
Corporate loans	3.2% 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, 2019 amounted to PLN 1,902.0 million. For retail clients, the total value of the collateral for impaired transactions as at December 31, 2018 amounted to PLN 816.9 million.

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 39 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2019.

Information on significant agreements

In 2019, 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.

Report on the activities of Bank Pekao S.A. Group for the year 2019

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 year ended on 31 December 2019.

Related party transactions

In 2019, 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 2019, 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 41 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2019.

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 year ended on 31 December 2019.

Seasonality or cyclical nature of the Bank's activity

The demand for the financial services offered by the Bank is stable with no material impact of seasonal changes. Due to the nature of the Bank's activity, it is not subject to seasonal or cyclical changes.

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 831.3 (principal value) as at the end of December 2019. There is 18 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 2020 and 2021 accounts for 93.3% and 6.7% 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 767.0 million (principal value) as at the end of September 2019. There are 7 issuances of Certificates of Deposit. The liabilities with the maturity dates up to 3 months and up to 6 months represent 40.4% and 59.6% of its total value respectively.

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.

Report on the activities of Bank Pekao S.A. Group for the year 2019

On 4 June 2019, the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.35 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 8 July 2019 – 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 4 December 2019, the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.40 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 10 December 2019 – 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 1,348.7 million (principal value) as at the end of December 2019. The liabilities under covered bonds with maturity date up to 1 year account 6.8%, from 1 year up to 3 years account for 47.6% with maturity date from 3 up to 5 years account for 21.2% and with maturity date from 5 years up to 10 years account for 24.4% 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 299.2 million (principal value) as of 31 December 2019.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 2,113.0 million (principal value) as of 31 December 2019. The liabilities with the maturity date up to 3 months, from 3 months and up to 6 months and to 1 year accounts for 50.4%, 38.0% and 11.6% of its total value respectively.

Pekao Bank Faktoring S.A. bonds

The total value of the company's liabilities under bonds with maturity date to 1 year amounted to PLN 948.6 million (principal value) as of 31 December 2019.

Subsequent events

Intended collective redundancies

On 20 February 2020, in accordance with the Act of 13 March 2003 on special rules of terminating employment contracts for reasons not attributable to the employees (unified text Journal of Laws 2018, position 1969), adopted a resolution on the intended collective redundancies and the start of the consultation procedure for collective redundancies. The intention of the Bank is to terminate employment contracts with up to 1,200 employees and amend terms and conditions of employment with up to 1,350 employees, between 12 March 2020 and 31 October 2020.

On 20 February 2020, the Bank informed company-level trade unions about the reason for the intended collective redundancies and asked them to join the consultation process. In addition, the Bank informed the labour office of the intended collective redundancies at the Bank.

The Bank will publish another announcement on collective redundancies on completion of the consultations with the trade unions, as required by applicable laws, which will include information about the estimated provision to be raised for restructuring of employment at the Bank, which will be fully charged to the Bank's financial results. The final amount of the provision and the impact of the employment restructuring on the Bank's financial performance will be disclosed in the financial statements.

Report on the activities of Bank Pekao S.A. Group for the year 2019

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.

For 2020, Poland's economic growth is projected to slow further to 3.4%, from 5.1% in 2018 and 4.0% (first estimate) in 2019. This is mainly due to the weaker economic situation in the global economy (where, in addition, a negative impact of a new wave of tensions related to geopolitical factors cannot be ruled out). The scale of slowdown in Poland will be limited by still solid private consumption (thanks to continued growth of revenues and increased social transfers). At the same time, however, private investment is expected to increase at a lower rate due to weaker growth of foreign demand and exports and increased uncertainty.

The deterioration of the macroeconomic environment perceived by consumers and businesses, as well as the potential volatility of financial markets due to global tensions, will affect the operating conditions of the banking sector, including the dynamics of business volumes and financial performance of banks.

Monetary policy is an important factor influencing banks' performance. Although a possible longer period of elevated inflation could again raise discussions about the rationale for an interest rate hike, this is still a less likely scenario in the current local and global context, and the prevailing view remains that interest rates are to remain unchanged over the coming year.

Tax and regulatory environment invariably plays key role for banks. In particular, this includes tax on certain financial institutions, high capital requirements, growing contributions to Bank Guarantee Fund (BFG), costs of further adjustment to a number of regulatory solutions (MIFID II, RODO, PSD II, MREL, among others), as well as introduction in Poland of cap on asset management fees. Maintained strict tax and regulatory environment may constrain banks' credit expansion and impact their financial results.

In addition to institutional factors mentioned above, the issue of foreign currency mortgages is one of the most important right now. Considering no systemic solution in this matter, the banking system will be most affected by court decisions in individual cases. In this context, the ruling of the EU Court of Justice (CJEU) from 3 October 2019 is particularly important, as it may lead to a higher number of borrowers seeking judicial resolution. This may have a strong negative impact on the performance of banks, especially those with a large portfolio of such loans. According to most estimates, the total costs for the sector may reach several dozen billion zlotys, but they are difficult to estimate and will be spread over time. Much will depend on, among others, the actual number of lawsuits (how many borrowers will decide to take legal action), the interpretation of national courts in individual cases (in relation to the opinion of the CJEU), the reactions of national supervisory institutions or the actions of the banks themselves. It cannot be excluded that the issue of loans in CHF will find a final solution on the statutory level. The Bank will monitor the impact of the CJEU judgment on the direction of decisions taken by Polish courts, as well as market practice and behavior of borrowers, and will assess the probability of cash outflows in relation to the mortgage loans in question. However, the impact may be indirect in case of potential financial problems of some smaller institutions with a particularly large exposure to the discussed risk.

The growth rate of banking sector deposits in 2020 should remain robust. As far as households are concerned, the pace will still be high, although it may weaken due to high base effect, as well as a slightly less favourable economic environment and slower wage growth. Corporate deposits should maintain momentum with still strong domestic demand and the resulting high turnover.

The loans of banking sector growth is expected to slow down moderately, reflecting a somewhat weaker macroeconomic outlook. In particular, in a subdued macroeconomic environment it will be difficult to increase corporate lending activity, while in the case of the retail segment, the already mature phase of the housing market cycle (mortgages) and growing market saturation for consumer loans (with a slightly more subdued mood) will also have an impact.

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9.2 Strategic directions and business priorities

In accordance with the adopted strategy for the years 2018-2020 „Strength of the Polish Bison”, the Bank intends to continue its activities leading to achieving the position of profitability leader based on building lasting business relationships and improving operational efficiency.

The strategic priorities of the Bank in 2020 will remain: intelligent growth, building long-term customer relationships based on an integrated service model, digital and operational transformation that will strengthen the position of one of the most recognizable banks in Poland thanks to the professionalism of operation and creating customer value.

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

- **Leader in smart growth** – the Bank is consistently increasing the dynamics of its organic growth to date and constantly improves its profitability, focusing on the most profitable and prospective business segments as well as strengthening acquisition activities and systematically developing the product offer. The goal is a two-digit dynamics of income growth in business divisions: retail and private banking, banking of Small and Medium Enterprises and Corporate Banking. Additional support for these activities is the implementation of income and cost synergies resulting from the developed cooperation within the PZU capital group,
- **Expert in efficiency and quality** – the Bank undertakes numerous activities aimed at continuous improvement of process efficiency, cost discipline and service quality. They are implemented both in traditional sales channels (e.g. optimization of operational processes, sales orientation on coherent financial goals, implementation of a new model and format of branches), as well as in constantly developed digital channels. The improvement of cost effectiveness is also implemented through the centralization of internal processes and their progressive automation and robotization,
- **Integrated risk management expert** – the Bank, taking advantage of its strong position, continues to develop this area, which is crucial from the point of view of business transformation and safe growth. These activities are focused primarily in the area of risk modeling and management and active cooperation of risk with business aimed at optimizing credit processes,
- **Employer of the best talent** – the continuous development of key competences and effective cooperation within the organization is extremely important for the Bank. Continuing the recruitment of talent and constant development of experts in key areas such as data analytics, technology and IT, sales, customer service, the Bank strengthens its image as a modern institution and employer for the best, which offers an attractive level of remuneration related to the results achieved and unique development opportunities.

Aspirations outlined in the strategy are reflected by its financial goals for 2020:

- increase in commercial revenue > 10% year on year,
- cost-income ratio at the level of efficiency leaders, i.e. ~40%,
- risk costs at one of the lowest levels in the sector, i.e. ~50 bps,
- one of the highest profitability ratios in the Polish banking sector: RoE of ~11.5% (+/- 0.5 p.p.),
- strong capital position, i.e. Tier 1 > 14.5%.

The Bank focuses on organic growth and implementation of the adopted strategy, but also monitors consolidation trends on the Polish and European market, which may affect its competitive position and possibilities of supporting the implementation of the Bank's strategy through inorganic growth.

In 2020, the strategy „Strength of the Polish Bison” developed for the years 2018-2020 ends, therefore the Bank will start work on a new strategy covering the time horizon of the next few years.

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Strategy execution in 2019

As part of the strategy implementation, a number of strategic initiatives were developed and implemented to achieve the objectives while fully utilizing the potential of the identified development levers. Thanks to the activities that supported the current operational activity of the Bank, dynamic business development as well as the improvement of financial results and performance indicators took place in 2019.

Bank Pekao S.A. consistently implements strategic assumptions in terms of all business priorities set.

Leader in smart growth

Retail and Private 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 2019 were primarily aimed at: a significant and lasting acceleration of client acquisition, expansion in consumer lending and mortgage lending, profitability growth through smart pricing management, 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). These objectives were implemented using the potential of customers acquisition in the Internet channel applying the latest biometrics solutions, automating the credit process for cash loans and strengthening cooperation with the PZU Group in the area of insurance and investment products. Consistent implementation of the strategy translated into an increase of income in the Retail and Private Banking area in 2019 by 12% year on year.

In 2019, the Bank focused strongly on strengthening acquisition activities, based on a simplified current account (Konto Przekorzystne) and payment card (including promoted Karta Rewolucyjna) offer, effective marketing campaigns and streamlined sales processes in all distribution channels. These actions were reflected in the record sales results of new accounts, which in the whole year reached the level assumed in the strategy of 455 thousand, ca. 65% higher than in 2017- and higher by 12% than in 2018. The sale of Konto Przekorzystne and Karta Rewolucyjna guaranteeing low rates in payments abroad was supported by marketing campaigns conducted on television, cinemas, public transport, social media and the Internet.

Bank strengthens its leading position among banks focused on young customers. The largest growth in the number of clients occurred in the group of young people aged 13-17. In 2019, the number of newly acquired customers aged 13-17 was 60% higher compared to 2018 and the increase in the number of acquired customers up to 26 years old amounted to 26% year on year.

In 2019, the Bank consistently continued its efforts to build a leading position on the consumer goods financing market. Sales of cash loans in 2019 amounted to PLN 5.1 billion and the portfolio of cash loans increased by 6.7% year on year to the level of PLN 13.2 billion. The sale of cash loans was supported by a competitive offer, individual loan offers using CRM tools and a gradual increase in the availability of credit offers as part of the „click processes”. In addition, in order to strengthen the sales of consumer loans, the Bank undertook a number of actions to increase the commercial efficiency of the sales network, including a new incentive system and new sales tools. The Bank also consistently developed the sale of cash loans in digital channels, which translated into an increase in the share of cash loans sales in remote channels (as % of all cash loans granted) to the level of 40% in the fourth quarter of 2019 compared to 32% in the fourth quarter of 2018.

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The Bank adjusts the mortgage loan offer to the changing market conditions on a current basis and consistently concentrates its activities on optimizing the process of granting and servicing housing loans which translated into the sale of mortgage loans in the amount of PLN 9.7 billion in 2019 and growth of the loan portfolio by 9.8% year on year.

Bank Pekao S.A. consistently expanded the offer of insurance, investment and savings products. These activities contributed to a dynamic increase in net sales of investment products by 20% and a increase in cross-selling of insurance products (CPI for mortgage loans increased to over 72% in 2019 and CPI for cash loans from 33% in 2018 to over 38% in 2019).

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 2019 (including e.g. a new offer of payment terminals, a selfie account and the offer „PLN 600 for a good start with Pekao”) and increasing the effectiveness of sales through the optimization of service processes. As a result of these activities, the loan volume and income in this area increased 7% and 6.4% year on year respectively, and the number of new clients increased by 46% year on year.

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.

In 2019, the Bank carried out numerous activities aimed at intensifying sales and relationships with existing customers, which included in particular: development of the new service model based on mobile advisors, remote channels and product specialists, enhancement of employee competences through acquisition of high-class specialists as well as a number of initiatives facilitating acquisition, which resulted in a significant increase in the number of newly acquired clients, i.e. by 18% year on year, as well as a double-digit increase in income (21% year on year) from strategic cross-selling products, such as treasury, leasing, factoring and cash management.

The Bank continued the implementation of projects aimed at increasing customer satisfaction through further improvement and optimization of key processes, products and services. In the credit area, the processes related to obtaining financing by clients were simplified and accelerated. The offer for SME clients was also extended to include products that were previously dedicated only to clients of the corporate segment. A new product program has been implemented for investors undertaking small and medium investment projects in the commercial real estate segment.

The above-mentioned activities were reflected in the double-digit increase in revenues of the SME Banking segment, i.e. by 11% year on year and average revenues per SME client (+18% year on year). In 2019, the Bank was also one of the growth leaders on the SME loan market, an increase in volume by 11% year on year.

Corporate and Investment Banking

Bank Pekao S.A. as a leading corporate bank in Poland, in 2019 undertook a number of initiatives aimed at strengthening customer relations, development of the offer for clients and enhancing profitability by increasing the share of non-credit income. Dedicated activities supported by product and sector specialists were focused on increasing sales of strategic cross-selling products such as leasing and factoring as well as transactional banking products. These activities contributed to an increase in the share of non-credit income in the segment's total income by 36 bps compared to 2018.

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In the medium-sized corporation segment, due to intensified sales activities, an attractive product offer and numerous process improvements, a dynamic increase in the volume of loans by 18,5% year on year as well as an increase in the number of acquired clients by 15% year on year was achieved in 2019. In 2019, the Bank took a number of actions to improve the efficiency of the commercial sales network and product price management, and introduced new tools for planning acquisitions in the sales network. As a result of the initiatives taken, the commercial revenue of corporate banking increased in 2019 by 12.3% year on year.

The bank also focuses on developing areas such as investment and international banking, dedicating this offer to medium-sized corporations. The development of foreign banking was supported by a unique offer of foreign trade financing and closer cooperation with institutions supporting exporters.

Expert in efficiency and quality

In 2019, in order to increase the Bank's business and cost effectiveness, and improve the quality of services, a number of strategic projects were conducted. In order to meet customer expectations, the digital transformation process was continued, including over 200 technologically advanced initiatives focused on sales development and improvement of service quality in remote channels, automation and robotization of processes as well as enriching the offer with the latest digital services.

Innovation and digital transformation is one of the strategic priorities, the Bank has consistently developed the Innovation Laboratory, which aims to create innovative concepts in interdisciplinary teams of Bank employees and in cooperation with startups and fintechs. In 2019 the bank has made it possible for the customer to open an account online on a computer or smartphone. As the first in Poland, the Bank made available the identity verification process based on facial biometrics. The service is available online for 24 h/7 days. In addition, the Bank has released a new version of the Pekao24 electronic banking platform for retail customers. The bank is also working on the further development of the PeoPay mobile application, and is consistently improving digital solutions dedicated to corporate clients.

The Bank's activities aimed at achieving the position of efficiency and quality expert on the market have been recognized by the market. In the „Newsweek's Friendly Bank 2019” ranking, the Bank came first in the „Mortgage Banking” category. In addition, the Bank's Contact Center Employees from the Direct Banking Center won in three out of eight categories in the „Telemarketer of the Year” competition organized by the Polish Marketing Association SMB. Call Center employees received statuettes in three categories: Help Desk for clients, External Help Desk and video chat.

Along with the development of remote channels, a project is being implemented to increase the efficiency of the traditional retail network. In the area of corporate banking, one of the key initiatives is a project focused on effective client value management, based on a better understanding of the potential and needs of customers, increasing the efficiency of the sales network through digitization and automation as well as optimization of key processes and activities of network employees. Strategic initiatives also include a project to increase the efficiency of central functions, including the optimization of administrative costs on the one hand, and optimization of processes and reduction of bureaucracy at the Bank's Head Office on the other.

As part of activities aimed at increasing operational efficiency by optimizing the scale of employment, the Bank's Management Board decided to launch collective redundancies. This initiative was accompanied by activities aimed at simplifying the management structure, i.a. by reducing the number of managerial positions. The process of collective redundancies has been agreed and approved by all trade union organizations.

Actions taken have enabled further business expansion and improved cost efficiency.

Integrated risk management expert

In 2019, the Bank continued to develop its competence in risk management and undertook activities related to the optimization of credit processes in all business segments by simplifying procedures and implementing modern tools to streamline processes, including the implementation of automatic tools supporting credit decisions in the cash loan process.

At the end of 2019, the CoR ratio was 0.43% and was higher by 7 bps y/y excluding provision for legal risk regarding foreign currency mortgage loans in CHF. As a risk management leader, the Bank maintained the cost of risk at one of the lowest levels in the sector.

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Employer of the best talent

The activities undertaken in 2019 were focused on supporting the transformation process and aimed at building a positive image of the Bank as an employer both inside and outside the organization. Organized recruitment and image campaigns in social media, meetings and recruitment conferences, as well as participation in industry job fairs, were designed in order to attract top-class specialists.

In 2019, the Bank has implemented a new recruitment system, has introduced an employee referral program in selected areas, and has improved the onboarding process. As part of supporting the managerial staff of the Bank, a number of initiatives were carried out to support the development of key managerial competences.

The Bank continued cooperation with academic centers in Poland, among others with the University of Warsaw, Warsaw School of Economics, Warsaw University of Technology and also with foreign centers, e.g. London School of Economics. In 2019, the Bank organized an internship program for students and graduates in various organizational units of the Bank - Akademia Żubra and Banking Champions. The number of participants in 2019 was 28% higher than in 2018.

Business priorities for 2020

In 2020, the Bank will consistently implement the strategy for 2018-2020 „Strength of the Polish Bison”. The Bank's priority will be to focus on implementing key strategic projects such as: transformation of the retail network, increase in corporate banking profitability and improvement of credit processes. The bank will also continue the successive process of digital transformation, focusing on improving the quality of customer service, and on further processes optimization and robotization.

In order to increase the efficiency of managing key areas and strengthen activities aimed at achieving strategic goals, in the first quarter of 2020 changes were made to the organizational structure of the Bank. Due to the fact that one of the Bank's priorities is computerization, digitization and improvement of banking processes, the Technology and Operations Division was created. In addition, the Corporate Services Division was created, which aims to improve the quality and efficiency of internal bank processes, the Private Banking and Investment Products Division was created, which aims to strengthen the bank's position in the Private Banking segment and the Strategy Division was transformed into the Strategy and Transformation Division, which is responsible for coordinating implementation strategic initiatives and projects, synchronization of key changes as well as constant monitoring of market and competition trends along with the development of adequate actions at the strategy level.

Initiatives initiated in 2018-2019 will be continued. The Bank will dynamically develop customer acquisition, expansion in the area of consumer loans, as well as a range of products dedicated to the retail segment client. These goals will be implemented through, among others utilizing the potential of customer acquisition in the Internet and mobile channel using the latest biometrics solutions and the development of mobile banking applications, optimization of credit processes, improvement of sales network efficiency and strengthening of cooperation with the PZU Group in the area of insurance and investment products.

In the SME segment, activities will be aimed at intensifying customer acquisition and strengthening relationships with existing customers through a wide range of products. These activities will be supported by innovative solutions, a unique service model and a systematic approach to customer satisfaction management.

Activities in the corporate segment will focus on further expansion in the medium-sized corporations segment and increase in non-credit income (in particular on the increase in sales of strategic cross-selling products). In addition, the Bank intends to strengthen the effectiveness of the sales network by implementing modern tools and new sales methods for network employees. Bank being focused on active supporting the development of Polish corporations, it will continue to implement a systematic solution in the field of sectoral approach, advanced data analytics and will further improve the quality of advisory offered by the Bank's employees.

The implementation of the assumed actions will facilitate complete utilisation of the Bank's competitive advantages in 2020 and achieve the financial aspirations indicated in the 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 year ended on 31 December 2019 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 2019 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 2019 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 2019

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 2019, 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 applied 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 did 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 2019 Bank also partially applied Recommendation No. VI.R.1 of “Best Practice” regarding inclusion in remuneration policy 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.

In 2019 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.

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

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

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The Bank partially applied the principle set out in § 21 section 2 of the Corporate Governance Principles for the Supervised Institutions regarding the composition of the supervisory body, as regards the chairman of the Supervisory Board. The election of the chairman of the Supervisory Board was made on the basis of knowledge, experience, including the management of the body, and skills that confirm the competences necessary for the proper performance of supervision duties. In the view of the above, the criterion of independence was waived. The composition of the Bank's Supervisory Board meets the independence criteria resulting from the Bank's Statute and the Best Practices. 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 2018, 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 15/2019 on May 30, 2019 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 2018, 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 2019, 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.

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:

¹⁰ The document is publicly accessible on the Polish Bank Association web site: <http://zbp.pl/dla-bankow/zespoly-rady-i-komitetu/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej>

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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 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

[A] The main shareholders of the Bank from June 7, 2017 are:

- Powszechny Zakład Ubezpieczeń S.A. holding shares 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
- Polski Fundusz Rozwoju S.A. holding shares in the number of 33.596.166 (thirty-three million five hundred ninety six thousand one hundred and sixty six) of the Bank's shares, representing approximately 12.8% of the Bank's share capital and entitling to 33.596.166 (thirty-three million five hundred ninety six thousand one hundred sixty six) votes representing about 12.8% of the total number of votes.

[B] On June 28, 2019 Bank Pekao S.A. informed about receiving on June 27, 2019 the notification (hereinafter "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 5 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 S.A. with its seat in Warsaw (hereinafter "NN PTE").

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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According to the information provided in the received Notification by NN PTE as a result of the disposal of the Bank's shares in transactions on the Warsaw Stock Exchange, settled on June 21st, 2019 Nationale-Nederlanden Otwarty Fundusz Emerytalny („OFE”) reduced the ownership of the Bank's shares below 5% of votes at the General Meeting of the Bank. As the results of the same transactions the funds managed by NN PTE: Nationale-Nederlanden Otwarty Fundusz Emerytalny (hereinafter "OFE") and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (hereinafter "DFE") reduced the ownership of the Bank's shares below 5% of votes at the General Meeting of the Bank.

Before the disposal:

- Nationale-Nederlanden Otwarty Fundusz Emerytalny („OFE”) owned 13,124,000 shares of the Bank, which constituted 5.0002% of the Bank's share capital and corresponding to the same number and percentage share of votes at the General Meeting of the Bank;
- Funds Nationale-Nederlanden Otwarty Fundusz Emerytalny („OFE) and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny („DFE) together owned 13,139,000 shares of the Bank, which constituted 5,01% of the Bank's share capital to the same number and percentage of votes at the General Meeting of the Bank.

As of the end of the day 21 June, 2019:

- Nationale-Nederlanden Otwarty Fundusz Emerytalny („OFE”) held 13,089,000 shares of the Bank, which constituted 4.98% of the Bank's share capital and corresponding to the same number and percentage share of votes at the General Meeting of the Bank;
- Funds Nationale-Nederlanden Otwarty Fundusz Emerytalny („OFE) and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny („DFE) together held 13,099,000 shares of the Bank, which constituted 4.99% of the Bank's share capital and corresponding to the same number and percentage share of votes at the General Meeting of the Bank.

[C] On September 6, 2019 Bank Pekao S.A. informed about receiving on September 5, 2019 a notification from BlackRock, Inc. regarding the exceeding of the threshold of 5% of total number of votes in the Bank, taking into account also securities lending and contracts for difference (CFD) (the "Notification").

- After the change in the shareholding, as a result of acquisition of Bank's shares on September 4, 2019, the subsidiaries of BlackRock, Inc held 11,506,440 shares and votes in the Bank, representing 4.38% of the share capital of the Bank and the total number votes in the Bank respectively.

Subsidiaries of the shareholder that made the notification holding the Bank's shares or other instruments referred to below are: BlackRock Japan Co., Ltd.; BlackRock Investment Management, LLC; BlackRock Investment Management (UK) Limited; BlackRock Investment Management (Australia) Limited; BlackRock International Limited; BlackRock Institutional Trust Company, National Association; BlackRock Fund Advisors; BlackRock Financial Management, Inc.; BlackRock Asset Management North Asia Limited; BlackRock Asset Management Deutschland AG; BlackRock Asset Management Canada Limited; BlackRock Advisors, LLC; BlackRock Advisors (UK) Limited; BlackRock (Singapore) Limited; BlackRock (Netherlands) B.V.

The number of votes from shares, calculated pursuant to Article 69b.2 of the Polish Act on Public Offering, the Conditions Governing the Introduction of Financial Instruments to Organized Trading, and on Public Companies (the "Act on Public Offering"), to whose acquisition they are entitled or obliged as a holder of financial instruments referred to in Article 69b.1 (1) of the Act on Public Offering, as well as financial instruments referred to in Article 69b.1 (2) of the Act on Public Offering which are not exercised solely by cash settlement, the type and the name of those financial instruments, the date of their expiration, and about the date or time limit within which the acquisition of shares will or may occur:

1,199,501 votes from shares, representing 0.46% of the share capital of the Bank and the total number of votes in the Bank, related to securities lending. According to the Notification there is no date of expiration of the abovementioned instruments and no exercise or conversion period.

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The number of votes from shares, calculated pursuant to Article 69b.3 of the Act on Public Offering, to which the financial instruments referred to in Article 69b.1 (2) of the Act on Public Offering refer directly or indirectly, the type and the name of these financial instruments, and about the date of their expiration:

653,685 votes from shares representing 0.25% of the share capital of the Bank and the total number of votes in the Bank, related to contracts for difference (CFD) with cash settlement. According to the Notification there is no date of expiration of the abovementioned instruments and no exercise or conversion period.

- The total number of votes as indicated above and its percentage share in the general number of votes is 13,359,626 votes from shares, representing 5.09% of the share capital of the Bank and the total number of votes in the Bank.

[D] On November 28, 2019 Bank Pekao S.A. informed about receiving on November 27, 2019 a notification from BlackRock, Inc. on reducing the voting share below the threshold of 5% of the total number of votes in the Bank, taking into account also securities lending and contracts for difference (CFD) (the "Notification").

According to the Notification, the change in the voting share took place on November 26, 2019 as a result of the disposal of the Bank's shares.

- According to the Notification before the change in the voting share the subsidiaries of BlackRock, Inc. held:
 - a) shares representing 4.38% of the share capital of the Bank and the total number votes in the Bank;
 - b) votes from shares, calculated as below, representing 0.71% of the share capital of the Bank and the total number of votes in the Bank;
 - c) the total number of votes, calculated as below, representing 5.09% of the share capital of the Bank and the total number of votes in the Bank.
- After the change the current number of shares held and the proportion of the Banks's share capital represented by those shares, as well as the number of votes attached to those shares and their percentage share in the total number of votes, according to the Notification, was as follows: the shareholding of the subsidiaries of BlackRock, Inc. is below 5.0% of the Bank's share capital and the total number of votes in the Bank.

Subsidiaries of the shareholder making the notification, which hold the Banks's shares or other instruments referred to in the Notification are: BlackRock Japan Co., Ltd.; BlackRock Investment Management, LLC; BlackRock Investment Management (UK) Limited; BlackRock Investment Management (Australia) Limited; BlackRock International Limited; BlackRock Institutional Trust Company, National Association; BlackRock Fund Advisors; BlackRock Financial Management, Inc.; BlackRock Asset Management North Asia Limited; BlackRock Asset Management Deutschland AG; BlackRock Asset Management Canada Limited; BlackRock Advisors, LLC; BlackRock Advisors (UK) Limited; BlackRock (Singapore) Limited; BlackRock (Netherlands) B.V.

The number of votes from shares, calculated pursuant to Article 69b.2 of the Polish Act on Public Offering, the Conditions Governing the Introduction of Financial Instruments to Organized Trading, and on Public Companies (the "Act on Public Offering"), to whose acquisition they are entitled or obliged as a holder of financial instruments referred to in Article 69b.1 (1) of the Act on Public Offering, as well as financial instruments referred to in Article 69b.1 (2) of the Act on Public Offering which are not exercised solely by cash settlement, the type and the name of those financial instruments, the date of their expiration, and about the date or time limit within which the acquisition of shares will or may occur:

According to the Notification, the above number is below 5.0% of the share capital and the total number of votes in the Bank in connection with securities lending. Pursuant to the Notification, there is no expiry date for the above-mentioned instruments and no exercise and conversion period.

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The number of votes from shares, calculated pursuant to Article 69b.3 of the Act on Public Offering, to which the financial instruments referred to in Article 69b.1 (2) of the Act on Public Offering refer directly or indirectly, the type and the name of these financial instruments, and about the date of their expiration:

According to the Notification, the above number is below 5.0% of the share capital and the total number of votes in the Bank in connection with contracts for difference (CFD) with cash settlement. Pursuant to the Notification, there is no expiry date for the above-mentioned instruments and no exercise and conversion period.

- The total number of votes as indicated above and its percentage share in the general number of votes, according to the Notification, is below 5.0% of the share capital of the Bank and the total number of votes in the Bank.

[E] On December 17, 2019 Bank Pekao S.A. informed about receiving on December 16, 2019 a notification from UniCredit SpA ("UniCredit") on reducing the share of UniCredit below the threshold of 5% of the total number of votes in the Bank ("Notification").

According to the Notification, on December 16, 2019, as a result of the expiry date and mandatory settlement of UniCredit secured equity linked certificates related to the shares of Bank, the UniCredit disposed 16,430,000 of the Bank's shares to the holders of the certificates. The issuance of the above mentioned certificates by UniCredit was announced by the Bank in current report No. 31/2016 dated on December 8, 2016.

- Before the change in the share, UniCredit held 16,430,000 shares and votes in the Bank representing 6.26% of the Bank's share capital and the total number of votes in the Bank.
- After the change described above, the number of shares and votes held by UniCredit in the Bank was 0, which constituted 0.0% of the Bank's share capital and the total number of votes in the Bank.

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

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, 2019		DECEMBER 31, 2018	
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%
Nationale-Nederlanden PTE SA	–	–	13,357,769,	5.09%
Other shareholders (below 5%)	176,379,861,	67.20%	146,592,092	55.85%
Total	262,470,034	100.00%	262,470,034	100.00%

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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.

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.

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

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

¹⁵ Par. 70.6.5.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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The Bank's Statute does not provide for the Management Board or its members right to decide whether to issue or purchase shares.

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,

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 appoint and remove from office Members of the Supervisory Board, taking into account assessment of fulfilment of the suitability requirements,
- to define the remuneration rules for Members of the Supervisory Board,
- to conclude an agreement with a subsidiary which provides for the management of the subsidiary or for the transfer of profit by the subsidiary,
- to appoint the entity authorized to examine financial statements and review the financial statements,
- to deal with other matters falling within the scope of the Bank's activities which are submitted to the Bank's General Shareholders Meeting.

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.

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

- the right of shareholders holding at least a half of the share capital or at least a half of the votes to convene Extraordinary Meeting of Shareholders. In this case, the shareholders elect the chairman of the Bank's General Meeting,
- the right of shareholders holding at least the twentieth of share capital to demand that specific issues be placed on the agenda of the next Bank's General Shareholders Meeting. The demand should include the justification and the project of resolution's project concerning proposed issue and should be submitted to the Management Board no later than 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.

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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.

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. 64/III/19 of February 25, 2019. 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.

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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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.

As at January 1, 2019 the Management Board of the Bank 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 Lusztyń	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 March 6, 2019 the Supervisory Board, taking into consideration the suitability assessment, appointed as of March 7, 2019 Mr Piotr Wetmański and as of April 1, 2019 Mr Grzegorz Olszewski to the Banks' Management Board for the current term of office and entrusted them with the position of Management Board Members of the Bank. Additionally, Mr Grzegorz Olszewski was appointed Member of the 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.

On 24 May 2019, the Supervisory Board, taking into consideration the suitability assessment, appointed Ms Magdalena Zmitrowicz entrusting her with the position of the Vice President of the Bank's Management Board and Mr Piotr Wetmański entrusting him with the position of a Member 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 of the Bank approving the financial statements of Bank for the financial year 2018.

On November 29, 2019:

- Mr. Michał Krupiński resigned from the position of the President of the Management Board of the Bank and from the composition of the Management Board of the Bank with immediate effect,
- the Supervisory Board, after assessing suitability, appointed, as of 29 November 2019, Mr. Marek Lusztyń, the current Vice President of the Management Board of the Bank supervising the activities of the Risk Management Division, as the President of the Management Board of the Bank, subject to obtaining consent of the Polish Financial Supervision Authority and upon obtaining such consent. Until the above condition is met, on which the appointment of Mr. Marek Lusztyń as the President of the Management Board of the Bank depends, the Supervisory Board of the Bank entrusted Mr. Marek Lusztyń with managing the work of the Management Board of the Bank. On 4 February, 2020, the Polish Financial Supervision Authority unanimously expressed consent to the appointment of Mr. Marek Lusztyń as the President of the Management Board of the Bank Pekao S.A.
- Mr. Michał Lehmann and Mr. Piotr Wetmański resigned from the function of, respectively, the Vice President of the Management Board of the Bank and a Member of the Management Board of the Bank and from the composition of the Management Board of the Bank. The resignations were submitted with immediate effect.
- The Supervisory Board, after assessing suitability, appointed Mr. Marcin Gadowski to the Management Board of the Bank for the current joint term of office as the Vice President of the Management Board of the Bank. The Supervisory Board of the Bank, subject to obtaining the consent of the Polish Financial Supervision Authority and upon obtaining such consent, entrusted Mr. Marcin Gadowski with the function of the Vice President of the Management Board of the Bank supervising the management of material risk in the Bank's operations.

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As at December 31, 2019 the Management Board was composed of the following persons:

Marek Lusztyn	Vice President of the Management Board managing the work of the Management Board of the Bank. (On 4 February, 2020, the Polish Financial Supervision Authority unanimously expressed consent to the appointment of Mr. Marek Lusztyn as the President of the Management Board of the Bank Pekao S.A.)
Magdalena Zmitrowicz	Vice President of the Management Board,
Marcin Gadomski	Vice President of the Management Board (Supervisory Board applied to the Polish Financial Supervision Authority for consent to entrust Mr. Marcin Gadomski with the function of the Vice President of the Management Board, supervising the management of significant risk in the Bank's activity)
Tomasz Kubiak	Vice President of the Management Board,
Tomasz Styczyński	Vice President of the Management Board,
Marek Tomczuk	Vice President of the Management Board,
Grzegorz Olszewski	Member of the Management Board.

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.

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

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As at January 1, 2019 the Supervisory Board was composed of the following persons:

Paweł Surówka	Chairman of the Supervisory Board,
Joanna Dynysiuk (maiden name Błaszczyk)	Deputy Chairman of the Supervisory Board,
Stanisław Ryszard Kaczoruk	Deputy Chairman of the Supervisory Board,
Paweł Stopczyński	Secretary of the Supervisory Board,
Sabina Bigos-Jaworowska	Member of the Supervisory Board,
Justyna 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, 2019 remained unchanged.

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. 98/19 dated November 5, 2019. Previously in force Supervisory Board's Resolution No. 81/17 dated August 1, 2017 expired.

The Audit Committee supports the Supervisory Board in the performance of its duties, therein related to the monitoring financial reporting process, financial auditing activities, and regularity and effectiveness of the Bank's internal control systems, management of risk and function of internal audit, compliance with applicable laws and procedures governing the Bank's operations, independence of statutory auditor and auditing company and the resources of the Internal Audit Department. The Audit Committee is composed of 3 (three) to 5 (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. Qualifications of the members of the Audit Committee, including education and professional experience, together with an indication of how were acquired, were presented on the Bank's website.²⁴

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 2019 there were 8 meetings of the Audit Committee.

²⁴ <https://www.pekao.com.pl/o-banku/wladze-banku.html>

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As at January 1, 2019 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 Dynysiuk (maiden name 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, 2019 remained unchanged.

In 2019 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").

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:

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- 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
 - 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.

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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.

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, 2019 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,
Joanna Dynysiuk (maiden name Błaszczuk)	Member of the Committee,

and until December 31, 2019 remained unchanged.

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. 99/19 dated November 5, 2019. 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, 2019 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, 2019 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 period²⁵

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.

The current share of women in managerial positions at the Bank is 60.9% and in senior managerial positions is 47.2%.

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, which include principle of gender equality.

Due to the regulations adopted in this regard and the importance that the Management Board pays for the values presented in the Policy, it is subject to constant review.

In 2017-2019 the share of men and women the Management Board was following.

	December 31, 2017		December 31, 2018		December 31, 2019	
	No. of persons	%	No. of persons	%	No. of persons	%
Women		0%	1	14%	1	14%
Men	7	100%	6	86%	6	86%
Total	7	100%	7	100%	7	100%

In 2017-2019 the share of men and women the Supervisory Board was following.

	December 31, 2017		December 31, 2018		December 31, 2019	
	No. Of persons	%	No. Of persons	%	No. Of persons	%
Women	3	33%	3	33%	3	33%
Men	6	67%	6	67%	6	67%
Total	9	100%	9	100%	9	100%

²⁵ § 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 2019

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

Report on the activities of Bank Pekao S.A. Group for the year 2019

Signatures of all Members of the Bank's Management Board

26.02.2020 Date	Marek Lusztyn Name/Surname	President of the Management Board Position/Function	Signature
26.02.2020 Date	Jarosław Fuchs Name/Surname	Vice President of the Management Board Position/Function	Signature
26.02.2020 Date	Marcin Gadomski Name/Surname	Vice President of the Management Board Position/Function	Signature
26.02.2020 Date	Tomasz Kubiak Name/Surname	Vice President of the Management Board Position/Function	Signature
26.02.2020 Date	Tomasz Styczyński Name/Surname	Vice President of the Management Board Position/Function	Signature
26.02.2020 Date	Marek Tomczuk Name/Surname	Vice President of the Management Board Position/Function	Signature
26.02.2020 Date	Magdalena Zmitrowicz Name/Surname	Vice President of the Management Board Position/Function	Signature
26.02.2020 Date	Grzegorz Olszewski Name/Surname	Member of the Management Board Position/Function	Signature