



Dear Shareholders,

I am pleased to present you with the Management Report of Bank Pekao S.A. for 2019.

It is a privilege to be writing to you as the CEO of Bank Pekao, that I had a chance to join almost 20 years ago at the beginning of my career journey in banking. I was entrusted with the role of CEO at the very important moment not only for Bank Pekao but also for the entire Polish banking sector, which operating model and role in the economy have rapidly evolved. In 2019 Bank Pekao celebrated its 90 years anniversary. The institution started as a gate to the word for Poles and also supported large diaspora living abroad. Since the beginning, the Bank was an integral part of the Polish economy and took responsibility for its prosperity and growth. What set Bank Pekao apart has always been a culture of innovation, that the Bank successfully instilled in the entire banking sector. Our approach was also very distinct thanks to operational efficiency and ability to quickly adapt to changing economic environment as well as high client expectations set over decades. Therefore, when we enter a new decade as one of the largest financial institutions not only in Poland but also the entire CEE region, with a balance sheet first time exceeding PLN 200bn, I would like to draw your attention to the three core pillars that defined development of the Bank since its foundation. Those three pillars have been: efficiency, innovation and responsibility towards customers. Commercial activity supported by those core pillars yet again helped Bank Pekao to maintain competitive advantage in 2019, and thanks to those values, we made an important step closer to fully execute on our strategy “Strength of the Polish bison” in 2020.

In 2019 both the Polish economy as well as Bank Pekao continued on a path of dynamic growth. With a real GDP growth of 4%, Poland remains the fastest growing economy among large European countries, simultaneously consolidating its position as the country that has sported uninterrupted growth for 28 years. Consumer optimism fuelled by historically low unemployment continued to be a major driver behind the economic growth. Polish entrepreneurs proved again that they can successfully compete even in more demanding conditions for global growth.

Similar to Polish economy demonstrating its strength, Bank Pekao showed a strong growth in the key areas of its competitive advantage and in line with its strategic ambitions. In terms of profitability, the Bank yet again achieved a strong double digit growth in recurring net profit, despite a more demanding environment for the Polish banking sector to lift profitability. Reaching such a high dynamic of profit growth would not have been possible without strong yet sustainable growth in scale. The 8% lending volume growth in 2019 was the highest pace that Bank Pekao has achieved in 5 years. The growth was concentrated in areas with the highest potential of revenue increase as evidenced in 12% y/y commercial revenue growth, highest dynamic in decade and achieved simultaneously by all our major business lines: retail, commercial and SME. In terms of client acquisition, we opened nearly half million of new current accounts, significantly exceeding our strategic milestone for 2019. We proved that we can successfully attract new clients, and in particular build relationships with the youngest at the beginning of their banking journey.

Important pillar, which defined the way we have operated is efficiency and ability to adapt to rapidly changing environment for the banking sector. Our definition of efficiency does not only span cost effectiveness but also major investments in our technological and operating platform, thanks to which the Bank will be

able to successfully compete in the next - digital - decade of its activity. With an recurring operating cost dynamic of +1.7% y/y, significantly below inflation read, we not only achieved our strategic target but again outperformed major competitors in the Polish banking market. Best in class cost dynamic did not constrained our ability to invest in technology. Investment spending in 2019 rose twice vs. 2017. We took a number of, sometimes difficult, decisions in order to continue digital transformation of the Bank. Partially thanks to those actions, we reduced recurring cost/income ratio by 4 p.p. in last two years to 41% in 2019, on track to reach 40% by the end of 2020. Combination of historically-high dynamic of commercial revenues together with a best-in-class operational efficiency allowed us to deliver the strongest in the Polish banking sector effect of so-called “operating jaws”, the difference between revenue and operating cost dynamics.

Digital transformation of the global economy and rapidly changing behaviours of our customers support technological innovation of the banking sector. In 2019, Bank Pekao yet again demonstrated that by putting customer’s interest first, it can deliver pioneering solutions at the global scale, such as remote current account opening process with smartphone. We continue to develop our flagship and acclaimed digital app, PeoPay, into a leading digital bank. Popularity of PeoPay among our clients has steadily increased, and only in 2019 we grew number of active mobile users by 33%. Today 40% of our retail clients use the app on a daily basis. Our innovative approach has a real impact on our commercial performance. Today, 40% of all consumer loans are sold through digital channels and number of transactions executed with PeoPay grew five-fold in 2019. Digital transformation of Bank Pekao is not only represented by new digital solutions but also by a strong team of 500 tech experts running 70 projects, which are radically reshaping the way we operate.

Writing about our pillars, I left until the end the most important ones, responsibility towards customers. Those two principles guided commercial approach of Bank Pekao since its foundation and those values are of particular importance to me personally. This is why in an era of digital change we cannot forget that it has always been business of trust and financial institutions that achieved a distinct commercial success in the long-term were those that could build lasting relations with their clients and manage their business in a prudent manner. 2019 in the Polish banking sector proved that such approach can deliver tangible financial results. Thanks to long-term client-first approach and in light of materialisation of sector-wide risks associated with the CJEU rulings with regards to FX mortgage loans and consumer loans in 2019, Bank Pekao largely avoided risk provisions that significantly impacted financial performance of most of our competitors. Responsible approach to banking also means prudent risk management, which in case of Bank Pekao for years translates into lowest and stable cost of risk among large Polish banks. With the cost of risk of 43bps in 2019, we again delivered against our strategic goal for the year. As one of the biggest banks in Poland, we shape and are responsible for the environment in which we operate. Therefore, in 2019 we launched a number of initiatives based on ESG (Environmental, Social and Governance) principles. We engaged in commercial initiatives, such as sustainable financing and lending enabling green transformation of our clients, as well as those activities that improve sustainability of the Bank itself. I am glad to see that our actions are recognised by global opinion leaders in ESG field such as Moody’s, that awarded us with the highest ESG score of “A” shared only by a selected number of Polish banks. We were also recognised by Bloomberg that placed Bank Pekao in its prestigious Bloomberg Gender-Equality Index of 500 global corporates fostering workplace gender equality. Entering 2020, we want ESG principles to drive even stronger our customer relations and the way we act as corporate citizens. Therefore, we launched the process to formalise our ESG framework, that will expand tools and reach of our actions to drive sustainability.

We will not succeed in achieving our goals without full engagement, support and fulfilled potential of our employees. There was a number of initiatives that we successfully undertook in 2019 with a focus on building the competences in key areas, including set-up of the innovation lab, hire of managerial talent in Poland and abroad as well as simplification of corporate structure and leveraging the talent within the organisation. We want to continue strengthening the employer of the best talent brand in order to maintain the advantage in competing for talent and foster the environment to develop our workforce. Being an attractive employer is a priority goal for the Management Board. Supported by our core values, in 2019 we achieved all our business and financial objectives which brought

us close to fully complete our strategy in 2020. We sported a record-high commercial revenue growth at 12% y/y, which together with the sector-leading recurring cost dynamic of +1.7% y/y, led to significant improvement in recurring cost/income ratio to 41%. Additionally, we recorded stable cost of risk at 43bps. Taking those factors altogether, we increased recurring net profit by 10% y/y. Despite a significant increase in BGF contributions, by 70% y/y, we maintained recurring RoE measure at a high double-digit figure. I strongly believe that in 2020 we will again achieve our commercial and financial targets, which will culminate execution of the 2020 strategy. With relentless efforts to exploit our full commercial potential together with a digital and operational transformation, we aim to fully achieve our financial targets of 11-12% as well as reduce cost/income ratio to our milestone of 40%.

By entering in 2020 a new decade in a rich history of Bank Pekao, we naturally look beyond the near-term future. In 2020 we want to announce a new strategy with a horizon of next few years. I can assure you today that this will be a strategy which puts customer and their needs in the centre. In a digital era, we want Bank Pekao to remain the bank of first choice for both our existing and new customers. We want our actions to have even more profound and positive impact on our surrounding environment. Simultaneously, we want our next strategy to yet again deliver financial performance that will reward our shareholders through a profitable growth and attractive dividends. At this point, I would like to thank all our customer, our employees, and all shareholders. I would also like to thank the Supervisory Board for the trust, cooperation and support that the Board has given to Bank's Management.

Yours sincerely,  
Marek Lusztyn,  
President of the Management Board of Bank Pekao S.A.