

Report of the Supervisory Board of Bank Polska Kasa Opieki Spółka Akcyjna on its activity in 2019 and on the results of the assessment of: reports on the activities of Bank Polska Kasa Opieki Spółka Akcyjna and of the Bank Polska Kasa Opieki Spółka Akcyjna Group in 2019, financial statements of Bank Polska Kasa Opieki Spółka Akcyjna and of the Bank Polska Kasa Opieki Spółka Akcyjna Group for the year ended on 31 December 2019, motion of the Management Board of the Bank on the distribution of the net profit of Bank Polska Kasa Opieki Spółka Akcyjna for 2019, and situation of Bank Polska Kasa Opieki Spółka Akcyjna, taking into account assessment of the internal control and risk management systems, compliance and internal audit functions, as well as rationality of the Bank's policy concerning sponsorship and charitable activities

I. Composition and organization of the work of the Supervisory Board in 2019.

Between 1 January 2019 and 31 December 2019, the Supervisory Board was made up of the following members:

Paweł Surówka - Chairman of the Supervisory Board,
Joanna Dynysiuk (née: Błaszczuk) - Deputy Chairwoman 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.

Five Members of the Supervisory Board, i.e.: Stanisław Ryszard Kaczoruk, Sabina Bigos-Jaworowska, Justyna Głębiowska-Michalak, Michał Kaszyński and Marian Majcher meet the criteria of independence.

The Supervisory Board exercised permanent supervision over the Bank's activity, in accordance with the rights and obligations set forth in the Code of Commercial Companies, in the Bank's Articles of Association and in the "Corporate Governance Principles for the Supervised Institutions" issued by the Financial Supervision Authority on 22 July 2014 and in the "2016 Code of Good Practices for Companies Listed on the Warsaw Stock Exchange".

In 2019, the Supervisory Board held 11 meetings and 3 teleconferences, during which it reviewed 133 reports, studies and requests, and adopted 129 resolutions.

The Supervisory Board performed its tasks both during the meetings, and by operating the Supervisory Board committees.

The following committees of the Supervisory Board continued their activity in 2019: (i) Audit Committee, (ii) Nomination and Remuneration Committee, and (iii) Risk Committee. Reports on the activities of these committees, approved by the Supervisory Board, have been attached to this report.

II. Personnel-related issues.

Between 1 January 2019 and 7 March 2019, the Management Board of the Bank was composed of the following members:

Michał Krupiński – President of the Management Board of the Bank,

Tomasz Kubiak – Vice President of the Management Board of the Bank,

Michał Lehmann – Vice President of the Management Board of the Bank,

Marek Lusztyn – Vice President of the Management Board of the Bank,

Tomasz Styczyński – Vice President of the Management Board of the Bank,

Marek Tomczuk – Vice President of the Management Board of the Bank,

Magdalena Zmitrowicz - Vice President of the Management Board of the Bank.

On 6 March 2019, acting pursuant to Article 368(4) of the Code of Commercial Companies, having taken into consideration results of the suitability assessment procedure, the Supervisory Board unanimously appointed, as of 7 March 2019, Piotr Wetmański as a member of the Management Board of the Bank of the current term, and nominated him a Member of the Management Board of the Bank.

Between 7 March 2019 and 1 April 2019, the Management Board of the Bank was composed of the following members:

Michał Krupiński – President of the Management Board of the Bank,

Tomasz Kubiak – Vice President of the Management Board of the Bank,

Michał Lehmann – Vice President of the Management Board of the Bank,

Marek Lusztyn – Vice President of the Management Board of the Bank,

Tomasz Styczyński – Vice President of the Management Board of the Bank,

Marek Tomczuk – Vice President of the Management Board of the Bank,

Piotr Wetmański – Member of the Management Board of the Bank,

Magdalena Zmitrowicz - Vice President of the Management Board of the Bank.

On 6 March 2019, acting pursuant to Article 368(4) of the Code of Commercial Companies, having taken into consideration results of the suitability assessment procedure, the Supervisory Board unanimously appointed, as of 1 April 2019, Grzegorz Olszewski as a member of the Management Board of the Bank of the current term, and nominated him a Member of the Management Board of the Bank.

On 6 March 2019, acting pursuant to Article 368(4) of the Code of Commercial Companies, having taken into consideration results of the suitability assessment procedure, the Supervisory Board unanimously appointed Grzegorz Olszewski for the subsequent three-year, common term in office of the Management Board of the Bank commencing on the first day following the date of the Ordinary Meeting of the Shareholders of the Bank approving the Bank's 2018 financial statements, nominating him a Member of the Management Board of the Bank.

On 24 May 2019, acting pursuant to Article 368(4) of the Code of Commercial Companies, having taken into consideration results of the suitability assessment procedure, the Supervisory Board unanimously appointed Magdalena Zmitrowicz for the subsequent three-year, common term in office of the Management Board of the Bank commencing on the first day following the date of the Ordinary Meeting of the Shareholders of the Bank approving the Bank's 2018 financial statements, nominating her a Vice President of the Management Board of the Bank.

On 24 May 2019, acting pursuant to Article 368(4) of the Code of Commercial Companies, having taken into consideration results of the suitability assessment procedure, the Supervisory Board unanimously appointed Piotr Wetmański for the subsequent three-year, common term in office of the Management Board of the Bank commencing on the first day following the date of the Ordinary Meeting of the Shareholders of the Bank approving the Bank's 2018 financial statements, nominating him a Member of the Management Board of the Bank.

In consideration of the above, between 1 April 2019 and 29 November 2019, the Management Board of the Bank was composed of the following members:

Michał Krupiński – President of the Management Board of the Bank,

Tomasz Kubiak – Vice President of the Management Board of the Bank,

Michał Lehmann – Vice President of the Management Board of the Bank,

Marek Lusztyn – Vice President of the Management Board of the Bank,

Grzegorz Olszewski – Member of the Management Board of the Bank,

Tomasz Styczyński – Vice President of the Management Board of the Bank,

Marek Tomczuk – Vice President of the Management Board of the Bank,

Piotr Wetmański – Member of the Management Board of the Bank,

Magdalena Zmitrowicz - Vice President of the Management Board of the Bank.

On 29 November 2019, Michał Krupiński submitted a resignation from the position of the President of the Management Board of the Bank and from the position of a Member of the Management Board of the Bank, effective immediately.

On 29 November 2019, Michał Lehmann and Piotr Wetmański submitted their resignations from the positions of the Vice President of the Management Board of the

Bank and a Member of the Management Board of the Bank, and from the position of a Member of the Management Board of the Bank, respectively, effective immediately.

On 29 November 2019, having taken into consideration the results of the suitability assessment procedure concerning Marek Lusztyn, the current Vice President of the Management Board, the Supervisory Board appointed him the President of the Management Board of the Bank, with the said appointment conditioned on the approval of the Financial Supervision Authority and effective upon the receipt of such an approval.

The Supervisory Board entrusted Marek Lusztyn, a Member of the Management Board, with the task of managing the work of the Bank's Management Board until the aforementioned approval of the Financial Supervision Authority concerning the appointment of the President of the Management Board of the Bank is obtained.

On 29 November 2019, having taken into consideration the results of the suitability assessment procedure concerning Marcin Gadomski, the Supervisory Board appointed him a Member of the Management Board of the Bank, simultaneously appointing him the Vice President of the Management Board. The Supervisory Board appointed Marcin Gadomski, the Vice President of the Management Board, to the position of the Vice President of the Management Board of the Bank supervising the management of risk that is of significant importance for the Bank's activities, with the said appointment conditioned on the approval of the Financial Supervision Authority and effective upon the receipt of such an approval.

Between 29 November 2019 and 31 December 2019, the Management Board of the Bank was composed of the following members:

Marek Lusztyn – Vice President of the Management Board of the Bank in charge of the work of the Management Board,

Marcin Gadomski - Vice President of the Management Board of the Bank,

Tomasz Kubiak – Vice President of the Management Board of the Bank,

Grzegorz Olszewski – Member of the Management Board of the Bank,

Tomasz Styczyński – Vice President of the Management Board of the Bank,

Marek Tomczuk – Vice President of the Management Board of the Bank,

Magdalena Zmitrowicz - Vice President of the Management Board of the Bank.

III. Main activities of the Supervisory Board.

The activity of the Supervisory Board in 2019, as it was the case in the previous years, focused both on strategic issues and on issues related to exercising supervision over the ongoing operation of the Bank.

The issues of strategic importance include, primarily, approval of the internal procedure titled "Strategic Planning, Budgeting, Forecasting and Monitoring of the Financial Plans

at Bank Pekao S.A.”, positive assessment of the request of the Management Board of the Bank concerning the covering of the undistributed loss from the previous years, created as a result of amendments to the accounting principles and linked to the application, for the first time, of IFRS 9, and of the request of the Management Board of the Bank concerning distribution of the Bank’s net profit generated in the financial year of 2018.

As far as the strategic issues are concerned, the Supervisory Board approved the “2019 Capital Management Strategy”, the “2019 - 2021 Multi-annual Capital Management Strategy”, the “2019 Credit Risk Policy of Bank Pekao S.A.”, the “2019 Investment and Market Risk Policy”, and the “Information Policy of Bank Pekao S.A. in Relation to Capital Adequacy”. The Supervisory Board approved also the “Financing Plan for 2019”, the “Long Term Financing Plan for 2019 - 2021” and the “Group Recovery Plan for the Bank Pekao S.A. Capital Group”, along with the later amendment thereof, and the updated “Individual Recovery Plan of Bank Pekao S.A.”.

The Supervisory Board held discussions, with the Management Board, concerning the macroeconomic outlook in Poland, focusing, inter alia, on GDP growth, inflation and interest rates, deposits and loans.

The Supervisory Board analyzed quarterly reports concerned with capital management processes and with the liquidity situation of the Bank.

The Supervisory Board reviewed also, on a systematic basis, the following: (i) financial situation, (ii) sales results concerning key products, i.e. PLN mortgage loans, consumer loans, investment funds, (iii) quality of assets, and (iv) risk level.

The Supervisory Board supervised the process of managing risks at the Bank. It approved the warning level applicable to operating losses, and warning sub-levels for specific event classes for the year 2019, as well as the results of the annual ICAAP review, results of the review of the risk and capital management system, and the updated version of the “ICAAP Policy - Risk and Capital Management Principles”. The Supervisory Board approved the “Operational Risk Management Strategy” and the “Operational Risk Management Policy”. Additionally, the Supervisory Board approved the “Annual Model Risk Report”. Quarterly reports on financial risk management, operational risk control, as well as credit portfolio and debt recovery operation were analyzed by the Supervisory Board in an in-depth manner as well.

The activity of the Bank’s subsidiary companies was also within the area of interest of the Supervisory Board. The Supervisory Board acknowledged information on the activity of the subsidiaries of the Bank Pekao S.A. Group and included, in the agenda of the General Meeting of Shareholders, an item concerning the planned division of Centralny Dom Maklerski Pekao S.A.

The Supervisory Board became acquainted with information concerning the Auditor’s Letter on the 2018 financial statements.

The Supervisory Board issued opinions on the separate and consolidated annual and

interim financial statements of Bank Pekao S.A. and the Bank Pekao S.A. Capital Group, as well as on annual and interim reports on the activities of the Bank Pekao S.A. Capital Group, which were drawn up in accordance with the International Financial Reporting Standards applied in the European Union.

The Supervisory Board reviewed the request to include, in the agenda of the General Meeting of Shareholders, items concerning the planned division of Centralny Dom Maklerski Pekao S.A. - within the framework of the planned integration of brokerage activities - and issued a positive opinion on the draft resolution of the General Meeting of Shareholders concerning the division of Centralny Dom Maklerski Pekao S.A. It also issued a positive opinion on the draft resolutions of the General Meeting of Shareholders amending the Bank's Articles of Association and establishing a consolidated wording of the said Articles of Association.

The Supervisory Board paid a lot of attention to issues related to the functioning of internal audit processes. The Supervisory Board became familiar with the report on the activities of the Internal Audit Department in 2018, and with the self-assessment of the Internal Audit Department in 2018. The 2019 Annual Audit Plan was approved, and the Audit Chart of Bank Pekao S.A. and the Internal Audit Strategy for the years 2018-2020 were updated. The Supervisory Board approved also the Auditor's Knowledge and Skills Assessment Chart and became familiar with the report drawn up by the Internal Audit Department and concerned with the audit of the process of implementing the Remuneration Policy – Variable Remuneration Components. Additionally, the Supervisory Board exercised supervision over the implementation of post-audit recommendations issued by the Polish Financial Supervision Authority and became acquainted with the results of verification of these recommendations, performed by the Internal Audit Department.

While exercising supervision over the implementation and ensuring the operation of an adequate and efficient internal control system, the Supervisory Board reviewed the internal control system in place at the Bank in 2018.

As part of its duties concerning supervising effective management of the risk of non-compliance, the Supervisory Board reviewed the report on the activities of the Compliance Department in 2018 and reviewed the report on the activities of the Compliance Department in Q3 2019. It also approved the plan of activities of the Compliance Department for 2020. The Supervisory Board analyzed also periodic reports concerned with the risks inherent in bancassurance activities.

In 2019, the Supervisory Board became also acquainted with the report on the functioning of the legal compliance system at Dom Maklerski Pekao in 2018, and with the report on the provision, by the Bank of brokerage services in 2018, in connection with the "Guidelines concerning the provision of brokerage services on the OTC derivatives market" issued by the Polish Financial Supervision Authority.

The Supervisory Board issued the "Policy for Reporting Violations (Whistleblowing) at Bank Pekao S.A." and assessed the adequacy and effectiveness of the "Procedure for

Anonymous Reporting of Violations by the Employees of Bank Pekao S.A.” in effect at the Bank.

The Supervisory Board issued a positive opinion on the application, by the Bank, in 2018, of the Corporate Governance Principles for Supervised Institutions, issued by the Polish Financial Supervision Authority, and acknowledged the fulfillment, by Bank Pekao S.A., of the information requirements concerning the application of the corporate governance principles set forth in the Stock Exchange Regulations.

The Supervisory Board approved also a report on the application, by the Bank, in 2018, of the Corporate Governance Principles for Supervised Institutions.

Pursuant to the “Information Policy of Bank Pekao S.A. on Capital Adequacy”, the Supervisory Board became acquainted with the documents concerning capital adequacy of the Pekao S.A. Capital Group. The Supervisory Board adopted the following capital regulations for Bank Pekao S.A.: “Capital Management Policy for Bank Pekao S.A.”, “Capital Planning at Bank Pekao S.A.”, “Policy of Capital Contingency Plans at Bank Pekao S.A.”, and additionally approved the procedure titled “Profitability Monitoring Policy and Contingency Profitability Improvement Plan at Bank Pekao S.A.”

Performing its statutory duties, the Supervisory Board reviewed and issued positive opinions on the motions and reports of the Management Board of the Bank for the Ordinary General Meeting of Shareholders for the fiscal year of 2018.

The Supervisory Board dealt also with issues concerned with the remuneration policy with suitability assessment. The Supervisory Board adopted “Preliminary Terms and Conditions for the Variable Remuneration System in 2019”, and issued a positive opinion on the functioning, at the Bank, of the “Bank Pekao S.A. Remuneration Policy”. It also approved the “Report on the Functioning of the Remuneration Policy at Bank Pekao S.A. in 2018”. Additionally, the Supervisory Board decided to submit the aforementioned documented to the General Meeting of Shareholders for verification whether the Bank’s Remuneration Policy fosters the growth and ensures the security of the Bank.

The Supervisory Board approved the assumptions of the Managerial Staff Variable Remuneration System for the year 2019, including its preliminary terms and conditions, and approved amendments to the Managerial Staff Variable Remuneration System Principles, with the said amendments concerning participants of the system who are not Board Members. In addition, the Supervisory Board laid out governance objectives for the Management Board Members for 2019.

The Supervisory Board was taking decisions concerned with the assessment of the individual objectives of the current and former Management Board Members, and with activating the 2018 bonus quota for the Participants of the Managerial Staff Variable Remuneration System.

The Supervisory Board adopted resolutions concerning the following: (i) performing

collective suitability assessment of the Bank's Management Board and individual suitability assessment of the Members of the Management Board of the Bank, (ii) appointment of the Members of the Management Board of the Bank for a new term in office, (iii) determination of the terms of the individual contracts of the Members of the Management Board of the Bank, (iv) delegation of tasks and responsibilities between the Members of the Management Board of the Bank.

In connection with the decisions referred to above, the Supervisory Board submitted, to the Polish Financial Supervision Authority, applications for: (i) approval of the appointment of the President of the Management Board of the Bank, (ii) consent for appointing one of the Vice Presidents of the Management Board of the Bank as a Vice President of the Management Board in charge of supervising the management of risk that is significant for the operation of the Bank.

In addition, the Supervisory Board provided the Polish Financial Supervision Authority with the following information: (i) on the amendment to the make-up of the Management Board of the Bank, (ii) on the fulfillment, by the Members of the Management Board of the Bank, of statutory requirements, (iii) on the approval of the new internal authority delegation table.

Furthermore, the Supervisory Board of Bank Pekao S.A., acting pursuant to Article 14(8) of the Bank's Articles of Association, the Supervisory Board amended the Regulations of the Audit Committee and the Regulations of the Risk Committee.

Performing its tasks described in Article 18(16) of the Bank's Articles of Association, the Supervisory Board also reviewed motions regarding the sale of real property.

The Supervisory Board approved the appointment of one of its members to the position of a member of a supervisory board of a company being a Customer of the Bank, and expressed its consent for the appointment of one of the Management Board Members to the position of a supervisory board of an entity being a Customer of the Bank.

In line with its tasks defined in Article 18(17) of the Bank's Articles of Association, the Supervisory Board reviewed also motions to assume liabilities or dispose of assets, the value of which, with respect to a single entity, exceeds 5% of the Bank's equity.

The Supervisory Board acknowledged information on investor relations of the Bank.

IV. Assessment of the reports of the Management Board on the activities of the Bank and of the Capital Group in 2019, financial statements of the Bank and the Capital Group for the year 2019, and the motion of the Management Board of the Bank concerning the distribution of net profit for the year 2019.

Pursuant to Article 382(3) of the Code of Commercial Companies and in performance of its obligations provided for in the Articles of Association of the bank, the Supervisory Board of Bank Pekao S.A. issued a **positive opinion** on:

- 1) consolidated financial statements of the Bank Pekao S.A. Capital Group for the

- year ended on 31 December 2019 (consolidated financial statements),
- 2) financial statements of Bank Pekao S.A. for the year ended on 31 December 2019 (entity-specific financial statements),
 - 3) report on the activities of the Bank Pekao S.A. Capital Group for the year ended on 31 December 2019 (report on the activities of the Capital Group),
 - 4) report on the activities of Bank Pekao S.A. for the year ended on 31 December 2019 (report on the activities of the Bank), as far as their compliance with the books and documents and with the facts is concerned.

The positive assessment of the Supervisory Board has been supported by the following:

- 1) analysis of the wording of the consolidated and entity-specific financial statements, and of the wording of the reports on the activities of the Capital Group and the Bank,
- 2) wording of the audit reports drawn up by KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, concerning the documents referred to above,
- 3) analysis of an additional report drawn up by the audit company for the Audit Committee, meetings with the audit company, as well as a positive recommendation issued on 26 February 2020 by the Audit Committee of the Supervisory Board of Bank Pekao S.A.

The audit reports state that the documents in question:

- 1) give a true and fair account of the economic and financial standing of the Bank and its Capital Group as at 31 December 2019, as well as of the financial results of its activity and of the cash flows during the financial year ended on 31 December 2019, in accordance with the International Financial Reporting Standards endorsed by the European Union and in line with the accounting principles (policy) adopted,
- 2) comply, with respect to their form and content, in all material aspects, with the legal regulations binding upon the Bank and the Capital Group, and with the Articles of Association of the Bank,
- 3) were drawn up, with respect to all material aspects, based on duly kept accounting books, in compliance with Chapter 2 of the Accounting Act of 29 September 1994 Journal of Laws of 2019, item 351).

Based thereon, the Supervisory Board deems the consolidated financial statements, the entity-specific financial statements, the report on the activities of the Capital Group and the report on the activities of the Bank to have been duly drawn up from the content-related and formal point of view, and to be a true reflection of the books, documents and the facts, and to provide a reliable picture of the financial results and of the activities of Bank Pekao S.A. and of the Bank Pekao S.A. Capital Group in the fiscal year of 2019.

Assessment of the motion of the Management Board of the Bank concerning the distribution of net profit for the year 2019

The Supervisory Board of Bank Pekao S.A. assessed the motion of the Management Board of the Bank concerning the distribution of net profit of Bank Polska Kasa Opieki Spółka Akcyjna for the year 2019, and concerning leaving a portion of the 2019 profit undistributed.

The Supervisory Board approved the motion concerning the distribution of net profit of Bank Pekao S.A. for the year 2019, taking into consideration:

- 1) the state of epidemic declared in Poland on 20 March 2020, the potential further negative economic consequences thereof, as well as its expected impact on the banking sector.
- 2) position of the Polish Financial Supervision Authority, as expressed in the letter dated 26 March 2020, pursuant to which the supervision authority expects banks to withhold all of the profits generated in previous years.

The fact that a portion of the Bank's 2019 profit shall remain undistributed is justified by the ability to earmark it, potentially, for the payment of dividends in future years, provided that the required regulatory approval for such a payment is obtained, where necessary.

Considering the above, the Supervisory Board decided to recommend to the General Meeting of Shareholders to adopt a resolution on the distribution of net profit of Bank Polska Kasa Opieki Spółka Akcyjna for 2019 in the amount of PLN 2,247,466,618.97 (say: two billion two hundred forty seven million four hundred sixty six thousand six hundred eighteen Polish zlotys 97/100), in accordance with the motion of the Management Board of the Bank, i.e.:

- 1) to earmark the amount of PLN 562,409,000.69 (say: five hundred sixty two million four hundred and nine thousand zlotys 69/100) for reserve capital,
- 2) to leave the remaining part of the net profit of Bank Polska Kasa Opieki Spółka Akcyjna for the year 2019 in the amount of PLN 1,685,057,618.28 (say: one billion six hundred eighty five million fifty seven thousand six hundred and eighteen Polish zlotys 28/100) undistributed.

Assessment of the Bank's policy concerning the sponsorship and charitable activities

The sponsoring and charity policy pursued by Bank Pekao S.A. aims at reinforcing the image of the Bank as an open and modern institution that remains in close touch with its customers and with the communities in which it operates.

When selecting the undertakings it supports, Bank Pekao S.A. abandons one-off subsidies and reacting to support requests, in favor of long-term social involvement that is based on partner-like relations with selected institutions and organizations. In particular, the Bank supports selected institutions and organizations that pursue projects in such areas as: responsible economic growth, promotion of national brands and Polish values,

supporting cultural and sports institutions, helping children in need or protecting the environment.

The Bank provides offers its support at two levels: nation-wide, where the Bank sponsors strategic events having a material impact on Polish culture, and locally, supporting initiatives dedicated to local communities.

As a socially responsible institution, Bank Pekao S.A. attempts to contribute to the improvement of the quality of life of the society, and tries to build and strengthen long-lasting relations with communities, based on mutual understanding of needs.

In 2019, Bank Pekao S.A. celebrated the 90th anniversary of its establishment. Therefore, in this special year, the Bank participated in a number of events which highlighted its historical achievements, the pioneering nature of its operations in the financial sector, and the social responsibility and patriotism of the Bank, as documented throughout all the years of its operation since the very beginning back in 1929.

The history of Bank Pekao S.A. is the history of Polish banking. Bank Pekao S.A. was the first to launch an ATM in Poland, to issue the first credit card, to open a brokerage office, and to practically apply biometry in banking.

Celebrations of the 90th anniversary of the establishment of Bank Pekao S.A. commenced on 18 March 2019, when a special gala was held at the National Theater in Warsaw. The ceremony was attended by numerous renowned guests, including the President of the Republic of Poland Andrzej Duda and his wife. The Warsaw gala was the first in a series of jubilee celebrations held in a number of cities throughout Poland. Similar events were held in the subsequent months in Szczecin, Katowice, Kraków, Poznań, Lublin, Gdańsk, Bydgoszcz and Wrocław. They provided an opportunity to screen a documentary devoted to the history of the Bank, and to hold the performances by renowned Polish artists presenting the hits of the 1920s and 1930s.

In 2019, the Bank provided financial support to: 17th NIKE Podkarpacie Football Gala, the “Kortowiada 2019” Student Festival in Olsztyn, “Summer with a Book 2019”, the “Heart for Animals” Gala, the International Intergenerational Conference, the “100th Anniversary of Silesian Uprisings” Concert, the Stanisław Moniuszko International Polish Music Contest in Rzeszów, the 8th International “Discovering Paderewski” Festival, the 1st Conference of Family-owned Businesses.

Supporting significant economic initiatives is an important element of the Bank’s activity as well. In 2019, the Bank was present, for the second time, at the World Economic Forum in Davos, where we opened and hosted - in cooperation with PZU - the Polish House, serving as a venue for international meetings, debates and conferences. The Polish House in Davos was a great way to promote the Polish economy and its achievements, and to showcase the value and the potential of the entire Central and Eastern European region. The debates held at the Polish House were attended by presidents and prime

ministers from our region, renowned economists, and representatives of the largest businesses from our part of Europe.

The remaining key initiatives that Bank Pekao S.A. participated in included the following: CEO Summit, the European Financial Forum in Sopot, the Economic Forum in Krynica, the Corporate Finance and Banking Congress in Warsaw.

Bank Pekao S.A. is one of the title sponsors of the largest and most important men's tennis tournament in Poland: Pekao Szczecin Open. It has been supporting the tournament since 1993, i.e. since the first year it was held.

In 2015, an educational program titled "The Road to Pekao Szczecin Open" was initiated upon the initiative of the Bank. In 2019, for the third time in history, the Pekao Szczecin Open tournament received THE BEST CHALLENGER AWARD.

Bank Pekao S.A. carries out its charitable activities mainly through the Dr. Marian Kanton Foundation of Bank Pekao S.A., which was established in 1997. The scope of the Foundation's charitable and social activities is very extensive.

The statutory goals of the Foundation include, inter alia, supporting initiatives related to education and upbringing of children and youths, scientific and research undertakings, educational initiatives of science institutions and schools, promoting knowledge in the field of banking, helping the ill and the disabled, protecting the environment and promoting culture.

In 2019, a year of special significance for the Bank due to the 90th anniversary of its establishment, the Foundation was also involved in the celebration of the 90th year of the Bank's operations. Dr. Marian Kanton Foundation of Bank Pekao S.A. organized a grant competition supporting employees volunteer work programs.

90 different projects were completed throughout the country to celebrate the 90th anniversary of Bank Pekao S.A., all complying with the "We Are Close" notion. Volunteer projects included a number of initiatives in such fields as: ecology, education, sport, culture and art, health promotion or animal aid. Such a wide range of categories meant that each employee could propose a project related to the issue that reflects the needs of the local community.

Apart from activities carried out through the Foundation, Bank Pekao S.A. cooperates directly with several public benefit organizations and supports them subsidizing their statutory activities. Bank Pekao S.A. has been involved, for a number of years now, in the protection of European bison in Poland - an exceptional and unique species endangered by extinction. The financial support provided by the Bank is earmarked, inter alia, for the diversification and development of the population, caring for herds and subsidizing scientific and educational undertakings.

Self-assessment of the work of the Supervisory Board

In accordance with the rights and obligations defined in the Code of Commercial Companies, Banking Law, recommendations of the Polish Financial Supervision Authority, the Code of Good Practices for WSE Listed Companies and the Bank's Articles of Association, the Supervisory Board exercised, in 2019, continuous supervision over the activities of the Bank.

The good financial results of the Bank in 2019, its position in the Polish banking sector, adequate capital management and efficient risk management should be deemed to stem, inter alia, from correct and effective activities of the Supervisory Board and from its fulfillment of the tasks and responsibilities imposed thereon.

Taking into consideration the above, the activities of the Supervisory Board in 2019 may be assessed as effective, professional and performed in accordance with the best practices.

With the above in mind, the Supervisory Board hereby recommends the General Meeting of Shareholders, pursuant to Article 395(2)(3) of the Code of Commercial Companies, to grant a discharge to the members of the Bank's Management Board, in respect to the performance of their duties in 2019: Messrs.: Michał Krupiński for the period from 1 January 2019 to 29 November 2019, Tomasz Kubiak for the period from 1 January 2019 to 31 December 2019, Marek Lusztyn for the period from 1 January 2019 to 31 December 2019, Tomasz Styczyński for the period from 1 January 2019 to 31 December 2019, Marek Tomczuk for the period from 1 January 2019 to 31 December 2019, Michał Lehmann for the period from 1 January 2019 to 29 November 2019, Piotr Wetmański for the period from 7 March 2019 to 29 November 2019, as well as Magdalena Zmitrowicz for the period from 1 January 2019 to 31 December 2019, Grzegorz Olszewski for the period from 1 April 2019 to 31 December 2019, and Marcin Gadomski for the period from 29 November 2019 to 31 December 2019.

With the 2019 activities, as described above, taken into consideration, the Supervisory Board hereby recommends the General Meeting of Shareholders, pursuant to Article 395(2)(3) of the Code of Commercial Companies, to grant a discharge, in respect to the performance of their duties in 2019, to the following Supervisory Board Members: Paweł Surówka, Joanna Dynysiuk (née Błaszczyk), Stanisław Ryszard Kaczoruk, Paweł Stopczyński, Sabina Bigos-Jaworowska, Justyna Głębiowska-Michalak, Grzegorz Janas, Michał Kaszyński, Marian Majcher for the period from 1 January 2019 to 31 December 2019.

Report on the activity of the Audit Committee in 2019

Members of the Audit Committee

The Audit Committee is made up of 3 (three) to 5 (five) Members selected from among the Members of the Supervisory Board. At least one Audit Committee Member has knowledge and skills in the area of accounting or examining the financial statements. The majority of Audit Committee Members, including its Chairperson, are independent from the Bank in the meaning of Article 129(3) of the Act on Certified Auditors, Audit Companies and Public Scrutiny. Members of the Audit Committee have the knowledge and the skills concerned with the area in which the Bank is active. This condition is deemed to be met, if at least one Audit Committee Member has the knowledge and skills in that specific area, or if at least the individual members have the knowledge and skills, to a specific extent, within that trade area.

Between 1 January 2019 and 31 December 2019, the Audit Committee comprised the following members:

Justyna Głębikowska-Michalak - Chairwoman of the Committee,
Joanna Dynysiuk (née: Błaszczyk) - Member of the Committee,
Grzegorz Janas – Member of the Committee,
Sabina Bigos-Jaworowska – Member of the Committee,
Michał Kaszyński – Member of the Committee.

J.Głębikowska-Michalak, S.Bigos-Jaworowska and M.Kaszyński meet the criteria of independence.

The composition of the Audit Committee in 2019 met the requirements laid down in the Act on Certified Auditors, Audit Companies and Public Scrutiny of 11 May 2017.

Responsibilities of the Audit Committee

The Audit Committee supports the Supervisory Board in performing its responsibilities related, inter alia, to controlling and monitoring: the financial reporting process, effectiveness of the internal control and risk management systems and internal audit functions, the performance of financial review activities, independence of the certified auditor and the audit company, effectiveness of the legal and regulatory compliance monitoring system.

Meetings of the Audit Committee are held depending on current needs, but in no case less frequently than four times per year, at dates that are crucial for the Bank's quarterly reporting cycle and that stem from the analysis of the annual audit plan submitted by the Head of the Internal Audit Department.

Audit Committee meetings are usually attended by the President of the Management Board of the Bank, and each Committee meeting is attended by Heads of the following

Departments: Internal Audit, Legal and Compliance, as well as by other Members of the Managerial Staff whose functions are relevant to the agenda of a given meeting.

The Audit Committee Regulations were amended in 2019. "Regulations of the Audit Committee of the Supervisory Board of Bank Polska Kasa Opieki Spółka Akcyjna" were adopted by way of Resolution No. 98/19 of 5 November 2019. The previous resolution of the Supervisory Board of Bank Polska Kasa Opieki Spółka Akcyjna of 1 August 2017 was abrogated.

To ensure the proper level of transparency and an unbiased approach, the Chairwoman of the Audit Committee, J.Głębikowska-Michalak, held individual meetings with the Head of the Internal Audit Department and the Head of the Compliance Department, without the participation of other members of the Bank's managerial staff. The Audit Committee met with the lead certified auditor from KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k., without the participation of the Members of the Management Board of the Bank. Representatives of KPMG Audyty Polska Spółka z ograniczoną odpowiedzialnością sp.k. confirmed their independence from the Bank and its subsidiaries, i.e. confirmed their compliance of the requirements set forth in Articles 69-73 of the Act on Certified Auditors, Audit Companies and Public Scrutiny of 11 May 2017.

External Auditor

KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k. is the audit company that its tasked with reviewing the financial statements of Bank Polska Kasa Opieki Spółka Akcyjna and the consolidated financial statements of the Bank Polska Kasa Opieki Spółka Akcyjna Capital Group for the years 2018 - 2020, pursuant to the agreement dated 24 July 2018.

Audit Committee Meetings

In 2019, the Audit Committee met on 8 occasions (14 February, 25 February, 24 April, 8 May, 24 May, 6 August, 27 September and 5 November, with the last meeting continued on: 15 November, 25 November, 27 November and 29 November).

Attendance of the Audit Committee Members at the individual meetings is summarized below:

| <u>Date</u> | <u>Participating Members</u> |
|-------------|---|
| 14 February | J.Głębikowska-Michalak, J.Błaszczuk, G.Janas |
| 25 February | J.Głębikowska-Michalak, S.Bigos-Jaworowska, J.Błaszczuk, G.Janas M.Kaszyński, |
| 24 April | J.Głębikowska-Michalak, S.Bigos-Jaworowska, G.Janas, M.Kaszyński |
| 8 May | J.Głębikowska-Michalak, J.Błaszczuk, G.Janas |

| | | | |
|--------------|--|---------------------|--------------|
| 24 May | J.Głębikowska-Michalak, G.Janas, M.Kaszyński | S.Bigos-Jaworowska, | J.Błaszczyk, |
| 6 August | J.Głębikowska-Michalak, J.Błaszczyk, M.Kaszyński | | |
| 27 September | J.Głębikowska-Michalak, (nèe Błaszczyk), G.Janas, M.Kaszyński | S.Bigos-Jaworowska, | J.Dynysiuk |
| 5 November | J.Głębikowska-Michalak, (nèe Błaszczyk), G.Janas, M.Kaszyński | S.Bigos-Jaworowska, | J.Dynysiuk |
| 15 November | J.Głębikowska-Michalak, J.Dynysiuk (nèe Błaszczyk), G.Janas, M.Kaszyński – using means of distance communication | | |
| 25 November | J.Głębikowska-Michalak, (nèe Błaszczyk), G.Janas | S.Bigos-Jaworowska, | J.Dynysiuk |
| 27 November | J.Głębikowska-Michalak - using means of distance communication, S.Bigos-Jaworowska - using means of distance communication, J.Dynysiuk (nèe Błaszczyk), G.Janas, M.Kaszyński – using means of distance communication | | |
| 29 November | J.Głębikowska-Michalak, (nèe Błaszczyk), G.Janas, M.Kaszyński | S.Bigos-Jaworowska, | J.Dynysiuk |

Main tasks of the Audit Committee performed in 2019

The Committee reviewed and discussed, whenever needed, the following information with Members of the Management Board of the Bank, Heads of the following Departments: Internal Audit, Legal and Compliance, and with the external auditor:

- financial statements of Bank Pekao S.A. and of the Bank Pekao S.A. Capital Group for 2018, reviewed by the external auditor; The Committee gave its positive opinion on these statements,
- information on the course of the review of the financial statements of Bank Pekao S.A. and of the Bank Pekao S.A. Capital Group for 2018; The Committee acknowledged that information,
- quarterly and semi-annual financial statements; The Committee gave its positive opinion on these statements;
- motion concerned with the Auditor’s recommendations issued after review of the Bank’s 6-month financial statements; The Committee acknowledged the presented information,
- plan for reviewing and approaching the review of the entity-specific financial statements of Bank Pekao S.A. and of the consolidated financial statements of the Bank Pekao S.A. Capital Group as of and for the financial year ended on 31 December

2019; The Committee acknowledged the presented information,

- information on civil litigation with the participation of the Bank in 2018, in Q1 2019 and in the first half of 2019; The Committee acknowledged the presented information,
- review of the Internal Control System of Bank Pekao S.A. in 2018; The Committee acknowledged the aforementioned document, issued a positive opinion thereon and decided to recommend the Supervisory Board to adopt it,
- report on the activities of the Compliance Department in 2018, on the functioning of the legal compliance supervision system in place at Dom Maklerski Pekao in 2018; The Committee acknowledged the presented report,
- report on the activities of the Compliance Department in Q1 2019 and Q2 2019; The Committee acknowledged the presented reports,
- information on the final report on the implementation of the recommendations of the Polish Financial Supervision Authority concerned with the functioning of the internal audit system; The Committee acknowledged the presented information,
- adoption of amendments to the Regulations of the Audit Committee of the Supervisory Board of Bank Pekao S.A.; The Committee accepted amendments to the Regulations of the Audit Committee and decided to recommend the Supervisory Board to approve those amendments as well;
- information on IT expenditures in Q4 2018 and after Q2 2019; The Committee acknowledged the presented information,
- information on the marketing costs of Bank Pekao S.A. in Q1 and Q3 of 2019; The Committee acknowledged the presented information,
- motion by the Management Board of a Subsidiary Company of Pekao Financial Services, requiring a consent for the provision, by KPMG Advisory, of an attestation service regarding the review of the description of the services of a transfer agent performed by Pekao Financial Services; The Committee agreed for KPMG Advisory sp. z o.o. sp. k. to provide attestation services regarding the review of the description of the services of a transfer agent performed by Pekao Financial Services Sp. z o.o. for the benefit of open pension funds, voluntary pension funds and investment funds, as well as of the services of a transfer sub-agent for the benefit of foreign funds, in accordance with the International Attestation Service Standard 3402 (“ISAE 3402 service”, in the year 2019 and 2020, meaning that it agreed for the provision of a non-prohibited service, as referred to in Article 136(2)(7) of the Act on Certified Auditors, Audit companies and Public Scrutiny of 11 May 2017,
- motion by the Subsidiary Company of Pekao Investment Management S.A., requesting a consent for the expansion of the range of services rendered by the audit company of KPMG Audit Spółka z ograniczoną odpowiedzialnością sp. k. for the benefit of Pekao Investment Management S.A., by ordering the performance of a non-prohibited service;

The Committee approved the expansion of the range of services rendered by the audit company of KPMG Audit Sp. z o.o. sk. k. for the benefit of Pekao Investment Management S.A., by ordering the performance of a non-prohibited service concerned with reviewing the financial statements of Pekao Investment Management S.A. for the period of six months ended on 30 June 2019, in connection with the planned payment of an advance on the dividend,

- information titled “Capital Management at the Pekao S.A. Group in Q2 2019”; The Committee acknowledged that information,
- document titled “Information on Capital Adequacy of the Bank Pekao S.A. Capital Group as at 30 September 2019”; The Committee acknowledged that information,
- information on the scope of the tasks performed by and on the future growth strategy of the Artwork Team; The Committee acknowledged that information,
- Time schedule related to the implementation of the recommendations issued after the independent, external assessment of the activities of the Internal Audit Department of Bank Pekao, and to the implementation of the recommendations of the Polish Financial Supervision Authority concerning the Internal Audit Department; The Committee acknowledged the time schedule related to the implementation of the recommendations issued after the independent, external assessment of the activities of the Internal Audit Department, conducted by PwC in December 2018,
- Auditor’s knowledge and skills assessment sheet; The Committee issued a positive opinion on the Auditor’s knowledge and skills assessment sheet, and recommended that it be approved by the Supervisory Board,
- Presentation of the assessment of the results of the Internal Audit Department in 2018; The Committee acknowledged that presentation,
- Information on the current status of audit-related proceedings; The Committee acknowledged that information.

Additionally, the Audit Committee adopted a resolution, relying on distance means of communication, issuing an opinion on the Audit Card of Bank Polska Kasa Opieki Spółka Akcyjna.

In relation to the Internal Audit function, the Committee regularly reviewed reports on the activities of the Internal Audit function.

The Audit Committee performed its duties in accordance with the scope of its rights and obligations.

Report on the activities of the Nomination and Remuneration Committee in 2019

Composition of the Nomination and Remuneration Committee

Between 1 January 2019 and 31 December 2019, the Nomination and Remuneration Committee comprised the following members:

Paweł Stopczyński - Chairman of the Committee,

Sabina Bigos-Jaworowska – Member of the Committee,

Joanna Dynysiuk (née: Błaszczyk) - Member of the Committee,

Paweł Surówka - Member of the Committee.

Responsibilities of the Nomination and Remuneration Committee

The Committee operates based on the Regulations of the Supervisory Board of the Bank and on the Regulations of the Nomination and Remuneration Committee.

The objective of the Committee is to support the Supervisory Board of the Bank in the performance of its duties, including by:

- submitting proposals concerning the terms and conditions of agreements providing for the employment relationship or for another legal relationship between the members of the Management Board and the Bank, including remuneration of the Members of the Management Board of the Bank, and concerning approval of the policy regarding variable remuneration items for persons holding managerial positions in the Bank, in accordance with separate regulations, as well as concerning the submission, to the General Meeting of Shareholders, of proposals regarding the remuneration of the Members of the Supervisory Board,
- preparing recommendations regarding the fulfillment of suitability requirements, for the purpose of appointment of the Members of the Management Board of the Bank and the Members of the Supervisory Board,
- drawing up a report for the General Meeting of Shareholders, regarding the assessment of the functioning of the remuneration policy in place at the Bank.

In performing its activities, the Committee relies on prudent and stable management of risks, capitals and liquidity, as well as displays special care for the long-term interests of the Bank and of its shareholders and investors.

Meetings of the Nomination and Remuneration Committee

In 2019, the Nomination and Remuneration Committee met on 7 occasions, on 29 January, 25 February, 6 March, 7 and 24 May, 25 July, 5 November and 29 November.

The attendance of Committee Members at specific meetings was as follows:

| <u>Date</u> | <u>Participating Members</u> |
|--------------------|--|
| 29 January | P. Stopczyński, S. Bigos-Jaworowska, J. Błaszczyk, P. Surówka |
| 25 February | P. Stopczyński, S. Bigos-Jaworowska, J. Błaszczyk, P. Surówka |
| 6 March | P. Stopczyński, S. Bigos-Jaworowska, J. Błaszczyk, P. Surówka |
| 7-24 May | P. Stopczyński, S. Bigos-Jaworowska, J. Błaszczyk, P. Surówka |
| 25 July | P. Stopczyński, S. Bigos-Jaworowska, J. Błaszczyk, P. Surówka |
| 5 November | P. Stopczyński, S. Bigos-Jaworowska, J. Dynysiuk (nèe Błaszczyk), P. Surówka |
| 29 November | P. Stopczyński, S. Bigos-Jaworowska, J. Dynysiuk (nèe Błaszczyk), P. Surówka |

In 2019, the Nomination and Remuneration Committee issued opinions, recommendations or received information concerning the following issues:

- Issuing recommendations on the Principles of the Variable Remuneration for the Managerial Staff Not Being Management Board Members, and on assumptions for the Managerial Staff Variable Remuneration System for the year 2019;
- Issuing recommendations concerning the establishment of individual targets for the year 2019 for Members of the Management Board;
- Issuing recommendations concerning suitability assessment and risk assessment, as performed under variable remuneration systems binding upon Management Board Members;
- Issuing recommendations concerning assessment of the degree of achievement of the targets set for the Management Board Members for 2018;
- Issuing recommendations concerning the award of variable remuneration to Management Board Members, on acknowledging the right to specific portions thereof;
- Acknowledging information on the progress of the employment restructuring scheme;
- Acknowledging information concerned with the Report on the audit of the variable remuneration components policy;

- Acknowledging information on the identification of persons holding key positions (Risk Takers);
- Acknowledging the Report on the functioning of the Remuneration Policy at Bank Polska Kasa Opieki Spółka Akcyjna in 2018;
- Acknowledging information concerning and issuing an opinion on the settlement of the bonus quota in 2018, and on the achievement of the individual objectives by persons holding the positions of the Bank’s Management Board Members in 2018, along with the settlement of their variable remuneration components;
- Issuing recommendations on the remuneration terms and conditions applicable to candidates for the position of Management Board Members;
- Issuing recommendations on the need to conduct, and on the potential scope of the suitability assessment concerning Management Board and Supervisory Board Members who have informed the Bank about the occurrence of events that might have impacted their individual suitability assessment, in particular about their assumption of or resignation from the positions in the governing bodies of other entities;
- Conducting assessment of individual suitability of candidates for Members of the Management Board, and of collective suitability of the Management Board;
- Acknowledging information on the review of remuneration of Internal Audit Department and Compliance Department employees, as well as of persons holding managerial positions (Risk Takers);
- Acknowledging information on the status of work on the implementation, at subsidiary companies, of the Act on the Shaping of Remuneration of Persons Managing Certain Companies, and of the Act on the Management of State Assets.

The Nomination and Remuneration Committee was performing its tasks in accordance with the scope of its rights and obligations, and was relying on the support of an external adviser who assisted the Nomination and Remuneration Committee and the Supervisory Board in issues related to remuneration terms and conditions.

Report on the activities of the Risk Committee in 2019

Members of the Risk Committee

The Risk Committee is made up of three members selected from the Members of the Supervisory Board, with at least one of them being an independent Member of the Supervisory Board.

Between 1 January 2019 and 31 December 2019, the Risk Committee comprised the following members:

Stanisław Ryszard Kaczoruk – Chairman of the Risk Committee

Michał Kaszyński – Member of the Committee

Marian Majcher – Member of the Committee

Responsibilities of the Risk Committee

The Risk Committee operates based on the “Regulations of the Risk Committee”, as adopted by the Supervisory Board by way of Resolution No. 55/15 of 18 December 2015 and amended by way of resolution No. 99/19 of 5 November 2019. It is the mission of the Committee to support the Supervisory Board in the performance of its duties relating to exercising supervision over the risk management system and to assessing adequacy and effectiveness of that system. In performing its activities, the Committee relies on prudent and stable management of risks, capitals and liquidity, as well as displays special care for the long-term interests of the Bank and of its shareholders.

The tasks of the Committee include issuing its opinion on the following:

- overall current and future readiness of the Bank to take risks, expressed as risk appetite,
- strategy for managing risk in the Bank’s activity, as drawn up by the Management Board of the Bank, including policies concerned with credit, financial and operational risks,
- reports concerning risk profile and implementation of the risk management strategy, as submitted by the Management Board of the Bank,
- ICT security of the Bank.

It is also the tasks of the Committee to support the Supervisory Board in supervising the implementation of the risk management strategy in the activity Bank, by senior managerial staff, and to review whether prices of liabilities and assets offered to the customers take fully into account the Bank's business and risk strategies and, where the prices fail to properly reflect the risks in accordance with these strategies, to submit, to the Management Board of the Bank, proposals aiming to ensure the adequacy of the prices of assets and liabilities and their alignment with these types of risk.

The Risk Committee also performs other tasks arising from applicable laws or recommendations issued by supervisory authorities.

Risk Committee Meetings

In 2019, the Risk Committee met on 5 occasions (25 February, 24 April, 6 August, 5 November, 6 December).

Attendance of the Risk Committee Members at the individual meetings is summarized below:

| <u>Date</u> | <u>Participating Members</u> |
|-------------|--------------------------------------|
| 25 February | S.R.Kaczoruk, M.Kaszyński, M.Majcher |
| 24 April | S.R.Kaczoruk, M.Kaszyński, M.Majcher |
| 6 August | S.R.Kaczoruk, M.Kaszyński, M.Majcher |
| 5 November | S.R.Kaczoruk, M.Kaszyński, M.Majcher |
| 6 December | S.R.Kaczoruk, M.Majcher |

Key topics reviewed by the Risk Committee in 2019

The Committee reviewed and discussed the following:

- Security at the Bank in relation to GDPR requirements - the Risk Committee issued relevant recommendations;
- Implementation of the crucial elements of the IT Strategy, relocation of the Data Center MOA - the Risk Committee issued relevant recommendations;
- “Credit Risk Policy 2019” - the Risk Committee issued its positive opinion concerning the document submitted;
- “Market Risk Investment Policy 2019” - the Risk Committee issued its positive opinion concerning the document submitted;
- Warning level for operating losses and warning sub-levels for event classes for the year 2019, as well as the “Operational Risk Management Strategy” and the “Operational Risk Management Policy” - the Risk Committee issued its positive opinion concerning the documents submitted;
- Results of the annual ICAAP review and updated “ICAAP Policy - Risk and Capital Management Principles” - the Risk Committee issued its positive opinion concerning the document submitted;
- Information on the efficiency of the activities of internal supervisory and control units of the Bank - the Risk Committee issued relevant recommendation;
- “Financial Risk Review - Q4 2018” - the Risk Committee issued its positive opinion

- concerning the document submitted;
- Report on controlling operating risk in Q4 2018 - the Risk Committee issued its positive opinion concerning the document submitted;
 - Quarterly reports on the credit portfolio and debt recovery activities as at 31 December 2018 - the Risk Committee issued its positive opinion concerning the documents submitted;
 - Risk Appetite Update 2019 - the Risk Committee issued its positive opinion concerning the document submitted;
 - Security of personal data at the Bank, in relation to GDPR requirements - the Risk Committee acknowledged the information submitted;
 - Information on the quality, coherence and management structure of personal data at the Bank, as well as on the problems identified within that area - the Risk Committee issued relevant recommendations;
 - Report on the activities of the Risk Committee in 2018 - the Risk Committee acknowledge the document submitted;
 - Information on the status of the planned withdrawal from the Mainframe Outsourcing and Data Center Relocation Agreement, concerning the subsequent months over which the project in question was implemented - the Risk Committee issued relevant recommendations;
 - Report on controlling operating risk in the subsequent quarters of 2019 - the Risk Committee acknowledged the document submitted;
 - Report on reviewing financial risk in the subsequent quarters of 2019 - the Risk Committee acknowledged the document submitted;
 - Report on the credit portfolio and on debt-recovery activities in the subsequent quarters of 2019 - the Risk Committee acknowledged the document submitted;
 - Information on ICT security at Bank Polska Kasa Opieki Spółka Akcyjna in 2018 - the Risk Committee issued relevant recommendations;
 - Periodic report on the continuity of operation and crisis management in 2018 - the Risk Committee issued a positive opinion on the document submitted;
 - Information on the “Implementation of the IT Strategy of Bank Pekao S.A. in 2018” - the Risk Committee issued relevant recommendations;
 - Quarterly information on liquidity-related situation in Q3 2019 - the Risk Committee issued its positive opinion concerning the document submitted;
 - Amendments to the Regulations of the Risk Committee of the Supervisory Board of Bank Pekao S.A. - the Risk Committee issued its positive opinion concerning the document submitted;

- “Investment Strategy of Bank Pekao S.A.”, “Investment and Market Risk Policy 2020” and “Policy for Acquisition/Sale of Stocks and Shares and for Managing the Stock and Share Portfolio - Owner’s Supervision” - the Risk Committee issued its positive opinion concerning the documents submitted;
- Report for the management - Breakdown of the NAPS IT System in the Context of the PEX Marketing Campaign - the Risk Committee issued relevant recommendations.

The meetings of the Committee were attended by Vice Presidents of the Management Board supervising the Risk Management Division and by the Vice President supervising the IT and GDPR Security Division, as well as by other management staff members in charge of the areas discussed.

Assessment of the situation of the Bank in 2019, including the assessment of the internal control systems, risk management, compliance and internal audit functions

In accordance with the Code of Good Practices for WSE Listed Companies 2016, the Supervisory Board has drawn up and submitted to the Ordinary General Meeting of Shareholders the assessment of the Bank's position in 2019, including the assessment of the internal control and risk management systems, as well as of the risk management, compliance and internal audit functions. The document containing the said assessment has been attached to this report.

General assessment of the Bank's situation

In the assessment of the Supervisory Board, the general economic and financial situation of Bank Pekao S.A. is stable. Bank Pekao S.A. meets all requirements of safe operations and of capital adequacy, and it ensures the safety of its customers' funds, enjoying an exceptionally high level of capital strength and resilience. The Supervisory Board of Bank Pekao S.A. positively assesses the results achieved in 2019 both by the Bank and by the Bank Pekao S.A. Capital Group.

The Bank's activity in 2019 was focused on maintaining further sustainable growth in all areas, on effective strengthening of its position on the retail banking market and on maintaining its position of the corporate banking leader.

The net profit generated by the Bank in 2019 equaled PLN 2,247.5 million and was nominally by 2.7% YoY. The net profit of Bank Pekao S.A. based on comparable conditions (i.e. without the restructuring provision and the cost of Voluntary Leave Program, the cost of commission refunds related to premature loan repayments, the cost of legal risk involving CHF-denominated mortgage loans, profit on the sale of tangible fixed assets and the contribution to the Bank Guarantee Fund) increased by 12.0%, mainly due to the dynamic growth of commercial activities evidenced by a 6.8% (YoY) increase in the funding of customer activities, and by an increase in liabilities towards customers (5.3% YoY, including a 9.7% YoY increase in retail deposits), as well as due to tight control of operating costs and due to maintaining the lowest risk costs, compared to all direct competitors. Nominally, the net result was by 2.7% lower (YoY) mainly due to a considerable increase in contributions to the Bank Guarantee Fund, and due to higher costs related to the establishment of a provision for the reimbursement of early credit repayment commissions, as well as due to higher costs of legal risk connected with foreign currency mortgage loans denominated in CHF.

The net profit of the Bank Pekao S.A. Capital Group, assigned to the Bank's shareholders equaled, in 2019, PLN 2,165.0 million and increased, under comparable conditions (i.e. without the restructuring provision and the cost of Voluntary Leave Program, the cost of commission refunds related to premature loan repayments, the cost of legal risk involving CHF-denominated mortgage loans, profit on the sale of tangible fixed assets and the Bank Guarantee Fund premiums and fees) by 10.3% YoY, mainly due to the dynamic growth

of commercial activities, due to tight control of operating costs and due to maintaining the lowest risk costs, compared to all direct competitors. Nominally, the net result was by 5.3% lower (YoY), mainly due to a considerable increase Bank Guarantee Fund premiums, and due to higher costs related to the establishment of a provision for the reimbursement of early credit repayment commissions, as well as due to higher costs of legal risk connected with foreign currency mortgage loans denominated in CHF.

Interest result was by 9.0% higher (YoY) at the Bank level, and by 9.5% higher (YoY) at the Capital Group level, mainly due to higher loan and deposit volumes.

Net non-interest result achieved by the Bank and by the Group in 2019 was 3.8% and 4.0% higher (YoY), respectively, with the result on commissions and fees (including profit margin on FX transactions with customers) being higher by 2.9% (YoY) at the Group level and by 2.8% higher (YoY) at the Bank level, compared to 2018.

Operating expenses of both the Bank and the Group in 2019 were by 2.7% higher (YoY), due to higher personnel costs (mainly due to the establishment of a restructuring provision for the purpose of the group layoff program (PLN 85 million).

The return on equity (ROE) of the Bank and of the Group amounted to 10.2% and 9.5%, respectively.

Thanks to the effective commercial activity of the Bank and of the Group in 2019, a significant growth in loan volumes was reported in retail loans (an increase of 8.3% YoY for the Bank and of 8.5% YoY for the Group, respectively). The growth in lending activity was financed by higher volumes of retail deposits which increased by 9.7% YoY for the Bank and by 8.8% YoY for the Group.

The strong liquidity structure of the Bank and of the Group is reflected by the net loans to deposits ratio which equaled, as at the end of December 2019, 87.7% and 91.0%, respectively. This, together with a high equity level, ensures a further sound and stable expansion of the range of activities pursued by the Bank and by the Group.

The Total Capital Ratio (TCR) of the Bank equaled 18.7% and matched the result from the end of 2018. The total capital ratio (TCR) of the Group amounted, at the end of December 2019, to 17.1% and was lower by 0.3 p.p. compared to the end of 2018.

Bank Pekao S.A. consistently implemented the strategy of strengthening its position on the housing and consumer goods financing market. The Bank achieved, in 2019, a double-digit growth rate in terms of its income generated on key consumer loans (+11% on consumer loans, i.e. cash and PEX loans), and +17% on housing loans. This was further reinforced by a +8.5% increase in the value of retail loans, and by a consistent pricing policy. Housing loan sales equaled, in 2019, nearly PLN 9.7 billion, which translated into a 9.8% (YoY) increase of the portfolio volume. Simultaneously, in Q4 2019, a 9 b.p. increase in new sales of mortgage loans was achieved (compared to Q4 of the preceding year). The share of the housing loan market equals 17.6%. As far as consumer loans are concerned, the Bank's earnings increased considerably by +11% YoY, and the value of

the portfolio of private customer loans went up by 6.7% YoY. The value of cash loans extended equaled PLN 5.1 billion. Net sales of cash loans were bolstered by a competitive offering, tailor-made loan offers made with the use of CRM tools, and continued increase in the availability of loan offerings based on “just a click away” processes.

Bank Pekao S.A. consistently implements a strategy enabling it to reinforce its market position, and remains the bank of first choice for corporate customers, providing a wide range of universal bank services, as well as any other financial services available in Poland (including leasing, factoring and investment consulting). It is also active in the area of mergers and acquisitions, and highly advances treasury and capital market products. Bank Pekao S.A. remains the leading financial partner for medium and large enterprises, local government entities and for financial institutions. The Bank’s customer base comprises 12,600 entities, including approximately 3,000 foreign customers and over 2,500 local governments and municipal companies. A wide range of products and services, innovative solutions, tailor-made customer approach and a comprehensive portfolio of financial services for enterprises, institutions and public sector entities are the main factors determining the Bank’s strength and potential.

Bank Pekao is a universal commercial bank offering a full range of banking services to retail and institutional customers. It operates mainly in Poland. The Bank Pekao S.A. Capital Group comprises financial institutions operating in the banking, asset management, pension fund, brokerage services, transaction consulting, leasing and factoring markets. Since 2017, the Bank has been a member of the PZU S.A. Capital Group - the largest financial institution in Central and Eastern Europe. A wide range of products, innovative solutions and an individual approach ensure that customers are provided with a comprehensive portfolio of financial services, while an integrated customer service model guarantees the highest quality of services and their optimized adaptation to changing needs. The Bank enjoys measurable advantages that allow it to effectively compete on the market and to strengthen its market position in the individual strategic areas of its operation.

The Bank offers products and services that are highly competitive on the Polish market. It also guarantees a high level of customer service and owns a well-developed distribution.

The Bank invests in training and professional development of its employees (in line with their skills and capabilities), creates a friendly work environment and conducts employee opinion polls and satisfaction surveys.

The activity of Bank Pekao S.A. and of the Bank Pekao S.A. Capital Group has been highly appreciated by customers, industry experts, the market and media for a number of years now - a fact that is reflected by numerous awards and accolades won by the Bank on the Polish and international markets. Efforts aiming to ensure that the customers are offered the highest quality of products and services, as well as the innovative character of the solutions provided, have been recognized. In 2019, the Bank received a number of awards and distinctions:

Global Banking and Finance Review named Bank Pekao S.A., for the third time in a row, the Best Corporate Bank in Poland. Global Finance Review Awards are granted to those companies that stand out among their international competitors from the financial market due to their innovative approach, results or strategy.

The award means that product- and service-related competence of the Bank has been recognized, as have been its relations with and a professional approach to customers, while continually seeking to provide the best tailor-made solutions.

Bank Pekao S.A. was awarded, for the ninth time in a row, with the Top Employers certificate, thus becoming a member of the select group of the best employers in Poland.

The award is granted to companies that surpass the high international HR standards and focus on supporting the professional growth of their employees, on strengthening their skills and competence, and on operating in a transparent manner, based on the adopted values and principles.

In accordance with the “Strength of the Polish Bison” strategy adopted for 2018-2020, the Bank intends to continue its activities with the aim to achieve the position of a profitability leader, relying on building lasting business relations and on improving the efficiency of its operations. The following shall remain the strategic priorities of the Bank in 2020: smart growth, development of long-term relations with customers based on an integrated service model, digital and operational transformation to strengthen the position of one of the most recognizable banks in Poland through professional competence and creation of value for the customer.

Assessment of the internal control system

The internal control system of Bank Pekao S.A. complies with the guidelines set out in Recommendation “H” of the Polish Financial Supervision Authority. The said system comprises the following:

- 1) control function (control mechanisms, independent monitoring of compliance with control mechanisms, reporting within the control function),
- 2) independent compliance unit (Compliance Department),
- 3) independent internal audit unit (Internal Audit Department) - this applies to all organizational units of the Bank and its subsidiaries.

The opinion of the Supervisory Board on the functioning of the internal control system at Bank Pekao S.A. is positive, as it ensures the achievement of the general objectives of the Internal Control System, as set forth in applicable legal regulations. The rules for exercising internal control, including control mechanisms, are adjusted to the organizational structure of the Bank, the size and profile of the risks identified in the “ICAAP Policy - Risk and Capital Management Principles”, and to the scale of the Bank’s activity. These rules are reviewed and assessed as part of the internal audit procedure.

The Internal Control System in place at the Bank covers all organizational levels and is imposed by the statutory bodies of the Bank, by the specific organizational units, by supervisors at all managerial levels and by all employees. The general objectives of the Internal Control System are as follows:

- 1) ensure effective and efficient operation of the Bank,
- 2) ensure reliable financial reporting,
- 3) ensure compliance with risk management principles in effect at the Bank,
- 4) ensure compliance of the Bank's operations with applicable laws, internal regulations, and market standards.

As part of the general objectives of the Internal Control System, the Bank identifies specific objectives of the Internal Control System.

The Internal Control System functioning at the Bank comprises three lines of defense:

- 1) the first line of defense – managing risk in the Bank's operating activity,
- 2) the second line of defense – controlling risk management performed by employees at specifically established positions or organizational units, irrespective of the risk management procedures constituting the first line of defense,
- 3) the third line of defense – includes an independent Internal Audit unit.

The Bank ensures independent monitoring of compliance with control mechanisms in all processes functioning at the Bank through:

- 1) horizontal monitoring as part of the first line of defense and vertical monitoring of the first line of defense by the second line of defense,
- 2) horizontal monitoring as part of the second line of defense,
- 3) horizontal monitoring as part of the third line of defense.

The independent monitoring of compliance with control mechanisms takes place through: on-going verification and testing.

The dedicated structures fully cover the key risk areas along the aforementioned three lines of defense. In 2019, the Bank strengthened the control system by centralizing and moving, to the second level, the majority of tests for its retail network. Further activities in this area are planned as well.

Control functions in regard to subsidiaries are exercised via the Bank's representatives in supervisory boards of these subsidiaries.

The Management Board of the Bank is responsible for designing, implementing and operating an independent, adequate and effectively functioning Internal Control System in all organizational units, business units and at all organizational positions of the Bank.

The Supervisory Board exercises supervision over the implementation of the Internal Control System that is adequate and effective.

Assessment of the risk management system

The Supervisory Board positively assesses the risk management system functioning in the Bank and in the Pekao Group.

Risk management follows a comprehensive and consolidated approach and extends to all units of the Bank and its subsidiaries.

The risk management strategy formulated in the “ICAAP Policy - Risk and Capital Management Principles”, as adopted by the Management Board of the Bank in accordance with applicable regulatory requirements, has been approved by the Supervisory Board. The aforementioned Policy is subject to regular reviews and necessary updates in order to adjust it to the best market practices, legal norms and changes in the Bank and in its operating environment, and in order to maintain its validity and adequacy to the scale and complexity of the activities performed by the Bank and by the Group.

In accordance with applicable laws and supervisory regulations, the Management Board of the Bank is responsible for achieving the strategic risk management goals. The Supervisory Board, supported by the Risk Committee, oversees whether the Bank’s policy of taking various risks is compliant with the Bank’s overall strategy and financial plan, in particular by defining the Bank’s risk appetite and approving the following documents adopted by the Management Board: Risk Management Strategy, Capital Management Strategy, Credit Policy, Investment and Market Risk Policy, Operational Risk Strategy and Policy, as well as Models Policy, and by reviewing periodic reports of the Management Board concerned with the management of specific risks.

The Bank’s risk management system constitutes an integral element of the Bank’s management system. The system is adapted to the Bank’s organizational structure and it is adequate to the activities conducted by the Bank, to the size and profile of Tier I and Tier II risks present in the Bank’s operations.

As part of the risk management system, the Bank uses formal procedures to identify, measure and monitor risks, as well as risk mitigating limits. The system of managerial information in the Bank enables the effective monitoring of risk levels. Risks are monitored with regard to profitability and the capital required to take them.

The management of credit risk, liquidity risk, market risk and operational risk is carried out by the Risk Management Division, which is supervised by the relevant Vice President of the Management Board. The management of other risks is shared between the Risk Management Division and other Divisions participating in their mitigation.

An important role in credit risk management is played by the Credit Committee, in market

and liquidity risk management - by the Asset, Liability and Risk Committee, in operational risk management - by the Risk Committee and the Bank Security Committee, and in model risk management - by the Model Risk Committee. Effective risk management is one of the strong points of the Bank.

Assessment of compliance risk management system

The Supervisory Board has positively assessed the compliance risk management system, whose purpose is to ensure the compliance of activities performed by the Bank and its employees with the provisions of law, internal regulations and market standards, in the processes functioning within the Bank.

There is a separate compliance unit in existence at the Bank, i.e. the Compliance Department. It is organizationally and operationally independent and is subordinated directly to the President of the Management Board of the Bank. The Compliance Department is the key element of ensuring compliance within the Bank.

The Bank ensures compliance by applying specifically design control mechanisms and tools used to manage the risk of non-compliance. As part of its control function, the Compliance Department designs and supervises the implementation of control mechanisms aiming to ensure compliance with legal regulations, internal regulations and market standards, or implements these control mechanisms on its own. It also independently monitors compliance with those mechanisms by other organizational units of the Bank.

The Compliance Department is responsible for the implementation of the process of managing the risk of non-compliance which involves identification, assessment, control and monitoring of compliance risk related to the Bank's activity, as well as of submitting the related reports. The reports on the performance of tasks by the Compliance Department are submitted, along with the level of the compliance risk estimated, to the Management Board and to the Supervisory Board. The Bank exercises supervision over compliance risk related to the activities of its subsidiaries.

The assumptions of the compliance risk management process are defined in the regulations drawn up by the Management Board and approved by the Supervisory Board, i.e. in the Compliance Policy of Bank Pekao S.A. and in the Regulations on the Functioning of the Compliance Department of Bank Pekao S.A. The following are the key elements supporting this process:

- a) supervision of the Supervisory Board and responsibility of the Management Board for effective management of compliance risk,
- b) properly defined organizational structure and HR policy,
- c) internal regulations concerning compliance,

- d) compliance risk identification, assessment, control, monitoring and reporting processes,
- e) training activities,
- f) continued cooperation of the Compliance Department with the Internal Audit Department and with other organizational units performing duties as part of the compliance risk control and management functions.

In order to ensure compliance with applicable laws, internal regulations and market standards, each employee of the Bank applies appropriate control mechanisms or performs independent monitoring of adherence to control mechanisms, within the scope of the professional duties assigned to him/her.

The Supervisory Board supervises the compliance risk management process with the support of the Audit Committee. The Supervisory Board assesses the effectiveness of compliance risk management based on periodic and annual reports of the Compliance Department, information from the Management Board and opinions of the Audit Committee. The Supervisory Board also examines and approves the annual report on compliance risk management within the Bank.

The Supervisory Board also approves the Compliance Plan for the subsequent year. The Supervisory Board positively assesses cooperation with the Compliance Department.

Evaluation of the Internal Audit Function

The Supervisory Board positively assesses the functioning of internal audit in Bank Pekao S.A. The Internal Audit Department was given independence, appropriate personnel and financial resources necessary to ensure its efficient operation. The Internal Audit Department reports directly to the President of the Management Board of the Bank and is functionally subordinated to the Audit Committee and the Supervisory Board.

The Supervisory Board has approved the Report on the Activities of the Internal Audit Department in 2018. Additionally, it approved the Audit Plan for 2019 and the updated Internal Audit Strategy for 2018-2020. The Supervisory Board approved also the updated Audit Chart of Bank Pekao S.A. and the Auditor's knowledge and skills assessment sheet. Internal Audit Department Director approved the organizational independence of the activities of the Internal Audit Department in 2018.

The positive assessment of the internal audit function also takes into account the evaluation of key performance indicators, as presented annually to supervisory authorities by the Internal Audit Department Director, in the form of a self-assessment of the Internal Audit Department, to ensure that the set objectives are being achieved. Additionally, the Supervisory Board has become familiar with the results of an external assessment of the operation of the Bank Pekao Internal Audit Department in 2018. The said assessment was positive, as no significant violations of the applicable

principles/standards and of the time schedule pertaining to the recommendations issued based thereon have been identified.

The Internal Audit Department Director presented quarterly reports on the activity of the Internal Audit Department to the Audit Committee and annual reports on the activity to the Supervisory Board.

The Internal Audit Department Director has also complied, within the prescribed time limits, with all recommendations issued after the independent, external assessment of the activities of the Internal Audit Department of Bank Pekao, and with the recommendations of the Polish Financial Supervision Authority concerning the Internal Audit Department. A report on the implementation of those recommendations was submitted to the Audit Committee. The Internal Audit Department Director has also updated the Audit Chart that was submitted to the Audit Committee and the Supervisory Board for approval. The Annual Audit Plan and the multi-year strategy also were presented to the Audit Committee and were approved by the Supervisory Board. The Internal Audit also provided an adequate information on the evaluation of the adequacy and effectiveness of internal control systems and risk management.

Summary

The Supervisory Board assesses the situation of the Bank as satisfactory and stable. Such an assessment is justified by the following: (i) good financial results, (ii) effective cost management, (iii) effective and consistent risk management, (iv) strong capital and liquidity base, (v) high level of the Bank's security, (vi) efficient internal control system, and (vii) operational effectiveness.

In the opinion of the Supervisory Board, Bank Pekao S.A. has a strong capital and liquidity structure while also maintaining the highest risk management standards and continuing to improve cost efficiency. The above means that the strategic objectives of the Bank, announced as part of the new strategy of the Bank for the years 2018-2020 and titled "Strength of the Polish Bison" may be pursued in an efficient manner, and that the Bank may achieve the position of the profitability leader in the Polish banking sector by following the path of smart growth, relying on a business model that is based on high efficiency and quality of its processes.