

Dear Shareholders,

I am pleased to present you with the Management Report of Bank Pekao S.A. for 2018.

2018 was a breakthrough and successful year for the Bank as well as for the entire Polish economy. Polish GDP growth accelerated in excess of 5%, the highest pace in decade, and to a large extent helped Polish economy achieve the status of developed market under the FTSE methodology for stock market indices. Consumer optimism fuelled by historically low unemployment and inflation rate continued to be a major driver behind consumption spending, which in 2018 saw an additional boost from a corporate pick-up in investment activity.

From the Bank's perspective, 2018 was a year of proven delivery on ambitious targets, in particular double digit recurring earnings growth, which the Management Board outlined as a key ambition for 2018. Simultaneously, 2018 was also highly successful for the Bank's core business. This was reflected in both the financial results as well as the progress that we made in business and corporate development. It was the first full year of our strategic plan, which underpins the transformation of Bank Pekao into one of the profitability leaders among Polish banks by 2020. Strong profitability growth is founded on lasting client relationships and constant drive to increase operational efficiency. Increasing scale in a consolidating Polish bank market is a vital part of our strategy, therefore we want to cement our market position in the key and most profitable retail segment, continue dynamic expansion in SME segment and maintain undisputed leadership in corporate and investment banking thanks to a full realisation of the potential offered by stronger relationships with our clients.

We execute our strategy based on four pillars: leader of smart growth, expert in efficiency and quality, integrated risk management expert and employer of the best talent. Delivering on all four pillars will be critical in achieving all strategic milestones that we set for the Bank in a 2020 perspective. Through delivery on our strategic agenda in 2018, we made an important step closer in reaching our ambition. We demonstrated the progress achieved so far during our first-ever Investor Day organised in London in November 2018.

As a smart growth leader in the Polish banking sector, we have concentrated on growth in the most profitable and promising business segments. Key to achieve this goal is client acquisition, constant development of digital channels and realising potential that the cooperation with the PZU Group offers us. In 2018, the Bank continued its growth in key retail products, mortgage and cash loans, by ca. 13% y/y while strengthening its market position in the entire retail segment. In the most promising segment of cash lending, we grew volumes by 15% y/y and achieved nearly 60% increase in new sales in digital channels. Such a progress could not have been achieved without a constant development of our flagship mobile application PeoPay, awarded last year with a title of best innovation in the world in 'Phygital Distribution & Experience' by the EFMA Association.

Future success of Bank Pekao can only be achieved with customers' trust. Therefore, we are satisfied with exceeding a strategic milestone of 400k new current accounts that we opened in 2018, 60% acceleration in average number of current accounts opened in previous years. This success was underpinned by a comprehensive product offer, including our new current account 'Konto Przekorzystne', widely acclaimed by the market, press and most importantly, our customers, as well as constant innovation such as pioneering use of the biometric technology. Smart growth also means evolving product offer tailored to growing needs of our customers and leveraging the potential offered by bancassurance cooperation within the PZU Group, the largest financial group in the CEE. One of many tangible examples of such cooperation is a 5-fold increase in CPI insurance penetration on mortgage products in the distribution channels of Bank Pekao. In response to client needs and evolving business model of Bank Pekao, we also entered into a number of promising strategic partnerships including: cooperation with Lazard, global investment advisory firm, to further consolidate our leading footprint in the Polish corporate advisory market, creating the digital ecosystem together with Microsoft to serve tech-savvy clients as well as work together with Warsaw Genomics on the wellbeing of our employees.

Operational and cost efficiency will be a critical factor in dictating competitive advantage of the banking landscape going forward. Therefore, in 2018 we executed number of initiatives that improve service quality and effectiveness of our workforce. Those initiatives will enable the Bank to significantly increase automation and are vital contributors in achieving our strategic goal of reducing cost to income ratio below 40% in 2020. In 2018, we started a programme of digital transformation spanning more than 70 technologically advanced solutions supporting the development of sales processes and better customer experience in digital and direct channels as well as launching a wider range of digitally-proofed services.

A key element of our strategy is also an integrated risk management approach. We have demonstrated for years our leadership in balance sheet management and the lowest cost of risk among large Polish banks. We have put in place solutions and competences including behavioural analysis and artificial intelligence tools as well as a developed portfolio approach to management and distribution of risk, which enables us to continually lead the sector in this critical area of expertise.

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 2018 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.

Consistent strategy execution in 2018 was best reflected in financial results of the Bank. Net profit of nearly PLN 2.3bn was 11% higher r/r compared with recurring profit in 2017 and delivered on net profit ambition that the Management Board set for 2018. Focus on smart growth in all business segments delivered ca. 10% y/y growth in commercial revenues on the back of nearly 6% y/y growth in deployed lending volumes. We recorded a historically high net interest income of ca. PLN 5.0bn, 9% better y/y, achieved in a continually low interest rate environment. Double digit profit growth was delivered in spite of investment initiatives, which will drive acceleration in efficiency gains in next years.

Over 2018 we improved significantly key financial indicators that best illustrate a tangible progress on our strategic journey: RoE lifted by 100bps y/y in excess of 10% helped by fall in C/I ratio by 150bps and decrease in cost of risk to 38bps. We maintain capital prudence while diversifying capital structure. Dividend payout from 2018 profit recommended by the Management Board is again the highest among the Polish banks and one of the highest among European financials. Despite a marginal slowdown that we expect for the Polish economy after 2017-18 period of strong growth, I am of a view that the domestic economy will once again demonstrate its resilience in the region and on a global scale. We look with optimism at the volume and profitability growth prospects in the Polish banking sector in 2019 thanks economic stability and economic momentum: low public sector debt levels, balanced fiscal position and relatively low leverage of private sector compared with most European countries. We want to continue executing our strategy, which assumes double-digit volume growth in key retail products, better growth and cross-sell monetisation in SME and corporate segments. It will be yet another year, when we want to grow our business scale without compromising on the highest risk management standards. In 2019, we will also continue our critical strategic initiatives to accelerate operational efficiency of the bank. We believe that this will be another year of tangible progress in reaching our strategic milestones set for 2020. As the largest corporate bank in Poland, we want to be a first point of reach for inbound investors into Poland as well as the bank of choice for local corporates in their growing appetite for international expansion. We also want to play an active role in global economic debate and boost potential of the Polish economy. To meet those expectations, in 2018 we returned to our corporate heritage by opening a first representative office in one of the global financial centres, in London. We had an active voice at the World Economic Forum in Davos and together with Atlantic Council we organised first-ever CEO Summit in Warsaw to cement corporate relations between Poland and the US.

In 2018 we demonstrated that the chosen strategic path is the right one for Bank Pekao. Thanks to business expansion, high and stable earnings growth and highest dividend payout in the banking sector, we want to provide existing shareholders and new investors with a strong set of reasons to hold our shares.

At this point, I would like to thank all our employees, our clients 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 in 2017.

Yours sincerely,

Michał Krupiński,

President of the Management Board of Bank Pekao S.A.

Ladies and Gentlemen,

In 2018 Bank Pekao demonstrated in full scale its potential that will drive execution of the Bank's 2020 Strategy "Power of the Polish Bison. In November 2017, the Bank released a new strategy built superior profitability thanks to acceleration of growth in key retail and SME segments while maintaining leadership in corporate banking and achieving operational excellence through digital transformation programme.

The Management Board of Bank Pekao set ambitious operational and financial targets for 2018, including acceleration in earnings generation expressed in double-digit recurring earnings growth dynamic. The Bank achieved on those ambitions, which were reflected in released financial results for the year, and demonstrated a significant progress in all key elements of its strategy implementation: dynamic growth of business scale, strong acceleration in customer acquisition in most profitable retail and SME segments and improvement in profitability in a flagship corporate banking. Growth was realised hand in hand with better operating effectiveness and numerous investment and transformations steps taken in order to support long-term value creation for customers and shareholders. The Bank increased its lending scale while traditionally maintaining leadership position among the largest Polish bank in risk management.

After the changes in ownership structure in 2017, Bank Pekao has become an integral part of the strategic development of the PZU Group, the largest financial group in the CEE. Cooperation of the Bank with entities of the PZU Group in 2018 yielded numerous tangible benefits, which support constant drive to meet customer expectations thanks to comprehensive financial services and to create value for shareholders of Pekao and PZU supported by broadest client base, deep and complementary product offer, distribution strength as well as monetisation of synergies that the cooperation brings.

The Supervisory Board positively assessed actions taken by the Management Board of Bank Pekao in consistent and effective strategy execution as well as the Bank's financial and operating conditions in 2018. We would like to draw the attention to operational and technological transformation undertaken by the Bank. The transformation is well reflected in numerous innovative, often pioneering, solutions rolled out in retail banking as well as wide ranging cooperation with the global technology ecosystem. Such cooperation enables leveraging not only the Bank's strengths in a competitive Polish financial sector but also cementing reputation of the entire Polish banking sector as one of the most innovative markets globally. Entering 2019, the Polish banking sector will need to face yet again regulatory pressures, low rates environment as well as anticipated slowdown in global economic cycle, which could also translate into lower GDP growth in Poland after years of superior growth. Supported by strong fundamentals, clearly defined and well executed strategy, Bank Pekao will be able to again leverage its competitive advantages allowing for above-average, balanced business growth.

As the Supervisory Board, we attach great deal of value to sustainable development of Bank Pekao, therefore it is worth to highlight the pivotal role of the Bank in responsible growth of the Polish economy and its importance on a global scale. Bank Pekao has not only supported a number of significant transactions in the Polish market, but together with PZU, has played an active role in cementing business links and building access for local entrepreneurs and corporates to capital markets in global financial centres of London, New York or during the World Economic Forum in Davos.

We also positively assess steps taken by Bank Pekao with respect to corporate social responsibility and dialogue with key stakeholders, including its employees, whose support was critical in delivering on the Bank's transformational agenda in 2018, that will enable significant value creation and determine long-term competitive advantages of the Bank.

Together with the entire Supervisory Board, we are confident, that Bank Pekao will continue strengthening its position of a prominent banking institution in Poland. The Bank's growth strategy will be inclusive for all stakeholders helping the Bank in leveraging its market position while enabling a sustainable value creation for its employees, clients and last but not least shareholders.

On behalf of the Supervisory Board, I would like to thank the Management Board and all employees of the Bank and Bank's capital group Capital Group for their commitment and relentless focus in achieving ambitious goals. I would also like to thank all Bank's stakeholders for their confidence in the Bank. The supervisory board will ensure that all decision taken by the Management Board of Pekao build value for all shareholders of the Bank and that Pekao meets highest regulatory, corporate governance and ethical standards.

Paweł Surówka,

Assessment of the Bank's Management Board's reports on the activities of the Bank and the Group for 2018 and financial statements of the Bank and the Group for 2018

The Supervisory Board of Bank Pekao S.A., acting in accordance with Article 382 § 3 of the Commercial Companies Code and performing its statutory duties, assessed the Management Board's reports on activities of the Bank and the Group in 2018 as well as the financial statements of the Bank and the Group for the year 2018 in terms of their consistency with the books, documents and the factual state.

Furthermore, the Supervisory Board states that the financial statements have been prepared within the regulatory time frame and in accordance with the International Financial Reporting Standards as adopted by the European Union. The accuracy of the financial statements does not raise any reservations and is confirmed by an auditor's unqualified opinion in terms of their consistency with the books, documents and factual state.

Putting forward this recommendation the Supervisory Board took the following into consideration:

- 1) The Bank's activity in 2018 was focused on maintaining further sustainable growth in all areas, effective strengthening of its position on the retail banking market and its leader position in corporate banking.

The net profit of Bank Pekao S.A. for 2018 amounted to PLN 2,310.6 million and was PLN 222.5 million (i.e. 10.7%) higher YOY.

The net profit of the Bank Pekao S.A. Capital Group attributable to shareholders of the Bank in 2018 amounted to PLN 2,287.2 and was PLN 187.9 million (i.e. 7.6%) lower YOY.

Net interest income achieved by the Bank was 9.6% higher YOY and net interest income achieved by the Bank was 7.8% higher YOY, mainly due to higher loan and deposit volumes, higher margin and dividend income.

Net non-interest income achieved by the Group in 2018 was 1.7% higher YOY and of the Bank was 5.7% lower YOY. Net fee and commission income achieved by the Bank and the Group (including commissions in respect of margin on foreign exchange transactions with customers) was higher 4.7% and 2.6% lower YOY, respectively.

Operating expenses of the Bank and the Group in 2017 were 3.1% and 5.5% higher YOY, respectively, mainly due to higher personnel costs, (mainly due to costs in the amount ca. of PLN 50 million, related to the Program Dobrowolnych Odejsć - PDO) and other administrative expenses (including mainly marketing related expenses).

- 2) The return on average equity (ROE) of the Bank and the Group amounted to 10.7% and 10.2%, respectively.
- 3) Thanks to the effective commercial activity of the Bank and the Group in 2017, a significant growth in loan volumes was reported in the area of retail loans (an increase of 10.6% YOY for the Bank and 10.5% YOY for the Group). The growth in lending activity was financed by higher volumes of retail deposits (which went up by 11.9% YOY for the Bank and 11.8% YOY for the Group).
- 4) The solid liquidity structure of the Bank and the Group is reflected by net loans to deposits ratio at 86.7% and 89.5%, respectively, as at the end of December 2018. This, together with high equity level, enables further sound and stable development of activities pursued by the Bank and the Group. The total capital ratio (TCR) of the Bank amounted to 18.7% and was 0.3 pp higher than as at the end of 2017. The total capital ratio (TCR) of the Group amounted to 17.4% and was 0.3 pp higher than as at the end of 2017.
- 5) In 2018 the Bank continued activities aimed at building leading position on consumer goods financing market. In 2018, the Bank achieved a record-high result in a sale of mortgage loans, granting loans for the amount of nearly PLN 10 billion (increase by 12% year on year). Market share in sale of new loans amounted to close 19%. The record-high result was supported by the Bank's share in the sale of mortgage loans granted under the government program "Mieszkanie dla Młodych" ("Apartment for the Young") supporting the persons aged up to 35 in acquisition of the first new apartment. The "Mieszkanie dla Młodych" program ended at the end of 2018. Starting on the beginning of the Mieszkanie dla Młodych" program the Bank granted over 41 thousand loans for nearly amount PLN 7.3 billion. In 2018 the Bank continued activities aimed at building leading position on consumer goods financing market. Increase of cash loans portfolio for individual clients amounted to 16% year on year. Sale of cash loans was supported by competitive offer of Pożyczka Ekspresowa (Express Loan), individual loan offers with the use of CRM tools as well as active use of electronic channels including the PeoPay mobile banking and the Pekao24 Internet banking system.
- 6) Bank Pekao S.A., in accordance with the adopted strategy, remains the first choice Bank for corporate clients providing both the comprehensive services of a universal bank and all the other financial services available on the Polish market (including leasing, factoring and investment advisory in, among others, M&A area). The Bank's services are used by every second large company in Poland. The Corporate Banking and MIB Division services

nearly 13 thousand of entities, including c.a. 2.5 thousand foreign customers and over 2.5 thousand local government units and municipal companies.

- 7) Bank Pekao S.A. is a universal commercial bank offering all financial services available in Poland for individual and institutional clients. A wide range of products, innovative solutions and individual approach ensure comprehensive financial support for clients and an integrated customer service model is a guarantee of the highest quality of services and optimal adjustment to changing customer needs. Since 2017, Bank Pekao S.A. is part of the PZU SA capital group, the largest financial institution in Central and Eastern Europe.
- 8) Bank Pekao S.A. in accordance with the adopted strategy for 2018-2020 "Strength of the Polish Bison", intends to continue activities leading to achieving the position of a profitability leader based on building lasting business relationships and improving the efficiency of operations. The strategic priorities of the Bank in 2019 will be: smart growth, building long-term customer relationships based on an integrated service model, operational transformation, which will strengthen the position of the most recognizable bank in Poland thanks to the professionalism and creating value for the client.

Statement of the Supervisory Board of Bank Pekao S.A.

regarding the functioning of the Audit Committee

in connection with the publication of the unconsolidated and consolidated annual report

Supervisory Board of Bank Pekao S.A. with its registered office in Warsaw, acting pursuant to § 70.1 point 8) and § 71.1 point 8) of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic reports published by issuers of securities and conditions for recognizing information required by law of a non-member country as equivalent (Journal of Laws of 2018, item 757) in connection with § 60.2 of the Act of July 29, 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and on Public Companies (Journal of Laws of 2016, item 1639, as amended), states that:

- a) the rules regarding the appointment, composition and functioning of the audit committee are respected, including the fulfillment by its members of independence criteria and requirements regarding knowledge and skills in the industry in which the issuer operates and in the field of accounting or auditing;
- b) the audit committee performed the tasks of the audit committee provided for in the applicable regulations.