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Independent Auditor's Report

To the General Shareholders' Meeting and Supervisory Board of Bank Pekao S.A.

Report on the Audit of the Annual Separate Financial Statements

Opinion

We have audited the accompanying annual separate financial statements of Bank Pekao S.A. (the "Bank"), which comprise:

- the separate statement of financial position as at 31 December 2018,

and, for the period from 1 January to 31 December 2018:

- the separate income statement;
 - the separate statement of comprehensive income;
 - the separate statement of changes in equity;
 - the separate statement of cash flows;
- and
- notes comprising a summary of significant accounting policies and other explanatory information

(the "separate financial statements").

In our opinion, the accompanying separate financial statements of the Bank:

- give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2018 and of its unconsolidated financial performance and its unconsolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Bank's articles of association;
- have been prepared, in all material respects, on the basis of properly maintained accounting records in accordance with chapter 2 of the accounting act dated 29 September 1994 (Official Journal from 2018, item 395 with amendments) (the "Accounting Act").

Our audit opinion on the separate financial statements is consistent with our report to the Audit Committee dated 25 February 2019.



Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089 with amendments) (the “Act on certified auditors”); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-listed entities and repealing Commission

Decision 2005/909/EC (Official Journal of the European Union L 158 from 27 May 2014, page 77 and Official Journal of the European Union L 170 from 11 June 2014, page 66) (the “EU Regulation”); and

- other applicable laws.

Our responsibilities under those standards are further described in the Auditor’s Responsibility for the audit of the separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Ethics

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit engagement

in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditor and the audit firm remained independent of the Bank in accordance with requirements of the Act on certified auditors and the EU Regulation.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these

matters. Key audit matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

Impairment allowances on financial assets and off-balance sheet commitments

The carrying amount of loans and advances to customers amounted to PLN 128,432 million as at 31 December 2018 and PLN 134,202 million as at 31 December 2017. The value of off-balance sheet commitments amounted to PLN 51,883 million as at 31 December 2018 and PLN 46,137 million as at 31 December 2017. Impairment allowances amounted to PLN 6,100 million as at 31 December 2018, as compared to PLN 5,329 million as at 31 December 2017. Provisions for off-balance sheet commitments amounted to PLN 269 million as at 31 December 2018 and PLN 242 million as at 31 December 2017.

The result of impairment losses recognised on financial assets and provisions for off-balance sheet liabilities amounted to PLN 494 million for 2018 and PLN 516 million for 2017.

Reference to the separate financial statements: Note 14 “Net impairment losses on financial assets and off-balance sheet commitments”, note 27 “Loans and advances to customers”, note 42 “Provisions” and note 5.2 “Credit risk”.

Key audit matter

Loans and advances to customers are measured at amortised cost less impairment allowances. The procedures to estimate impairment allowance comprise two major phases – identification of the impairment triggers or significant increase of credit risk and measurement of expected credit losses.

Starting from 1 January, for the purpose of impairment allowances calculation the Bank applies International Financial Reporting Standard 9 *Financial Instruments*, which replaced IAS 39 *Financial Instruments: Recognition and Measurement*.

The impairment triggers and significant increase of credit risk are identified mainly on the basis of payment delinquencies and the current probability of default as compared to the date of initial recognition of the exposure, while impairment allowances are estimated collectively with the use of statistical methods on the basis of the risk parameters. Risk parameters such as probability of default (PD), loss given default (LGD) or exposure at default (EAD) are determined for individual loan exposures or homogenous groups of exposures on the basis of their historical performance, taking into account the expected macroeconomic conditions.

Impairment loss allowances constitute the estimation of expected credit losses to be incurred during the next 12 months or within the lifetime of the exposure. We assessed this area to be the key audit matter because, taking into consideration the size of the loan portfolio, estimation of expected credit losses has a significant impact on the separate financial statements and is associated with uncertainty and requires substantial judgement to be applied by the Management Board of the Bank. The main risk area is the failure to identify existing impairment triggers and the significant increase of credit risk as well as the application of inappropriate data to calculate the parameters of statistical model, which may not adequately reflect the expected credit losses existing at a given balance sheet date. In addition, there is a risk of making errors in the process of calculating the impairment allowances.

Our response

As part of our audit procedures, we performed a critical assessment of the process and accounting policies regarding the impairment allowances on loans and advances to customers, as well as a critical evaluation of the control environment with particular attention paid to the automated controls in the Bank's IT systems.

Our audit procedures conducted with the support of our internal credit risk and IT specialists included i.a.:

- critical assessment of the design and implementation of relevant internal controls (including general IT system controls) in the process of the classification of loan exposures into stages and the estimation of expected credit losses (including collateral value monitoring) as well as testing the operating effectiveness of those controls. Our procedures were focused in particular on controls of timely monitoring of debtors' standing and calculation of impairment allowances;
- critical assessment of methodology used for calculating the risk parameters and estimation of impairment allowances using both the individual and collective approach in terms of their compliance with the IFRS 9 requirements and the best market practice;
- analysis of the structure and dynamics of the loan portfolio including quality ratios and provision coverage in order to identify groups of loans with underestimated impairment allowances.

Specific audit procedures for loans and advances to customers assessed using group and portfolio methods:

- review of the results of the impairment model validation process, critical assessment of assumptions and input data used in the estimation of expected credit loss models for specific key credit risk parameters, such as the transfer logic between stages, probability of default (PD) or loss given default (LGD);

- recalculation of selected elements of risk parameters used in the calculation of expected credit losses using statistical methods;
- assessment of the adequacy of the credit losses expected within 12 months by the reference to credit losses actually incurred on homogenous portfolios in the past;
- evaluation of the correctness of the credit risk model parameters' assignment to particular customer loans on the basis of homogenous portfolio characteristics, e.g. rating class, past due status;
- independent recalculation of expected credit losses using statistical methods;
- analysis of the correctness of the allocation of customer loans into stages taking into account the qualitative and quantitative criteria;
- assessment of the impact of macroeconomic factors on particular credit parameters of the expected credit loss models and the calculation of expected credit loss allowances.

For loans and advances to customers assessed individually on the basis of a selected sample – assessment of the appropriateness of identification of a significant increase of credit risk and impairment triggers and for impaired assets – critical assessment of relevant assumptions adopted by the Bank and independent calculation of impairment allowances.

Impact of the first-time adoption of International Financial Reporting Standard 9

The method and impacts of implementing International Financial Reporting Standard 9 – *financial instruments* ("IFRS 9") are presented in the separate financial statements in note 4.9 "New standards, interpretations and amendments to published standards, that have been approved and published by the European Union and came into force as at 1 January 2018 or thereafter". The impact of IFRS 9 adoption on retained earning amounts to PLN 937 million.

Key audit matter

Implementation of IFRS 9 since 1 January 2018, establishing new rules for recognition, classification and measurement of financial instruments, required an estimation of the impact of the new standard's adoption on the opening

Our response

In addition to the procedures for impairment allowances and provisions for off-balance sheet commitments described in the previous key audit matter, our procedures for evaluation the new standard's adoption, carried out

balance as at 1 January 2018 and accounting for the change in the retained earnings as of that date.

The new rules of classification and measurement of financial instruments are based on the business models as adopted by the Bank to manage the financial instruments and the characteristics of contractual cash flows expected from the financial instruments – the so called SPPI test (solely payments of principal and interest) performed in order to determine whether contractual cash flows represent only the repayment of the principal and interest on the outstanding balance. Regarding impairment of financial instruments, implementation of the standard required the use of advanced statistical models in order to measure significant increase of credit risk and to estimate expected credit losses for the loan portfolio over the lifetime of the exposure.

We have considered this area to be a key audit matter because the application of the new standard required significant changes in business processes, information and reporting systems and the acquisition of the new data set to be used for the valuation of financial assets. Meeting the classification and measurement criteria and calculation of expected credit losses also requires from the Bank's Management to use substantial judgement. The main risk areas connected to the implementation of the new standard concerned the appropriate definition of business models for the Bank's financial assets and interpretation of the results of the SPPI tests as well as estimation of expected credit losses described in more details under "Impairment allowances on financial assets and off-balance sheet commitments". In addition, IFRS 9, by amending IFRS 7 *Financial Instruments: Disclosures*, resulted in an extended scope of disclosures required in the separate financial statements.

Other matter

The separate financial statements of the Bank as at and for the year ended 31 December 2017 were audited by another auditor, who

with the support of our specialists in the valuation of financial instruments, included i.a.:

- assessment of the methodology applied by the Bank for the classification and measurement of financial instruments in terms of its compliance with IFRS 9 requirements, as well as the best market practice;
- evaluation of the correctness of assigning financial assets to business models, including the evaluation of the sales of financial instruments made in the audited period;
- independent testing of the correctness of SPPI tests performed by the Bank;
- assessment of the fair value measurement of financial instruments;
- assessment of completeness and correctness of disclosures, including those related to the first-time adoption of IFRS 9 and quantitative and qualitative requirements, relating in particular to credit risk of financial assets.
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expressed an unqualified opinion on those financial statements on 26 January 2018.

Responsibility of the Management Board and Supervisory Board of the Bank for the separate financial statements

The Management Board of the Bank is responsible for the preparation, on the basis of properly maintained accounting records, of separate financial statements that give a true and fair view of the unconsolidated financial position of the Bank and of its unconsolidated financial performance in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Bank's articles of association and for such internal control as the Management Board of the Bank determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Management Board of the Bank is

responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Bank either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

According to the Accounting Act, the Management Board and members of the Supervisory Board of the Bank are required to ensure that the separate financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Bank are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

The scope of audit does not include assurance on the future viability of the Bank or on the efficiency or effectiveness with which the Management Board of the Bank has conducted or will conduct the affairs of the Bank.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk

of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Bank;
- conclude on the appropriateness of the Management Board of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the separate financial statements to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit



evidence obtained up to the date of our auditors' report on the audit of the separate financial statements. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee of the Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Bank with a statement that we have complied with

relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Bank, we determine those matters that were of most significance in the audit of the separate financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the separate financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the report on activities

Other Information

The other information comprise the report on activities of the Bank for the year ended 31 December 2018 (the "Report on activities"),

including the corporate governance statement which is a separate part of the Report on activities (together "Other information").

Responsibility of the Management Board and Supervisory Board

The Management Board of the Bank is responsible for the Other information in accordance with applicable laws.

ensure that the Report on activities, including separate parts of the Report on activities, is in compliance with the requirements set forth in the Accounting Act.

The Management Board and members of the Supervisory Board of the Bank are required to

Auditor's Responsibility

Our opinion on the separate financial statements does not cover the Other information.

activities was prepared in accordance with applicable laws and the information given in the Report on activities is consistent with the separate financial statements.

In connection with our audit of the separate financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Bank included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the separate financial statements and to inform whether the Bank disclosed in the Report on activities the name and registered office of its higher-level parent

In accordance with the Act on certified auditors our responsibility was to report if the Report on



company preparing a separate report of the group on non-financial information that will cover the Bank.

Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the separate financial statements, in our opinion, the accompanying Report on activities, in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the separate financial statements.

Opinion on the statement on corporate governance

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2018, item 757) (the “decree”).

Information about the statement on non-financial information

In accordance with the requirements of the Act on certified auditors, we report that using the exemption referred to in art. 49b paragraph 11 of the Accounting Act, the Bank disclosed in the Report on activities the name and

Furthermore, based on our knowledge about the Bank and its environment obtained in the audit of the separate financial statements, we have not identified material misstatements in the Report on activities.

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the separate financial statements.

registered office of its higher-level parent company preparing a separate report of the group on non-financial information that will cover the Bank.

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Management Board of the Bank is responsible for ensuring compliance of the Bank's operations with prudential regulations, including the correctness of determination of capital ratios.

Our obligation is to inform in the audit report whether the Bank complies with the applicable prudential regulations specified in separate regulations, and in particular whether the Bank has correctly determined the capital ratios presented in Note 5.6 "Equity Management".

The purpose of the audit of the separate financial statements was not to express an

opinion on the Bank's compliance with the applicable prudential regulations, and therefore we do not express an opinion on this matter.

Based on our audit of the separate financial statements, we would like to inform you that we have not identified any breaches by the Bank in the period from 1 January to 31 December 2018 of the applicable prudential regulations set out in separate regulations, in particular as regards the correctness of the Bank's determination of capital ratios as at 31 December 2018, which could have a material impact on the separate financial statements



Statement on services other than audit of the financial statements

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

Services other than audit of the financial statements, which were provided to the Bank in the audited period are listed in point 8 of the Report on activities.

Appointment of the audit firm

We have been appointed for the first time to audit the annual separate financial statements of the Bank by resolution of General

Shareholders' Meeting dated 21 June 2018. Our period of total uninterrupted engagement is 1 year.

On behalf of audit firm

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

Registration No. 3546

Signed on the Polish original

Signed on the Polish original

Marcin Podsiadły

Stacy Ligas

Key Certified Auditor
Registration No. 12774
Limited Partner, Proxy

Member of the Management Board
of KPMG Audyt Sp. z o.o., entity which is the
General Partner of KPMG Audyt spółka
z ograniczoną odpowiedzialnością sp. k.

Warsaw, 25 February 2019