

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 Odejść - 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.