

Dear Shareholders,

I am pleased to present you with the financial report of Bank Pekao S.A. Group for year 2017.

2017 was significant year in the nearly 89-year history of the Bank. In June 2017, consortium of PZU together with the Polish Development Fund acquired a strategic 32.8% stake in Bank Pekao. After a period of seventeen years, when the Bank was controlled by UniCredit Group of Italy, Pekao can now continue its growth supported by strong and stable shareholders with Polish origin: PZU, the largest financial institution in Central and Eastern Europe and the Polish Development Fund, organisation vital for further development of the Polish capital markets.

In July 2017, the Bank's Supervisory Board appointed a new Management Board that can face new opportunities for the Bank. Expertise of a new Management Board combines wealth of experience gained in strategic functions of both Pekao and the UniCredit Group with expertise acquired in renowned financial institutions in Poland and wider Europe. I am convinced that such a combination of skills with wealth of experience can significantly support Pekao in building a sustainable competitive advantages for the bank in radically changing financial services market.

The Bank's Management Board started immediately with strategic review and assessment of the Bank's operating model. This process was aimed at identifying key areas with the greatest potential for growth and increase in profitability, and was targeted at core banking business as well as new innovative areas that will allow Pekao to develop its competitive position and grow business while also improving its efficiency. The strategic review process was reflected in the Bank's new strategy for 2018-2020, 'The Power of the Polish Bison', which we presented in November last year. Based on the four pillars of our new strategy: leader of smart growth, expert in efficiency and quality, integrated risk management expert and employer of the best talent, we will work to transform Pekao into one of the profitability leaders among Polish banks by 2020. We aim to generate at least 14% RoE at the level of the Group thanks to maximum improving the efficiency of the business for our customers and employees. Further development based on the smart growth strategy will focus on strengthening our position in key and most profitable segments of the retail market, dynamic growth in SME sector and leadership in corporate and investment banking in one of the most promising markets in Europe. We will transform Pekao into one of the leaders of innovation among financial institutions not only in Poland but also in Europe.

We will actively build our competences in managing Big Data and closely cooperate with technology companies, including in AI and Blockchain topics and with FinTech sector through partnerships and selective strategic investments. These actions will enable us to improve our efficiency and expand our business in new profitable areas. In October 2017, we introduced new version of our digital application PeoPay, which, thanks to its new functionalities, helped increasing the number of users (+ 40% y / y) and transactions.

The highest culture of risk management standards that Pekao has been maintained for years, will remain our trademark. We will create an integrated and dynamic risk management system in order to respond quickly to market shifts influenced by both macro factors and consumer behaviour. Taking into consideration the equity story, highly important for our investors, we will be the organisation which combines growth, superior profitability with a high dividend payout, maintaining the strongest capital position in the Polish banking sector.

We will not be able to implement our ambitious goals without the full engagement of our employees, This is why building the brand of an employer of choice is important for me, personally, and for the entire Management Board. The Bank has been recently strengthened by employees and managers with a strong record of working for recognised institutions in Poland and internationally. New joiners will help us to develop Pekao into a dynamic organisation, which is crucial for the future prosperity of the Polish economy and ambitions to become a regional leader.

The success of our strategy will rely on close cooperation with our new shareholders. With PZU we work in the area of bancassurance, assurbanking and asset management, and with the Polish Development Fund in financing innovative projects and strengthening position of the Polish capital markets and its role in Europe. We have already initiated strategic cooperation with PZU by opening our digital channel to the PZU product offer. In 4<sup>th</sup> quarter, we also consolidated managements of Open Pension Funds within PZU Group.

The first successes of the new strategy were reflected in the Bank's results for 2017, in particular in the dynamics presented in fourth quarter figures. Supported by the strong macro backdrop, Pekao achieved a net profit of nearly PLN 2.5 billion, with a historical record profit in the fourth quarter at PLN 1,054 million. In retail banking, we achieved a record-breaking increase in sales of key mortgage and cash loan products (+ 23.1% y/y), strengthening our market position in those offerings. The Bank's focus on cross-sell and acquisition of new customers combined with the high sales dynamics allowed us to rebuild net commission income, which in the fourth quarter accelerated by 6.4% q / q. In spite of continued low rates environment, we generated the highest net interest income in four years at PLN 4.5 billion

Investment pick up in Polish economy during 2017 had a positive impact on our corporate banking franchise growing lending volumes by 7.1% y/y. In investment banking, we maintain the leading position in executing key transactions in the Polish market and remain the bank of the choice for our clients in their business expansion abroad. Our position in the asset management has been strengthened thanks to the acquisition of the 51% stake in Pioneer Pekao IM in December 2017, which enables us to grow product offering and further increase AUM, after 9.6% increase in 2017.

Throughout the year, we improved key financial ratios determining success of our strategy: we grew the income (RoE by 1.2 p.p. y/y), we improved cost ratios (decline in C/I by 0.9 pp on comparable basis) and sustained risk management discipline (CoR lowered up to 44 bps). We maintained high capital ratios and diversified capital structure. Our first ever subordinated debt issue of PLN 1.25 billion was met with a positive response from investors and achieved a record low cost of Tier 2 capital in the Polish banking sector.

In 2018, we expect that positive trends in the Polish and global economy to continue. Those factors should further support results of the banking sector results with positive dynamics in consumption trends and acceleration of investments, driven both by public and private entities. We will drive our strategy with the aim to achieve above-average volume dynamics in retail and SME sectors in 2018. In corporate banking segment, we will focus on exploiting cross-sell potential. Our ambition for 2018 is a double-digit net profit growth supported by further expansion in interest and commission income while maintaining high cost discipline and the risk management standards.

In a dynamic and competitive banking market, such as in Poland, we will be able to compete effectively only if we remain innovative and evolve to meet expectations of our clients. We have prepared a new account offer for our retail clients combining simplicity, wide range of benefits and offer advantages of assurbanking. In December 2017, the bank launched a media campaign to drive customer acquisition targets. We modernize our customer service and back office processes to maximise the potential of our employees in building lasting relationships with clients. In corporate and investment banking, we will expand our international footprint in key locations. We actively support our clients in accessing local and global relations through participation in the most important economic events in the country (the Polish Economic Forum in Krynica) and abroad (The World Economic Forum in Davos). Together with PZU and JP Morgan, we launched the Polish Investment Forum in New York, which I believe will become an important annual event in for Polish companies and global investors.

We believe that the relentless focus on implementation of our strategy will be best reflected in the equity story of the Bank Pekao for its current and potential shareholders, those that are more value oriented, and those who value growth dynamics with a high potential to generate value through a gradual increase in our share price.

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.