Letter of the President of the Management Board of Bank Polska Kasa Opieki S.A.

Dear Shareholders, Clients and Employees of Bank Pekao S.A.,

On behalf of the Management Board of Bank Polska Kasa Opieki S.A., I present the Annual Report of Bank Pekao S.A. for the year 2008, addressed to the shareholders and investors in the Bank, its supervisory bodies, as well as market participants, analysts, regulators of the capital market, the Bank's clients and the public at large.

In 2008 the Polish financial market was extremely volatile becoming affected by global turmoil. The adverse phenomena intensified in the second half of the year, especially in Q4. As the crisis in the US deepened after the collapse of Lehman Brothers and one international financial institution after another were revealed to hold toxic assets, the confidence crisis spilled over to Europe. Although initially Central and Eastern Europe was relatively resilient to the crisis, the financial turmoil eventually hit our region too – albeit the extent of the impact varied from country to country – slowing down the rate of economic growth, and causing a deterioration in macroeconomic forecasts and depreciation of local currencies. Dissimilar as the situation of individual countries may be, we can make a general observation that, while the vulnerabilities of CEE are an effect of the economic cycle, its strengths are structural.

Poland ranks among the fastest growing economies in Europe, however in the second half of 2008 – as clear signs of an economic recession became evident in the European countries which are its major trade partners – Poland's GDP growth lost its momentum, and its outlook for 2009 soured. Poland's economy is still faring quite well when compared with the rest of the region and with the eurozone. Even though relatively strong, it also did not manage to resist global trends. In the banking sector, the global turmoil translated into a confidence crisis, which manifested itself in an abrupt decline in trading on the wholesale interbank market, and – due to restricted access to financing and growing risk aversion – brought about a decline in the banks' activity consisting in the provision of financing to the corporate sector and to households, adoption of more stringent lending criteria and a fiercer competition for individual clients' deposits. The banks which largely depended on foreign sources of funding, particularly those with a significant share of CHF-denominated mortgages in their loan portfolios, suffered more than others.

In spite of a more challenging business environment and internal factors, connected mainly with the operational merger with part of Bank BPH SA, we have proved our business effectiveness and the ability to generate sustainable performance, by applying the principles of prudent banking and asset quality control developed over the past years. Net profit of PLN 3,346m was nearly on a par (in comparable terms) with the record-setting level achieved in 2007. With ROE of 23.3% and cost to income ratio of 44.7%, the Bank confirmed its effectiveness and ability to successfully manage costs. An increase in interest income and fee and commission income from banking activities partially offset a decrease in sales of mutual fund units and in brokerage commissions, which was an aftermath of the developments on the capital market. A rise in household deposits (up by 13%) additionally strengthened our solid deposit base. A nearly 18% growth in corporate loans and a 9% increase in retail loans, with a concurrent significant improvement of the credit portfolio quality, attest to the fact that the business relations between the Bank and its clients are strong and that the Bank is successful in managing its credit risk.

As H2 2008 witnessed a significant depreciation of the Polish currency and the housing crisis was becoming increasingly more apparent, our consistently applied policy of granting mortgage loans only in the złoty clearly proved its merits. When the market was flooded with CHF loans, whose share in total sales exceeded 80%, Bank Pekao S.A. – whose offer included PLN-denominated loans only – was losing its market share and income. Nevertheless, we were convinced that the policy according to which loans advanced to households should be denominated in the currency in which they earn their incomes shelters them from the risk they are unable to fully assess themselves, and will bring us benefits in the long run, confirming our credibility as a responsible lender. Very much like our individual clients, we were also trying to protect our corporate clients from excessive risk exposure. In line with our credit policy, financial derivatives (including currency options) are offered to clients only as risk-hedging instruments.

In 2008, we managed to bring the operational integration with part of Bank BPH SA to a successful completion, while continuing to actively operate on the market all that time. In Europe the integration process within the UniCredit Group began in mid-2005, when UniCredito Italiano and HypoVereinsbank (HVB) decided to combine the strengths of the two banking groups in order to form the first pan-European bank. The consequence of that decision on the Polish market was the launch of the integration between Bank Pekao S.A. and Bank BPH SA, which – following the transaction between UniCredit and HVB – became members of the same banking group.

After the court registration of the legal merger between Bank Pekao S.A. and a spun-off part of Bank BPH SA, which took place in late November 2007, intensive work was underway until the end of May 2008 to migrate the client details and accounts to Bank Pekao's IT platform. The first stage of the operational integration covered the provision of brokerage services to clients of the taken-over branches, custodial services, treasury transactions, costs management and human resources management. The migration of the client details and accounts, previously handled by 285 outlets, from the IT platform of Bank BPH to that of Bank Pekao was completed on schedule – in May 2008. Over the ensuing months, much attention has been given to enhancing the quality of service and maximising client satisfaction.

The merger with part of Bank BPH was an immensely complex effort. Its complexity stemmed from the decision to combine Bank Pekao with part of Bank BPH following the latter's division, while a part of its business was excluded from the merger, remaining an independent competitive bank. Effective risk management was our priority at all stages of the integration process. While we did run up against some operational problems, their gravity – given the size of the entire undertaking – was relatively minor. I wish once more to thank the clients who experienced inconveniences during the merger process, for showing us patience and understanding.

While presenting a challenge to all employees, the operational integration called for a particular effort on the part of our new colleagues who joined Bank Pekao S.A. following the merger. They were preparing themselves with great dedication to work with the new systems, while maintaining normal relations with the clients and doing their best to ensure that the interests of the Bank and its clients remain unaffected by the merger. On behalf of the Management Board, I would like to thank all the Bank's employees for their effort, commitment, dedication to work and performance in 2008.

I wish to thank our clients, shareholders and investors for their trust. On behalf of all Management Board, I convey our thanks to the members of the Supervisory Board for very good cooperation, for their regard to the interests of the Bank, and for supporting our work by carefully supervising the management of major risk areas. On my own behalf, I thank the fellow members of the Management Board and my closest associates for our good and harmonious cooperation.

Summarising our achievements in 2008, I would like to emphasise that – in the Management Board's opinion – the performance posted by the Bank is the best proof that the policy we are following guarantees financial stability, security of the clients' deposits and sustainable development. Our intention is to stimulate Poland's economy, for as long as the economic slowdown persists, by continuing to lend to businesses and families. Thanks to our responsible risk management policy, including with respect to credit risk, our balance-sheet structure with a solid deposit base used as the main source of financing of the assets, sound capital position and ability to successfully manage costs, we are prepared to face the challenges of 2009.

Warsaw, March 12th 2009

Jan Krzysztof Bielecki
President, CEO