President of the Board letter

Ladies and Gentlemen,

I have the pleasure to present the Annual Report of the PKO BP Group for the year 2007. Worthy of note is - and it gives me a great deal of satisfaction - that in this period the potential of the Bank and the Group enhanced, measured both in terms of scope of business activities and in terms of shareholders' equity. In this period we introduced several wide-ranging changes deriving from implementing the new strategy of the PKO BP for 2007 - 2012, "The New Opening", as we called it.

Last year we initiated activities with the objective to enhance Bank's operating model, foster modernisation, and take full advantage of Bank's huge potential. The performance achieved gives us all reasons for satisfaction, particularly in the light of the fact that in our activities we managed to combine successfully ambitious business targets with an idea to create a powerful and sustainable institution marked by innovative business solutions, sustainable capital base and a competitive offer. I am deeply convinced that the outcome of all undertaken efforts will prove a source of satisfaction for our shareholders and customers, whose expectations and needs set the benchmark for Bank's activities.

The PKO BP Capital Group's pre-tax profit amounted to over PLN 3.6 billion in 2007, which represents an increase close to 34% year-on-year, and a net profit amounted to over PLN 2.9 billion, an increase of ca. 35%. Owing to the record-high financial performance, the PKO BP Group has become one of the income-strongest institutions in Poland. This excellent performance was made possible thanks to enhanced business activity, new initiatives supporting sales of banking products and services, cost rationalisation, and reduction in workforce. The positive development has translated into efficiency indicators. The key indicators: the return on equity as well as the return on assets are among the highest in banking sector in Poland.

Despite of changes taking place in banking services, and in particular, after a merger of the two our major competitors, the PKO has managed to remain the leader in retail banking. While consequently implementing our new strategy, we are committed to regain the number one position in banking sector in Poland in the nearest future. This is why we have to grow at a faster pace than our competitors, boost income, and make a better use our numerous trumps and comparative advantages. Last year saw the launch of such projects, and virtually the entire Bank and its employees were involved in. The first stage of a mass - implementation of the Integrated IT System in our branches and outlets has been successfully completed. We also developed and commenced with implementation of a new sales-fostering concept that involves a new approach to the Internet.

We strengthened our leadership position in e-banking, a tool used by 2.7 million Bank's customers by the end of the last year. A new motivation system for our employees, based on Management by Objectives, was introduced. These are but a few examples of projects carried out in the framework of the PKO BP new strategy.

We took the utmost care to maintain Bank's position as a market leader, and our efforts were accompanied by activities aiming at meeting needs of our customers. Higher standards achieved resulted from implementation of modernised service as well as an extended and better tailored offer. We introduced new, very well received products, such as "Max Pozyczka Mini Rata" consumer loan, packages for our customers from small and medium enterprises segment, and new treasury products.

Last year the PKO BP maintained its leadership among card issuers for retail customers. It also strengthened its position as a leader on the small and medium enterprises market, in property finance, and banking service provider for local governments. We were also active abroad. As the very first Polish bank we opened Bank's outlet in Great Britain in 2007. In Kredobank, our subsidiary in Ukraine, we resolved on a share capital increase by USD 35 million, and we increased our stake in Kredobank's share capital up to 99%.

The entire results performed last year have the source in an excellent and dedicated work of all employees of the Bank PKO BP. On behalf of the Management Board I would like to express my heartfelt thanks to all employees. Let me also express my thanks to the Members of the Supervisory Board for their competent and valuable support.

Rafał Juszczak
President of the Board

This document is a translation of a document originally issued in Polish. The only binding version is the original Polish version.

PKO BANK POLSKI
SPÓŁKA AKCYJNA

Consolidated Financial Statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group for the year ended 31 December 2007

FINANCIAL SUPERVISION AUTHORITY

The consolidated annual report RS 2007

(according to § 86.1 par. 2 **of the Decree of the Minister of Finance dated 19 October 2005** – Journal of Laws No. 209, item 1744)

(for banks)

for the year of 2007 covering period	from 2007-01-01 to 2007-12-31
containing consolidated financial statements in accordance with	International Financial Reporting Standards
currency	PLN
date of submission:	2008 -04-15

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
(full name of issuer)

PKO BP SA
(abbreviated name of issuer)

02-515		Warszawa
(postal code)		(city)
Puławska		15
(street)		(number)
(22) 521-91-82	521-91-83	
(telephone)	(fax)	(e-mail)
525-000-77-38	016298263	www.pkobp.pl
(NIP)	(REGON)	(www)

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	2007	2006	2007	2006
Net interest income	4 643 728	3 832 179	1 229 540	982 837
Net fees and commission income	2 335 199	1 866 252	618 301	478 637
Operating result	3 604 858	2 705 193	954 474	693 799
Net profit (loss) (including minority interest)	2 941 392	2 207 449	778 805	566 143
Net profit (loss)	2 903 632	2 149 052	768 807	551 166
Equity assigned to the shareholders of the holding company	11 920 949	10 078 306	3 328 015	2 630 587
Total equity	11 979 015	10 180 580	3 344 225	2 657 282
Net cash flow from operating activities	(9 083 702)	8 554 882	(2 405 132)	2 194 066
Net cash flow from investing activities	665 615	(5 324 963)	176 238	(1 365 690)
Net cash flow from financing activities	3 518 328	(457 369)	931 563	(117 301)
Total net cash flow	(4 899 759)	2 772 550	(1 297 331)	711 074
Basic earnings per share	2.90	2.15	0.77	0.55
Diluted earnings per share	2.90	2.15	0.77	0.55
Basic funds (Tier 1)	8 449 415	6 928 141	2 358 854	1 808 348
Supplementary funds (Tier 2)	1 517 988	-	423 782	-

CONSOLIDATED INCOME STATEMENT
for the years ended 31 December 2007 and 31 December 2006

	Notes	2007	2006
Interest income	8	6 582 391	5 594 771
Interest expense	8	(1 938 663)	(1 762 592)
Net interest income		**4 643 728**	**3 832 179**
Fees and commission income	9	3 022 036	2 296 099
Fees and commission expense	9	(686 837)	(429 847)
Net fees and commission income		**2 335 199**	**1 866 252**
Dividend income	10	3 293	3 604
Result from financial instruments at fair value	11	(74 269)	(90 849)
Result from investment securities	12	9 382	50 356
Foreign exchange result	13	529 779	544 493
Other operating income	14	657 245	805 656
Other operating expenses	14	(360 284)	(493 907)
Net other operating income		**296 961**	**311 749**
Result on impairment	16	(56 643)	(651)
General administrative expenses	15	(4 082 572)	(3 811 940)
Operating profit		**3 604 858**	**2 705 193**
Share in net profits (losses) of associates	18	4 372	(3 705)
Profit (loss) before income tax		**3 609 230**	**2 701 488**
Income tax expense	19	(667 838)	(494 039)
Net profit (loss) (including minority interest)		**2 941 392**	**2 207 449**
Profit (loss) attributable to minority shareholders		37 760	58 397
Net profit (loss) attributable to the holding company		**2 903 632**	**2 149 052**
Earnings per share:	20		
- basic earnings per share		2.90	2.15
- diluted earnings per share		2.90	2.15

CONSOLIDATED BALANCE SHEET
for the years ended 31 December 2007 and 31 December 2006

	Notes	31.12.2007	31.12.2006
ASSETS			
Cash and amounts due from the Central Bank	23	4 682 627	4 628 134
Amounts due from banks	24	5 292 319	13 430 590
Financial assets held for trading	25	1 202 919	998 635
Derivative financial instruments	26	1 556 736	1 199 154
Other financial instruments at fair value through profit or loss	27	8 314 444	11 518 705
Loans and advances to customers	28	76 417 149	58 906 607
Investment securities, including:	29	5 716 238	6 763 188
Available for sale		5 716 238	6 763 188
Shares in associates and jointly controlled entities	30	178 584	180 162
Intangible assets	31	1 183 491	944 028
Tangible fixed assets	32	2 820 103	2 655 041
Current tax receivables	19	187 939	326
Deferred tax asset	19	72 154	33 454
Other assets	33	943 980	767 683
TOTAL ASSETS		**108 568 683**	**102 025 707**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	35	1 279	1 387
Amounts due to the other banks	36	4 703 114	4 351 608
Derivative financial instruments	26	1 279 925	1 097 806
Amounts due to customers	38	86 610 593	83 507 175
Liabilities arising from securities issued	39	178 860	43 722
Subordinated liabilities	40	1 614 885	-
Other liabilities	41	1 732 333	2 220 347
Current tax liabilities	19	9 932	170 960
Deferred tax liability	19	4 446	23 922
Provisions	42	454 301	428 200
TOTAL LIABILITIES		**96 589 668**	**91 845 127**
Equity			
Share capital	47	1 000 000	1 000 000
Other capital	48	8 137 270	7 109 697
Currency translation differences from foreign operations		(47 761)	(13 672)
Retained earnings	48	(72 192)	(166 771)
Net profit for the year		2 903 632	2 149 052
Equity assigned to the shareholders of the holding company		**11 920 949**	**10 078 306**
Minority interest		58 066	102 274
TOTAL EQUITY		**11 979 015**	**10 180 580**
TOTAL EQUITY AND LIABILITIES		**108 568 683**	**102 025 707**

(in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
for the years ended 31 December 2007 and 31 December 2006

2007	Assigned to the shareholders of the holding company									Minority interest	Total equity
	Share capital	Other capital				Currency translation differences	Retained earnings	Net profit (loss)	Total		
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves						
As at 1 January 2007	**1 000 000**	**4 529 920**	**3 834**	**1 070 000**	**1 505 943**	**(13 672)**	**(166 771)**	**2 149 052**	**10 078 306**	**102 274**	**10 180 580**
Movement in available for sale investments less deferred tax	-	-	(46 900)	-	-	-	-	-	(46 900)	-	**(46 900)**
Movement in foreign exchange differences	-	-	-	-	-	(34 089)	-	-	(34 089)	-	**(34 089)**
Total income/expenses recognized directly in equity	**-**	**-**	**(46 900)**	**-**	**-**	**(34 089)**	**-**	**-**	**(80 989)**	**-**	**(80 989)**
Net profit (loss) for the period	-	-	-	-	-	-	-	2 903 632	2 903 632	-	**2 903 632**
Total income/expenses for the period	**-**	**-**	**(46 900)**	**-**	**-**	**(34 089)**	**-**	**2 903 632**	**2 822 643**	**-**	**2 822 643**
Transfer of net profit from previous years	-	-	-	-		-	2 149 052	(2 149 052)	-	-	**-**
Transfer from net profit to equity	-	1 062 391	-	-	12 082	-	(1 074 473)	-	-	-	**-**
Transfer from net profit to dividends	-	-	-	-	-	-	(980 000)	-	(980 000)	-	**(980 000)**
Movement in minority interest	-	-	-	-	-	-	-	-	-	(44 208)	**(44 208)**
As at 31 December 2007	**1 000 000**	**5 592 311**	**(43 066)**	**1 070 000**	**1 518 025**	**(47 761)**	**(72 192)**	**2 903 632**	**11 920 949**	**58 066**	**11 979 015**

2006	Assigned to the shareholders of the holding company									Minority interest	Total equity
	Share capital	Other capital				Currency translation differences	Retained earnings	Net profit (loss)	Total		
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves						
As at 1 January 2006	**1 000 000**	**3 297 396**	**(4 054)**	**1 000 000**	**1 500 821**	**(4 082)**	**206 305**	**1 734 820**	**8 731 206**	**43 784**	**8 774 990**
Movement in available for sale investments less deferred tax	-	-	7 888	-	-	-	-	-	7 888	-	**7 888**
Movement in foreign exchange differences	-	-	-	-	-	(9 590)	-	-	(9 590)	-	**(9 590)**
Total income/expenses recognized directly in equity	**-**	**-**	**7 888**	**-**	**-**	**(9 590)**	**-**	**-**	**(1 702)**	**-**	**(1 702)**
Net profit (loss) for the period	-	-	-	-	-	-	-	2 149 052	2 149 052	-	**2 149 052**
Total income/expenses for the period	**-**	**-**	**7 888**	**-**	**-**	**(9 590)**	**-**	**2 149 052**	**2 147 350**	**-**	**2 147 350**
Transfer of net profit from previous years	-	-		-		-	1 734 820	(1 734 820)	-	-	**-**
Transfer from net profit to equity	-	1 232 524	-	70 000	5 122	-	(1 307 896)	-	(250)	-	**(250)**
Transfer from net profit to dividends	-	-	-	-	-	-	(800 000)	-	(800 000)	-	**(800 000)**
Movement in minority interest	-	-	-	-	-	-	-	-	-	58 490	**58 490**
As at 31 December 2006	**1 000 000**	**4 529 920**	**3 834**	**1 070 000**	**1 505 943**	**(13 672)**	**(166 771)**	**2 149 052**	**10 078 306**	**102 274**	**10 180 580**

(in PLN thousand)

CONSOLIDATED CASH FLOW STATEMENT
for the years ended 31 December 2007 and 31 December 2006

	Notes	2007	2006
Cash flow from operating activities			
Net profit (loss)		2 903 632	2 149 052
Adjustments:		(11 987 334)	6 405 830
Profits/losses attributable to minority shareholders		37 760	58 397
Depreciation and amortisation		380 570	317 911
(Profit) loss from investing activities	49	(72 004)	(23 798)
Interest and dividends	49	(207 290)	(261 439)
Change in loans and advances to banks	49	3 184 072	1 273 901
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss		2 999 977	8 393 346
Change in derivative financial instruments (asset)		(357 582)	(61 927)
Change in loans and advances to customers	49	(17 480 950)	(11 491 259)
Change in deferred tax asset		(38 700)	(4 353)
Change in other assets		(363 910)	(63 141)
Change in amounts due to banks	49	(2 297 830)	1 974 089
Change in derivative financial instruments (liability) and other financial liabilities at fair value through profit or loss		182 119	(159 578)
Change in amounts due to customers	49	2 810 667	6 707 791
Change in liabilities arising from debt securities issued		135 138	(24 748)
Change in provisions	49	(12 189)	(512 081)
Change in other liabilities	49	(447 308)	360 543
Income tax paid		(878 148)	(782 023)
Current tax expense		717 120	516 217
Other adjustments	49	(278 846)	187 982
Net cash flow from operating activities		**(9 083 702)**	**8 554 882**
Cash flow from investing activities			
Inflows from investing activities		**6 610 995**	**80 486**
Sale of shares in associates		6 410	-
Sale of investment securities		6 513 022	-
Sale of intangible assets and tangible fixed assets		85 296	2 502
Sale of assets classified as held for sale according to IFRS 5		-	74 380
Other investing inflows		6 267	3 604
Outflows from investing activities		**(5 945 380)**	**(5 405 449)**
Purchase of a subsidiary, net of cash acquired		(175 177)	(87 689)
Purchase of shares in jointly controlled entities		-	(44 371)
Purchase of shares in associates		(5 000)	(4 248)
Purchase of investment securities		(5 025 179)	(4 654 113)
Purchase of intangible assets and tangible fixed assets		(740 024)	(615 028)
Net cash generated from/ (used in) investing activities		**665 615**	**(5 324 963)**
Cash flow from financing activities			
Issue of debt securities		1 597 374	-
Dividends paid to holding company shareholders		(980 000)	(800 000)
Dividends paid to minority shareholders		(16 250)	-
Draw/repayment of long-term liabilities		2 917 204	342 631
Net cash generated from/ (used in) financing activities		**3 518 328**	**(457 369)**
Total net cash flows		**(4 899 759)**	**2 772 550**
Cash and cash equivalents at the beginning of the period		14 163 158	11 390 608
Cash and cash equivalents at the end of the period	49	**9 263 399**	**14 163 158**
included those with limited disposal	34	8 120	5 487

NOTES (ADDITIONAL INFORMATION) TO THE CONSOLIDATED FINANCIAL STATEMENTS as at 31 December 2007

1. General information

The consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group ("the PKO BP SA Group", "the Group") have been prepared for the year ended 31 December 2007 and include comparative data for the year ended 31 December 2006. Financial data has been presented in PLN thousand.

The holding company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO BP SA", "the holding company", "the Bank").

The holding company was established in 1919 as Pocztowa Kasa Oszczędnościowa. Since 1950 the holding company had started operating as Powszechna Kasa Oszczędności state-owned bank. Pursuant to the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws No. 5, item 55 with subsequent amendments) Powszechna Kasa Oszczędności bank państwowy (a state-owned bank) was transformed into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its registered office in Warsaw, Puławska 15, Poland.

On 12 April 2000 Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was entered in the Commercial Register kept by the District Court for the capital city of Warsaw, Commercial Court XVI Registration Department. At present, the appropriate Court of Registration is the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000026438 and was granted statistical REGON No. 016298263. The Bank's share capital amounts to PLN 1,000,000 thousand.

The Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes %	Nominal value of the share	Share in the share capital %
As at 31 December 2007				
State Treasury	514 935 409	51,49	1 zł	51,49
Other shareholders	485 064 591	48,51	1 zł	48,51
Total	**1 000 000 000**	**100,00**	---	**100,00**
As at 31 December 2006				
State Treasury	514 959 296	51,50	1 zł	51,50
Other shareholders	485 040 704	48,50	1 zł	48,50
Total	**1 000 000 000**	**100,00**	---	**100,00**

The Bank is a public company quoted on the Warsaw Stock Exchange. According to the Warsaw Stock Exchange Bulletin (Ceduła Giełdowa), the Bank is classified under the macro-sector "Finance", sector "Banks".

Bank's business activities

PKO BP SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO BP SA has the right to keep foreign exchange and to trade in foreign exchange, as well as to perform foreign currency and foreign exchange operations, open and hold bank accounts abroad and to place foreign exchange on these accounts. The Bank operates in United Kingdom through Foreign Banking Services Center (Centrum Bankowości Zagranicznej) in Warsaw.

In addition, the Group's subsidiaries also conduct activities relating to leasing, and real estate development as well as render other financial services. The scope of activities of the individual Group companies is presented in this note, in the table "Structure of the Group".

The Group operates on the territory of the Republic of Poland and - through its subsidiaries, KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o. - on the territory of Ukraine.

Going concern

The consolidated financial statements of the PKO BP SA Group have been prepared on the basis that the Bank and the entities from the PKO BP SA Group would be a going concern during a period of at least 12 months from the balance sheet date, i.e. 31 December 2007.

As at the date of signing these consolidated financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Bank or the entities from the PKO BP SA Group in at least 12 months following the balance sheet date due to an intended or compulsory withdrawal from or a significant limitation in the activities carried out by the Bank or other entities from the PKO BP SA Group.

Information on members of the Management and Supervisory Boards of the Group's holding company

As at 31 December 2007, the Bank's Management Board consisted of:

- Rafał Juszczak — President of the Management Board
- Berenika Duda-Uhryn — Vice-President of the Management Board
- Robert Działak — Vice-President of the Management Board
- Mariusz Klimczak — Vice-President of the Management Board
- Wojciech Kwiatkowski — Vice-President of the Management Board
- Aldona Michalak — Vice-President of the Management Board
- Adam Skowroński — Vice-President of the Management Board
- Stefan Świątkowski — Vice-President of the Management Board

During the year ended 31 December 2007, the following changes took place in the composition of the Bank's Management Board:

On 10 January 2007 Sławomir Skrzypek resigned from the position of Vice-President of the Management Board due to his appointment to the position of President of the National Bank of Poland (NBP).

On 10 January 2007 the Supervisory Board of PKO BP SA delegated Marek Głuchowski, Chairman of the Supervisory Board of PKO BP SA, to act temporarily as President of the Management Board of PKO BP SA until 23 January 2007. Due to the fact that, during the period from 24 January 2007 to 26 January 2007, no candidate was appointed to be the acting President of the Management Board, the Supervisory Board delegated Marek Głuchowski to act temporarily as President of the Management Board of PKO BP SA, beginning from 27 January 2007 until 10 April 2007.

On 31 January 2007 Jacek Obłękowski resigned from the position of Vice-President of the Management Board.

On 22 February 2007 the Supervisory Board appointed:

- Robert Działak as Vice-President of the Management Board of the Bank as of 23 February 2007,

- Stefan Świątkowski as Vice-President the Management Board of the Bank as of 1 May 2007.

On 13 March 2007 Zdzisław Sokal resigned from the position of Vice-President of Management Board.

On 2 April 2007 the Supervisory Board of PKO BP SA:

- delegated Marek Głuchowski, Chairman of the Supervisory Board, to independently supervise the activities undertaken by the Bank's Management Board in conducting the affairs of PKO BP SA, beginning from 11 April 2007,
- appointed, as of 11 April 2007, Rafał Juszczak, Vice-President of the Management Board, to act as President of the Management Board of PKO BP SA until a new President of the Management Board is elected,
- delegated Adam Skowroński, Member of the Bank's Supervisory Board, to temporarily act as Vice-President of the Management Board during the period from 11 April 2007 to 30 April 2007.

On 20 June 2007 the Supervisory Board of PKO BP SA appointed Rafał Juszczak, Vice-President of the Management Board, to act as President of the Management Board. In addition, the Supervisory Board of PKO BP SA adopted resolutions appointing:

- Aldona Michalak to act as Vice-President of the Management Board as of 1 July 2007,
- Mariusz Klimczak to act as Vice-President of the Management Board as of 15 July 2007,
- Adam Skowroński to act as Vice-President of the Management Board as of 23 July 2007,
- Berenika Duda-Uhryn to act as Vice-President of the Management Board as of 10 September 2007.

On 8 August 2007 the Commission for Banking Supervision approved the appointment of Rafał Juszczak as President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

As at 31 December 2007, the Bank's Supervisory Board consisted of:

- Marek Głuchowski — Chairman of the Supervisory Board
- Urszula Pałaszek — Vice-Chairman of the Supervisory Board
- Tomasz Siemiątkowski — Secretary of the Supervisory Board
- Maciej Czapiewski — Member of the Supervisory Board
- Jerzy Michałowski — Member of the Supervisory Board
- Agnieszka Winnik - Kalemba — Member of the Supervisory Board

During the year ended 31 December 2007, the following changes took place in the composition of the Bank's Supervisory Board:

On 31 January 2007 Jerzy Osiatyński resigned from the position of Member of the Supervisory Board of the Bank.

On 19 March 2007 the Extraordinary General Shareholders' Meeting appointed Maciej Czapiewski to the Supervisory Board of the Bank.

On 20 July 2007 Adam Skowroński resigned, as of 22 July 2007, from the position of Member of the Supervisory Board of PKO BP SA, due to being appointed Vice-President of the Management Board of PKO BP SA as of 23 July 2007.

Information about changes in the Management Board after 31 December 2007 is presented in Note 55 (Events after Balance Sheet date).

(in PLN thousand)

Structure of the Group

The PKO BP SA Group is formed by the following entities:

No.	Name of entity	Registered office	Activity	Share in the share capital (%) 31.12.2007	Share in the share capital (%) 31.12.2006
Grupa Kapitałowa PKO BP SA					
	Holding company				
1	**Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna**				
	Direct subsidiaries				
2	Powszechne Towarzystwo Emerytalne BANKOWY SA	Warsaw	Pension fund management	100,00	100,00
3	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Management and use of Centrum Finansowe Pulawska	100,00	100,00
4	PKO Inwestycje Sp. z o.o.	Warsaw	Real estate development	100,00	100,00
5	Inteligo Financial Services SA	Warsaw	Technical servicing of Internet banking	100,00	100,00
6	Centrum Elektronicznych Usług Płatniczych "eService" SA	Warsaw	Servicing and settlement of card transactions	100,00	100,00
7	Bankowy Fundusz Leasingowy SA	Łódź	Leasing	100,00	100,00
8	Bankowe Towarzystwo Kapitałowe SA	Warsaw	Intermediation in shares and stock trading	100,00	100,00
9	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	Investment fund management	75,00	75,00
10	KREDOBANK SA	Lviv, Ukraine	Financial services	98,182	69,933
	Indirect subsidiaries				
	Subsidiaries of PTE BANKOWY SA				
11	Finanse Agent Transferowy Sp. z o.o.	Warsaw	Intemediary financial services	100,00	100,00
	Subsidiaries of PKO Inwestycje Sp. z o.o.				
12	POMERANKA Sp. z o.o.	Warsaw	Real estate development	100,00	100,00
13	Wilanów Investments Sp. z o.o.	Warsaw	Real estate development	100,00	100,00
14	UKRPOLINWESTYCJE Sp. z o.o.	Kiev, Ukraine	Real estate development	55,00	55,00
15	Fort Mokotów Sp. z o.o.	Warsaw	Real estate development	51,00	51,00
16	ARKADIA Inwestycje Sp. z o.o.	Międzyzdroje	Real estate development	100,00	-
	Subsidiaries of Fundusz Leasingowy SA				
17	Bankowy Leasing Sp. z o.o.	Łódź	Leasing	100,00	-
18	BFL Nieruchomości Sp. z o.o.	Łódź	Leasing	100,00	-

(in PLN thousand)

Other entities (associated and jointly controlled entities) included in the consolidated financial statements:

Jointly controlled entities

No.	Name	Registered office	Activity	Share in share capital (%) 31.12.2007	Share in share capital (%) 31.12.2006
Direct jointly controlled companies					
1	CENTRUM HAFFNERA Sp. z o.o.	Sopot	Real estate development	49.43	49.43
2	Centrum Obsługi Biznesu Sp. z o.o.	Poznań	Construction and maintenance of a hotel	41.44	41.44
Indirect jointly controlled companies					
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o. (Indirectly jointly controlled by PKO BP SA)					
3	Centrum Majkowskiego Sp. z o.o.	Sopot	Real estate development	100.00	100.00
4	Kamienica Morska Sp. z o.o.	Sopot	Real estate development	100.00	100.00
5	Sopot Zdrój Sp. z o.o.	Sopot	Real estate development	100.00	100.00
6	Promenada Sopocka Sp. z o.o.	Sopot	Real estate development	100.00	100.00

Associated entities

No.	Name	Registered office	Activity	Share in share capital (%) 31.12.2007	Share in share capital (%) 31.12.2006
Direct associates					
1	Bank Pocztowy SA	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	Construction and operation of cable railway	37.53	37.53
3	Ekogips SA – in bankruptcy	Warsaw	Production of construction elements	60.26	60.26
4	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznan	Sureties in accordance with civil law and bill of exchange	33.33	33.33
5	Agencja Inwestycyjna CORP SA	Warsaw	Office real estate management	22.31	22.31
Indirect associates					
Associates of Bankowe Towarzystwo Kapitałowe SA					
6	FINDER SA*	Warsaw	Car location and fleet management services	46.43	46.43
7	INTER FINANCE Polska Sp. z o.o.**	Suchy Las near Poznan	Investing in sector of financial intermediation services on the Ukrainian market	-	45.00

* until 2 January 2007 - FINDER Sp. z o.o.

Information about changes in the parent's share in the share capital of the subsidiaries is presented in Note 53 "Business combinations".

Approval of financial statements

These consolidated financial statements have been approved for publication by the Bank's Management Board on 8 April 2007.

2. Accounting policies

Basis for preparation of financial statements and declaration of compliance with accounting standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards endorsed by the EU as at 31 December 2007.

Currently, taking under consideration the process of implementation of IFRS in the EU and the Group's activities, there are no differences between IFRS standards and IFRS standards endorsed by the EU as regards the accounting policies applied by the Group.

Changes in accounting policies

Presented below are the new or revised IFRS regulations and the new International Financial Reporting Interpretations Committee (IFRIC) interpretations which have been applied by the Group during the 12-month period ended 31 December 2007. The application of these regulations and interpretations had no effect on the financial statements, except for several additional disclosures.

IAS 1, *Presentation of Financial Statements – Disclosures on capital*

The Group applied the amended regulations of IAS 1. The principles for capital management are presented in Note 3,*Objectives and principles relating to financial and operational risk management*.

IFRS 7, *Financial Instruments: Recognition and Measurement*

The Group applied IFRS 7. The most significant amendments were made to Note 3 *Objectives and principles relating to financial and operational risk management*.

IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

The application of this Interpretation had no significant effect on the financial statements of the Group.

IFRIC 8, *Scope of IFRS 2*

The Group applied IFRIC Interpretation 8. As a result, it amended certain of its accounting policies. The Group reviewed transactions which involved an issue of shares (or as a result of which the Group incurred a liability based on the value of equity instruments) in respect of payment for goods or services received, and concluded that there were no transactions that would require a different treatment due to application of IFRIC Interpretation 8.

IFRIC 9, *Reassessment of Embedded Derivatives*

The Group applied IFRIC Interpretation 9. According to this Interpretation, an assessment of whether a given contract contains an embedded derivative instrument is made at the date of first becoming a party to the contract. A reassessment can only be made when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract. The application of this Interpretation did not lead to any significant changes in the treatment of embedded derivatives held by the Group.

IFRIC 10, *Interim Financial Reporting and Impairment*

The Group applied IFRIC Interpretation 10. According to this Interpretation, an entity may not reverse impairment losses recognized in the interim period on goodwill or investments in equity instruments classified as available for sale. The application of this Interpretation did not lead to any significant changes affecting these consolidated financial statements.

New standards and interpretations which have been issued but are not yet effective

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but have not yet come into effect:

- IFRS 8, *Operating segments,* (applicable to annual periods beginning on or after 1 January 2009),
- IAS 1 *Presentation of financial statements,* (applicable to annual periods beginning on or after 1 January 2009),
- IAS 23, *Borrowing costs,* (applicable to annual periods beginning on or after 1 January 2009),
- IFRIC 11 of IFRS 2, *Group and Treasury Share Transactions,* (applicable to annual periods beginning on or after 1 March 2007),
- IFRIC 12, *Service Concession Arrangements,* (applicable to annual periods beginning on or after 1 January 2008),
- IFRIC 13, *Customer Loyalty Programmes,* (applicable to annual periods beginning on or after 1 July 2008),
- IFRIC 14, IAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction,* (applicable to annual periods beginning on or after 1 January 2008),
- IFRS 3, *Business Combinations*, (revised in January 2008 – applicable to annual periods beginning on after 1 July 2009).
- IAS 27, *Consolidated and Separate Financial Statements*, (revised in January 2008 – applicable to annual periods beginning on after 1 July 2009).
- IFRS 2, *Share-based Payment – Vesting Conditions and Cancellations*, (amended in January 2008 – applicable to annual periods beginning on after 1 January 2009).
- Amendments to IAS 32 and IAS 1, *Puttable Financial Instruments*, (amendments in February 2008 – applicable to annual periods beginning on after 1 January 2009)

The Management Board does not expect the introduction of the above-mentioned standards and interpretations to have a significant effect on the accounting policies applied by the Group. The Group plans to apply them in the periods indicated in the relevant standards and interpretations (without early adoption).

The subsidiaries of PKO BP SA in Poland kept their books of account for the year 2007 in accordance with the International Financial Reporting Standards, except for Fort Mokotów Sp. z o.o., and ARKADIA Inwestycje Sp. z o.o., which keep their books of account in accordance with the accounting principles specified in the Accounting Act of 29 September 1994 with subsequent amendments ("the Accounting Act") and with the regulations issued based on that Act ("Polish Accounting Standards"). Foreign entities of the Group keep their books of account in accordance with the relevant national regulations. The consolidated financial statements include adjustments which are not included in the books of account of the Group companies; these adjustments have been made to the financial statements in order to ensure their compliance with IFRS.

All items presented in the financial statements of the individual Group companies, including KREDOBANK S.A. and UKRPOLINWESTYCJE Sp. z o.o. are measured in functional currency i.e. in the currency of the basic economic environment in which the given entity operates.

The Polish złoty is the presentation currency of these consolidated financial statements. The functional currency of the holding company and other entities included in these financial statements, except for

KREDOBANK S.A and UKRPOLINWESTYCJE Sp. z o.o., is the Polish złoty. The functional currency of KREDOBANK S.A. and UKRPOLINWESTYCJE Sp. z o.o is the Ukrainian hrivna.

The Group uses the average NBP rate effective at the balance sheet date as the closing exchange rate used in order to translate the assets and liabilities denominated in foreign currency at the balance sheet date.

Basic principles and accounting methods used by the PKO BP Group

In these financial statements, all items were recognized at historical cost, except for financial assets recognized at fair value through profit or loss, financial assets available for sale and derivatives, which are stated at fair value.

The principal accounting policies and methods applied by the PKO BP SA Group:

a) Basis of consolidation

The consolidated financial statements include the financial statements of PKO BP SA and the financial statements of its subsidiaries, prepared for year ended 31 December 2007. The financial statements of the subsidiaries cover the same reporting period as the holding company's financial statements. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

The consolidated financial statements of the Group were prepared based on the financial statements of the holding company and the financial statements of the following subsidiaries:

For the year ended 31 December 2007:

- The Bankowy Fundusz Leasingowy SA Group,
- The Powszechne Towarzystwo Emerytalne BANKOWY SA Group,
- Centrum Finansowe Puławska Sp. z o.o.,
- Centrum Elektronicznych Usług Płatniczych „eService" SA,
- Inteligo Financial Services SA,
- KREDOBANK SA,
- Bankowe Towarzystwo Kapitałowe SA,
- The PKO Inwestycje Sp. z o.o. Group,
- PKO Towarzystwo Funduszy Inwestycyjnych SA

For the year ended 31 December 2006:

- Bankowy Fundusz Leasingowy SA,
- The Powszechne Towarzystwo Emerytalne BANKOWY SA Group,
- Centrum Finansowe Puławska Sp. z o.o.,
- Centrum Elektronicznych Usług Płatniczych „eService" SA,
- Inteligo Financial Services SA,
- KREDOBANK SA,
- Bankowe Towarzystwo Kapitałowe SA,
- The PKO Inwestycje Sp. z o.o Group.
- PKO Towarzystwo Funduszy Inwestycyjnych SA.

The full method consolidation of financial statements of subsidiaries involves adding up the full amounts of the individual items of the balance sheet, profit and loss account of the subsidiaries and of the Bank, and performing appropriate consolidation adjustments and eliminations. The carrying amount of the Bank's investments in the subsidiaries and the equity of these entities at the date of their acquisition are eliminated at consolidation. The consolidated cash flow statement was prepared on the basis of the consolidated balance sheet and consolidated income statement as well as the additional notes and explanations.

The following items are eliminated in full at consolidation:

1) inter-company receivables and payables, and any other settlements of a similar nature, between the consolidated entities,
2) revenue and costs arising from business transactions conducted between the consolidated entities,
3) gains or losses which arose from business transactions conducted between consolidated entities, included in the carrying amount of the assets of the consolidated entities, except for losses indicating impairment,
4) dividends accrued or paid by the subsidiaries to the holding company and to other consolidated entities,
5) inter-company cash flows in the cash flow statement.

Subsidiaries are consolidated from the date on which control was acquired to the day when it ceased.

The results of the subsidiaries are included in the consolidated financial statements for that part of the reporting period in which they were controlled by the Group.

b) Purchase/sale of minority interests

If the Group increases/decreases its share in the net assets of its controlled subsidiaries, the excess of the cost of acquisition over the acquirer's interest in the net assets of the acquired subsidiary is recognized as goodwill. Goodwill is tested for impairment on an annual basis.

c) Estimates

In preparing financial statements in accordance with IFRS, the Group makes certain estimates and assumptions, which have a direct influence on both the financial statements presented and the notes to the financial statements.

The estimates and assumptions made at each balance sheet date reflect the conditions that existed at these dates (e.g. market prices, interest rates, exchange rates etc.). In spite of the fact that the estimates are based on the best understanding of the current situation and the activities that will be undertaken by the Bank, the actual results may differ from those estimates.

The Group presents the type and magnitude of changes in estimates if these changes affect the current period or if it is expected that they will significantly affect future periods.

The estimates and assumptions that are used by the Group in determining the value of its assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances. Assumptions regarding the future and the data available are used for assessing carrying amounts of assets and liabilities which cannot be determined unequivocally using other sources. In making assessments the Group takes into consideration the reasons and sources of the uncertainties that are anticipated at the balance sheet date.

Estimates and assumptions made by the Group are subject to periodic reviews. Adjustments to estimates are recognized in the periods in which the estimates were adjusted, provided that these adjustments affect only the given period. If the adjustments affect both the period in which the adjustment was made as well as future periods, they are recognized in the period in which the adjustments were made and in the future periods.

The main assumptions about the future that were used by the Group in performing estimates include first of all the following areas:

- **Impairment of financial assets**

At each balance sheet date, the Group assesses whether there is any objective evidence that the value of a group of financial assets is impaired. Evidence indicating impairment are events or groups of events which occurred after the date of the initial recognition of the asset/group of assets and which indicate that the expected future cash flows to be derived from the given asset or group of assets may have decreased. When evidence of impairment is found, the Group estimates the amount of impairment allowance.

The Group uses three methods for estimation of impairment:

1) for loans which were found to be individually impaired and which are considered individually significant, impairment is estimated on the basis of an analysis of the future cash flows expected for each asset,
2) for loans which were found to be individually impaired and which are not considered individually significant, impairment is estimated for the individual types of exposures, on the basis of the expected average cash flows generated by the particular loan portfolios,
3) for loans which were not found to be individually impaired, but for which it was found that they may have given rise to incurred but not reported losses, impairment write-downs are estimated on the basis of the expected time when the losses will be identified, the probability of the losses being identified and the expected amount of the loss at the moment when it is identified.

The Group expects that the methodology used for estimating impairment allowances will be developed in line with the increasing possibilities of acquiring impairment data from the existing information systems and applications and those being implemented. As a consequence, any new data obtained by the Group might affect the level of impairment allowances in the future.

- **Impairment of investments in associates and jointly controlled entities**

At each balance sheet date, the Group makes an assessment of whether there are any indicators of impairment in the value of investments in associates and jointly controlled entities. If any such indicators exist, the Group estimates the value in use of the investment or the fair value of the investment less costs to sell, depending on which of these values is higher. The projection for the value in use requires making assumptions, e.g. about the future cash flows that the Group may receive from dividends or the cash inflows from the potential disposal of the investment, less the costs of disposal. The adoption of other assumptions with reference to the projected cash flows might affect the carrying amount of certain investments.

- **Impairment of other non-current assets**

At each balance sheet date, the Group makes an assessment of whether there are any indicators of impairment of any of its non-current assets (or cash-generating units). If any such indicators exist, the Group estimates the recoverable amount and the value in use of the given non-current asset (or cash-generating unit). In order to estimate these values, it is necessary to adopt certain assumptions, e.g. about the expected future cash flows that the Group may receive from the continued use or disposal of the non-current asset (or cash-generating unit). The adoption of other assumptions with reference to future cash flows may affect the carrying amount of certain non-current assets.

- **Impairment of goodwill**

Goodwill arising on acquisition of a business entity is recognized at the acquisition cost, being an excess of the costs of acquiring control over the entity over the share of the holding company in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is stated at acquisition cost less any cumulative impairment losses. The test for impairment is carried out on an annual basis.

Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. In the case where the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment write-down is recognized. In the case where goodwill represents part of a cash-generating unit and part of operations conducted within this unit is sold, when calculating the gain or loss on the disposal of these operations, the goodwill related to sold operations is included in the carrying amount of these operations. Goodwill sold in such circumstances is valued on the basis of the relative value of the operations sold and the value of the remaining part of the cash-generating unit.

- **Valuation of derivates and non-quoted debt securities available for sale**

The fair value of non-option derivatives and debt securities available for sale not listed on an active market is determined using valuation models based on discounted cash flows that may be received from the given financial instrument. Options are valued using option pricing models. The variables and assumptions used in valuation include any available data derived from observable markets. In the valuation of non-quoted debentures available for sale, assumptions are also made about the contractor's credit risk, which may have an impact on the pricing of the instruments. Any change in these assumptions might affect the valuation of the above-mentioned instruments.

- **Calculation of provision for retirement and pension benefits and jubilee bonuses**

The provision for retirement and pension benefits and jubilee bonuses is created individually for each employee on the basis of actuarial valuation performed at the balance sheet date by an independent actuary. The basis for calculation of these provisions are internal regulations, and especially the Collective Labour Agreement ("Zakładowy Układ Zbiorowy Pracy") being in force at the Bank. Valuation of employee benefit provisions is performed using actuarial techniques and assumptions in accordance with International Financial Reporting Standards and International Accounting Standards, especially IAS 19. The calculation of the provision includes all bonuses and retirement benefits that may be paid in the future. The provision was created on the basis of a list including all the necessary details of the employees, in particular the length of their service, age and gender. The provisions calculated equal discounted payments to be made in the future, taking into account staff turnover, and relate to the period until the balance sheet date. Gains or losses resulting from actuarial calculations are recognized in the income statement.

- **Useful lives of tangible fixed assets, intangible assets and investment properties**

In estimating the useful lives of particular types of tangible fixed assets, intangible assets and investment property, the Group considers a number of factors, including the following:

1) the average existing useful lives, which reflect the pace of the physical wear and tear, intensiveness of usage, etc.,
2) technical obsolescence,
3) the period of having control over the asset and legal and other limits on the use of the asset,
4) dependence of the useful lives of assets on the useful lives of other assets,
5) other factors affecting the useful lives of this type assets.

When the period of use of a given asset results from a contract, the useful live of that asset corresponds to the period defined in the contract; if, however, the estimated useful life is shorter than the period defined in the contract, the Group uses the estimated useful life.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash at nostro account with the Central Bank of Poland, current amounts due from other banks, and other cash due within up to three months and stated at nominal value.

e) Financial assets

The Group classifies financial assets into the following categories: financial assets valued at fair value through profit or loss, financial assets available for sale, loans and other receivables, financial assets held to maturity.

The Group determines the classification of the financial asset at the moment of its initial recognition.

- **Financial assets at fair value through profit or loss**

This category includes: financial assets held for trading and financial assets designated at the moment of initial recognition as financial assets at fair value through profit or loss, due to the fact that these items are managed on a portfolio basis, using fair value measurement, in accordance with documented risk management policies and investment strategy of the holding company.

Financial assets held for trading comprise: debt securities and equity securities, loans and receivables which were acquired or classified into this category with an intention to sell them in a short period of time. Derivative instruments are also included in this category.

<u>Equity instruments</u>

The equity instruments managed by Dom Maklerski PKO BP SA are classified into financial assets at fair value through profit or loss, where the fair value is measured as follows:

1) for those equity instruments for which there is an active market – with reference to market value,
2) for those equity instruments for which there is no active market - with reference to the price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance sheet date there were significant changes in market conditions which might affect the price.

<u>Debt instruments</u>

Debt securities are classified into the category of financial assets at fair value through profit or loss, where the fair value is measured as follows:

1) for those debt instruments for which there is an active market – with reference to market value,
2) for those debt instruments for which there is no active market - with reference to other value accepted as fair value and determined using one of the following methods:
    a) reference asset value method,
    b) the yield curve method based on market interest rates,
    c) the price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance sheet date there were significant changes in market conditions which might affect the price.

The effects of changes in fair value are recorded as income or expense from financial instruments stated at fair value.

Interest income on these instruments is determined using the effective interest rate; the same applies to any amortization of discount or premium, which is recognized in the income statement under interest income and interest expense, as appropriate.

Derivative instruments

Derivative financial instruments are recognized at fair value at the date of transaction and are subsequently carried at fair value as of the balance sheet date. In the case where the estimated fair value is lower or higher than the fair value as of the preceding balance sheet date (for transactions concluded in the reporting period -acquisition cost or the sale price of the instrument), the Bank includes the difference, respectively, in the result on financial instruments at fair value or in the foreign exchange result (for transactions FX swap, FX forward and CIRS transactions), in correspondence with “Derivative financial instruments”.

The result of the ultimate settlement of derivative instrument transactions is reflected in the result from financial instruments at fair value or in the foreign exchange result. The nominal value of the underlying instruments is presented in off-balance sheet items from the date of the transaction until maturity. Off-balance sheet items denominated in foreign currencies are revalued at the end of each day according to the average NBP exchange rate.

The fair value of financial instruments which are traded on the market is their market price, less the costs of transaction. In other cases, fair value is calculated on the basis of a valuation model, based on data derived from an active market.

Embedded derivative instruments

The Group has embedded derivative instruments, which are the components of financial and non-financial contracts, whereby all or part of the cash flows relating to such contracts vary in a similar way to the stand-alone derivative. An assessment of whether a given contract contains an embedded derivative instrument is made at the date of first becoming a party to the contract. A reassessment can only be made when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

Embedded derivative instruments separated from host contracts and recognized separately in the accounting records are valued at fair value. Valuation is presented in the balance sheet under “Derivative Financial Instruments”. Changes in the fair value of derivative instruments are recorded in the profit and loss account under the “Result from financial instruments at fair value”.

Derivative instrument is recognized separately from the host contract, if all of the following conditions are met:

1) the hybrid (comlex) instrument is not classified at fair-value and the effects of revaluation of such instrument are not recorded in the profit and loss account,
2) the characteristics and risks of the embedded derivative instrument are not closely related to the characteristics and risks of the host contract,
3) a separate instrument with the same characteristics as the embedded derivative would meet the definition of a derivative,
4) it is possible to reliably determine the fair value of the embedded derivative.

In the case of contracts which are not financial instruments and which include an instrument which fulfils the above conditions, embedded derivatives are recorded in the profit and loss account under the “Result from financial instruments at fair value”.

The fair value of financial instruments which are traded on the markets is their market price, less the costs of transaction. In other cases, fair value is calculated on the basis of a valuation model, based on data derived from an active market. The techniques used are based - among others - on the discounted cash flow models, option models and yield curves.

- **Financial assets available for sale**

These are financial assets for which the holding period is not defined, and they are classified neither into the portfolio of assets valued at fair value through profit or loss nor into assets held to maturity. This portfolio includes: debt securities and equity securities, and loans and receivables that were not included into other categories. Interest on assets available for sale is calculated using the effective interest rate method and is charged to the profit and loss account under "Interest income".

Financial assets available for sale are valued at fair value, and gains and losses arising from changes in fair value compared with valuation using amortized cost are taken to revaluation reserve. The item included in revaluation reserve is taken to the profit and loss account at the moment the asset is sold or found to be impaired. If an asset classified as available for sale is found to be impaired, the increases in the value of the asset that were previously recognized on its revaluation to fair value reduce the amount of the "Revaluation reserve". If the amount of the previous increases in value is not sufficient to cover the impairment, the difference is charged to the profit and loss account.

Impairment losses on equity instruments are not reversed through profit or loss, i.e. any future increases in the fair value of such instruments are recognized in revaluation reserve. Dividends from equity instruments are recorded in the profit and loss account when the entity's right to receive the payment has been established.

<u>Equity instruments</u>

Equity instruments classified as available for sale are stated at fair value. The fair value is determined as follows:

1) for equity instruments for which an active market exists - with reference to market value,
2) for equity instruments for which there is no active market:
   a) as current bid offer,
   b) valuation performed by a specialized external entity providing services of this kind.

If it is not possible to determine fair value, equity instruments are stated at acquisition cost less impairment losses.

The effects of changes in the fair value of equity instruments classified as available-for-sale are taken to revaluation reserve, except for impairment losses, which are charged to the profit and loss account.

<u>Debt instruments</u>

Debt instruments classified as available-for-sale are stated at fair value. The fair value is determined as follows:

1) for those debt instruments for which there is an active market - with reference to market price,
2) for those debt instruments for which there is no active market - with reference to other value accepted as the fair value and determined using one of the following methods:
   a) reference asset value method,
   b) the yield curve method based on market interest rates, adjusted for risk margin equal to the margin determined in the terms of the issue.

The results of changes in fair value in relation to the carrying amount of an instrument stated at amortized cost are taken to revaluation reserve, except for impairment losses, which are charged to the profit and loss account. Interest income and discounts calculated using the effective interest rate are presented as interest income, and the gain or loss recorded in the revaluation reserve is the difference between the fair value determined at the balance sheet date and the value of these assets at amortized cost.

- **Loans, advances and other receivables**

Loans and receivables comprise financial assets that are not quoted on an active market, which are featured with fixed or determinable payments, and which are not derivative instruments, other than:

1) financial assets, which are to be sold by the Group at once or in a short period of time and which are classified as financial assets held for trading and also these assets which were designated as valued at fair value through profit or loss at initial recognition,
2) financial assets designated by the Group as available for sale at initial recognition, or
3) financial assets whose owner may not recover the full amount of the initial investment due to other reasons than deterioration in credit repayment and which are classified as available for sale.

This category includes loans, advances and other receivables acquired and granted. Loans, advances and receivables are valued at amortized cost using the effective interest rate, with an allowance for impairment losses.

Amortized cost is the amount at which the loan or advance was measured at the date of initial recognition, less principal repayments, and increased or decreased by the cumulative amortization of any difference between that initial amount and the amount at maturity, and decreased by any impairment losses. Valuation at amortized cost is performed using the effective interest rate - the rate that discounts the expected future cash flow to the net present value over the period to maturity or the date of the next market valuation, and which is the internal rate of return of the asset for the given period; the calculation of this rate includes the payments received by the Group which affect the financial characteristics of the instrument. Commissions/fees and transaction costs which are an integral part of the effective return on a loan or advance, adjust their carrying amounts and are included in the calculation of the effective interest rate.

Loans and advances with unspecified repayment dates are valued at nominal value, increased by the amount of interest receivable and decreased by any impairment losses.

Receivables from services performed by the Group to contractors are valued at nominal value, increased by the amount of interest receivable and decreased by any impairment losses.

Receivables covered by the restructuring agreement are stated at nominal value plus the amount of interest receivable, less any impairment losses.

- **Financial assets held to maturity**

These are financial assets with fixed or determinable payments and maturity dates, which were acquired in order to be held and the Group is able to hold them to maturity.

Financial assets in this category are valued at amortized cost using the effective interest rate. Cost amortization is recorded in the profit and loss account under Interest income.

Debt instruments quoted on an active market and held to maturity are presented at acquisition cost, adjusted by accrued interest, discount and premium (calculated using the effective interest rate), with an allowance for any impairment losses.

f) Accounting for transactions

Financial assets and financial liabilities, including forward transactions giving rise to an obligation or a right to acquire or sell in the future a given number of specified financial instruments at a given price, are recognized in the books of account under the date on which the contract was entered into, irrespective of the settlement date provided in the contract.

g) Sale and repurchase contracts

Repo and reverse-repo transactions and sell-buy back, buy-sell back transactions are transactions for the sale or purchase of securities with a commitment to buy or sell back the security at an agreed date and price.

Repo transactions are recognized at the date of the transaction under amounts due to other banks or amounts due to customers in respect of deposits, depending on the contractor. Reverse-repo securities are recognized under amounts due from banks or loans extended to customers, depending on the contractor.

The difference between the sale price and the repurchase price is recognized as interest expense/income, as appropriate, and is amortized over the term of the contract using the effective interest rate.

h) Impairment of financial assets

At each balance sheet date, the Group makes an assessment of whether there is objective evidence that a given financial asset is impaired. If such evidence exists, the Group determines the amounts of impairment losses. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset and have an impact on the expected future cash flows to be derived from the financial asset or group of financial assets, which these cash flows are reliably measurable.

The following are especially considered by the Group as loss events:

1) significant financial difficulties of an issuer or debtor,
2) an actual breach of contract, such as a default or delinquency in interest or principal payments,
3) granting by the lender to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, of a concession that the lender would not otherwise consider,
4) a high probability of bankruptcy or other financial reorganization of an issuer or a debtor,
5) lack of turnover of a component of financial assets on the active market due to financial difficulties of an issuer or a debtor,
6) evidence that there is a measurable decrease in the estimated future cash flows from a group of financial assets, including the collectability of these cash flows.

The Group first assesses impairment on an individual basis. If, for a given financial asset assessed individually, there are no objective indications of impairment, the asset is included in a group of financial assets with similar characteristics, which are subsequently assessed for impairment on a collective basis.

The Group classifies loan and lease receivables on the basis of the amount of exposure into the individual and group portfolios.

In the individual portfolio, each individual loan or lease exposure is tested for impairment. If the exposure is found to be impaired, an allowance is recognized against the amount of the receivable. If there is no objective evidence of impairment for a given exposure, this exposure is included in the portfolio of loans or lease receivables that are assessed on a collective basis.

Within the group portfolio, groups with similar credit risk characteristics are identified, which are then assessed for impairment on a collective basis.

If there is objective evidence for the impairment of financial assets classified as loans and receivables, finance lease receivables or investments held to maturity, the amount of the impairment allowance is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted using the effective interest rate from the date on which the financial asset was found to be impaired.

The carrying amount of an asset is decreased by impairment allowances, and the amount of impairment losses is charged to profit and loss account.

The calculation of the present value of estimated cash flows relating to a financial asset for which the Bank holds collateral takes into account the cash flows arising from the seizure of the collateral, less costs to seize and sell.

Future cash flows from a group of financial assets assessed for impairment on a collective basis are estimated on the basis of cash flows generated from contracts and historical parameters of recoveries generated from assets with similar risk characteristics.

Historical recovery parameters are adjusted on the basis of data from current observations, so as to take into account the impact of current conditions and exclude the factors that had impact in the past but no longer exist.

If, in the subsequent period, the amount of impairment loss is reduced because of an event that took place after the impairment was recognized (e.g. improvement in debtor's credit rating), then the impairment loss that was previously recognized is reversed by making an appropriate adjustment to the balance of impairment allowances. The amount of the reversal is recorded in the profit and loss account.

In the case of impairment of a financial asset classified as available for sale, the amount of the impairment loss is charged to the profit and loss account, which results in the necessity to transfer the effects of its “downwards” valuation from the revaluation reserve to the profit and loss account. Impairment losses recognized against non-quoted equity instruments are not reversed through profit and loss account.

No impairment losses are recognized against financial assets at fair value through profit or loss.

i) Derecognition of financial instruments

Financial instruments are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the financial asset to another entity. The financial asset is transferred when the Group 1) transfers the contractual rights to receive the cash flows from the financial asset or 2) retains the contractual rights to receive the cash flows from the financial asset, but assumes a contractual obligation to pay the cash flows to an entity outside the Group. When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

1) if the Group transfers substantially all the risks and rewards of ownership of the financial asset, then it derecognises the financial asset,
2) if the Group retains substantially all the risks and rewards of ownership of the financial asset, then it continues to recognise the financial asset,
3) if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, then the Group determines whether it has retained control of the financial asset. If the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset; if the Group has not retained control, then the financial asset is derecognized.

The Group removes a financial liability (or a part of a financial liability) from its balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Usually the Group derecognizes loans when they have been forgiven, when the period of limitation expired, or when the loan is not recoverable. Loans, advances and other amounts due are written off against the impairment allowances that were recognized for these accounts. In the case where no allowances were recognized against the account or the amount of the allowance is less than the amount of the loan or other receivable, before the loan or receivable is written off, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognized to date.

j) Tangible fixed assets and intangible assets

Tangible fixed assets and intangible assets are stated at the balance sheet date at acquisition cost or cost of production, less accumulated depreciation/amortization and impairment losses. This method is also applied to property covered by the revaluation performed in 1995, which were stated at fair value at the transition date. Depreciation is charged on all assets whose value decreases due to usage or passage of time, using the straight-line method over the estimated useful life of the given asset. The adopted depreciation periods and depreciation/amortization rates are subject to periodic verification. If there were any events or circumstances indicating that the carrying amount of tangible fixed assets may not be recoverable, then these assets are reviewed for impairment. Depreciation charges and impairment write-offs are expensed directly to the profit and loss account for the current period. Tangible fixed assets (land) and intangible assets with indefinite useful lives are not depreciated/amortized, but annually tested for impairment.

Costs relating to acquisition or construction of buildings are allocated to significant parts of the building (components), when such components have different useful lives or when each of the components generates benefits for the Group in a different manner. Each component of the building is depreciated separately.

Depreciation of tangible fixed assets and amortization of intangible assets begins on the first day of the month following the month in which the asset has been brought into use, and ends no later than at the time when:

1) the amount of depreciation or amortization charges becomes equal to the initial cost of the asset, or
2) the asset is designated for liquidation, or
3) the asset is sold, or
4) the asset is found to be missing, or
5) it is found - as a result of verification - that the expected residual value of the asset exceeds its (net) carrying amount.

For intangible assets it is assumed that the residual value is nil, unless there is an obligation of a third party to buy back the asset, or if there is an active market which will continue to exist at the end of the asset's period of use and it is possible to determine the value of the asset on this market.

Depreciation/amortization periods for basic groups of tangible fixed assets and intangible assets applied by PKO BP SA Group:

Tangible assets	Periods
Buildings, premises, cooperative rights to premises	2-60 years
Leasehold improvements (buildings, premises)	2-10 years (or term of the lease if shorter)
Plant and machinery	3-15 years
Computer hardw are	2-10 years
Motor vehicles	3-5 years

Intangible assets	Periods
Licences for computer softw are	2-10 years
Copyright, including rights to computer softw are	2-5 years
Other intangible assets	1-5 years

Goodwill arising on acquisition of a business entity is initially recognized at the acquisition cost, being an excess of the costs of acquiring control over the entity over the share of the holding company in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is stated at acquisition cost, diminished by any cumulative impairment losses. The test for impairment is carried out on an annual basis.

Goodwill arising on the acquisition of subsidiaries is recognized under intangible assets, and goodwill arising on acquisition of associates and jointly controlled entities is recognized under “Investments in associates and jointly controlled entities”.

As of the date of acquisition, the acquired goodwill is allocated to each cash-generating unit, which can take advantage of combination synergies. Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. In the case where the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognized. In the case where goodwill represents part of a cash-generating unit and part of operations conducted within this unit is sold, when calculating the gain or loss on the disposal of these operations, the goodwill related to sold operations is included in the carrying amount of these operations. Goodwill sold in such circumstances is valued on the basis of the relative value of the operations sold and the value of the remaining part of the cash-generating unit.

k) Investment property

Initially, investment property is measured at its cost, which includes transaction costs. After initial recognition, investment property is measured using the cost model (i.e. at cost less accumulated amortization and impairment losses). Investment property is derecognized when disposed of or permanently withdrawn from use and no future benefits are expected from its disposal. Gains or losses on derecognition of investment property are recognized in the income statement for the year in which such derecognition took place.

l) Non-current assets held for sale

Non-current assets held for sale include assets whose carrying amount is to be recovered as a result of resale and not due to continued use. Such assets only include assets available for immediate sale in the current condition, the sale of which is highly probable, i.e. the entity decided to fulfill the plan for the sale of the asset, and started to actively seek for the buyer in order to complete the sale plan. In addition, such assets are offered for sale at a price which is reasonable with respect to their current fair value and it is expected that the sale will be recognized as completed within one year from the date of classification of the asset into this category.

Non-current assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell. Impairment allowances for non-current assets held for sale are recognized in the profit and loss account for the period, in which write-offs were made. Depreciation for this category of assets is not accounted for.

m) Investments in associates and jointly controlled entities accounted for using the equity method

The equity method involves valuation of shares and investments in other entities at the amount of the Group's share in the net assets of the given entity. The value of the Group's investment in net assets of an associate or jointly controlled entity, including any non-amortizable goodwill arising on acquisition, is tested for impairment at least once a year.

(in PLN thousand)

If the share of the Group in the losses incurred by an associate or jointly controlled entity is equal to or higher than the carrying amount of the investment, the value of the investment is shown at nil, and any further losses (below the carrying amount equal to nil) are recorded at an amount of payment made or committed by the Group on behalf of the associate or jointly controlled entity in order to fulfill the obligations of this entity that the Group guaranteed or otherwise committed to fulfill.

n) Valuation of items denominated in foreign currencies and foreign exchange result

The balance sheet and off-balance sheet monetary assets and liabilities in foreign currency are translated into Polish złoty using the average NBP rate prevailing for a given currency as at the balance sheet date. Impairment allowances for loan exposures and other receivables denominated in foreign currencies, which are created in Polish złoty, are updated in line with a change in the valuation of the foreign currency assets for which these impairment allowances are created. Realized and unrealized foreign exchange differences are recorded in the profit and loss account.

o) Currency exchange rates used in preparing consolidated financial statements

For translation of balance sheet and off-balance sheet items as at 31 December 2007 into Euro, the Group used the rate of 3.5820 PLN/EUR, which is the average NBP rate at the balance sheet date, whereas for translation of the balance sheet and off-balance-sheet items as at 31 December 2006 into Euro, the Group used the rate of 3.8312 PLN/EUR, which was the average NBP rate at the balance sheet date.

The main items of the income statement and cash flow statement for the year ended 31 December 2007 have been translated into Euro using the rate of 3.7768 PLN/EUR, which is the arithmetical mean of the average NBP rates at the last day of each month covered by the financial statements. However the financial data concerning the income statement and cash flow statement for the year ended 31 December 2006 have been translated into Euro using the rate of 3.8991 PLN/EUR, which was the arithmetical mean of the average NBP rates at the last day of each month covered by the comparative financial data.

EUR	2007	2006
Rate prevailing on the last day of the period	3.5820	3.8312
Rate representing the arithmetical mean of the rates prevailing on the last days of each month of the period	3.7768	3.8991
The highest rate in the period	3.9385	4.1065*
The low est rate of the period	3.5699	3.7565*

* Change of presentation – the highest and the lowest exchange rate from average exchange rates announced by the National Bank of Poland during the year

For translation of the balance sheet and off-balance sheet items as at 31 December 2007 into UAH, the Group used the rate of 0.4814 PLN/UAH, which is the average NBP rate at the balance sheet date, whereas for translation of the balance sheet and off-balance-sheet items as at 31 December 2006 into UAH the Group used the rate of 0.5760 PLN/UAH, which was the average NBP rate at the balance sheet date.

The main items of the income statement and of the cash flow statement for the year ended 31 December 2007 have been translated into UAH using the rate of 0.5456 PLN/UAH, which is the arithmetical mean of the average NBP rates at the last day of each month covered by the financial statements. The financial data concerning the income statement and the cash flow statement for the year ended 31 December 2006 have been translated into UAH with the rate of 0.6129 PLN/UAH, which was the arithmetical mean of the average NBP rates at the last day of each month covered by the comparative financial data.

(in PLN thousand)

UAH	2007	2006
Rate prevailing on the last day of the period	0.4814	0.5760
Rate representing the arithmetical mean of the rates prevailing on the last days of each month of the period	0.5456	0.6129
The highest rate in the period	0.6018	0.6529*
The low est rate of the period	0.4797	0.5663*

* Change of presentation – the highest and the lowest exchange rate from average exchange rates announced by the National Bank of Poland during the year

p) Off-balance sheet liabilities granted

Within its operations, the Bank enters into transactions, which, at the time of their conclusion, are not recognized in the balance sheet as assets or liabilities, however they give rise to contingent liabilities. A contingent liability is:

1) a possible obligation that arises from past events and whose existence will be confirmed only at the time of the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group,
2) a present obligation resulting from past events, but not recognized in the balance sheet, because it is not probable that an outflow of cash or other assets will be required to fulfill the obligation, or the amount of the obligation cannot be measured reliably.

Granted credit lines and guarantees are the most significant items of off-balance sheet liabilities granted.

For off-balance sheet liabilities granted which carry the risk of default by the commissioning party, provisions are recognized in accordance with IAS 37 and IAS 39.

q) Deferred income tax

Due to timing differences between the moment income is recognized as earned and cost as incurred according to the accounting and tax regulations, the Group recognizes deferred tax liabilities and deferred tax assets. The amount of deferred tax is determined, using the balance sheet method, as a change in the balance of the following items - deferred tax assets and deferred tax liabilities. Deferred tax assets and deferred tax liabilities are presented in the balance sheet respectively as assets or liabilities. The change in the balance of a deferred tax liability or a deferred tax asset is included in taxation charge, except for the effects of valuation of financial assets recognized in revaluation reserve, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with revaluation reserve. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all a part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The Group compensates deferred tax assets with deferred tax liabilities then and only then, when it owns enforceable legal entitlement to compensate current tax receivables with current tax liability and deferred tax is related to the same tax payer and the same tax authority.

r) Financial liabilities at fair value

Financial liabilities at fair value through profit or loss include derivatives valued in accordance with point e) of this note.

s) Financial liabilities at amortized cost

Financial liabilities other than valued at fair value with effect of valuation recorded in profit and loss account are valued at amortized cost using the effective interest rate. If it is not possible to determine the cash flow projection for a financial liability and, therefore, to reliably determine the effective interest rate, such a liability is recorded at the amount due.

t) Debt instruments issued

Debt instruments issued by the Group are recognised as liabilities and are measured at amortised cost using the effective interest rate. Interest expense and fees and commission expense paid based on the effective interest rate are recognised as interest expense in the profit and loss account.

u) Accruals and deferred income

This item mainly comprises commission recognized using the straight-line method and other income received in advance, which will be recognized in the profit and loss account in the future reporting periods.

Accruals include: accruals for costs of services performed for the Group by contractors, which will be recognized in the following periods, and accruals for amounts due to employees (e.g. bonuses, rewards and unused holiday payments).

Accruals and deferred income are presented in the balance sheet under “Other liabilities”.

v) Prepayments and deferred costs

Prepayments and deferred costs include particular kinds of expenses which will be recognized in the profit and loss account in the future reporting periods. Prepayments and deferred costs are presented in the balance sheet under “Other assets”.

w) Provisions

Provisions are liabilities of uncertain timing or amount.

According to the Collective Labour Agreement (Zakładowy Układ Zbiorowy), all employees of PKO BP SA are entitled to jubilee bonuses after completing a specified number of years in service and to retirement bonuses upon retirement. The Bank periodically performs an actuarial valuation of the provision for future liabilities to employees.

The Group creates accruals for the future liabilities of the Group arising from unused annual leave, taking into account all outstanding unused holiday days, from damages and severance payments made to those employees whose employment contracts are terminated for reasons independent of the employee, and from the costs of the current period which will be expensed in the future periods.

x) Financial result

The Group recognizes all significant costs and income in accordance with the following principles: accrual basis, matching principle, principles for recognition and valuation of assets and liabilities, principles for recognition of impairment charges.

- **Interest income and interest expenses**

Interest income and interest expense includes interest, together with discounts and premium, recognized on an accrual basis using the effective interest rate method. Interest income also includes fees and commission received and paid, which are part of the internal rate of return of the financial instrument.

- **Fees and commission income and expenses**

Fees and commission income is generally recognized on an accrual basis at the moment when the service is performed. Fees and commission income includes one-off amounts charged by the Group for services not related to the internal rate of return on loans and other receivables, as well as amounts charged by the Group for services performed over a period exceeding 3 months, which are recognized on a straight-line basis. Fees and commission income also includes fees and commission recognized on a straight-line basis, received on loans granted with unspecified repayment dates.

- **Dividend income**

Income from dividends is recognized in the income statement of the Group at the date on which the shareholders' rights to receive the dividend have been established.

- **Result on financial instruments measured at fair value**

The result on financial instruments measured at fair value through profit or loss includes gains and losses arising from the disposal of financial instruments classified as financial assets/liabilities measured at fair value through profit or loss as well as the effect of their fair value measurement.

- **Result on investment securities**

The result on investment securities includes gains and losses arising from the disposal of financial instruments classified as available for sale as well as other gains and losses arising from investment activities.

- **Foreign exchange result**

Foreign exchange result comprises foreign exchange gains and losses, both realized and unrealized, resulting from daily revaluation of assets and liabilities denominated in foreign currency using the NBP average exchange rates at the balance sheet date and from the fair value valuation of outstanding derivatives (FX forward, FX swap, CIRS).

- **Other operating income and expenses**

Other operating income and expense include income and costs not related directly to banking activity. Other operating income mainly includes income from sale or liquidation of non-current assets and assets seized in exchange for debts, recovered bad debts, received compensation, fines and penalties, income from lease/rental of properties and income from reversed provisions for claims under dispute and assets seized in exchange for debts. Other operating expense mainly includes costs of sale or liquidation of non-current assets, including assets seized in exchange for debts, costs of debt collection, costs of provisions recognized for claims under dispute and donations.

Other operating income and expense, in subordinated entities, also include, respectively, income from sale of finished goods, goods for resale and raw materials, and the corresponding costs of their production.

Income from construction services (development activities) is recognized on a completed contract basis, which involves recognition of all construction costs incurred during the period of construction under work-in-progress, and recognition of payments received on account of purchase of apartments under deferred income.

y) Current income tax

Current income tax is calculated on the basis of gross accounting profit adjusted by non-taxable income, taxable income that does not constitute accounting income, non-tax deductible expenses and tax costs which are not accounting costs, in accordance with Polish tax regulations. These items mainly include income and expenses relating to accrued interest receivable and payable and provisions for receivables, off-balance sheet liabilities and other assets.

In calculating taxable profit, the Bank took into account the provisions of the Decree of the Minister of Finance dated 28 March 2003 on the extension of deadlines for payment of corporate income tax advances and corporate income tax liabilities by banks granting housing loans from the Mortgage Fund (Journal of Laws No. 58, item 511)

z) Shareholders' equity

Shareholders' equity is comprised of the capital and funds created by the Group companies in accordance with the binding legal regulations and the Articles of Association. Shareholders' equity also includes retained earnings and accumulated losses from previous years. The part of shareholders' equity of subsidiaries, other than share capital, which corresponds to the interest held in the subsidiary by the holding company, is added up with the appropriate components of the equity of the holding company. The shareholders' equity of the Group only includes that part of the shareholders' equity of the subsidiaries that was created after the date of acquisition of shares by the holding company. This applies, in particular, to a change in equity due to acquired profits or incurred losses as well as revaluation of financial assets available for sale.

1) Share capital comprises only the share capital of the holding company and is stated at nominal value in accordance with Articles of Association and the Register of Entrepreneurs,
2) Reserve capital is created according to the Articles of Associations of the Group companies, from the appropriation of net profits and from share premium,
3) Revaluation reserve comprises the effects of remeasurement of financial assets available for sale and the amount of the related deferred tax. In the balance sheet, the revaluation reserve is presented net,
4) Other reserves as envisaged by the Articles of Association are created by appropriation of profits,
5) The component of equity – foreign exchange differences – comprises foreign exchange differences resulting from the translation of the net result of a foreign entity using the weighted average rate established at the balance sheet date with reference to the average NBP rate,
6) General banking risk fund in PKO BP SA is created from profit after taxation according to the Banking Law Act dated 29 of August 1997.

Shareholders' equity also includes:

1) net profit (loss) under the approval process, decreased by planned dividends,
2) dividends declared after the balance sheet date but not paid.

The net profit (loss) for the period is gross result derived from current year income statement, adjusted by corporate income tax expense and profits (losses) of minority shareholders.

aa) Social Fund ("ZFŚS")

According to the Social Fund Act dated 4 March 1994, the Bank established a Social Fund [Zakładowy Fundusz Świadczeń Socjalnych] (Journal of Laws 1996, No. 70, item 335 with subsequent amendments). The aim of this Fund is to finance social activities conducted for the benefit of employees and to subsidize the Bank's social facilities. The Fund's assets consist of accumulated contributions made by the Bank to the Social Fund, reduced by non-refundable expenditures from the Social Fund.

In the balance sheet, the Bank compensated the Fund's assets and liabilities due to the fact that the assets of the Social Fund are not controlled by the Bank.

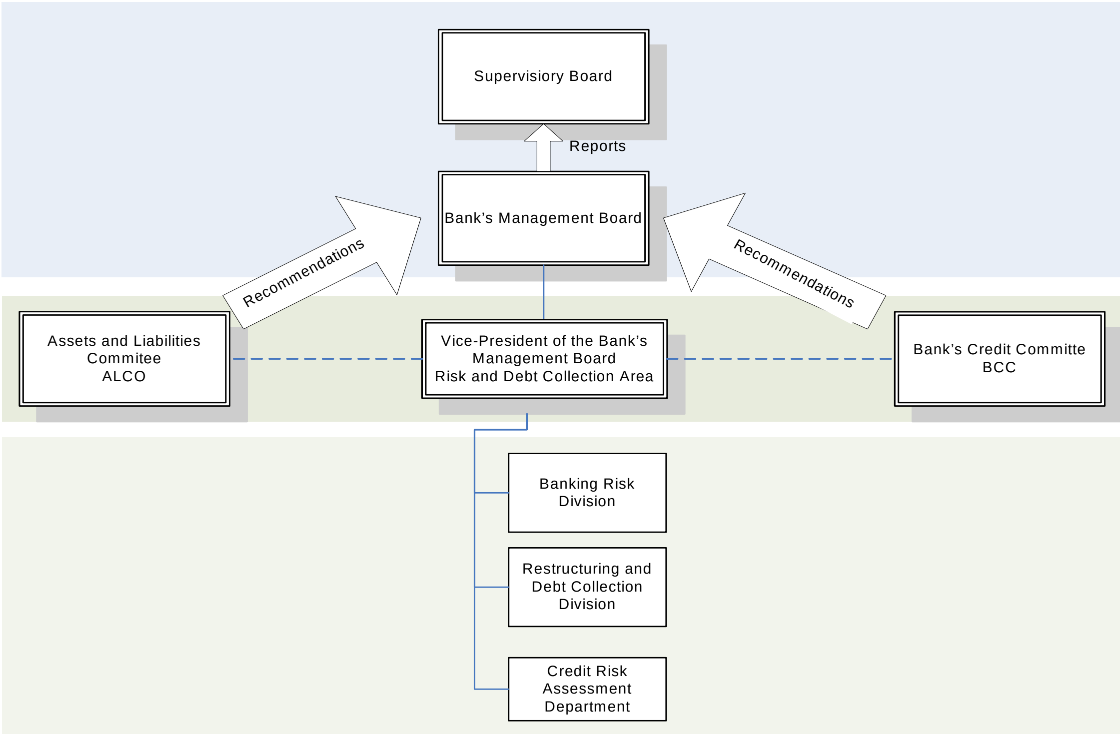
3. Objectives and principles relating to financial risk management

Banking activity is exposed to a number of risks, including credit risk, market risk, operational risk and business risk. Controlling the impact of these risks on the operations of the PKO BP SA Group is one of the most important objectives in the management of the Bank and of the Group, while the level of risk is an important part of the planning process.

Risk management in the Bank is based on the following principles:

- full organisational independence of the risk and debt collection function from business functions,
- risk management is integrated with planning and controlling processes,
- the risk and debt collection function provides an ongoing support for the realization of business objectives while keeping the risk at an acceptable level,
- the level of risk is controlled on an ongoing basis,
- the risk management model is adjusted on an ongoing basis to reflect the new risk factors and risk sources.

Organisational risk management model



The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis of the risk profile of the Bank and of the PKO BP SA Group as well as of the most important activities taken in the area of risk management.

The Bank's Management Board is responsible for the risk management strategy, including the supervising and monitoring of the activities taken by the Bank in the area of risk management. The Bank's Management Board approves the most important decisions affecting the risk profile of the Bank and the internal regulations defining the risk management system. Operational risk management is conducted by the organizational units of the Bank (within the scope of their authorizations), which are grouped into the Banking Risk Division, the Restructuring and Debt Collection Division and the Credit Risk Assessment Department.

The Banking Risk Division is managed by the Managing Director. Its tasks include first of all: development and implementation of comprehensive solutions in the area of management of credit risk, operational risk, compliance risk, market and strategic risk, as well as capital adequacy management.

The task of the Restructuring and Debt Collection Division is to ensure an effective and efficient debt collection and restructuring.

The task of the Credit Risk Assessment Department is to assess and review the estimated credit risk arising from individual loan exposures which require particular attention due to their size and the level of risk.

Market risk management and portfolio credit risk management in the Bank is supported by the following two committees, which are chaired by the Vice-President of the Bank's Management Board in charge of the Risk and Debt Collection Function:

- Assets & Liabilities Committee (KZAP),
- Credit Committee (KKB).

ALCO takes decisions and issues recommendations to the Bank's Management Board with regard to market risk management, portfolio credit risk management and asset and liability management.

The Credit Committee takes loan decisions with regard to large individual loan exposures or issues recommendations in this respect to the Bank's Management Board.

There are also other credit committees operating at other levels of the Bank. They are responsible for issuing recommendations with regard to loan decisions which are significant due to the level of the risk involved and the size of the loan exposure.

The Bank supervises the activities of the individual Group companies. As part of this supervision, the Bank sets out and approves their development strategies, including risk management strategies, supervises their risk management systems and provides support in the development of these systems, and reflects the business risk of the particular Group companies in the reporting system of the Group.

Credit risk

Objectives and principles

The objective of creation an effective credit risk management is to increase the safety and profitability of services delivered. In this respect, the Bank and the Group companies apply the following principles:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis taking into consideration changing external conditions and changes in the financial standing of the borrowers,
- credit risk assessment is subject to additional verification by credit risk assessment forces independent of the business forces, if the criteria for the involvement of these forces are met,
- credit risk is diversified geographically, by industry, by product and by clients,
- credit decisions may be taken only by authorized persons,
- the Bank and other PKO BP SA Group companies hedge against credit risk by creating specific allowances (provisions) for the impairment of loan exposures.

Credit risk management in the Bank, KREDOBANK SA and BFL SA is conducted within the following environment:

- internal organisation which provides for the division of business functions from credit risk management functions, with defined responsibilities, tasks and mutual relations,
- system of internal regulations with defined methods of credit risk management; these regulations determine, among others, the method of assessing the credit risk arising from the individual loan exposures as well as methods of protecting against credit risk and taking loan granting decisions,
- IT environment which enables information flow necessary for credit risk assessment and control.

The credit risk management system is subject to continuous improvements and adaptation to new banking risk sources and factors.

(in PLN thousand)

In the year ended 31 December 2007, the Bank continued its work aiming at the development of portfolio credit risk measurement methodology, the widening of the estimated portfolio credit risk measures and performing stress tests. Portfolio credit risk measurement allows the Bank to account for credit risk in the price of its services and revise the level of impairment losses based on internal models.

In the year ended 31 December 2007, the Bank carried out intense work in order to implement appropriate solutions in the field of internal processes, IT systems and the required internal regulations to achieve compliance with the CRD Directive by the end of 2007.

In the year ended 31 December 2007, the Bank carried out a review of the internal regulations of BFL SA and KREDOBANK SA concerning credit risk management for compliance with its own credit risk management policies. As a result, the Bank issued a number of recommendations which are currently being successively implemented in these companies.

KREDOBANK SA has internal regulations concerning lending policies, taking loan granting decisions, assessment of borrowers, accepting and monitoring collateral, and identification of relationships existing between borrowers. In the year ended 31 December 2007, KREDOBANK SA revised its methodology of assessment of individual customers and prepared for testing a project of automation of the lending process related to individual customers as well as developed a set of rules and regulations for assessment of the quality of investment projects.

In the year ended 31 December 2007, BFL SA developed and implemented simplified risk assessment methods for the following new products: BanLex Leasing and BanMed Leasing, which are addressed to legal and medical sectors.

Maximum credit risk exposure

The table below presents maximum credit risk exposure of the Group as at 31 December 2007 and 31 December 2006.

Assets	**31.12.2007**	**31.12.2006**
Amounts due from banks	5 292 319	13 430 590
Financial assets held for trading	1 193 255	997 136
Derivative financial instruments	1 556 736	1 199 154
Other financial instruments at fair value through profit or loss	8 314 444	11 518 671
Loans and advances to customers	76 417 149	58 906 607
Instruments available for sale	5 636 880	6 672 538
Other assets	780 528	620 162
Total	**99 191 311**	**93 344 858**

Off-balance sheet items	**31.12.2007**	**31.12.2006**
Irrevocable liabilities granted	8 860 369	10 298 419
Guarantees granted	1 867 608	1 300 116
Letters of credit granted	562 155	237 650
Guarantees of issue (underwriting)	1 455 509	809 916
Total	**12 745 641**	**12 646 101**

Analysis of portfolio by sector

The table below shows the loans and advances granted to the Group's clients

(in PLN thousand)

Loans and advances granted to bank clients	31.12.2007	31.12.2006
Financial entities (other than banks)	1 221 198	369 998
Non-financial entities	73 934 130	54 921 707
State budget entities	3 677 424	6 061 924
Total gross loans and advances	**78 832 752**	**61 353 629**
Impairment allowance	(2 415 603)	(2 447 022)
Total net loans and advances	**76 417 149**	**58 906 607**

Analysis of portfolio by rating class

Taking into account the nature of the Group's activities and the Groups credit and lease receivables volume, the most significant portfolios are kept under the Bank's and Bankowy Fundusz Leasingowy SA management. The table below presents information on credit quality of loans and advances granted by the Bank and BFL.

Exposures to corporate clients which are not considered to be individually impaired are classified by the Bank using internal ratings from A (first rate) to F (acceptable).

The following loan portfolios are covered by the rating system:

- corporate clients,
- housing market corporate clients,
- small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

Analysis of the portfolio of PKO BP SA (%) by rating class (excluding public sector)

Rating class	31.12.2007	31.12.2006
A (first rate)	3%	1%
B (very good)	9%	7%
C (good)	21%	25%
D (satisfactory)	28%	21%
E (average)	26%	27%
F (acceptable)	13%	19%
Total	100%	100%

As regards the portfolio managed by Bankowy Fundusz Leasingowy, exposures below a certain threshold are subject to simplified procedures, which do not include rating assessment.

Analysis of exposures which are granted internal ratings is presented in the table below:

Rating class	31.12.2007*	31.12.2006*
A2 (first-rate)	0%	1%
A3 (very good)	3%	5%
A4 (good)	18%	10%
A5 (satisfactory)	26%	32%
A6 (average)	25%	27%
B1 (acceptable)	20%	20%
B2 (weak)	6%	4%
C (doubtful)	1%	0%
D (poor)	1%	1%
Total	**100%**	**100%**

* Part of the portfolio of the Company's lease receivables is managed in a simplified manner, with no ratings being assigned to those receivables.

Collateral policy

Activities undertaken in respect of collateral are meant to properly secure the interests of the Group companies, among others by way of establishing collateral that will ensure the highest possible level of recovery in the event of enforcement activities. Policies regarding legal collateral measures are included in the internal regulations of the Group companies.

With regard to products financing acquisition of properties, the most common types of collateral include ordinary real estate mortgage and ceiling mortgage to secure an existing or future claim, suretyship/guarantee granted under general principles and bill of exchange guarantee, authorization to cash held in a bank account, promissory note and assignment of rights from the borrower's life insurance policy.

With regard to products offered to corporate clients, the most common types of collateral include registered pledge on movables, transfer of ownership of movables, authorization to cash held in a bank account, ordinary real estate mortgage and ceiling mortgage to secure an existing or future claim, suretyship/guarantee granted under general principles, promissory note.

With regard to retail banking products, the most common types of collateral include promissory note, bill of exchange guarantee and civil law suretyship/guarantee, authorization to cash held in a bank account and freezing of cash held in a bank account.

With regard to lease receivables, BFL SA, as an owner of the leased assets, treats them as a collateral for the given lease transaction. If the level of liquidity (demand for a given item of property, plant and equipment on the secondary market), rate of impairment of an asset or the financial position of the client according to the Company's internal procedures are not acceptable, an additional legal security is applied in the forms envisaged and used by banks. These mainly include registered pledges, transfers of ownership, real estate mortgages, transfers of receivables, authorizations to bank accounts, deposits, agreements for the repurchase of leased assets from their suppliers, etc.

Concentration of credit risk within the Group

The Group defines the risk of concentration of credit risk as one arising from a considerable exposure to single entities or to groups of entities whose repayment capacity depends on a common risk factor. The Group analyses the risk of credit risk concentration towards:

- the biggest borrowers,
- the biggest capital groups,
- industries,
- geographical regions,
- ocurrencies.

Concentration of credit risk by the biggest business entities

The Banking Law Act specifies maximum concentration limits for the Bank, and effectively for the Group. According to Article 71.1 of the Banking Law, the total value of the Bank's exposures, off-balance sheet liabilities granted or shares held by the Bank directly or indirectly in another entity, additional payments into a limited liability company as well as contributions or limited partnership sums - whichever higher - in a limited partnership or limited joint-stock partnership for one entity or for a group of entities related by capital or management, cannot exceed 20% of the Bank's consolidated own funds if any of these entities is related to the Bank, or 25% of the Bank's consolidated own funds if these entities are not related to the Bank.

Furthermore, according to Article 71.2 of the Banking Law, the total exposure of the Bank towards entities in which the Bank's current exposure exceeds 10% of the Bank's own funds, cannot exceed 800% of the Bank's own funds.

(in PLN thousand)

As at 31 December 2007 and 31 December 2007, those concentration limits had not been exceeded.

Total exposure of the Bank towards 20 biggest non-banking clients:

31.12.2007			31.12.2006		
No.	**Exposure***	**Share in the loan portfolio****	**No.**	**Exposure***	**Share in the loan portfolio****
1.	522 063	0.66%	1.	2 054 034***	3.35%
2.	411 531	0.52%	2.	632 310	1.03%
3.	307 286	0.39%	3.	604 000	0.98%
4.	304 498	0.38%	4.	502 266	0.82%
5.	291 115	0.37%	5.	383 980	0.63%
6.	273 340	0.34%	6.	345 700	0.56%
7.	268 399	0.34%	7.	258 511	0.42%
8.	264 861	0.33%	8.	257 958	0.42%
9.	259 316	0.33%	9.	206 357	0.34%
10.	255 336	0.32%	10.	202 863	0.33%
11.	204 178	0.26%	11.	200 755	0.33%
12.	201 004	0.25%	12.	198 949	0.32%
13.	190 227	0.24%	13.	181 350	0.30%
14.	179 210	0.23%	14.	176 649	0.29%
15.	176 649	0.22%	15.	171 470	0.28%
16.	175 053	0.22%	16.	162 434	0.26%
17.	170 245	0.21%	17.	145 228	0.24%
18.	169 608	0.21%	18.	133 119	0.22%
19.	162 951	0.20%	19.	133 043	0.22%
20.	152 094	0.19%	20.	127 031	0.21%
Total	4 938 964	6.21%	**Total**	7 078 007	11.54%

* Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees and interest receivable. The value of the loan portfolio does not include off-balance and capital exposures.
** The value of the loan portfolio does not include off-balance and capital exposures.
*** Exposure to entities excluded from concentration limit based on Art. 71.3 of the Banking Law.

The 20 biggest borrowers of the Group include only clients of PKO BP SA.

Concentration of credit risk by the biggest groups

As at 31 December 2007, the greatest exposure of the PKO BP SA Group towards a group of borrowers amounted to 2.67% and was due to the consolidation process of companies from the power supply industry. The 5 biggest groups include only clients of PKO BP SA.

Total exposure of the Group towards 5 biggest capital groups

31.12.2007			31.12.2006		
No.	**Exposure**	**Share in the loan portfolio***	**No.**	**Exposure**	**Share in the loan portfolio***
1	2 119 387	2.67%	1	1 244 383	2.02%
2	1 426 492	1.79%	2	649 038	1.06%
3	1 116 920	1.40%	3	580 689	0.95%
4	1 095 926	1.38%	4	529 951	0.86%
5	787 510	0.99%	5	437 242	0.71%
Total	**6 546 235**	**8.23%**	**Total**	**3 441 303**	**5.60%**

* The value of the loan portfolio does not include off-balance and capital exposures.

Concentration of credit risk by industry

The Bank applies industry limits in order to mitigate credit risk related to corporate clients operating in selected industries characterized by a high level of credit risk as well as to avoid excessive concentration of exposure to individual industries.

(in PLN thousand)

Analysis of exposure to industry segments is presented in the table below:

Section	Description	31.12.2007		31.12.2006	
		Exposure	Number of entities	Exposure	Number of entities
D	Industrial processing	24.70%	15.67%	22.68%	16.32%
G	Wholesale and retail trade, repair of motor vehicles and personal and household goods	17.52%	31.68%	14.70%	33.99%
L	Public administration and national defense, obligatory social security and public health insurance	12.92%	0.58%	26.55%	0.73%
K	Property management, lease and services related to the running of business activities	10.50%	9.09%	8.66%	8.69%
F	Construction	4.98%	10.18%	3.40%	8.69%
E	Electricity, gas and w ater production and supply	4.20%	0.29%	6.93%	0.19%
Other exposures		25.18%	32.51%	17.08%	31.39%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

Concentration of credit risk by geographical region

	31.12.2007	31.12.2006
Poland		
mazow iecki	17.65%	21.20%
śląsko-opolski	13.24%	13.79%
w ielkopolski	10.52%	9.42%
małopolsko-św iętokrzyski	8.93%	7.84%
dolnośląski	8.00%	7.52%
lubelsko-podkarpacki	6.91%	6.91%
zachodnio-pomorski	7.01%	6.49%
łódzki	6.67%	6.41%
pomorski	6.46%	5.70%
kujaw sko-pomorski	5.61%	5.51%
w armińsko-mazurski	3.69%	3.51%
podlaski	3.19%	2.57%
other (COK, CBE Inteligo and CRW)	0.06%	0.92%
Ukraine	**2.06%**	**2.21%**
Total	100.00%	100.00%

Concentration of credit risk by currency

The greatest currency exposures of the Group are those in CHF and they relate to the loan portfolio of the Bank. In the case of particular Group companies, the situation is different: for BFL SA, the greatest currency exposures are those in EUR (65%), and for KREDOBANK SA – USD loans, which account for nearly 75% of the currency loan portfolio and 39% of the total loan portfolio of that company.

A decreasing trend can be observed in the percentage of currency exposures within the Group. This is due to, among others, more rigorous criteria for granting currency housing loans, resulting from the Bank's implementation of Recommendation S concerning best practices to be applied with regard to mortgage-secured loan exposures, issued by the General Inspectorate for Banking Supervision, which became effective on 1 July 2006.

(in PLN thousand)

Concentration of credit risk by currency (%)

Currency	31.12.2007	31.12.2006
PLN	78.41%	75.12%
Foreign currencies, of which	21.59%	24.88%
CHF	15.08%	17.31%
EUR	3.88%	4.55%
USD	1.64%	2.03%
UAH	0.99%	0.99%
Total	100.00%	100.00%

Other types of concentration

In accordance with Recommendation S, the Bank implemented internal limits with regard to loans granted to individual clients for purchase of properties. In 2007 these limits had not been exceeded.

Overdue financial assets

Financial assets whose terms had been renegotiated (or otherwise they would be considered as overdue or impaired) include the following loans and advances granted:

Financial assets	Carrying amount	
	31.12.2007	31.12.2006
Loans and advances granted	231 451	133 671
Consumer	53 413	31 822
Corporate	118 761	45 161
Housing "old portfolio"	38 107	41 746
Housing "new portfolio"	21 170	14 942
to institutions	2 338	4 647
to individuals	18 832	10 295
Total*	**231 451**	**133 671**

* As at 31 December 2007 anexieted contracts and contracts with discounts in repayment we additionally included.

Financial assets which are overdue but not impaired include the following loans and advances granted:

Financial assets	31.12.2007		31.12.2006	
	up to 3 months	over 3 months	up to 3 months	over 3 months
Financial instruments at fair value through profit or loss	40	-	-	-
Loans and advances granted to clients of:	**1 726 117**	**35 631**	**1 222 231**	**2 152**
financial sector	426	-	1 925	-
public sector	109 653	-	94 436	-
non-financial sector	1 616 038	35 631	1 125 870	2 152
Total	**1 726 157**	**35 631**	**1 222 231**	**2 152**

The collaterals of the above receivables are mortgages, registered pledges, transfer of property rights, account lock-up, insurance, warranties and guarantees.

(in PLN thousand)

Individually impaired financial assets

	31.12.2007	31.12.2006
Loans and advances granted to clients	1 411 754	1 289 993
Financial assets available for sale	33 828	14 900
Total	**1 445 582**	**1 304 893**

As at 31 December 2007 the above assets were secured by the following collaterals established for the Group:

- for loans and advances to customers: ceiling mortgage and ordinary mortgage, registered pledge, promissory note of the debtor, transfer of receivables and rights to cash with a carrying amount of PLN 747,892 thousand,
- for available for sale financial assets: promissory notes, registered pledge on the bank account and debtor's shares with a value of PLN 12,600 thousand.

In determining impairment allowances for the above assets, the Group considered the following factors:

- delay in payment of the amounts due by the debtor,
- the debt being declared as due and payable,
- enforcement proceedings against the debtor,
- declaration of debtor's bankruptcy or filling a petition to declare bankruptcy,
- the amount of the debt being challenged by the debtor,
- commencement of corporate recovery proceedings against the debtor,
- establishing imposed administration over the debtor or suspending debtor's activities,
- a decline in debtor's rating to a level indicating a significant threat to the repayment of debt ("H" rating),
- additional impairment indicators identified for exposures to housing cooperatives arising from the "old portfolio" housing loans covered by State Treasury guarantees,
- future cash flows expected from the exposure and the accepted collateral.

Renegotiated receivables

The purpose of the restructuring activity of the Group is to maximize the effectiveness of non-performing loans management, i.e. to receive highest recoveries and at the same time to limit to the minimum costs relating to those recoveries which, in case of debt collection activities, are very high.
The restructuring activities include change in payment conditions which are individually agreed in case of each contract. The changes may concern:

1) repayment dead-line,
2) repayment schedule,
3) interest rate,
4) payment recognition order,
5) collateral,
6) amount to be repaid (reduction of the amount).

As a result of signing the restructuring agreement as well as of its timely execution, the loan being restructured is reset from overdue to current.

Evaluation of the ability of the debtor to fulfill the restructuring agreement conditions (debt payment according to agreed schedule) is an element of the restructuring process. Active restructuring agreements are monitored by the Bank on a systematic basis.

Management of assets taken over in exchange for debts

The assets taken over as a result of restructuring or debt collection activities are either used by the Group for internal purposes or designated for sale. Details of seized assets are analyzed in order to determine whether they can be used by the holding company for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2007 and 31 December 2006 were designated for sale.

The activities undertaken by the Group are aimed at selling the assets as soon as possible. In individual, justified cases assets are withheld from sale. This only occurs if circumstances which are beyond the control of the Group companies indicate that the sale of the assets at a later date will give rise to greater financial benefits. The primary procedure to be applied with respect to sale of assets is on unlimited tender. It is possible to choose another procedure, in cases when, due to the nature of the assets, it will assure finding a buyer and gaining more profitable offer for the Group.

The Group takes steps to broadly disseminate information about assets being sold to the public, by publishing such information on the Group companies' websites, placing announcements in national press, using internet portals, e.g. to carry out internet auctions, sending tender. In addition, PKO BP SA cooperates with two external firms operating all over Poland in respect of collection, transportation, storage and intermediation in the sale of assets taken over by the Group as a result of restructuring and debt collection activities. In addition, the Group has entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Group has foreclosed or would like to foreclose in the course of realisation of collateral.

The carrying amounts of assets taken over in exchange for debts as at 31 December 2007 and 31 December 2006 are presented in Note 33, "Other assets", in line item "Non-current assets held for sale".

Market risk

Market risk includes: interest rate risk, currency risk, capital adequacy risk, derivatives risk, credit risk of financial institutions, as well as mid and long-term liquidity risk.

Market risk management is subject to constant evaluation and development in order to adopt it to changing market circumstances. The process of risk management includes the following:

1) identification of risk factors,
2) risk measurement,
3) system risk management,
4) risk monitoring,
5) risk reporting.

The market risk reporting system, as described in Management Board resolutions, is based on the following reports:

1) daily and weekly - prepared for operational purposes,
2) monthly - considered during the meetings of the Asset and Liability Management Committee,
3) quarterly - considered during the Management Board meetings,
4) half-yearly - considered during the Supervisory Board meetings.

These reports relate to the market risks which can affect the Bank. Additionally, a report on the market risk in the PKO BP SA Group is attached to the monthly and quarterly reports at the end of each quarter.

The other companies in the PKO BP SA Group which, due to the nature of their activities, are characterized by a significant level of market risk, have their own internal regulations (submitted to the Bank for consultation) for management of each type of risk. These regulations define, among others, the procedure for the reporting of market risk to the Management of these companies.

Interest rate risk

The objective of the interest rate risk management is to identify the areas of interest rate risk and to shape the structure of balance sheet and off-balance sheet liabilities in order to maximize the value of the net assets and interest result of the Bank within the adopted interest risk profile.

In the process of interest rate risk management, the Bank measures risk using, among others, the internal Value at Risk (VaR) model, stress tests and interest income sensitivity measures.

Vale at Risk (VaR) is defined as a potential loss resulting from a change in the present value of future cash flows from a financial instrument, while keeping an assumed level of confidence and holding period. The Bank adopts variance-covariance method with a confidence level of 99% for the purpose of determining VaR. In its interest rate risk management the Bank uses, among others, VaR determined for particular financial instruments and for the Bank's portfolios.

Stress-tests are used to estimate potential losses arising from an interest rate position under market conditions that cannot described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which are based on arbitral interest rate fluctuations: a parallel move in interest rate curves for the following currencies: PLN, EUR, USD, CHF and GBP by ±50 base points and by ±200 base points, and non-parallel moves in yield curves;
2) historical scenarios – in which interest rate fluctuations are adopted based on the behavior of interest rates in the past.

The main tools used in interest rate risk management include:

1) procedures for interest rate risk management,
2) limits and thresholds for interest rate risk, and
3) defining allowable transactions for interest rates.

The Bank has set limits and thresholds for interest rate risk including: price sensitivity, interest income sensitivity, loss limits and limits for instruments sensitive to changes in interest rates. These limits were set separately for each of the Bank's portfolios.

Methods of interest rate risk management in the other Group companies are defined by internal regulations implemented by those Group companies which are characterized by high values/levels of interest rate risk measures. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank to the Group companies.

In the process of interest rate risk management, the Group uses the following measures:

1) measures of interest rate risk set for the individual Group companies and for the Bank,
2) measures of interest rate gap and price sensitivity (BPV), set for the Capital Group,
3) stress tests assuming parallel moves in interest rates for the following currencies: PLN, EUR, USD, CHF and GBP by ±200 base points, set for the Bank.

Measures of interest rate gap and price sensitivity are determined for the other Group companies using similar methods to those used for determining the interest rate gap and price sensitivity for the Bank, taking into account the specific nature of the business conducted by the Group companies.

Fixed interest rate assets and liabilities (in PLN thousand)[1]

	31.12.2007	31.12.2006
Bank - Debt securities	10 249 727	15 021 274
Bank - Loans and advances based on fixed interest rates	327 179	734 753
Bank - Deposits from customers based on fixed interest rates	(12 201 685)	(14 660 248)
Bank - Inter-bank and negotiable placements	(19 482 320)	(16 655 690)
Bank - Inter-bank receivables	4 654 333	12 946 291
Group Entities – Assets	1 741 246	1 697 896
Group Entities – Liabilities	(1 250 901)	(960 265)
TOTAL	**(15 962 421)**	**(1 875 989)**

Floating interest rate assets and liabilities (in PLN thousand)[1]

	31.12.2007	31.12.2006
Bank - Debt securities	4 063 587	4 039 820
Bank - Loans and advances based on variable interest rates	76 601 451	59 491 751
Bank - Deposits from customers based on variable interest rates	(55 137 377)	(51 585 402)
Group Entities – Assets	1 629 518	1 013 404
Group Entities – Liabilities	(2 121 082)	(2 013 503)
TOTAL	**25 036 097**	**10 946 070**

Off-balance transactions (in PLN thousand) [1, 2]

	31.12.2007	31.12.2006
Bank - Derivatives	283 928	107 362
Group Entities - Derivatives	(425)	(195)
TOTAL	**283 503**	**107 167**

[1] For all currencies
[2] Fair value.

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
PLN (PLN thousand)								**31.12.2007**
Capital Group - Periodic gap	(14 351 137)	28 907 893	3 872 802	(8 663 100)	(1 277 801)	(269 576)	175 471	8 394 552
Capital Group - Cumulative gap	(14 351 137)	14 556 756	18 429 558	9 766 458	8 488 657	8 219 081	8 394 552	-
PLN (PLN thousand)								**31.12.2006**
Capital Group - Periodic gap	(19 693 389)	12 335 119	17 980 470	(2 119 939)	(2 209 503)	651 844	(34 568)	6 910 034
Capital Group - Cumulative gap	(19 693 389)	(7 358 270)	10 622 200	8 502 261	6 292 758	6 944 602	6 910 034	-
USD (USD thousand)								**31.12.2007**
Capital Group - Periodic gap	(316 854)	148 960	(63 449)	(79 846)	22 940	64 645	45 389	(178 215)
Capital Group - Cumulative gap	(316 854)	(167 894)	(231 343)	(311 189)	(288 249)	(223 604)	(178 215)	-
USD (USD thousand)								**31.12.2006**
Capital Group - Periodic gap	(444 994)	181 335	62 215	53 217	23 388	60 047	121 531	56 739
Capital Group - Cumulative gap	(444 994)	(263 659)	(201 444)	(148 227)	(124 839)	(64 792)	56 739	-

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
EUR (EUR thousand)								**31.12.2007**
Capital Group - Periodic gap	205 583	41 711	(24 425)	(27 655)	15 250	20 184	(45 832)	184 816
Capital Group - Cumulative gap	205 583	247 294	222 869	195 214	210 464	230 648	184 816	-
EUR (EUR thousand)								**31.12.2006**
Capital Group - Periodic gap	(500 210)	401 350	(21 537)	73 134	35 974	16 986	8 838	14 535
Capital Group - Cumulative gap	(500 210)	(98 860)	(120 397)	(47 263)	(11 289)	5 697	14 535	-
CHF (CHF thousand)								**31.12.2007**
Capital Group - Periodic gap	3 152 465	(3 155 375)	(1 091)	(2 374)	-	(330)	3 005	(3 700)
Capital Group - Cumulative gap	3 152 465	(2 910)	(4 001)	(6 375)	(6 375)	(6 705)	(3 700)	-
CHF (CHF thousand)								**31.12.2006**
Capital Group - Periodic gap	2 547 627	(2 430 896)	(966)	(1 553)	(2 565)	-	-	111 647
Capital Group - Cumulative gap	2 547 627	116 731	115 765	114 212	111 647	111 647	111 647	-

At the end of 2007 and 2006, the exposure of the PKO BP SA Group to the interest rate risk was mainly comprised of the exposure of the Bank. The interest rate risk generated by other Group companies with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. The Group's exposure to the interest rate risk was within the adopted limits.

VaR and the results of stress testing analysis of the Group's financial assets exposed to the interest rate risk are presented in the following table:

	31.12.2007	31.12.2006
VaR for a 10-day time horizon (PLN thousand)*	10 521	4 813
Parallel move of interest rate curves by +200 base points (PLN thousands)	155 877	164 777

* Due to the nature of the activities carried out by the other Group companies generating significant interest rate risk and currency risk (BFL and KREDOBANK SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to PLN 3.459 thousand as of 31 December 2007 and PLN 7.591 thousand as of 31 December 2006, respectively. The value of fund is calculated according to regulations concerning the calculation of capital adequacy ratio.

The level of the interest rate risk of the Group was low. As at 31 December 2007, the interest rate VaR for the holding period of 10 days (10-day VaR) amounted to PLN 10,521 thousand, which accounted for appx. 0.11% of the value of the Bank's own funds[3]. As at 31 December 2006, VaR for the Bank amounted to PLN 4,813 thousand, which accounted for appx. 0.07% of the Bank's own funds. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities.

Currency risk

The objective of currency risk management is to identify the areas of currency risk and to take measures to reduce the currency risk to acceptable levels. As part of currency risk management, the Bank's Management Board sets an adequate currency risk profile for the Bank consistent with the accepted financial plan of the Bank concerning the result from currency transactions.

The Bank measures currency risk using the Value at Risk model and stress tests.

Value at Risk (VaR) is defined as a potential loss incurred on currency positions due to fluctuations in exchange rates, while keeping an assumed level of confidence and holding period. Nethertheless, this measure does not express absolute maximal loss, on which the Group is exposed. The Bank adopts variance-covariance method with a confidence level of 99% for the purpose of determining VaR. In its currency risk management the Bank determines VaR by type of activity.

Stress-testing and crash-testing is used to estimate potential losses arising from currency position under extraordinary market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 10% and 50%),
2) historical scenarios – based on the behavior of currency rates observed in the past.

The main tools used in currency risk management include:

1) procedures for currency risk management,
2) limits and thresholds for currency risk, and
3) defining allowable transactions in foreign currencies and the exchange rates used in such transactions.

[3] Own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio.

The Bank set limits for the following items: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from speculative transactions on currency market.

Methods of currency risk management in the other Group companies are defined by internal regulations implemented by those Group companies. These regulations are developed by these Group, which are characterized by high value/level of currency risk measures, after consultation with the Bank and taking into account the recommendations issued by the Bank to the Group companies.

In the process of currency risk management, the Group uses the following measures:

1) measures of currency risk set for the Bank,
2) measures of currency risk set for the individual Group companies by the Bank,
3) stress tests assuming 10% appreciation or depreciation of currency rates set for the Group.

Measures of currency position are determined for the Group companies using similar methods to those used for determining the currency position for the Bank, taking into account the specific nature of the business conducted by the Group companies.

VaR and stress analysis of the Group financial assets exposed to currency risk is stated cumulative in the table below:

	31.12.2007	31.12.2006
VaR for a 10-day time horizon (PLN thousands)*	1 646	2 598
Appreciation of PLN +10% (PLN thousands)	7 119	9 513

* Due to the nature of the activities carried out by the other Group companies generating significant interest rate risk and currency risk (BFL and KREDOBANK SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to PLN 52 thousand and PLN 65 thousand, respectively.

Currency structure

In 2007 and 2006, the level of currency risk was low. The tables below present currency exposure by the specific types of assets, liabilities and off-balance sheet commitments.

(in PLN thousand)

	Currency translated to PLN – 31.12.2007				
	PLN	EUR	CHF	Other	Total
ASSETS, of which:					
Cash and balances with the Central Bank	4 376 155	129 366	7 665	169 441	**4 682 627**
Loans and advances and other amounts due from financial sector	3 496 484	1 917 534	835 214	228 571	**6 477 803**
Loans and advances to non-financial sector	57 472 069	2 608 841	11 969 316	1 919 894	**73 970 120**
Loans and advances to public sector	3 672 915	4 476	33	-	**3 677 424**
Securities	13 276 135	1 272 759	-	711 380	**15 260 274**
Non-current assets	7 764 006	-	-	211 321	**7 975 327**
Other assets and derivatives	2 587 877	152 322	1 717	98 826	**2 840 742**
TOTAL ASSETS (GROSS)	92 645 641	6 085 298	12 813 945	3 339 433	**114 884 317**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(6 164 341)	(16 482)	(20 990)	(113 821)	**(6 315 634)**
TOTAL ASSETS (NET)	**86 481 300**	**6 068 816**	**12 792 955**	**3 225 612**	**108 568 683**
LIABILITIES, of which:					
Balances with the Central Bank	1 279	-	-	-	**1 279**
Amounts due to financial sector	1 905 578	1 051 685	2 128 230	467 928	**5 553 421**
Amounts due to non-financial sector	73 462 945	1 019 428	30 265	6 556 430	**81 069 068**
Amounts due to public sector	4 660 415	13 764	-	17 039	**4 691 218**
Liabilities arising from securities issued	166 823	-	-	12 037	**178 860**
Provisions	453 333	750	-	218	**454 301**
Subordinated liabilities	1 614 885	-	-	-	**1 614 885**
Other liabilities and derivatives and deferred tax liabilities	2 812 512	85 468	10 654	118 002	**3 026 636**
Equity	11 979 015	-	-	-	**11 979 015**
TOTAL LIABILITIES NAD EQUITY	97 056 785	2 171 095	2 169 149	7 171 654	**108 568 683**
OFF-BALANCE SHEET LIABILITIES GRANTED	**24 433 087**	**2 666 719**	**640 513**	**491 619**	**28 231 938**

(in PLN thousand)

	Currency translated to PLN – 31.12.2006				
	PLN	EUR	CHF	Other	Total
ASSETS, of which:					
Cash and balances with the Central Bank	4 322 996	133 162	7 380	164 596	**4 628 134**
Loans and advances and other amounts due from financial sector	9 437 950	1 078 344	93 410	3 191 213	**13 800 917**
Loans and advances to non-financial sector	39 744 236	2 566 686	10 798 565	1 812 220	**54 921 707**
Loans and advances to public sector	6 051 015	6 463	52	4 394	**6 061 924**
Securities	15 795 258	2 601 655	-	913 666	**19 310 579**
Non-current assets	7 578 025	-	-	154 815	**7 732 840**
Other assets and derivatives	1 982 281	29 852	1 684	64 535	**2 078 352**
TOTAL ASSETS (GROSS)	84 911 761	6 416 162	10 901 091	6 305 439	**108 534 453**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(6 329 841)	(42 485)	(22 975)	(113 445)	**(6 508 746)**
TOTAL ASSETS (NET)	**78 581 920**	**6 373 677**	**10 878 116**	**6 191 994**	**102 025 707**
LIABILITIES, of which:					
Balances with the Central Bank	1 387	-	-	-	**1 387**
Amounts due to financial sector	1 767 957	1 470 045	25 922	1 373 776	**4 637 700**
Amounts due to non-financial sector	72 529 625	3 181 078	63 663	4 284 023	**80 058 389**
Amounts due to public sector	3 146 805	10 518	-	5 371	**3 162 694**
Liabilities arising from securities issued	43 722	-	-	-	**43 722**
Provisions	427 350	583	-	267	**428 200**
Other liabilities and derivatives and deferred tax liabilities	3 373 633	6 211	29 151	104 040	**3 513 035**
Equity	10 140 452	-	-	40 128	**10 180 580**
TOTAL LIABILITIES NAD EQUITY	**91 430 931**	**4 668 435**	**118 736**	**5 807 605**	**102 025 707**
OFF-BALANCE SHEET LIABILITIES GRANTED	**21 887 535**	**1 813 917**	**898 870**	**299 366**	**24 899 688**

Currency risk in the Bank is monitored and reported on a day-to-day basis. Currency positions generated in the course of principal activities are transferred to dealing activities of the Bank, where they are managed within the limits and thresholds set for this activity. Individual currency positions of a significant value in all currencies are closed on an ongoing basis within the limits set for the Bank's dealing activities.

Derivative instrument risk

The objective of derivative risk management is to monitor the use of derivative instruments and to keep derivative risk within the range defined by the general risk profile of the Bank. Derivative risk management in the Bank is fully integrated with the management of other risks, such as: interest rate, currency, liquidity and credit risk. The principles of derivative risk management define the risks related to derivative transactions and the tasks for individual organizational units in the process of derivative risk management.

The Bank measures the risk related to derivative instruments using, among others, the Value at Risk (VaR) model described in the section on interest rate risk or on currency risk, depending on the risk factor which affects the value of the instrument.

The main tools used in derivative risk management are as follows:

1) procedures for derivative risk management,
2) limits and thresholds set for the risk related to derivative instruments,
3) master agreements (ISDA, ZBP) specifying, among others, settlement mechanisms.

Derivative risk management is carried out by imposing limits on the individual derivative instruments included in the Bank's trading and banking portfolios, monitoring limits observation and reporting risk level.

Master agreements concluded by the Bank with the main counterparties on the basis of the master agreement of the Polish Banks Association (Związek Banków Polskich - ZBP) for domestic banks and the ISDA master agreement for foreign banks play a significant role in the process of mitigating the risk related to derivative instruments. Due to the complexity of these agreements and their significance for the Bank, the Bank implemented an internal procedure for concluding and managing such agreements.

Methods of derivative risk management in the other Group companies are defined by internal regulations implemented by those Group companies which take positions in derivative instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and taking into account the recommendations issued by the Bank to the Group companies.

In the process of derivative risk management, the Group uses the following measures:

1) measures of derivative risk set for the individual Group companies and for the Bank,
2) positions taken by the Group companies in particular derivative instruments, defined by the Bank.

Positions taken by the other Group companies in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such instruments, taking into account the specific nature of the business conducted by the Group companies.

Liquidity risk

The objective of liquidity risk management is to shape the structure of the Bank's balance sheet and off-balance sheet liabilities to ensure the continuous solvency of the Bank taking into account the nature of its activities and the requirements which may occur due to changes in market environment.

The Bank's policy concerning liquidity is based on keeping a portfolio of liquid securities and stable deposits. In its liquidity risk management policy, the Bank also uses money market instruments, including NBP open market operations.

The Bank makes use of the following liquidity risk measures:

1) the “contractual liquidity gap” method and the “liquidity gap in real terms” method,
2) the “surplus liquidity” method,
3) analysis of stability of deposit and loan portfolios,
4) stress testing.

The main tools for liquidity risk management in the PKO BP SA Group are as follows:

1) procedures for liquidity risk management,
2) limits and thresholds mitigating liquidity risk,
3) deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
4) transactions ensuring long-term financing of lending activities.

To ensure an adequate liquidity level, the Bank and the other PKO BP SA Group companies accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

(in PLN thousand)

Methods of liquidity risk management in the other Group companies are defined by internal regulations implemented by those Group companies which are characterized by high values/levels of liquidity risk measures. These regulations are developed after consultation with the Bank and taking into account the recommendations issued by the Bank to the Group companies.

In the process of liquidity risk management, the Group uses the following measures:

1) measures of liquidity risk set for the individual Group companies and for the Bank,
2) measure of the "contractual liquidity gap", determined for the Capital Group.

Measure of the "contractual liquidity gap" is determined for the Group companies using similar methods to those used for determining the "contractual liquidity gap" for the Bank, taking into account the specific nature of the business conducted by the Group companies.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 36 months	36 - 60 months	over 60 months
								31.12.2007
Capital Group - implemented periodic gap	345 692	1 396 127	3 084 207	4 257 614	6 468 291	11 809 269	6 827 315	(34 188 515)
Capital Group - implemented cumulative gap	345 692	1 741 819	4 826 026	9 083 640	15 551 931	27 361 200	34 188 515	-
								31.12.2006
Capital Group - implemented periodic gap	4 202 446	1 573 643	1 419 863	4 449 037	9 533 712	10 574 857	6 213 772	(37 967 330)
Capital Group - implemented cumulative gap	4 202 446	5 776 089	7 195 952	11 644 989	21 178 701	31 753 558	37 967 330	-

In all time horizons, the Group's cumulative[4] periodic liquidity gap as at 31 December 2007 and 31 December 2006 stated in real terms4 was positive. This means a surplus of assets receivable over liabilities payable.

Contractual off-balance sheet liquidity gap for the Bank's derivative instruments:

	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 36 months	36 - 60 months	over 60 months	Total
								31.12.2007
Total off-balance sheet receivables	3 137 822	2 213 190	2 636 408	3 901 614	9 997 467	5 491 463	6 514 926	33 892 890
Total off-balance sheet liabilities	3 224 597	2 105 843	2 498 399	3 799 604	9 412 307	5 139 605	6 236 867	32 417 222
Total individual gap	**(86 775)**	**107 347**	**138 009**	**102 010**	**585 160**	**351 858**	**278 059**	**1 475 668**
Total cumulative gap	**(86 775)**	**20 572**	**158 581**	**260 591**	**845 751**	**1 197 609**	**1 475 668**	**-**

[4] The liquidity gap in real terms of the PKO BP SA Group was calculated as the sum of the liquidity gap in real terms of the Bank and contractual liquidity gaps of the other companies from the PKO BP SA Group.

(in PLN thousand)

	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 36 months	36 - 60 months	over 60 months	Total
								31.12.2006
balance sheet receivables	6 774 429	2 552 398	1 581 148	2 153 376	6 685 059	5 130 427	5 915 517	30 792 354
Total off-balance sheet	6 738 555	2 468 719	1 447 950	2 205 502	6 328 020	4 788 182	5 638 867	29 615 795
Total individual gap	**35 874**	**83 679**	**133 198**	**(52 126)**	**357 039**	**342 245**	**276 650**	**1 176 559**
Total cumulative	**35 874**	**119 553**	**252 751**	**200 625**	**557 664**	**899 909**	**1 176 559**	**-**

At the end of 2007, the level of core deposits from non-financial sector represented appx. 91% of the total deposit base of the Bank, while at the end of 2006 core deposits accounted for appx. 92% of total deposit base.

Concentration of credit risk – interbank market

At the end of 2007, the exposure of the PKO BP SA Group on the interbank market was as follows (presented below are 20 largest exposures generated by the Bank alone).

Exposure of the PKO BP SA Group on the interbank market at the end of 2007:

Exposure on inter-bank market*				
Counterparty	**Instrument type**			**Total**
	Deposit	**Securities**	**Derivatives**	
Counterparty 1	379 100	-	14 974	394 074
Counterparty 2	335 965	-	-	335 965
Counterparty 3	300 000	-	5 890	305 890
Counterparty 4	293 280	-	-	293 280
Counterparty 5	276 889	-	3	276 892
Counterparty 6	232 386	-	15 464	247 850
Counterparty 7	219 040	17 910	-	236 950
Counterparty 8	-	-	204 608	204 608
Counterparty 9	204 155	-	(5 664)	204 155
Counterparty 10	179 100	-	(331)	179 100
Counterparty 11	100 000	-	65 231	165 231
Counterparty 12	150 000	-	12 373	162 373
Counterparty 13	150 000	-	(496)	150 000
Counterparty 14	-	150 451	(24 350)	126 101
Counterparty 15	100 000	-	25 792	125 792
Counterparty 16	100 000	-	25 307	125 307
Counterparty 17	108 746	-	5 286	114 032
Counterparty 18	-	-	107 840	107 840
Counterparty 19	100 000	-	-	100 000
Counterparty 20	100 000	-	-	100 000

* Excluding exposure to the State Treasury and the National Bank of Poland

(in PLN thousand)

Exposure of the PKO BP SA Group on the interbank market at the end of 2006:

Exposure on inter-bank market*				
Counterparty**	Instrument type			Total
	Deposit	Securities	Derivatives	
Counterparty 13	961 945	-	-	961 945
Counterparty 10	666 050	-	(422)	666 050
Counterparty 21	650 000	-	(3 881)	650 000
Counterparty 6	620 000	-	16 514	636 514
Counterparty 22	600 000	-	(1)	600 000
Counterparty 4	520 000	-	-	520 000
Counterparty 23	500 000	-	7 768	507 768
Counterparty 20	500 000	-	-	500 000
Counterparty 24	258 977	200 000	-	458 977
Counterparty 25	415 935	-	-	415 935
Counterparty 26	400 000	-	(1 235)	400 000
Counterparty 27	323 700	-	-	323 700
Counterparty 28	305 603	-	-	305 603
Counterparty 3	300 000	-	4 044	304 044
Counterparty 29	300 000	-	(2 854)	300 000
Counterparty 30	300 000	-	(6 289)	300 000
Counterparty 31	250 000	-	38 454	288 454
Counterparty 32	195 525	84 113	-	279 638
Counterparty 12	250 000	-	28 840	278 840
Counterparty 33	252 676	-	-	252 676

* Excluding exposure to the State Treasury and the National Bank of Poland
** Names of counterparts are similar with names stated in the table with highest expousure on the inter-banking market at the end 2007

For the purpose of determining the Group's exposure, placements and securities issued by the counterparties as well as the CDS transactions are stated at nominal value, while the other derivative instruments are stated at fair value. Total exposure to each counterparty ("Total") is the sum total of the exposures arising from placements and securities, increased by the exposure arising from CDS transactions (or decreased if the credit risk of the given entity has been transferred under the CDS transaction to another entity) and the exposure arising from other derivative instruments if it is possible (otherwise the exposure arising from other derivatives is not included in total exposure).

PKO BP SA has entered into derivative transactions with 14 counterparties listed in the table above, from among the Bank signed master agreements with the 11 counterparties. These agreements allow for the offsetting of mutual liabilities in the event of bankruptcy of any of the parties to the transaction. In total, at the end of 2007 PKO BP SA possessed 21 signed master agreements with domestic banks and 28 master agreements with foreign banks and lending institutions. In addition, the Bank is a party to 8 CSA (Credit Support Annex) agreements which enable it to hedge its exposure from derivative instruments and 2 ISMA agreements which allows for an offsetting of liabilities arising from REPO and BSB/SBB transactions.

Out of the 20 counterparties generating the largest exposures for PKO BP in 2006, as listed in the table above, 7 counterparties were also included in the population of the largest exposures in 2007.

Counterparties generating 20 largest exposures on the interbank market at the end of 2007 and 2006 come from the following countries (these are the countries in which the head office of the counterparty is located):

(in PLN thousand)

No.	Country	Counterparty
1.	Austria	Counterparty 10, Counterparty 13, Counterparty 15, Counterparty 19
2.	Belgium	Counterparty 5, Counterparty 22
3.	Denmark	Counterparty 17
4.	France	Counterparty 6, Counterparty 12, Counterparty 25, Counterparty 26,
5.	Spain	Counterparty 7, Counterparty 27, Counterparty 33
6.	Holland	Kontrhent 8
7.	Ireland	Counterparty 2, Counterparty 24
8.	Germany	Counterparty 1, Counterparty 3, Kontrachent 11, Counterparty 20
9.	Poland	Counterparty 9, Counterparty 16, Counterparty 26, Counterparty 29
10.	Portugal	Counterparty 4
11.	Sw itzerland	Counterparty 31
11.	USA	Counterparty 14
12.	Great Britain	Counterparty 18, Counterparty 21, Counterparty 23, Counterparty 28
13.	Italy	Counterparty 32

The involvement's structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, S&P and Fitch (when rating was granted by two agencies, the lower rating was applied, and when rating was granted by three agencies, the middle rating was applied).

Rating	Counterparty
AA	Counterparty 2, Counterparty 5, Counterparty 6, Counterparty 8, Counterparty 11, Counterparty 12, Counterparty 14, Counterparty 17, Counterparty 18, Counterparty 19, Counterparty 21, Counterparty 22, Counterparty 23
A	Counterparty 1, Counterparty 3, Counterparty 4, Counterparty 7, Counterparty 9, Counterparty 10, Counterparty 13, Counterparty 15, Counterparty 16, Counterparty 20, Counterparty 24, Counterparty 29, Counterparty 32
BBB	Counterparty 28
No rating assigned	Counterparty 26

(in PLN thousand)

Assets and liabilities of the Group as at 31 December 2007, by maturity

Balance sheet items	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Impairment allowances	Total
Assets:							
Cash and balances with the Central Bank	4 682 627	-	-	-	-	-	**4 682 627**
Amounts due from banks	2 766 629	1 859 605	630 258	36 103	-	(276)	**5 292 319**
Financial assets held for trading	65 171	65 310	206 577	516 795	349 066	-	**1 202 919**
Other financial instruments at fair value through profit or loss	370	118	2 044 138	4 449 588	1 820 230	-	**8 314 444**
Loans and advances to customers	12 338 438	1 857 178	8 175 478	23 526 114	32 935 544	(2 415 603)	**76 417 149**
Securities available for sale	165 652	112 793	200 815	4 290 223	973 604	(26 849)	**5 716 238**
Derivative financial instruments*	1 556 736	-	-	-	-	-	**1 556 736**
Other	2 334 172	102 003	116 043	665 518	2 280 149	(111 634)	**5 386 251**
Total assets	**23 909 795**	**3 997 007**	**11 373 309**	**33 484 341**	**38 358 593**	**(2 554 362)**	**108 568 683**
Liabilities:							
Amounts due to the Central Bank	1 279	-	-	-	-	-	**1 279**
Amounts due to banks	1 059 850	623 066	102 807	2 885 161	32 230	-	**4 703 114**
Amounts due to customers	62 243 645	9 772 529	13 100 267	1 249 197	244 955	-	**86 610 593**
Liabilities arising from securities issued	53 427	102 198	11 198	12 037	-	-	**178 860**
Subordinated liabilities	-	-	-	-	1 614 885	-	**1 614 885**
Derivative financial instruments*	1 279 925	-	-	-	-	-	**1 279 925**
Other liabilities	1 164 143	657 996	192 719	100 650	85 504	-	**2 201 012**
Total liabilities:	65 802 269	11 155 789	13 406 991	4 247 045	1 977 574	-	**96 589 668**
Equity:	**-**	**-**	**-**	**-**	**11 979 015**	**-**	**11 979 015**
Total	**65 802 269**	**11 155 789**	**13 406 991**	**4 247 045**	**13 956 589**	**-**	**108 568 683**
Liquidity gap :	**(41 892 474)**	**(7 158 782)**	**(2 033 682)**	**29 237 296**	**24 402 004**	**(2 554 362)**	**-**

***** Additionally, the split of derivative instruments nationals according to maturity is presented in Note 26.

(in PLN thousand)

Assets and liabilities of the Group as at 31 December 2006, by maturity

Balance sheet items	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Impairment allowances	Total
Assets:							
Cash and balances with the Central Bank	4 628 134	-	-	-	-	-	**4 628 134**
Amounts due from banks	8 019 055	1 550 355	3 703 989	157 520	-	(329)	**13 430 590**
Financial assets held for trading	612 770	88 616	134 645	38 987	123 617	-	**998 635**
Other financial instruments at fair value through profit or loss	381 996	154 689	2 286 520	5 583 504	3 111 996	-	**11 518 705**
Loans and advances to customers	10 614 323	1 708 330	9 294 876	20 192 246	19 543 854	(2 447 022)	**58 906 607**
Securities available for sale	33 312	190 478	1 206 153	2 447 291	2 916 005	(30 051)	**6 763 188**
Derivative financial instruments*	1 199 154	-	-	-	-	-	**1 199 154**
Other	273 470	300 631	204 042	852 945	3 172 427	(222 821)	**4 580 694**
Total assets	**25 762 214**	**3 993 099**	**16 830 225**	**29 272 493**	**28 867 899**	**(2 700 223)**	**102 025 707**
Liabilities:							
Amounts due to the Central Bank	1 387	-	-	-	-	-	**1 387**
Amounts due to banks	2 022 976	878 280	968 649	379 493	102 210	-	**4 351 608**
Amounts due to customers	54 782 055	11 267 072	15 776 427	1 585 783	95 838	-	**83 507 175**
Liabilities arising from securities issued	-	-	43 722	-	-	-	**43 722**
Derivative financial instruments*	1 097 806	-	-	-	-	-	**1 097 806**
Other liabilities	363 822	1 613 440	471 570	86 613	307 984	-	**2 843 429**
Total liabilities:	58 268 046	13 758 792	17 260 368	2 051 889	506 032	-	**91 845 127**
Equity:	**-**	**-**	**-**	**-**	**10 180 580**	**-**	**10 180 580**
Total	**58 268 046**	**13 758 792**	**17 260 368**	**2 051 889**	**10 686 612**	**-**	**102 025 707**
Liquidity gap :	**(32 505 832)**	**(9 765 693)**	**(430 143)**	**27 220 604**	**18 181 287**	**(2 700 223)**	**-**

* Additionally, the split of derivative instruments nationals according to maturity is presented in Note 26.

Capital management

In 2007, as part of the activities carried out in order to achieve compliance with the CRD directive, the Bank developed and approved regulations setting out the principles of capital management (effective from 1 January 2008).

The objective of capital management in the Group is to maintain capital, at all times, at a level that is adequate to the risk profile of the Group, as well as to improve the Group's performance and enhance its value to the shareholders. Capital management processes in the Bank include the following:

1) maintaining, on a continuous basis, an adequate level of capital,
2) capital adequacy assessment,
3) realisation of the capital objectives set by the Bank,
4) assessment of the profitability of the individual profit centres and the individual Group companies,
5) monitoring of the level of capital adequacy ratio.

Capital management reports are submitted to ALCO for information purposes.

Own funds comprise basic funds, supplementary funds and short-term capital.

Basic funds are comprised of the following items:

1) principal funds comprising: initial capital, reserve capital, other reserve capital,
2) general banking risk fund,
3) retained earnings,
4) net profit under authorisation and net profit for the period, calculated in accordance with the accounting principles currently in force, less any expected charges and dividends, at an amount not higher that the amounts of profit verified by external auditors.

Basic funds are reduced by deducting the following items:

1) intangible assets stated at carrying amount,
2) the bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies – at an amount of 50% of the value of such exposures,
3) unrealised losses on debt and equity instruments classified as available for sale.

Supplementary funds are comprised of the following items:

1) unrealised gains on debt and equity instruments classified as available for sale – at an amount of 60% of their pre-tax value,
2) subordinated liabilities – at the amount defined in the decision of the Commission for Banking Supervision and in accordance with the principles set out therein.

Supplementary funds are reduced by 50% of the value of the bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies. If, as a result of these deductions, the value of supplementary funds falls below zero, the resulting amount is deducted from basic funds.

In addition, the following items are included in the calculation of consolidated own funds:

1) goodwill of subsidiaries, associates and jointly controlled entities (which decreases the value of own funds),
2) negative goodwill of subsidiaries, associates and jointly controlled entities (which increases the value of own funds),
3) minority interests in equity (which increase the value of own funds),
4) foreign exchange differences from translation of foreign operations (foreign exchange losses decrease and foreign exchange gains increase the value of own funds).

(in PLN thousand)

The value of short-term capital reflects the sum total of daily market gains:

1) in 2006 – for the entire year 2006,
2) in 2007 – for the second half of 2007 - due to the inclusion in own funds of a portion of the verified profit for the first half of 2007.

In 2007, the value of own funds of the Group increased by PLN 2,906,572 thousand, which was mainly due to the following:

1) issue of subordinated debt by the Bank in the 4th quarter of 2007 in the amount of PLN 1,600,700 thousand and obtaining permission from the Commission for Banking Supervision for including these subordinated liabilities in supplementary funds,
2) including a portion of the Bank's net profit for the year 2006, in the amount of PLN 1,067,391 thousand, in principal funds,
3) including a portion of the verified profit for the first half of 2007, in the amount of PLN 653,720 thousand, in the basic funds of the Bank.

A detailed analysis of own funds of the Group is presented in the table below.

GROUP'S EQUITY	31.12.2007	31.12.2006
Basic funds (Tier 1)	**8 449 415**	**6 928 141**
Share capital	1 000 000	1 000 000
Reserve capital	5 592 311	4 529 920
Other reserve capital	1 518 025	1 505 943
General risk fund for unrealised banking activity risk	1 070 000	1 070 000
Result of the current period in the part verified by a certified auditor after reduction of forecasted charges	653 720	-
Unrealised losses on debt and equity securities classified as available for sale	(55 228)	(4 119)
Result from previous years	(72 192)	(166 771)
Intangible assets	(1 183 491)	(944 028)
Capital exposure	(84 035)	(151 406)
Exchange results from foreign entities translation	(47 761)	(13 672)
Minority interests	58 066	102 274
Supplementary funds (Tier 2)	**1 517 988**	**-**
Subordinated liabilities classified as complimentary equity	1 600 700	-
Unrealised profits on debt and equity classified as available for sale (up to 60% value before tax)	1 323	5 297
Capital exposure	(84 035)	(5 297)
Short-term equity (Tier 3)	**15 997**	**148 687**
TOTAL EQUITY	**9 983 400**	**7 076 828**

In the calculation of the capital adequacy ratio, the Group considers capital requirements relating to the following risks:

1) credit risk,
2) market risk,
3) settlement risk (delivery risk and counterparty risk).

The Bank and the other entities in the PKO BP SA Group are subject to regulations concerning the level of the capital adequacy ratio and capital requirements, as set out in the Banking Law and Resolutions of the Commission for Banking Supervision Nos. 1/2007, 2/2007, 3/2007, 4/2007 of 13 March 2007.

In the period under review, the PKO BP SA Group did not identify any breaches in the above respect.

The capital adequacy ratio as at 31 December 2007 amounted to 12.02%, which means an increase of 0.22 p.p. compared to 31 December 2006. The increase in the capital adequacy ratio was mainly due to the incorporation of the Bank's profits for 2006 and the verified part of the Bank's profits for 2007, decreased by any known deductions from these profits, in the Bank's equity, which caused a total increase in the value of equity by 18%, as well as the inclusion of subordinated liabilities in the Bank's own funds, which caused an increase in the value of the Group's own funds by 17%.

Capital adequacy risk

The objective of capital adequacy management is to ensure compliance of the Bank and the PKO BP SA Group with prudence regulations relating to capital requirements arising from the level of taken risk, which are quantified in the form of capital adequacy ratio.

The main tools used in capital adequacy management are as follows:

1) selection of the methods of measurement of capital requirements for the individual types of risk which will be optimal in terms of the level of required capital, in accordance with Resolution 1/2007 of the Commission for Banking Supervision,
2) internal procedures determining among others: classification of new operations to the trading book or to the banking book and the method of calculation of capital requirements for the individual types of risk,
3) activities related to management of the level of own funds.

The Bank calculates capital requirements for the following risks:

1) credit risk in the banking book, including credit risk of derivative instruments,
2) currency risk jointly in the banking book and in the trading book,
3) equity price risk in the trading book (generic risk and specific risk),
4) generic interest rate risk in the trading book,
5) specific debt securities' price risk in the trading book,
6) counterparty risk and settlement-delivery risk in the trading book,
7) risk of the potential exceeding of exposure concentration limits and limits for large exposures as well as the capital concentration limit,
8) operational risk; however, in accordance with the regulations in force, capital requirements for operational risk were not included in the calculation of capital adequacy in 2007.

Group companies have no trading book, and therefore they do not generate capital requirement for market risk (except for currency risk); they only generate capital requirements for credit risk and operational risk.

The level of the Bank's capital adequacy in 2007 was safe. Due to dynamic development of lending activities and implementation, as of 1 January 2008, of the requirements of the New Capital Accord, which resulted in increased capital requirements, the holding company took the following actions in order to maintain the capital adequacy ratio above the level of 10%:

- in the 3rd quarter of 2007, part of the Bank's veified net profit for the first half of 2007 was included in own funds of the Bank,
- in the 4th quarter of 2007, the Bank conducted an issue of subordinated debt and acquired permission of the Commission for Banking Supervision for including it in the Bank's own funds.

In addition, the Bank continued to conduct preparatory work to enable securitization of transactions and issue of shares.

In 2007, as part of the activities aimed at achieving compliance with the requirements of the New Capital Accord concerning calculation of capital requirements, in accordance with Resolution 1/2007 of the Commission for Banking Supervision dated 13 March 2007, the holding company performed the following activities:

1) adjusted its information systems to enable calculation and reporting of capital requirements,
2) adjusted its internal processes to comply with capital adequacy reporting requirements,
3) developed and approved internal regulations setting out capital management policies (effective from 1 January 2008).

An important area of the New Capital Accord which required an adjustment in 2007 of the Bank's information systems, processes and procedures, is capital management in the Bank and in the Group, in accordance with Resolution 4/2007 of the Commission for Banking Supervision dated 13 March 2007 (the so called ICAAP process). The objective of capital management in the Bank is to maintain capital, at all times, at a level that is adequate to the risk profile of the Bank's Capital Group and to improve performance of the Group and enhance its value to the shareholders. Capital management involves an assessment of the level of equity (capital adequacy of the Group, profitability of the individual Bank's business lines and individual Group companies) as well as an assessment of the level of internal capital (adequacy of the economic capital required to cover each type of risk in the Bank and in the Group companies). The internal capital management process in the holding company involves the following:

1) identification of significant risks, including in particular:
   - credit risk (including credit default risk),
   - market risk (including currency risk, interest rate risk, liquidity risk),
   - operational risk,
   - business risk (including strategic risk, reputation risk),
2) assessment of internal capital for the individual types of risk,
3) calculation of aggregated internal capital for all significant risks arising in the operations of the Bank and of the Group companies,
4) stress testing of capital adequacy.

In addition, in 2007 the Bank developed and approved its public reporting policy in respect of capital adequacy, in accordance with the requirements of Resolution 6/2007 of the Commission for Banking Supervision dated 13 March 2007. This policy sets out the scope, frequency, place and form of publications as well as the method of verification of the disclosures relating to capital adequacy and of the information covered by publishing requirements, as defined in Resolution 6/2007 of the Commission for Banking Supervision. The document which contains the public reporting policy in respect of capital adequacy is available on the Bank's website. Communications about how to gain access to this policy are generally available in the branches of the Bank.

In accordance with § 6 of Resolution 6/2007 of the Commission for Banking Supervision, the holding company publishes information about capital adequacy in a document separate from the financial statements on an annual basis, not later than within 30 days of the date of authorization of the annual financial statements by the Annual General Shareholders' Meeting.

Exposure to risk

The tables below present the exposure of the Group to credit risk as well as to the individual types of market risk. The amounts have been calculated according to Resolution No. 1/2007 of the Commission for Banking Supervision dated 13 March 2007.

In the case of credit risk for balance sheet receivables, the risk weighted value is calculated as the product of the carrying amount and the risk weight appropriate for the given client and type of collateral.

For derivatives, the risk weighted value of credit risk exposure is obtained by calculating the balance sheet equivalent of a derivative using the original exposure method for transactions in the banking portfolio.

(in PLN thousand)

In the case of the other off-balance sheet liabilities, the credit risk exposure is calculated as the product of the balance sheet equivalent (being the product of the nominal value of off-balance sheet liability and percentage risk weight) and the risk weight appropriate for the given client and type of collateral.

Capital requirements resulting from credit risk are calculated as the sum total of risk weighted assets and off-balance sheet liabilities in the banking portfolio multiplied by 8%.

In the case of instruments classified to trading portfolio, capital requirements are calculated for the individual types of market risk.

Capital requirement structure as at 31 December 2007:

Balance sheet items		
Instrument type	**Carrying amount**	**Risk weighted value**
Cash	1 708 936	-
Receivables	81 969 560	67 899 587
Debt securities	11 951 685	152 804
Other securities, shares	460 261	345 760
Non-current assets	4 003 594	2 820 103
Other	5 474 406	3 481 430
Total banking portfolio	**105 568 442**	**74 699 684**
Debt securities	2 990 576	1 089 407
Equity securities held for trading in the trading portfolio of the Bank	9 665	9 665
Total trading portfolio	**3 000 241**	**1 099 072**
Total balance sheet instruments	**108 568 683**	**75 798 756**

Off-balance sheet instruments			
Instrument type	**Replacement cost**	**Balance sheet equivalent**	**Risk weighted value**
Derivatives			
Interest rate instruments:	*198 682 731*	*1 570 408*	*314 081*
FRA	73 860 000	243 636	48 727
IRS	124 822 731	1 326 772	265 354
Foreign currency instruments:	*14 823 154*	887 744	*178 302*
Currency forwards	1 469 673	16 272	3 254
Forwards - embedded derivatives	199	2	1
SWAP	2 268 825	22 688	4 538
CIRS	11 049 300	845 774	169 155
Options (delta equivalents - purchase of options)	35 157	3 008	1 354
Other instruments:	*303 726*	*29 460*	*6 327*
CDS	231 325	27 993	5 597
Other (including option sale, weighted risk 0%)	72 401	1 467	730
Total derivatives	**213 809 611**	**2 487 612**	**498 710**
of which:			
banking portfolio	38 235 646	1 150 782	230 591
trading portfolio	175 573 965	1 336 830	268 119

(in PLN thousand)

Other off-balance sheet instruments			
Instrument type	**Off-balance sheet value**	**Balance sheet equivalent**	**Risk weighted value**
Credit liabilities and other financial liabilities	25 551 010	3 879 300	3 851 352
Guarantees issued	1 256 670	694 901	691 375
Letters of credit	562 155	280 758	280 487
Other	572 033	309 616	262 547
Total banking portfolio	**27 941 868**	**5 164 575**	**5 085 761**
Underwriting guarantees	9 107	-	-
Guarantees of issue	1 455 509	1 455 509	1 248 269
Total trading portfolio	**1 464 616**	**1 455 509**	**1 248 269**

	Carrying amount and off-balance sheet value	Risk weighted value	Capital requirement
Total banking portfolio (credit risk)	**171 745 956**	**80 016 036**	**6 401 283**

Capital requirements for trading portfolio (market risk)	Capital requirement
Market risk	**220 143**
of which:	
Equity securities price risk	1 187
Debt instruments specific risk	166 634
Interest general risk	52 322
Other:	**24 248**
Settlement risk - delivery and contractor	24 248
Total capital requirement (credit and market risk)	**6 645 674**

Credit and market risk as at 31 December 2006:

Balance sheet items		
Instrument type	**Carrying amount**	**Risk weighted value**
Cash	1 429 379	-
Receivables	72 337 197	48 129 203
Debt securities	15 202 985	265 465
Other securities, shares	192 324	81 754
Non-current assets	3 599 069	2 655 041
Other	5 203 271	3 208 279
Total banking portfolio	**97 964 225**	**54 339 742**
Debt securities	4 059 987	2 048 461
Equity securities held for trading in the trading portfolio of the Bank	1 495	1 495
Total trading portfolio	**4 061 482**	**2 049 956**
Total balance sheet instruments	**102 025 707**	**56 389 698**

(in PLN thousand)

Off-balance sheet instruments			
Instrument type	**Replacement cost**	**Balance sheet equivalent**	**Risk weighted value**
Derivatives			
Interest rate instruments:	*137 881 756*	*1 178 589*	*235 718*
FRA	62 075 000	199 614	39 923
IRS	75 806 756	978 975	195 795
Foreign currency instruments:	*15 367 913*	*1 134 742*	*227 335*
Currency forwards	982 571	34 970	6 994
Forwards - embedded derivatives	3 809	1 181	591
SWAP	3 778 498	184 163	36 833
CIRS	833	50	10
FX futures	10 598 238	914 234	182 847
Options (delta equivalents - purchase of options)	3 964	144	60
Total derivatives	**153 249 669**	**2 313 331**	**463 053**
of which:			
banking portfolio	27 923 211	1 217 802	243 916
trading portfolio	125 326 458	1 095 529	219 137

Other off-balance sheet instruments			
Instrument type	**Carrying amount and off-balance sheet value**	**Balance sheet equivalent**	**Risk weighted value**
Credit liabilities and other financial liabilities	23 615 395	3 363 632	2 629 874
Guarantees issued	656 698	401 316	395 706
Letters of credit	237 650	108 929	108 258
Other	3 208 300	835 043	381 150
Total banking portfolio	**27 718 043**	**4 708 920**	**3 514 988**
Guarantees of issue	809 916	809 916	713 916
Total trading portfolio	**809 916**	**809 916**	**713 916**

	Carrying amount and off-balance sheet value	**Risk weighted value**	**Capital requirement**
Total banking portfolio (credit risk)	**153 605 479**	**58 098 646**	**4 647 892**

Capital requirements for trading portfolio (market riskt)	**Capital requirement**
Market risk	**132 165**
of which:	
Equity securities price risk	214
Dept instruments specific risk	94 618
Interest general risk	37 333
Other:	**16 522**
Settlement risk - delivery and contractor	16 522
Total capital requirement (credit and market risk)	**4 796 579**

	31.12.2007	**31.12.2006**
Capital adequacy ratio	**12.02**	**11.80***

*Capital adequacy ratio as at 31 December 2006 was calculated based on restated data to reflect changes in the Banking Law, and the publication of Resolution No. 2/2007 of the Commission for Banking Supervision

Operational risk

Objectives and principles of operational risk management

Operational risk is defined as a risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. The purpose of operational risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Bank and of the PKO BP SA Group companies to events which are beyond their control.

The Group is guided by the following rules in operational risk management:

- operational risk management policies and procedures cover the full scope of the Group's activities,
- the above-mentioned regulations are in principle uniform in all of the Group companies, while any potential differences arise from the specific nature and size of the operations carried out by the Group companies,
- defined responsibilities and reporting lines in the area of operational risk management at various decision-taking levels,
- defined operational risk identification and assessment processes for all major areas of the Group's activities,
- operational risk management is performed at the level of comprehensive system solutions as well as day-to-day risk management activities.

Cooperation between the Group companies in the area of operational risk management is coordinated by the Compliance and Operational Risk Office of PKO BP SA, which, among others, issues opinions on the internal regulations governing the comprehensive system-based operational risk management, monitors operational events and reports on the Group's operational risks to the Management Board and Supervisory Board of the Bank. The holding company has the greatest impact on the Group's operational risk profile. The Group companies, due to considerably smaller size of their operations, generate only a limited exposure to operational risk.

In 2007, the Group companies improved the operational risk management process by implementing new solutions in the area of identification of operational risk, classification of operational events and calculation of the capital requirement for operational risk.

4. Fair value of financial assets and financial liabilities

The Group holds cartain financial instruments which are not stated at fair value in the balance sheet.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

As for many financial instruments there is no available market value, their fair values have been estimated using various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using current interest rates. Any model calculations include certain simplifying assumptions and therefore are sensitive to those assumptions. Described below is the summary of main methods and assumptions used during estimation of fair values of financial instruments which are not presented in fair values in the Group's balance sheet.

For certain categories of financial instruments, it has been assumed that their fair value equals their carrying amount. This applies, in particular, to the following categories of financial instruments:

- loans and advances granted by the Group to clients: loans with a maturity of up to 1 year, part of the housing loans portfolio (the "old" housing loans portfolio), loans with no specified repayment schedule, new products that have been introduced to the Group's offer in the last quarter of the financial year,

(in PLN thousand)

– liabilities towards clients: liabilities with no specified payment schedule, liabilities based on variable interest rates with a maturity up to 1 year, other specific products for which no market exists, such as housing plan passbooks, bills of savings.

As regards loans and advances granted to clients, the fair value of those instruments has been calculated using discounted future cash flows applying current interest rates plus risk margin as well as agreed scheduled repayment dates in real terms. The actual margin level has been established based on transactions on instruments with similar credit risk executed during the quarter ended as of the balance sheet date.

Fair value of deposits and other liabilities towards clients different than banks with scheduled due date have been calculated using discounted future cash flows applying current interest rates for deposits with similar due dates.

The fair value of the subordinated debt of the Bank has been estimated based on the expected future cash flows discounted using the rate of return on Treasury bonds with a similar maturity.

The fair value of interbank placements and deposits has been estimated based on the expected future cash flows discounted using the current interbank interest rates.

The table below shows a summary of the carrying amounts and fair values for the individual groups of financial instruments which have not been presented at fair value in the Group's balance sheets as at 31 December 2007 and 2006, and for which there is a difference between their fair value and carrying amount:

	As at 31.12.2007		As at 31.12.2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Amounts due from banks	5 292 319	5 287 519	13 430 590	13 429 199
Loans and advances to customers	76 417 149	76 816 457	58 906 607	59 106 992
Amounts due to other banks	4 703 114	4 702 821	4 351 608	4 351 351
Amounts due to customers	86 610 593	86 616 174	83 507 175	83 506 434
Subordinated liabilities	1 614 885	1 619 115	-	-

5. Custodial activities

The Bank is a direct participant in the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych*) and the Securities Register (at the National Bank of Poland). The Bank keeps customer investment accounts and services transactions made on the domestic and foreign markets, and provides custodial and asset management services. The assets held by the Bank under custodial services have not been disclosed in these consolidated financial statements due to the fact that they do not meet the criteria to be recognised as the Bank's assets.

6. Assets' securitization and debt package sales

During the years 2005 - 2006, the Bank sold a number of receivables classified as "lost" (balance sheet and off-balance sheet receivables) due to the Bank from corporate entities and retail clients. About 137,000 receivables were sold in total, with a total value of appx. PLN 2 billion. Due to the fact that the buyers are allowed to raise claims with regard to the receivables sold to them within the deadlines set out in the respective debt sale agreements, the Bank recognized provisions for potential claims, including those that had been raised until the date of these financial statements. The total carrying amount of these provisions as at 31 December 2007 is PLN 9,894 thousand (as at 31 December was PLN 39,290 thousand, respectively). The Bank did not receive any securities under the above transactions. In 2007 the Bank did not sell any portfolios of receivables.

7. Segment reporting

The primary segmentation key of the Group is based on business type (business segments) and the secondary - on geographical area (geographical segments).

The Group usually settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates.

Business segments

Segmentation by business is as follows:

- Corporate Segment includes transactions of the holding company with large corporate clients and the activity of Bankowy Fundusz Leasingowy SA.
- Retail Segment includes transactions of the holding company with small and medium sized companies and with private individuals as well as the activity of the following subsidiaries: KREDOBANK SA, Powszechne Towarzystwo Emerytalne Bankowy SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, Inteligo Financial Services SA and Centrum Elektronicznych Usług Płatniczych eService SA.
- Treasury Segment includes inter-bank transactions, transactions in derivative instruments and debt securities,
- Investment Segment includes brokerage and investing activities of the holding company as well as the activity of Bankowe Towarzystwo Kapitałowe SA,
- Housing Segment includes transactions of the holding company connected with granting housing loans and accepting housing deposits as well as the activity of PKO Inwestycje Sp. z o.o.

The Bank did not separate any other segments as a result of not having reached any of the thresholds set forth in IAS 14, which are as follow:

- segment revenue from sales to external customers and from transactions with other segments account for 10% or more of the total external and internal revenue of all segments, or
- segment result, whether profit and loss, accounts for 10% or more of the aggregated result of all segments which recorded profit or suffered loss, whichever greater in absolute value, or
- segment assets account for 10% or more of total assets of all segments.

According to IAS 14, segments which had not been separated were disclosed as unallocated (reconciling) items.

The assets and liabilities of a given segment represent operating assets and liabilities used by that segment in its operating activities.

The tables below present data concerning revenue and results of the particular business segments of the Group for the years ended 31 December 2007 and 31 December 2006, as well as selected assets and liabilities as at 31 December 2007 and 31 December 2006. The figures for the year 2006 have been restated to ensure comparability.

(in PLN thousand)

For the year ended 31 December 2007	Continued activities					
	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	All activities
Revenue						
External customer - related revenues	1 436 300	5 881 059	1 120 939	252 711	2 529 976	**11 220 985**
Sale among segments	-	31 998	-	-	2 957	**34 955**
Total segment revenue	1 436 300	5 913 057	1 120 939	252 711	2 532 933	**11 255 940**
Result						
Segment result	274 933	2 175 371	65 895	147 331	637 962	**3 301 492**
Unallocated result together with the result of unseparated segments	-	-	-	-	-	**71 932**
Difference between FX Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	**231 434**
Result from continued activities before taxation	-	-	-	-	-	**3 604 858**
Share in the results of associates	-	-	-	-	-	**4 372**
Result before taxation and minority interest	-	-	-	-	-	**3 609 230**
Income tax (tax expense)	-	-	-	-	-	**(667 838)**
Profits/(loss) of minority shareholders	-	-	-	-	-	**37 760**
Net profit for the year	-	-	-	-	-	**2 903 632**

As at 31 December 2007	Continued activities					
	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	All activities
Assets and liabilities and equities						
Segment assets	22 276 903	27 778 372	17 397 052	1 137 723	35 235 885	**103 825 935**
Investments in associates and jointly controlled entities	-	-	-	178 584	-	**178 584**
Unallocated assets	-	-	-	-	-	**4 564 164**
Total assets	-	-	-	-	-	**108 568 683**
Segment liabilities and segment result	15 009 989	65 169 109	1 804 410	775 248	12 327 608	**95 086 364**
Unallocated liabilities and capital	-	-	-	-	-	**13 482 319**
Total liabilities	-	-	-	-	-	**108 568 683**
Other segment information						
Impairment allowances*	73 014	(239 307)	-	6 168	24 764	**(135 361)**
Capital expenditure on tangible and intangible fixed assets	-	-	-	-	-	**782 726**
Depreciation of tangible and amortization of intangible fixed assets	-	-	-	-	-	**380 570**

* Does not include the result on impairment of non-separated segments

(in PLN thousand)

For the year ended 31 December 2006	Continued activities					
	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	All activities
Revenues						
External customer - related revenues	1 200 509	4 167 483	1 522 710	201 141	2 009 746	**9 101 589**
Sale among segments	-	43 827	-	-	3 020	**46 847**
Total segment revenue	1 200 509	4 211 310	1 522 710	201 141	2 012 766	**9 148 436**
Result						
Segment result	270 049	1 392 440	118 612	110 179	535 806	**2 427 086**
Unallocated result together with the result of unseparated segments	-	-	-	-	-	**39 970**
Difference between FX Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	**238 137**
Result from continued activities before taxation	-	-	-	-	-	**2 705 193**
Share in the results of associates	-	-	-	-	-	**(3 705)**
Result before taxation and minority interest	-	-	-	-	-	**2 701 488**
Income tax (tax expense)	-	-	-	-	-	**(494 039)**
Profits/(loss) of minority shareholders	-	-	-	-	-	**58 397**
Net profit for the period	-	-	-	-	-	**2 149 052**

As at 31 December 2006	Continued activities					
	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	All activities
Assets and liabilities and equities						
Segment assets	19 293 605	19 127 175	28 158 790	1 619 540	25 137 161	**93 336 271**
Investments in associates and jointly controlled entities	-	-	-	180 162	-	**180 162**
Unallocated assets	-	-	-	-	-	**8 509 274**
Total assets	**-**	**-**	**-**	**-**	**-**	**102 025 707**
Segment liabilities and segment result	11 003 202	65 003 017	4 078 452	481 796	10 743 159	**91 309 626**
Unallocated liabilities and capital	-	-	-	-	-	**10 716 081**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**102 025 707**

Other segment information						
Impairment allowances*	73 156	(109 678)	-	15 177	22 277	**932**
Capital expenditure on tangible and intangible fixed assets	-	-	-	-	-	**581 564**
Depreciation of tangible and amortization of intangible fixed assets	-	-	-	-	-	**317 911**

* Does not include the result on impairment of non-separated segments

(in PLN thousand)

Segmentation by geographical region

Taking into account the fact that the Group's activity is also conducted outside Poland, segmentation by geographical region is a secondary reporting format.

The operating activities of the PKO BP S.A. Group, which cover all business segments, are concentrated on the activities in Poland through PKO BP S.A. and subordinated entities.

Outside Poland, the Group carries out business activities in Ukraine - through KREDOBANK S.A. and UKRPOLINWESTYCJE Sp. z o.o.

The scope of the Group's activities outside Poland is relatively small compared to the results of the whole Group.

The tables below present revenues for the years ended 31 December 2007 and 31 December 2006, as well as capital expenditures and certain types of assets of the individual geographical segments as at 31 December 2007 and 31 December 2006, respectively.

For the year ended 31 December 2007	**Poland**	**Ukraine**	**Total**
Revenues			
Total segment revenues	10 943 556	312 384	11 255 940
Other segment information			
Segment assets	106 419 005	1 971 094	108 390 099
Investments in associates and jointly controlled entieties	178 584	-	178 584
Total assets	106 597 589	1 971 094	108 568 683
Capital expenditure on tangible and intangible fixed assets	712 823	69 903	782 726

For the year ended 31 December 2006	**Poland**	**Ukraine**	**Total**
Revenues			
Total segment revenues	8 912 993	235 443	9 148 436
Other segment information			
Segment assets	100 058 282	1 787 263	101 845 545
Investments in associates and jointly controlled entieties	180 162	-	180 162
Total assets	100 238 444	1 787 263	102 025 707
Capital expenditure on tangible and intangible fixed assets	513 595	67 969	581 564

(in PLN thousand)

8. Interest income and expenses

Interest income

	2007	2006
Income from loans and advances granted to customers	5 164 104	3 918 884
Income from securities at fair value through profit or loss	561 346	762 133
Income from placements w ith other banks	516 975	570 628
Income from investment securities	242 513	259 710
Income from trading securities	24 527	22 696
Other	72 926	60 720
Total	**6 582 391**	**5 594 771**

Interest expenses

	2007	2006
Relating to amounts due to customers	(1 699 494)	(1 557 426)
Relating to placements of other banks	(130 197)	(90 353)
Relating to ow n issue of debt securities	(28 711)	(5 160)
Relating to other placements from the money market	-	(4 964)
Other	(80 261)	(104 689)
Total	**(1 938 663)**	**(1 762 592)**

In the year ended 31 December 2007, the total amount of interest income, calculated using the effective interest rate method, arising from financial assets not valued at fair value through profit or loss, amounted to PLN 5,996,518 thousand (in the year ended 31 December 2006: PLN 4,809,942 thousand). In the year ended ended 31 December 2007, interest expense, calculated using the effective interest rate method, arising from financial liabilities which are not valued at fair value through profit or loss, amounted to PLN (1,893,712) thousand. In the year ended 31 December 2006: PLN (1,717,641) thousand.

Presented below is information on the net gains and losses on loans and advances and financial liabilities measured at amortized cost.

Net gains and losses on financial assets and liabilities measured at amortized cost*

2007	Gains	Losses	Net result
Loans and advances	5 813 771	-	5 813 771
Financial liabilities evaluated according to amortised cost	-	(1 858 402)	(1 858 402)
Total	**5 813 771**	**(1 858 402)**	**3 955 369**

2006	Gains	Losses	Net result
Loans and advances	4 711 522	-	4 711 522
Financial liabilities evaluated according to amortised cost	-	(1 657 903)	(1 657 903)
Total	**4 711 522**	**(1 657 903)**	**3 053 619**

* These items include selected balances of interest income/expense, fees and commission income/expense and result on impairment allowances.

(in PLN thousand)

9. Fees and commission income and expenses

Fees and commission income

	2007	2006
Revenues from financial assets, which are evaluated according to fair value through profits or losses, of which:	**257 241**	**224 204**
From loans and advances granted	257 241	224 204
Other fees and commissions	**2 763 588**	**2 071 306**
From accounts servicing	777 700	742 132
Relating to payment cards	705 767	549 936
From investment funds servicing (including management fees)	610 441	215 968
From credit insurance	202 260	46 300
From cash transactions	204 026	208 612
From operations w ith securities	87 722	71 277
From foreign mass transactions servicing	36 878	38 216
From sale and distribution of treasury stamps	28 523	56 457
Other*	110 271	142 408
From trust servicing	**1 207**	**589**
Total	**3 022 036**	**2 296 099**

* Included in "Other" are, among others, commissions received: for public offering services, for servicing bond sale transactions, and for home banking and revenues from arrangement fees, guarantees granted, issued letters of credit and other similar operations.

Fees and commission expenses

	2007	2006
Relating to payment cards	(254 078)	(203 476)
Relating to acquisition services	(125 790)	(121 053)
From credit insurance	(152 205)	(6 880)
From asset management	(105 197)	(48 319)
From fees and commissions for operating services of other banks	(9 264)	(9 286)
From fees and commissions paid PPUP	(5 735)	(6 469)
Other*	(34 568)	(34 364)
Total	**(686 837)**	**(429 847)**

* Included in "Other" are, among others, expenses incurred by DM assiciated with Warsaw Stock Exchange (GPW) and KDPW, costs of insurance premium for holders of PKO VISA GOLD and PKO EC/MC Business, valuation of financial resources remaining at collective account, costs of currency turnover, accounting and clearing services, commission paid to agents and cost of premium related to security operations.

10. Dividend income

	2007	2006
Dividend income from the issuers		
Securities classified as available for sale	3 272	3 288
Securities classified as held for trading	21	316
Total	**3 293**	**3 604**

(in PLN thousand)

11. Result from financial instruments at fair value

	2007	2006
Debt securities	(337 105)	(127 809)
Derivative instruments	261 210	26 748
Equity instruments	2 589	3 803
Other	(963)	6 409
Total	**(74 269)**	**(90 849)**

2007	Gains	Losses	Net result
Financial assets held for trading	5 987 463	(5 735 895)	251 568
Financial assets identified on initial recognition at fair value through profit or loss	125 065	(450 902)	(325 837)
Total	**6 112 528**	**(6 186 797)**	**(74 269)**

2006	Gains	Losses	Net result
Financial assets held for trading	5 188 334	(5 149 872)	38 462
Financial assets identified on initial recognition at fair value through profit or loss	198 429	(327 740)	(129 311)
Total	**5 386 763**	**(5 477 612)**	**(90 849)**

Total change in the fair values of financial instruments at fair value through profit or loss determined using valuation models (where no quotations on an active market are available) in the year ended 31 December 2007 amounted to PLN 260,247 thousand (in the year ended 31 December 2006: PLN 33,157 thousand).

Fair value changes in hedge accounting

During the years ended 31 December 2007 and 31 December 2006, respectively, the PKO BP SA Group did not apply hedge accounting.

12. Result from investment securities / Result from financial assets and liabilities other than classified as at fair value through profit or loss

Financial assets available for sale	2007	2006
Gains taken directly to equity	-	10 111
Losses taken directly to equity	(57 006)	-
Total	**(57 006)**	**10 111**
Gains taken from equity	10 418	63 250
Losses taken from equity	(1 036)	(12 894)
Total	**9 382**	**50 356**

13. Foreign exchange result

	2007	2006
Foreign exchange differences resulting from financial instruments at fair value through profit or loss	255 445	257 529
Other foreign exchange differences	274 334	286 964
Total	**529 779**	**544 493**

(in PLN thousand)

14. Other operating income and costs

	2007	2006
Other operating income		
Net sales of finished goods, goods for resale and raw materials	491 695	579 081
Auxiliary revenues	25 257	27 048
Sales and liquidation of fixed assets and intangible assets and assets for sale	24 702	28 781
Received compensations, penalties and fines	20 122	13 312
Recovery of expired, written-off and unrecoverable receivables	19 469	16 705
Lease income	12 565	13 934
Sale of shares in subordinates	1 101	20 716
Other*	62 334	106 079
Total	**657 245**	**805 656**

* Included in "Other" are, among others: reversal of accruals (e.g. for costs of servicing computer hardware and software, maintenance of fire equipment, training services, mailing services), refund of costs of debt collection proceedings and receivables due to fee for organization of an issue of corporate bonds.

	2007	2006
Other operating costs		
Cost of finished goods, goods for resale and raw materials	(250 502)	(324 877)
Sales and liquidation of fixed assets and intangible assets	(23 636)	(30 523)
Leases	(20 710)	(25 809)
Donations	(8 348)	(8 651)
Auxiliary costs of Bank	(4 224)	(4 327)
Cost of maintenance of property and intangible assets	(4 013)	(6 343)
Other*	(48 851)	(93 377)
Total	**(360 284)**	**(493 907)**

* Included in "Other" are, among others: legal substitution, other receivables' impairment and bailiffs advances.

15. General administrative expenses

	2007	2006
Employee benefits	(2 288 712)	(2 255 255)
Non-personnel costs	(1 331 871)	(1 163 143)
Amortisation	(380 570)	(317 911)
Taxes and charge	(67 737)	(65 173)
Contribution and payments to Banking Guarantee Fund	(13 682)	(10 458)
Total	**(4 082 572)**	**(3 811 940)**

Payroll costs / Employee benefits

	2007	2006
Salaries and wages	(1 841 549)	(1 759 179)
Insurance and other employee benefits	(375 679)	(348 550)
Provisions for insurance and severance payments for employees, with whom the employment contracts are terminated for the reasons independent of employees	(68 153)	(37 000)
Provision for jubilee bonuses and retirement benefits	(3 331)	(110 526)
Total	**(2 288 712)**	**(2 255 255)**

(in PLN thousand)

16. Result on impairment allowances

For the year ended 31 December 2007	Impairment allowances at the beginning of the period	Increases			Decreases				Impairment allowances made at the end of period	Net impact of the created impairment allowances in the profit and loss account
		Impairment allowances made during the period	Foreign exchange differences	Other	Decrease in impairment allowances due to derecognition of assets, not impacting the profit and loss account	Impairment allowances reversed during the period	Foreign exchange differences	Other		
Financial assets available for sale carried at fair value through equity	14 937	5 992	-	-	-	2 303	6	-	18 620	(3 689)
not listed on stock exchange	14 937	5 992	-	-	-	2 303	6	-	18 620	(3 689)
Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments)	15 114	32	-	-	-	6 200	-	717	8 229	6 168
Loans and advances to customers and amounts due from banks valued at amortised cost	2 404 151	1 211 765	-	-	143 006	1 083 811	13 015	-	2 376 084	(127 954)
consumer loans	503 411	452 939	-	-	83 603	222 273	-	-	650 474	(230 666)
housing loans	530 998	181 306	-	-	-	222 453	-	-	489 851	41 147
corporate loans	1 369 413	577 520		-	59 403	639 032	13 015	-	1 235 483	61 512
receivables from banks	329	-	-	-	-	53	-	-	276	53
Finance lease receivables	43 200	-	-	-	-	3 405	-	-	39 795	3 405
Tangible fixed assets	51 219	1 574	-	80	-	49 820	-	-	3 053	48 246
Intangible fixed assets	31 681	-	-	-	-	16 308	-	-	15 373	16 308
Investments valued using the equity method	62 186	5 876	-	-	410	-	-	2 838	64 814	(5 876)
Other	150 937	70 438	16	269	3 424	77 187	2 188	-	138 861	6 749
Total	**2 773 425**	**1 295 677**	**16**	**349**	**146 840**	**1 239 034**	**15 209**	**3 555**	**2 664 829**	**(56 643)**

(in PLN thousand)

For the year ended 31 December 2006	Impairment allowances at the beginning of the period	Increases			Decreases				Impairment allowances made at the end of period	Net impact of the created impairment allowances in the profit and loss account
		Impairment allowances made during the period	Foreign exchange differences	Other	Decrease in impairment allowances due to derecognition of assets, not impacting the profit and loss account	Impairment allowances reversed during the period	Foreign exchange differences	Other		
Financial assets available for sale carried at fair value through equity	24 900	38	-	35	9 736	296	4	-	14 937	258
not listed on stock exchange	24 900	38	-	35	9 736	296	4	-	14 937	258
Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments)	15 999	-	-	-	-	850	-	35	15 114	850
Loans and advances to customers and amounts due from banks valued at amortised cost	2 944 787	1 059 247	288	-	479 371	1 059 074	9 139	52 587	2 404 151	(173)
consumer loans	603 576	269 303	-	-	74 474	294 994	-	-	503 411	25 691
housing loans	596 612	116 008	-	-	60 413	121 209	-	-	530 998	5 201
corporate loans	1 742 844	673 936	288	-	343 061	642 868	9 139	52 587	1 369 413	(31 068)
receivables from banks	1 755	-	-	-	1 423	3	-	-	329	3
Finance lease receivables	44 732	5 104	-	-	-	3 083	-	3 553	43 200	(2 021)
Tangible fixed assets	50 221	1 414	-	-	-	261	-	155	51 219	(1 153)
Intangible fixed assets	-	31 681	-	-	-	-	-	-	31 681	(31 681)
Investments valued using the equity method	57 015	5 433	-	31 349	31 349	262	-	-	62 186	(5 171)
Other	196 610	75 482	83	3 960	725	113 922	595	9 956	150 937	38 440
Total	**3 334 264**	**1 178 399**	**371**	**35 344**	**521 181**	**1 177 748**	**9 738**	**66 286**	**2 773 425**	**(651)**

(in PLN thousand)

17. Discountinued operations

In 2007 and 2006, the PKO BP SA Group had no material income or costs from discontinued operations.

18. Share in profits (losses) of jointly controlled entities and associates

Entity name	2007	2006
Jointly controlled entities		
Centrum Obsługi Biznesu Sp. z o.o.	(3 678)	(2 999)
WAWEL Hotel Development Sp. z o.o.*	-	(1 789)
PKO Towarzystwo Funduszy Inwestycyjnych SA**	-	(1 467)
Grupa Kapitałowa Centrum Haffnera Sp. z o.o.	1 963	(581)
Associated entities		
Bank Pocztowy SA	5 875	2 185
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	28	44
Agencja Inwestycyjna „CORP" SA	150	50
Associated entities of Bankowe Towarzystwo Kapitałowe SA		
FINDER SA***	34	852
Total	**4 372**	**(3 705)**

* Shares of this company were sold on 8 August 2006
** The company joined the PKO BP SA Group on 6 April 2006
*** Shares of this company were sold on 31 October 2006

Additional information on jointly controlled entities and associates is presented in Note 1 "General Information" and Note 53 "Business combinations".

19. Corporate income tax

	2007	2006
Consolidated income statement		
Current income tax expense	(716 704)	(522 812)
Deferred income tax related to temporary differences	48 866	28 773
Tax expense disclosed in the consolidated income statement	**(667 838)**	**(494 039)**
Tax expense disclosed in the consolidated equity related to temporary differences	11 001	(1 850)
Total	**(656 837)**	**(495 889)**

Gross profit before taxation	**3 609 230**	**2 701 488**
Corporate income tax calculated using the enacted tax rate 19% (2006: 19%)	(685 753)	(513 283)
Effect of other tax rates, i.e. in Ukraine (25%)*	(1 424)	(2 052)
Permanent differences between accounting gross profit and taxable profit, of which:	**21 065**	**804**
Other non-tax-deductible expenses	(23 431)	(29 206)
Reversed provisions and revaluation not constituting taxable revenue	31 051	33 310
Other non-taxable revenue	3 363	5 196
Dividend income	9 711	3 539
Other	371	(12 035)
Other differences between gross financial result and taxable income, including donations	**(7 573)**	**5 134**
Clearance of income tax loss	**5 847**	**15 358**
Income tax disclosed in the consolidated income statement	**(667 838)**	**(494 039)**
Effective tax rate	**18.50%**	**18.29%**
Temporary difference due to the deferred tax presented in the profit and loss account	48 866	28 773
Total current income tax expense disclosed in the consolidated income statement, of which:	**(716 704)**	**(522 812)**
Tax according to the enacted tax rate 19% (2006: 19%)	(714 881)	(520 711)
Effect of other tax rates: in Ukraine (25%)	(1 823)	(2 101)

* Current income tax charge of KREDOBANK SA in 2007 amounted to an equivalent of PLN 7,597 thousand (in 2006: PLN 8,755 thousand).

Liabilities/ receivables due to corporate income tax

	31.12.2007	31.12.2006
Current tax receivables	187 939	326
Current tax liabilities	9 932	170 960

The Group companies are corporate income tax payers. The amount of current tax liability is transferred to the Tax Authority appropriate for the companies' registered offices. The final settlement of the corporate income tax liabilities of the Group companies for the year 2007 was made within the statutory deadline i.e. 31 March 2008 after the end of the financial year.

(in PLN thousand)

Deferred tax asset/liability

	Consolidated balance sheet		Consolidated income statement	
	31.12.2007	**31.12.2006**	**2007**	**2006**
Deferred tax provision				
Interest accrued on receivables (loans)	99 944	95 630	4 314	14 638
Capitalised interest on regular housing loans	277 827	294 460	(16 633)	(19 724)
Interest on securities	28 126	36 021	(7 895)	(22 132)
Valuation of securities, of which:	1 901	5 165	(2 535)	(14 538)
taken to income statement	705	3 240	(2 535)	(14 538)
taken to equity	1 196	1 925	-	-
Other taxable temporary positive differences, of which:	141 176	89 889	51 419	20 958
taken to income statement	141 308	89 889	51 419	20 958
taken to equity	(132)	-	-	-
Gross deferred tax provision	**548 974**	**521 165**	-	-
taken to income statement	547 910	519 240	28 670	(20 798)
taken to equity	1 064	1 925		
Deferred tax assets				
Interest accrued on liabilities	138 252	143 349	(5 097)	(1 452)
Valuation of securities, of which:	33 217	20 107		
taken to income statement	22 065	19 057	3 008	10 306
taken to equity	11 152	1 050	-	-
Valuation of derivatives	62 331	44 031	18 300	(44 564)
Provision for jubilee bonuses and retirement benefits	60 944	57 764	3 180	17 719
Provision for other liabilities to employees	27 930	25 891	2 039	7 738
Cost of accruals	79 193	46 547	32 646	(5 669)
Valuation adjustment EIR	149 499	132 879	16 620	6 086
Other taxable temporary negative differences , of which:	65 316	60 129	5 148	16 934
taken to income statement	65 316	60 167	5 148	16 934
taken to equity	-	(38)	-	-
Foreign exchange differences of KREDOBANK SA	-	-	1 688	876
Gross deferred tax asset, of which:	**616 682**	**530 697**	-	-
taken to income statement	605 530	529 685	77 533	7 974
taken to equity	11 152	1 012	-	-
Deferred income tax asset (disclosed on the balance sheet)	**72 154**	**33 454**	-	-
Deferred tax liability (disclosed on the balance sheet)	**4 446**	**23 922**	-	-
Net deferred tax impact on income statement	-	-	**(48 866)**	**(28 773)**

As at 31 December 2007, the unsettled tax loss of the Group companies amounted to PLN 36,935 thousand. This loss may be utilized by the end of 2011.

Out of the above-mentioned amount, PLN 25,973 thousand was recognized as a deferred tax asset as at 31 December 2007.

20. Earnings per share

Basic earnings per share

Basic earnings per share are calculated on the basis of profit and loss attributable to ordinary shareholders of the Bank, by dividing the respective profits or losses by the weighted average number of ordinary shares outstanding during a given period.

Earnings per share

	2007	2006
Net profit attributable to ordinary shareholders (in PLN thousands)	2 903 632	2 149 052
Weighted average number of ordinary shares in the period (in thousands)	1 000 000	1 000 000
Earnings per share (in PLN per share)	2,90	2,15

Earnings per share from discontinued operations

In the years ended 31 December 2007 and 31 December 2006 respectively, the Group did not report any material income or costs from discontinued operations.

Diluted earnings per share

Diluted earnings per share are calculated on the basis of profit and loss attributable to ordinary shareholders, by dividing the respective profits or losses by the weighted average number of ordinary shares outstanding during a given period, adjusted for the effect of all dilutive potential ordinary shares.

There were no dilutive instruments in the Bank in 2007 and 2006.

Diluted earnings per share from discontinued operations

As stated above, in the years ended 31 December 2007 and 31 December 2006 respectively, the Bank did not report any material income or costs from discontinued operations.

21. Dividends paid and declared

Dividends declared after the balance sheet date are not recognized by the Bank as liabilities existing as at the balance sheet date.

In Resolution No. 7/2007 dated 26 April 2007, the Ordinary General Shareholders' Meeting of PKO BP SA decided to pay a dividend for the year 2006 in the amount of PLN 980,000 thousand, i.e. PLN 0.98 per share on a pre-tax basis. A list of the shareholders entitled to receive the dividend was determined as at 20 July 2007 and the payment was made on 2 August 2007.

At 8 April 2008 Management Board of the Bank decided in Resolution to recommend the Shareholders Meeting to pay a dividend for 2007 in amount of PLN 1,090,000 thousand, i.e. PLN 1.09 for one share.

22. Transferred financial assets which do not qualify for derecognition

As at 31 December 2007 and 31 December 2006, the Group did not hold any significant transferred financial assets in such a way that part or all of the financial assets did not qualify for derecognition.

(in PLN thousand)

23. Cash and amounts due from the Central Bank

	31.12.2007	31.12.2006
Current account w ith the Central Bank	2 972 067	1 429 379
Cash	1 708 906	3 196 284
Other funds	1 654	2 471
Total	**4 682 627**	**4 628 134**

During the course of the day, the Bank may use the funds from the obligatory reserve account for ongoing payments, on the basis of an instruction submitted to the Central Bank of Poland (NBP). However it must ensure that the average monthly balance on this account complies with the requirements that result from the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest at the rate of 0.9 of the rediscount rate for bills of exchange; as at 31 December 2007, this interest rate was 4.275%.

As at 31 December and 31 December 2006, there were no restrictions as regards the use of these funds.

24. Amounts due from banks

	31.12.2007	31.12.2006
Placements w ith other banks	4 676 670	12 367 173
Loans and advances granted	372 257	232 673
Current accounts	183 784	246 793
Cash in transit	45 462	34 386
Other receivables	14 422	549 894
Total	**5 292 595**	**13 430 919**
Impairment allow ance	(276)	(329)
Net total	**5 292 319**	**13 430 590**

As at 31 December 2007, the nominal value of placements with other banks with a fixed interest rate amounted to PLN 4,596,601 thousand (as at 31 December 2006: PLN 12,294,042 thousand). Majority of those placements were short-term placements. The nominal value of placements with other banks with a floating interest rate amounted to PLN 200 thousand as at 31 December 2007 (as at 31 December 2006: PLN 299 thousand).

25. Financial assets held for trading

	31.12.2007	31.12.2006
Debt securities	1 193 255	997 136
- issued by the State Treasury	1 193 129	996 668
- issued by local government bodies	126	468
Shares in other entities - listed on stock exchange	9 664	1 495
Shares in other entities - not listed on stock exchange	-	4
Total financial assets held for trading	**1 202 919**	**998 635**

(in PLN thousand)

Financial assets held for trading (carrying amount) by maturity as at 31 December 2007 and as at 31 December 2006

As at 31 December 2007	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Debt securities	**55 507**	**65 310**	**206 577**	**516 795**	**349 066**	**1 193 255**
- issued by the State treasury	55 507	65 310	206 451	516 795	349 066	**1 193 129**
- issued by local government bodies	-	-	126	-	-	**126**
Shares in other entities - listed on stock exchange	**9 664**	-	-	-	-	**9 664**
Total	**65 171**	**65 310**	**206 577**	**516 795**	**349 066**	**1 202 919**

The average yield of debt securities issued by the State Treasury as at 31 December 2007 amounted to 5.97% for PLN, 4.38% for EUR

The portfolio of debt securities held for trading as at 31 December 2007 was comprised of the following securities carried at nominal value:

- Treasury bills 61 780
- Treasury bonds 1 108 839
- Bonds denominated in EUR 7 164
- Municipal bonds 123

(in PLN thousand)

As at 31 December 2006	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Debt securities	**611 275**	**88 616**	**134 645**	**38 987**	**123 613**	**997 136**
- issued by the State treasury	611 275	88 616	134 177	38 987	123 613	**996 668**
- issued by local government bodies	-	-	468	-	-	**468**
Shares in other entities - not listed on stock exchange	**1 495**	**-**	**-**	**-**	**-**	**1 495**
Shares in other entities - listed on stock exchange	**-**	**-**	**-**	**-**	**4**	**4**
Total	**612 770**	**88 616**	**134 645**	**38 987**	**123 617**	**998 635**

The average yield of debt securities issued by the State Treasury as at 31 December 2006 amounted to 4.45% for PLN, 4.03% for EUR and 4.71% for USD.

The portfolio of debt securities held for trading as at 31 December 2006 was comprised of the following securities carried at nominal value:

- Treasury bills 67 080
- Treasury bonds 803 444
- Bonds denominated in USD 14 553
- Bonds denominated in EUR 95 780
- Municipal bonds 458

(in PLN thousand)

26. Derivative financial instruments

Derivative instruments used by the Group

The Group uses various types of derivatives with a view to manage the risk involved in its business activities. Forward contracts account for the majority of derivatives used by the Group. As at 31 December 2007 and 31 December 2006, the Group held the following derivative instruments:

Type of contract	31.12.2007		31.12.2006	
	Assets	Liabilities	Assets	Liabilities
IRS	882 368	814 180	644 385	773 582
FRA	146 575	144 704	68 646	76 228
FX Sw ap	73 193	67 132	104 133	32 737
CIRS	410 927	200 717	376 078	201 314
Forw ard	28 109	36 375	5 867	11 926
Options	15 528	16 424	45	2 019
Other	36	393	-	-
Total	**1 556 736**	**1 279 925**	**1 199 154**	**1 097 806**

Derivative instruments embedded in other instruments

The Group uses derivative instruments which are part of compound financial instruments, i.e. instruments including both a derivative and a host contract, which results in that part of the cash flows from the compound instrument change similarly to cash flows from a separate derivative. Derivatives embedded in other instruments cause that part of or all cash flows resulting from the host contract are modified on the basis of a certain interest rate, price of a security, price of commodity, foreign exchange rate, price index or interest rate index, credit rating or credit index or other variable, provided that the non-financial variable is not specific for any party to the contract.

Derivatives may also be embedded in loan and deposit agreements. The Group has analyzed the portfolio of loan and deposit agreements as well as non-financial agreements in order to determine whether any embedded derivatives should be separated and, based on the above, the Group has concluded that its product offer includes a structured deposit which contains an embedded derivative which should be separated and recognised and measured on a stand-alone basis using similar principles to those applied for stand-alone derivatives. The Group has not identified any loan agreements containing embedded derivatives, where embedded derivatives should be separated and recognized on a stand-alone basis. However, the Group has identified non-financial agreements which contain embedded derivatives being subject to separation and valuation on a stand-alone basis using similar principles to those applied to derivatives embedded in deposits.

Risk involved in derivative financial instruments

Market risk and credit risk are the main categories of derivative-related risk.

Derivative risk management objectives and policies and derivatives' exposure to credit risk are presented in Note 3.

The Group enters into derivative transactions with other financial institutions, mainly with banks and non-financial institutions. The tables below present notional amounts of derivative financial instruments and the fair values of such derivatives. The notional amounts of derivate financial instruments are recorded in off-balance positions. Derivative instrument becomes part of assets, when its fair value is positive and part of liabilities, when its fair value is negative.

(in PLN thousand)

Derivative financial instruments as at 31 December 2007

Notional amounts of underlying instruments and fair value of derivative financial instruments

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
- OTC market								
FX swap	2 729 270	643 248	845 554	-	-	**4 218 072**	67 132	73 193
Purchase	1 356 838	324 984	432 144	-	-	**2 113 966**	-	-
Sale	1 372 432	318 264	413 410	-	-	**2 104 106**	-	-
FX forward	966 764	1 004 944	906 335	71 852	-	**2 949 895**	36 375	28 145
Purchase	486 809	499 958	448 069	35 229	-	**1 470 065**	-	-
Sale	479 955	504 986	458 266	36 623	-	**1 479 830**	-	-
Options	195 247	445 795	614 253	135 922	-	**1 391 217**	16 424	15 324
Purchase	95 177	152 629	338 580	71 110	-	**657 496**	-	-
Sale	100 070	293 166	275 673	64 812	-	**733 721**	-	-
Cross Currency IRS	-	1 095 785	1 397 535	10 545 309	8 866 607	**21 905 236**	200 717	410 927
Purchase	-	555 435	705 155	5 317 678	4 471 031	**11 049 299**	-	-
Sale	-	540 350	692 380	5 227 631	4 395 576	**10 855 937**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	10 336 000	12 814 000	78 651 500	132 577 610	15 266 352	**249 645 462**	814 180	882 368
Purchase	5 168 000	6 407 000	39 325 750	66 288 805	7 633 176	**124 822 731**	-	-
Sale	5 168 000	6 407 000	39 325 750	66 288 805	7 633 176	**124 822 731**	-	-
Forward Rate Agreement (FRA)	18 709 142	32 714 000	68 050 000	16 950 000	-	**136 423 142**	144 704	146 575
Purchase	9 600 000	16 710 000	37 400 000	10 150 000	-	**73 860 000**	-	-
Sale	9 109 142	16 004 000	30 650 000	6 800 000	-	**62 563 142**	-	-
Other transactions								
Futures on bonds	10 856	9 636	5 310	2 686	-	**28 488**	-	-
Purchase	5 428	4 818	2 531	1 343	-	**14 120**	-	-
Sale	5 428	4 818	2 779	1 343	-	**14 368**	-	-
Credit Default Swaps (CDS)	-	-	-	109 575	121 750	**231 325**	376	-
Purchase	-	-	-	109 575	121 750	**231 325**	-	-
Other (including on stock market index)	281	8 002	1 940	-	-	**10 223**	17	204
Purchase	281	2 034	-	-	-	**2 315**	-	-
Sale	-	5 968	1 940	-	-	**7 908**	-	-
Total derivative instruments	**32 947 560**	**48 735 410**	**150 472 427**	**160 392 954**	**24 254 709**	**416 803 060**	**1 279 925**	**1 556 736**

(in PLN thousand)

Derivative financial instruments as at 31 December 2006

Notional amounts of underlying instruments and fair value of derivative financial instruments

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
- OTC market								
FX swap	4 356 008	2 032 835	1 100 723	-	-	**7 489 566**	32 737	104 133
Purchase	2 171 188	1 045 029	562 280	-	-	**3 778 497**	-	-
Sale	2 184 820	987 806	538 443	-	-	**3 711 069**	-	-
FX forward	409 346	439 806	868 158	263 963	-	**1 981 273**	11 926	5 867
Purchase	204 084	220 356	431 745	130 194	-	**986 379**	-	-
Sale	205 262	219 450	436 413	133 769	-	**994 894**	-	-
Options	-	7 819	29 575	3 952	-	**41 346**	98	25
Purchase	-	5 223	13 358	2 750	-	**21 331**	-	-
Sale	-	2 596	16 217	1 202	-	**20 015**	-	-
Cross Currency IRS	965 680	964 480	-	9 601 726	9 506 975	**21 038 861**	201 314	376 078
Purchase	488 840	487 640	-	4 832 050	4 789 709	**10 598 239**	-	-
Sale	476 840	476 840	-	4 769 676	4 717 266	**10 440 622**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	5 800 000	7 468 000	32 812 100	98 915 326	6 554 960	**151 550 386**	773 582	644 385
Purchase	2 900 000	3 734 000	16 406 050	49 457 663	3 277 480	**75 775 193**	-	-
Sale	2 900 000	3 734 000	16 406 050	49 457 663	3 277 480	**75 775 193**	-	-
Forward Rate Agreement (FRA)	13 300 000	18 825 000	64 900 000	21 350 000	-	**118 375 000**	76 228	68 646
Purchase	6 300 000	9 375 000	34 050 000	12 350 000	-	**62 075 000**	-	-
Sale	7 000 000	9 450 000	30 850 000	9 000 000	-	**56 300 000**	-	-
Other transactions								
Transactions on stock market index	-	952	-	68 701	-	69 653	1 921	20
Purchase	-	868	-	-	-	868	-	-
Sale	-	84	-	68 701	-	68 785		
Total derivative instruments	**24 831 034**	**29 738 892**	**99 710 556**	**130 203 668**	**16 061 935**	**300 546 085**	**1 097 806**	**1 199 154**

(in PLN thousand)

27. Other financial instruments at fair value through profit or loss

	31.12.2007	31.12.2006
Debt securities	8 292 362	11 499 502
- issued by the State Treasury	7 353 033	10 165 511
- issued by other banks	764 018	1 291 148
- issued by other financial institutions	129 142	17 412
- issued by non-financial entities	46 169	25 431
Shares and stocks in other entities	22 082	19 203
- not listed on stock exchange	22 082	19 203
Total	**8 314 444**	**11 518 705**

As at 31 December 2007 and 31 December 2006, the portfolio of securities at fair value through profit or loss was comprised of the following:

According to notional amount	31.12.2007	31.12.2006
in the holding company:		
treasury bonds	6 271 400	7 729 771
USD bonds	587 424	798 059
including issued by banks	234 349	448 799
EUR bonds	1 271 610	2 471 124
including issued by banks	555 210	632 148
PLN bonds issued by banks	-	200 000
in the subsidiaries:		
treasury bonds	100 587	60 646
investment certificates	10 000	10 960
other entities' bonds	95 833	47 780
treasury bonds	79 250	43 450
treasury bills	2 290	3 690
capital instruments	20 409	16 343

As at 31 December 2007, the average yield of debt securities issued by the State Treasury and Central Bank and included in the portfolio of other financial instruments at fair value through profit or loss was 5.96% for PLN, 5.52% for EUR, 4.57% for USD. As at 31 December 2006, the average yield on such securities was as follows: 4.33% for PLN, 4.29% for EUR, 5.14% for USD.

In the year ended 31 December 2007 the Bank issued a semi-annual structured deposit. The interest on this deposit was guaranteed at a certain level if the value of the USD/PLN exchange rate at the end of the holding period was within a certain defined range; otherwise no interest was paid. In the year ended 31 December 2006, the Bank had in its offer an annual deposit with embedded European binary options. The interest on such deposits consisted of two parts: a guaranteed part and additional interest depending on the level of the exchange rate.

(in PLN thousand)

Other financial instruments at fair value through profit or loss (carrying amount), by maturity

As at 31 December 2007	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**370**	**118**	**2 044 138**	**4 449 588**	**1 798 148**	**8 292 362**
- issued by other banks	-	-	-	505 390	258 628	**764 018**
- issued by other financial institutions	15	-	-	72 118	57 009	**129 142**
- issued by non-financial entities	-	118	5 010	36 972	4 069	**46 169**
- issued by the State Treasury	355	-	2 039 128	3 835 108	1 478 442	**7 353 033**
Shares and stocks in other entities - listed and not listed on stock exchange	**-**	**-**	**-**	**-**	**22 082**	**22 082**
Total	**370**	**118**	**2 044 138**	**4 449 588**	**1 820 230**	**8 314 444**

As at 31 December 2006	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**381 996**	**154 689**	**2 286 520**	**5 583 504**	**3 092 793**	**11 499 502**
- issued by the State Treasury	179 501	154 501	2 226 322	4 847 016	2 758 171	10 165 511
- issued by other banks	202 012	-	44 076	711 026	334 034	1 291 148
- issued by other financial institutions	-	-	13 944	2 880	588	17 412
- issued by non-financial entities	483	188	2 178	22 582	-	25 431
Shares and stocks in other entities - listed and not listed on stock exchange	**-**	**-**	**-**	**-**	**19 203**	**19 203**
Total	**381 996**	**154 689**	**2 286 520**	**5 583 504**	**3 111 996**	**11 518 705**

(in PLN thousand)

28. Loans and advances to customers

	31.12.2007	31.12.2006
Loans and advances		
Receivables valued using the collective methods (IBNR)	74 158 998	57 649 166
Receivables valued using the individual method	1 403 662	1 277 962
Receivables valued using the portfolio methods	1 619 194	1 440 737
Loans and advances - gross value	**77 181 854**	**60 367 865**
Allowances against exposures with portfolio impairment	(1 363 864)	(1 237 180)
Allowances against exposures with individual impairment	(536 271)	(640 330)
Allowances against exposures with collective impairment (IBNR)	(475 673)	(526 312)
Total impairment	**(2 375 808)**	**(2 403 822)**
Loans and advances - total net value	**74 806 046**	**57 964 043**

Finance and operating leases agreements

Finance lease

The Group conducts lease activities through the company Bankowy Fundusz Leasingowy SA.

The value of gross investments in the lease and the minimum lease payments resulting from finance lease agreements amounted to:

As at 31 December 2007

Finance lease receivables	Gross investment in the lease	Present value of minimum lease payments	Unrealized gains
Gross investment in the lease and minimum lease payments			
Gross lease receivables:			
up to 1 year	619 742	517 024	102 718
from 1 year to 5 years	1 174 457	1 031 024	143 433
above 5 years	124 481	102 850	21 631
Total	**1 918 680**	**1 650 898**	**267 782**
Impairment allowances	(39 795)	(39 795)	**X**
Total after impairment allowances	**1 878 885**	**1 611 103**	**267 782**

Net investment in the lease	
Present value of minimum lease payments	1 650 898
of which: un-guaranteed residual value to the lessor	24 501

(in PLN thousand)

As at 31 December 2006

Finance lease receivables	**Gross investment in the lease**	**Present value of minimum lease payments**	**Unrealized gains**
Gross investment in the lease and minimum lease payments			
Gross lease receivables:			
from 1 year to 5 years	408 374	350 029	58 345
above 5 years	666 418	593 822	72 596
Total	49 398	41 913	7 485
Total	**1 124 190**	**985 764**	**138 426**
Impairment allowances	(43 200)	(43 200)	X
Total after impairment allowances	**1 080 990**	**942 564**	**138 426**

Net investment in the lease	
Present value of minimum lease payments	985 764
of which: un-guaranteed residual value to the lessor	110 965

Operating lease

Operating lease agreement, under which the lessor retains substantially all of the risks and rewards incidental to the ownership of an asset, are reckoned among operating lease agreements. Lease payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term.

Rental and tenancy agreements concluded by the Bank in the course of its normal operating activities meet the criteria of operating lease. All agreements are concluded at market condition's length.

The table below shows data concerning operating lease agreements concluded by the Group companies.

Total value of future lease payments under non-cancellable operating lease	**31.12.2007**	**31.12.2006**
For the period:		
up to 1 year	80 108	71 437
from 1 year to 5 years	132 277	152 766
above 5 years	24 104	21 021
Total	**236 489**	**245 224**

Lease and sub-lease payments recognized as an expense in the period from 1 January 2007 to 31 December 2007 amounted to PLN 72,520 thousand (in the period from 1 January 2006 to 31 December 2006: PLN 129,961 thousand).

(in PLN thousand)

29. Investment securities

	31.12.2007	31.12.2006
Available for sale	**5 743 087**	**6 793 239**
issued by central banks	2 633 505	2 640 272
issued by other banks	57 619	1 162 081
issued by other financial institutions	902	6 091
issued by non-financial entities	673 885	801 986
issued by the State Treasury	1 201 129	1 256 781
issued by local government bodies	1 176 047	926 028
Total investment securities	**5 743 087**	**6 793 239**
Impairment allowances	(26 849)	(30 051)
Total net investment securities	**5 716 238**	**6 763 188**

Changes in investment securities

	2007	2006
Available for sale		
Balance at the beginning of the period	**6 763 188**	**1 881 378**
Foreign exchange differences	(1 626)	(315)
Increases	3 397 449	20 381 514
Decreases (redemption)	(4 380 104)	(15 510 367)
Change in the fair value	(62 669)	10 978
Balance at the end of the period	**5 716 238**	**6 763 188**

(in PLN thousand)

Securities available for sale (carrying amount), by maturity

As at 31 December 2007	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Securities available for sale						
issued by central banks	-	-	-	2 633 505	-	**2 633 505**
issued by other banks	-	-	-	55 377	-	**55 377**
issued by other financial institutions	-	-	-	-	437	**437**
issued by non-financial entities	136 030	107 292	6 546	394 154	5 720	**649 742**
issued by the State Treasury	156	-	69 600	650 695	480 678	**1 201 129**
issued by local government bodies	2 617	5 501	124 669	556 492	486 769	**1 176 048**
Total	**138 803**	**112 793**	**200 815**	**4 290 223**	**973 604**	**5 716 238**

The average yield of available-for-sale securities as at 31 December 2007 amounted to 6.05%.

As at 31 December 2007, the portfolio of debt securities available for sale at nominal amount was comprised of the following:

in the holding company:

- bills of exchange 2 150
- corporate bonds in PLN 596 668
- corporate bonds in EUR 24 723
- municipial bonds 1 171 442
- tresury bonds 1 125 000
- bonds issued by National Bank of Poland 2 551 112

in subsidiary:

- tresury bonds 111 740

(in PLN thousand)

As at 31 December 2006	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Securities available for sale						
issued by central banks	-	-	-	-	2 640 272	**2 640 272**
issued by other banks	-	-	1 101 852	57 987	-	**1 159 839**
issued by other financial institutions	-	-	-	-	854	**854**
issued by non-financial entities	826	189 335	2 022	584 315	2 916	**779 414**
issued by the State Treasury	2 435	-	30 680	1 223 031	635	**1 256 781**
issued by local government bodies	-	1 143	71 599	581 958	271 328	**926 028**
Total	**3 261**	**190 478**	**1 206 153**	**2 447 291**	**2 916 005**	**6 763 188**

The average yield of available-for-sale securities as at 31 December 2006 amounted to 4.93%.

As at 31 December 2006, the portfolio of debt securities available for sale at nominal amount was comprised of the following:

in the holding company:

- bills of exchange 166 000
- corporate bonds in PLN 440 643
- corporate bonds in EUR 22 562
- municipial bonds 917 990
- treasury bonds 1 106 000
- bonds issued by banks 1 100 000
- bonds issued by National Bank of Poland 2 551 112

in the subsidiary:

- tresury bonds 88 089

As at 31 December 2007 and 31 December 2006, the PKO BP SA Group did not have any securities in the held-to-maturity portfolio.

(in PLN thousand)

30. Investments in associates and jointly controlled entities

a) Carrying amount of the Bank's investments in jointly controlled entities (i.e. acquisition cost adjusted for its share in the change in net assets and impairment losses)

Entity name	31.12.2007	31.12.2006
Centrum Obsługi Biznesu Sp. z o.o	10 519	14 197
Grupa Kapitałowa Centrum Haffnera Sp. z o.o.	45 752	43 789
Total	**56 271**	**57 986**

b) Carrying amount of the Bank's investments in associates (i.e. acquisition cost adjusted for its share in the change in net assets and impairment losses)

Entity name	31.12.2007	31.12.2006
Bank Pocztowy SA	113 000	113 000
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 626	1 598
Agencja Inwestycyjna CORP SA	301	226
FINDER SA*	7 386	7 352
Total	**122 313**	**122 176**

*until 2 January - FINDER Sp. z o.o.

Summary information on associated entities accounted for using the equity method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2007					
Bank Pocztowy SA	3 098 960	2 848 798	256 025	29 090	25.00%
Kolej Gondolowa Jaworzyna Krynicka SA	36 825	2 550	11 700	1 809	37.53%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	14 653	9 575	312	42	33.33%
Agencja Inwestycyjna CORP SA	4 027	2 486	14 471	315	22.31%
Total	**3 154 465**	**2 863 409**	**282 508**	**31 256**	**X**
31.12.2006					
Bank Pocztowy SA	2 627 410	2 409 372	236 116	24 367	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	38 289	6 733	12 225	2 274	37.53%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	11 028	6 204	178	140	33.33%
Agencja Inwestycyjna CORP SA	3 818	2 255	14 265	374	22.31%
Total	**2 680 545**	**2 424 564**	**262 784**	**27 155**	**X**

The financial data presented in the above table are derived from the companies' financial statements prepared in accordance with Polish Accounting Standards. The data for the year 2006 are derived from audited financial statements.

Summary information on jointly controlled entities accounted for using the equity method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2007					
Centrum Obsługi Biznesu Sp. z o.o	125 269	98 920	20 933	(7 410)	41.44%
Grupa Centrum Haffnera Sp. z o.o.	172 534	79 973	2 681	2 098	49.43%
Total	**297 803**	**178 893**	**23 614**	**(5 312)**	**X**
31.12.2006					
Centrum Obsługi Biznesu Sp. z o.o	124 514	91 186	1 454	(8 843)	41.44%
Grupa Centrum Haffnera Sp. z o.o.	112 996	22 363	1 381	716	49.43%
Total	**237 510**	**113 549**	**2 835**	**(8 127)**	**X**

(in PLN thousand)

The data presented in the above table for Centrum Obsługi Biznesu Sp. z o.o. are derived from financial statements prepared in accordance with Polish Accounting Standards, and the data for Centrum Haffnera Sp. z o.o. are derived from consolidated financial statements prepared in accordance with IFRS. The data of both companies for the year 2006 are derived from audited financial statements.

In the consolidated financial statements for the first half of 2007, all associates and jointly controlled entities are accounted for using the equity method.

	2007	2006
Investment in associated entities at the beginning of the period	**122 176**	**120 378**
Share in profits (losses)	6 087	3 131
Dividends paid	(74)	(93)
Share in changes recognised directly in the equity of the entity	-	4 193
acquisition of shares in FINDER SA	-	945
acquisition of shares in INTER FINANCE Polska Sp. zo.o.	-	3 248
acquisition of shares Hotel Jan III Sobieski Sp. z o.o.	-	78 495
sale of shares Hotel Jan III Sobieski Sp. z o.o.	-	(78 495)
acquisition of shares P.L.ENERGIA SA	4 999	-
sale of shares P.L.ENERGIA SA	(4 999)	-
Investments' impairment	(5 876)	(5 433)
Investment in associate entities at the end of the period	**122 313**	**122 176**

	2007	2006
Investment in jointly controlled entities at the beginning of the period	**57 986**	**63 967**
Share in profits (losses)	(1 715)	(6 836)
Dividends paid	-	-
Share in changes recognised directly in the equity of the entity	-	44 371
acquisitions of shares in Centrum Haffnera Sp. z o.o.	-	44 371
Sale of Wawel Hotel Development Sp. z o.o.	-	(17 377)
Transfer of PKO TFI SA to subsidiaries	-	(26 139)
Investment in jointly controlled entities at the end of the period	**56 271**	**57 986**

As at 31 December 2007 and 31 December 2006, the holding company had no share in contingent liabilities of associates acquired jointly with other investors.

In 2007, PKO BP SA did not make any direct investments in jointly controlled entities or associates.

(in PLN thousand)

31. Intangible assets

For the year ended 31 December 2007	**Development expenses**	**Patents and licenses**	**Goodwill acquired as a result of business consolidation (including goodwill of subsidiary entities)**	**Other, including expenses**	**Total**
Purchase price as at 1 January 2007 including amortisation	-	623 278	205 655	115 095	**944 028**
Purchase of subsidiaries' shares	-	-	28 408	-	**28 408**
Purchase	-	9 813	-	296 124	**305 937**
Disposal and sale	-	(33)	-	(2)	**(35)**
Impairment allowance	-	16 308	-	-	**16 308**
Due to foreign exchange differences from translation of foreign entities	-	(999)	-	-	**(999)**
Transfers	-	292 754	-	(292 754)	**-**
Amortisation	-	(111 469)	-	(2 526)	**(113 995)**
Other changes*	2 539	(706)	3	2 003	**3 839**
Net carrying amount	**2 539**	**828 946**	**234 066**	**117 940**	**1 183 491**
As at 31 December 2006					
Purchase price (gross carrying amount)	-	1 340 482	205 655	129 593	**1 675 730**
Accumulated amortisation and impairment allowance	-	(717 204)	-	(14 498)	**(731 702)**
Net carrying amount	**-**	**623 278**	**205 655**	**115 095**	**944 028**
As at 31 December 2007					
Purchase price (gross carrying amount)	2 539	1 634 511	234 066	132 271	**2 003 387**
Accumulated amortisation and impairment allowance	-	(805 565)	-	(14 331)	**(819 896)**
Net carrying amount	**2 539**	**828 946**	**234 066**	**117 940**	**1 183 491**

* “Other changes” in “Patents and licenses” include mainly software transferred from assets under construction.

An item of intangible assets which is significant for the Group comprises capital expenditures incurred for the Integrated Information System (ZSI). Cumulative capital expenditures incurred for the ZSI system during the years 2003 – 2007 amounted to PLN 704,045 thousand (suitably during the years 2003 – 2006 amounted PLN 534,527 thousand).

(in PLN thousand)

For the year ended 31 December 2006	**Development expenses**	**Patents and licenses**	**Goodwill acquired as a result of business consolidation (including goodwill of subsidiary entities)**	**Other, including expenses**	**Total**
Purchase price as at 1 January 2006 including amortisation	963	189 132	156 304	342 371	**688 770**
Full method consolidation of subsidiaries	-	229	49 351	4	**49 584**
Purchase	-	6 848	-	288 013	**294 861**
Sale	-	(66)	-	(1)	**(67)**
Due to foreign exchange differences from translation of foreign entities	-	(204)	-	-	**(204)**
Transfers	-	507 603	-	(507 603)	**-**
Impairment allowence	-	(29 424)	-	(2 257)	**(31 681)**
Amortisation	-	(51 783)	-	(2 732)	**(54 515)**
Other changes*	(963)	943	-	(2 700)	**(2 720)**
Net carrying amount	**-**	**623 278**	**205 655**	**115 095**	**944 028**
As at 31 December 2005					
Purchase price (gross carrying amount)	1 862	831 134	156 336	353 219	**1 342 551**
Accumulated amortisation and impairment allowance	(899)	(642 002)	(32)	(10 848)	**(653 781)**
Net carrying amount	**963**	**189 132**	**156 304**	**342 371**	**688 770**
As at 31 December 2006					
Purchase price (gross carrying amount)	-	1 340 482	205 655	129 593	**1 675 730**
Accumulated amortisation and impairment allowance	-	(717 204)	-	(14 498)	**(731 702)**
Net carrying amount	**-**	**623 278**	**205 655**	**115 095**	**944 028**

* "Other changes" in "Patents and licenses" include mainly software transferred from assets under construction.

The table below shows data concerning goodwill included in in the Group's financial statements

Goodwill	**31.12.2007**	**31.12.2006**
Powszechne Towarzystwo Emerytalne BANKOWY SA	51 158	51 158
Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
KREDOBANK SA	76 360	47 949
Wilanów Investment Sp. z o.o.	49 412	49 412
PKO Towarzystwo Funduszy Inwestycyjnych SA	49 351	49 351
Total goodwill	**234 066**	**205 655**

Additional detailed information concerning as a result of acquisition of subsidiaries' shares and participations are presented in Note 53 "Business Combinations".

As at 31 December 2007 the Group performed obligatory impairment tests for goodwill using models developed in accordance with IAS 36, taking into account the specific nature of the activities carried out by the individual companies. The test models based on discounted financial cash flows of the companies and an assumption to continue holding of the companies' shares or participations. The financial cash flows forecasts are prepared based on the 3-5 year financial plans using diverse discount factors depending on the companies' activities specific. The results of the impairment tests as at 31 December 2007 justify the current level of goodwill impairment write-offs.

The Group did not create any patents or licenses internally. In the period from 1 January 2007 to 31 December 2007, the PKO BP SA Group incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 782,726 thousand (in the period from 1 January 2006 to 31 December 2006: PLN 581,564 thousand).

(in PLN thousand)

32. Tangible fixed assets

For the year ended 31 December 2007	Land and buildings, including investment real estate	Plant and machinery	Means of transport	Assets under construction	Other	Total
Gross value of tangible assets at the beginning of the period	**2 335 415**	**2 621 780**	**60 553**	**294 632**	**384 774**	**5 697 154**
Increases, of which:	**22 410**	**34 474**	**32 943**	**1 561 105**	**16 179**	**1 667 111**
Purchases and other changes	22 410	34 474	32 943	1 561 105	16 179	**1 667 111**
Decreases, of which:	**(48 540)**	**(259 357)**	**(18 042)**	**(1 230 105)**	**(28 316)**	**(1 584 360)**
Liquidation and sale	(25 083)	(247 129)	(15 823)	(47 333)	(21 739)	**(357 107)**
Fixed assets leased	-	-	-	(1 120 639)	-	**(1 120 639)**
Foreign exchange differences	(11 751)	(8 983)	(1 010)	(8 084)	(4 970)	**(34 798)**
Other	(11 706)	(3 245)	(1 209)	(54 049)	(1 607)	**(71 816)**
Transfers from expenses to tangible fixed assets	**41 507**	**200 427**	**1 054**	**(284 171)**	**41 183**	**-**
Gross value of fixed assets at the end of the period	**2 350 792**	**2 597 324**	**76 508**	**341 461**	**413 820**	**5 779 905**
Accumulated depreciation at the beginning of the period	**(500 103)**	**(2 137 360)**	**(31 743)**	**-**	**(321 688)**	**(2 990 894)**
Increases, of which:	**(75 373)**	**(162 927)**	**(10 306)**	**-**	**(21 503)**	**(270 109)**
Depreciation for the period	(74 688)	(161 880)	(10 226)	**-**	(21 376)	**(268 170)**
Other	(685)	(1 047)	(80)	-	(127)	**(1 939)**
Decreases, of which:	**11 635**	**252 025**	**15 432**	**-**	**25 162**	**304 254**
Liquidation and sale	9 218	246 006	14 332	-	21 483	**291 039**
Other	998	3 078	636	-	1 770	**6 482**
Foreign exchange differences	1 419	2 941	464	-	1 909	**6 733**
Accumulated depreciation at the end of the period	**(563 841)**	**(2 048 262)**	**(26 617)**	**-**	**(318 029)**	**(2 956 749)**
Impairment allowance						
Opening balance	(50 405)	(79)	-	(700)	(35)	**(51 219)**
Increases	-	(126)	-	(970)	-	**(1 096)**
Decreases	49 148	79	-	-	35	**49 262**
Closing balance	(1 257)	(126)	-	(1 670)	-	**(3 053)**
Net book value	**1 785 694**	**548 936**	**49 891**	**339 791**	**95 791**	**2 820 103**
Opening balance	**1 784 907**	**484 341**	**28 810**	**293 932**	**63 051**	**2 655 041**
Closing balance	**1 785 694**	**548 936**	**49 891**	**339 791**	**95 791**	**2 820 103**

As at 31 December 2007, the off-balance sheet value of machinery and equipment used under finance lease agreements and operating lease with the purchase options contracts amounted to PLN 13,310 thousand (as at 31 December 2006: PLN 17,860 thousand). In the years ended 13 December 2007 and 31 December 2006, respectively, there were no restrictions on the Group's right to use its tangible fixed assets due to them being pledged as collateral.

(in PLN thousand)

For the year ended 31 December 2006	Land and buildings, including investment real estate	Plant and machinery	Means of transport	Assets under construction	Other	Total
Gross value of tangible assets as at the beginning of the period	**2 328 095**	**2 570 959**	**54 380**	**225 627**	**364 101**	**5 543 162**
Increases, of which:	**9 168**	**35 504**	**19 412**	**1 043 979**	**8 842**	**1 116 905**
Full method consolidation of subsidiaries	390	817	288	-	555	**2 050**
Purchases and other changes	8 778	34 687	19 124	1 043 979	8 287	**1 114 855**
Decreases, of which:	**(18 428)**	**(116 545)**	**(13 272)**	**(805 808)**	**(8 860)**	**(962 913)**
Liquidation and sale	(12 042)	(107 005)	(12 618)	(20 281)	(7 081)	**(159 027)**
Fixed assets leased	-	-	-	(780 069)	-	**(780 069)**
Foreign exchange differences	(6 386)	(3 145)	(400)	(89)	(1 697)	**(11 717)**
Other	-	(6 395)	(254)	(5 369)	(82)	**(12 100)**
Transfers from expenses to tangible fixed assets	**16 580**	**131 862**	**33**	**(169 166)**	**20 691**	**-**
Gross value of fixed assets at the end of the period	**2 335 415**	**2 621 780**	**60 553**	**294 632**	**384 774**	**5 697 154**
Accumulated depreciation as at the beginning of the period	**(429 754)**	**(2 070 810)**	**(35 760)**	**-**	**(310 756)**	**(2 847 080)**
Increases, of which:	**(74 538)**	**(169 506)**	**(7 575)**	**-**	**(18 846)**	**(270 465)**
Depreciation for the period	(73 117)	(168 519)	(7 363)	-	(15 992)	**(264 991)**
Full method consolidation of subsidiaries	(112)	(649)	(197)	-	(358)	**(1 316)**
Other	(1 309)	(338)	(15)	-	(2 496)	**(4 158)**
Decreases, of which:	**4 189**	**102 956**	**11 592**	**-**	**7 914**	**126 651**
Liquidation and sale	3 329	96 927	11 186	-	6 926	**118 368**
Foreign exchange differences	860	1 776	331	-	973	**3 940**
Other	-	4 253	75	-	15	**4 343**
Accumulated depreciation at the end of the period	**(500 103)**	**(2 137 360)**	**(31 743)**	**-**	**(321 688)**	**(2 990 894)**
Impairment allowance						
Opening balance	(50 221)	(2 310)	-	-	-	**(52 531)**
Increases	(184)	(79)	-	(700)	(35)	**(998)**
Decreases	-	2 310	-	-	-	**2 310**
Closing balance	(50 405)	(79)	-	(700)	(35)	**(51 219)**
Net book value	**1 784 907**	**484 341**	**28 810**	**293 932**	**63 051**	**2 655 041**
Opening balance	**1 848 120**	**497 839**	**18 620**	**225 627**	**53 345**	**2 643 551**
Closing balance	**1 784 907**	**484 341**	**28 810**	**293 932**	**63 051**	**2 655 041**

In 2007 and 2006, the Group did not receive any compensation from third parties due to impairment or loss of tangible fixed assets, which was recognized in the income statement.

(in PLN thousand)

The balance sheet item “Land and buildings, including investment property” includes land which is not subject to depreciation. The largest item is the perpetual usufruct right to the plot of land in Warsaw with the carrying amount of PLN 26,640 thousand, whose fair value estimated by an independent expert (as at 30 March 2007) exceeded its carrying amount by appx. PLN 19,330 thousand. There are no restrictions on the Bank's rights to sell these properties, nor any contractual liabilities relating to these assets.

The amounts of income/costs connected with investment properties of the Group are presented below.

	2007	2006
Direct operating costs concerning the investment properties (including maintenance and repair costs) that in the given period did not bring rental income.	1 439	1 329

33. Other assets

	31.12.2007	31.12.2006
Inventory	365 304	255 369
Amounts due from recipients	225 762	141 889
Settlements of transactions carried out using cards	149 114	141 417
Accrued expenses	31 117	58 067
Receivables relating to foreign exchange activity	15 892	5 244
Receivables from the State budget due to distribution of Treasury stamps	8 373	10 850
Settlement due to securities trading	6 614	40 811
Fixed assets held for sale and discontinued activity	5 716	10 250
Receivables from other banks and non-bank point of sales due to distribution of Treasury stamps	3 753	14 332
Other*	132 335	89 454
Total	**943 980**	**767 683**

* Included in “Other” as at 31 December 2007 are mainly interbank and interbranch settlements, receivables arising from internal operations, receivables arising from other transactions with financial, non-financial and public entities.

a) Inventories

Inventories balance value according to type	31.12.2007	31.12.2006
Work in progress*	344 378	241 454
Raw materials	10 551	715
Goods for sale	9 910	12 778
Goods for sale	465	422
Total	**365 304**	**255 369**

* The balance is mainly comprised of expenses incurred for construction projects carried out by the Group companies carrying out real estate development activities.

In the years ended 31 December 2007 and 31 December 2006, respectively, the Group did not recognize any impairment write-downs against inventories and there were no inventories pledged as security.

b) Non-current assets held for sale

Non-current assets held for sale according to type	31.12.2007	31.12.2006
Assets held for sale	5 059	9 084
Leased assets	657	1 166
Total	**5 716**	**10 250**

(in PLN thousand)

34. Assets pledged as collateral/security for liabilities

The PKO BP SA Group had the following assets pledged as collateral for its own liabilities:

Liabilities from sell-buy-back transactions (SBB)

	31.12.2007	31.12.2006
Treasury bonds:		
nominal value	158 911	741 886
carrying value	160 943	746 655
Treasury bills:		
nominal value	2 360	19 270
carrying value	2 281	19 896

Fund for Protection of Guaranteed Money

PKO BP SA creates a fund for the protection of guaranteed money in accordance with Article 25 of the Act on the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny) dated 14 December 1994 (Journal of Laws 2000, No. 9, item 131 with subsequent amendments).

	31.12.2007	31.12.2006
Fund's value	202 824	144 575
Nominal value of collateral/ security	201 000	146 000
Type of collateral/ security	treasury bonds	treasury bonds
Maturity of collateral/ security	24.06.2008	24.03.2007
Carrying value of collateral/ security	206 872	146 215

The Fund for Protection of Guaranteed Money is secured by Treasury bonds with maturities sufficient to secure their carrying amount over the period defined by the above Act. The Fund is increased or decreased on 1 July each year, in proportion to the amount providing the basis for calculation of statutory provision.

Stock exchange guarantee fund

Cash pledged as collateral for securities' transactions conducted by DOM MAKLERSKI PKO BP SA are deposited in the National Depository for Securities (KDPW), as part of the Stock exchange guarantee fund.

	31.12.2007	31.12.2006
Stock exchange guarantee fund	8 120	5 487

Each direct participant in the National Depository of Securities (*Krajowy Depozyt Papierów Wartościowych - KDPW*) which holds the status of settlements-making participant is obliged to make payments to the settlement fund which guarantees the settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW SA on a daily basis.

In addition, KREDOBANK SA, an entity consolidated using the full method, had the following assets pledged as collateral for its own liabilities:

	31.12.2007	31.12.2006
Cash collateral from international financial organizations		
value in UAH thousands	149 837	131 217
equal value in PLN thousands	72 132	75 581
Ukrainian Financial Department's bonds as collateral from financial organizations		
value in UAH thousands	60 000	53 000
equal value in PLN thousands	28 884	30 528

35. Amounts due to the Central Bank

	31.12.2007	31.12.2006
Up to 1 month	1 279	1 387
Total amount due to the Central Bank	**1 279**	**1 387**

The interest rate as at 31 December 2007 and 31 December 2006, respectively, amounted to 0.0071%.

36. Amounts due to other banks

	31.12.2007	31.12.2006
Other banks' deposits	3 485 970	3 680 163
Loans and advances received	1 079 430	475 765
Current accounts	94 212	176 463
Other deposits from money market	43 502	19 217
Total amounts due to other bank	**4 703 114**	**4 351 608**

37. Other financial liabilities valued at fair value through profit or loss

As at 31 December 2007 and 31 December 2006 the PKO BP SA Group did not have any other financial liabilities valued at fair value through profit or loss.

38. Amounts due to customers

	31.12.2007	31.12.2006
Amounts due to corporate entities	**15 670 624**	**12 835 080**
Current accounts and overnight deposits	6 829 667	6 125 740
Term deposits	8 681 104	6 618 651
Other	159 853	90 689
Amounts due to state budget entities	**4 691 218**	**3 162 694**
Current accounts and overnight deposits	3 549 004	2 235 107
Term deposits	1 035 165	800 026
Other	107 049	127 561
Amounts due to individuals	**66 248 751**	**67 509 401**
Current accounts and overnight deposits	29 012 938	24 704 239
Term deposits	37 113 090	42 787 023
Other	122 723	18 139
Total amounts due to customers	**86 610 593**	**83 507 175**

39. Liabilities arising from debt securities issued

As at 31 December 2007 and 31 December 2006, the Group had liabilities arising from debt securities issued.

	31.12.2007	31.12.2006
Liabilities arising from the issue		
Bonds issued by:		
BFL SA	166 823	43 722
KREDOBANK SA	12 037	-
Total	**178 860**	**43 722**

	31.12.2007	31.12.2006
Liabilities arising from the issue with a payment period:		
Up to 1 month	53 427	-
From 1 month to 3 months	102 198	-
From 3 months to 1 year	11 198	43 722
From 1 year to 5 years	12 037	-
Total	**178 860**	**43 722**

As at 31 December 2007, the average interest rate of the securities issued by KREDOBANK was 13.75% and of the securities issued by BFL – 5.65%. As at 31 December 2006, the average interest rate of the securities issued by BFL was 4.50%; no securities were issued by KREDOBANK in 2006.

40. Subordinated liabilities

In the 4th quarter of 2007, the Bank issued subordinated bonds with 10-year maturities, of a total value of PLN 1,600,700 thousand. The interest on these bonds accrues on a semi-annual basis. Interest is calculated on the nominal value of the bonds using a variable interest rate equal to WIBOR 6M plus a margin of 100 bp per annum.

As at 31 December 2007

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance (PLN thousand)
Subordinated bonds	1 600 700	PLN	6.35%	30.10.2017	1 614 885

Change in subordinated liabilities	2007
As at the beginning of the period	**-**
Increases, of which:	**1 614 885**
issue of subordinated bonds	1 597 341
interest from subordinated bonds	17 544
As at the end of the period	**1 614 885**

(in PLN thousand)

41. Other liabilities

	31.12.2007	31.12.2006
Accrued costs	220 330	218 110
Revenues received in advance	321 273	300 904
Other liabilities (relating to)	1 190 730	1 701 333
liabilities relating to settlements of security transactions	323 286	230 586
liabilities arising from social and legal transactions	137 888	157 881
liabilities due to suppliers	136 426	126 362
inter-bank and inter-sector settlements	124 650	571 812
liabilities arising from transactions w ith non-financial entities	83 642	93 591
liabilities arising from foreign currency activities	64 176	76 464
settlement of acquisition of machines, tools, materials, w orks and services regarding building of tangible assets	58 328	114 656
liabilities relating to payment cards	38 348	3 798
liabilities relating to investment activities and ow n operations	34 266	56 259
liabilities arising from repayments of advances to borrow ers related w ith debt forgiveness due to State Treasury	33 341	30 895
liabilities arising from other settlements	32 782	85 909
liabilities due to UOKiK	16 597	16 597
liabilities arising from guarantees paid by suppliers and from non-cash retail loans for purchase of household products	14 973	19 549
liabilities relating to payments of benefits	9 225	9 989
other*	82 802	106 985
Total	**1 732 333**	**2 220 347**

*Item "other" includes, among others: liabilities from sale of marks of value, liabilities arising from bank transfers and other payment orders, amounts due from the operating branch of PKO BP SA to the PKO BP SA training and leisure centres in respect of funds deposited by these centres, balances arising from substitution services provided by Poczta Polska, payables to insurance companies and balances arising from settlement of funds allocated by customers for the purchase of investment fund units.

As at 31 December 2007 and 31 December 2006, none of the Group companies had overdue contractual liabilities, resulting from signed agreements.

42. Provisions

For the year ended 31 December 2007	Provision for disputes	Provisions for jubilee bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2007	**7 680**	**317 560**	**18 650**	**84 310**	**428 200**
Increase/revaluation	2 688	3 368	50 285	69 761	**126 102**
Utilisation	(2 064)	-	-	(435)	**(2 499)**
Release	(756)	-	(41 073)	(55 813)	**(97 642)**
Foreign exchange differences	-	-	(72)	-	**(72)**
Other changes and reclassifications	10	(71)	273	-	**212**
As at 31 December 2007	**7 558**	**320 857**	**28 063**	**97 823**	**454 301**

* Included in "Other provisions" is, among others, restructuring provision amounting to PLN 79,129 thousand and securitization provision amounting PLN 9,894 thousand, which is described in detail in Note 6.

(in PLN thousand)

For the year ended 31 December 2006	Provision for disputes	Provisions for jubilee bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2006	**7 538**	**210 794**	**16 912**	**104 653**	**339 897**
Increase/revaluation	1 379	110 625	5 767	42 416	**160 187**
Utilisation	(421)	(2)	-	-	**(423)**
Release	(816)	(3 864)	(4 001)	(62 759)	**(71 440)**
Acquisition/sale due to merger of business entities	-	7	-	-	**7**
Foreign exchange differences	-	-	(28)	-	**(28)**
As at 31 December 2006	**7 680**	**317 560**	**18 650**	**84 310**	**428 200**

* Included in "Other provisions" is, among others, restructuring provision amounting to PLN 37,000 thousand and securitization provision amounting PLN 39,290 thousand, which is described in detail in Note 6.

Provisions for disputes were recognized at the amount of the expected outflow of economic benefits.

43. Employee benefits

On 10 November 2004, pursuant to the Act of 30 August 1996 on commercialization and privatization (Journal of Laws 2002, No. 171, item 1397 with subsequent amendments) and § 14.1 of the Decree of the Minister of State Treasury dated 29 January 2003 concerning detailed principles of dividing entitled employees into groups, determining the number of shares falling to each of those groups and the course of acquiring shares by entitled employees (Journal of Laws No. 35, item 303), employee shares of the holding company were granted to its employees. As a result, the employees received 105,000,000 shares, which account for 10.5% of the share capital of the holding company.

As at 31 December 2007 as well as at 31 December 2006, there were no significant employee benefit plans in the Group.

44. Social Fund ("ZFŚS")

In the consolidated balance sheet, the Group compensated the Fund's asset and liabilities due to the fact that the assets of the Social Fund are not considered to be the assets of the Group. Accordingly, the balance of the Social Fund in the consolidated balance sheet of the Group as at 31 December 2007 and 31 December 2006 was nil.

The following tables present the types and the carrying amounts of assets, liabilities and costs associated with the Social Fund:

	31.12.2007	31.12.2006
Loans granted to employees	92 769	96 292
Amount on the Social Fund account	37 406	18 493

	2007	2006
Contributions to the Social Fund in the period	30 500	30 117
Non-refundable expenditure by the Social Fund in the period	15 062	15 447

(in PLN thousand)

45. Contingent liabilities

As at 31 December 2007, the Bank's underwriting agreements covered the following:

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	**725 517**	2009-12-31	Bonds Issue Agreement*
Company B	commercial bills	**299 529**	2009-12-31	Commercial Bill Issue Agreement
Entity A	municipal bonds	**213 000**	2011-12-31	Bonds Issue Agreement*
Company D	corporate bonds	**94 534**	2011-11-30	Bonds Issue Agreement*
Entity E**	corporate bonds	**17 792**	2009-12-30	Bonds Issue Agreement*
Total other with separate value not exceeding PLN 15 million each	municipal bonds	**49 839**		Bonds Issue Agreement*
Total		**1 400 211**		

* Relates to the Agreement for Organization, Conducting and Servicing of a Bond Issuance Program
** Debt securities denominated in EUR after translation into PLN

As at 31 December 2006, the Bank's underwriting agreements covered the following securities:

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	**349 720**	2009-12-31	Bonds Issue Agreement*
Company F	corporate bonds	**174 365**	2011-11-30	Bonds Issue Agreement*
Entity B	commercial bills	**69 920**	2009-12-30	Commercial Bill Issue Agreement
Company C	corporate bonds	**50 000**	2008-02-27	Bonds Issue Agreement*
Entity A	municipal bonds	**40 500**	2017-12-31	Bonds Issue Agreement*
Comapny D**	corporate bonds	**22 911**	2009-12-30	Bonds Issue Agreement*
Company G	corporate bonds	**21 000**	2008-06-30	Bonds Issue Agreement*
Total other with separate value not exceeding PLN 15 million each	corporate and municipal bonds	**81 500**		Bonds Issue Agreement*
Total		**809 916**		

**Relates to the Agreement for Organization, Conducting and Servicing of a Bond Issuance Program
** Debt securities denominated in EUR after translation into PLN

All securities under the sub-issue (underwriting) program have an unlimited transferability, are not quoted on the stock exchange and are not traded on a regulated OTC market.

46. Potential liabilities

As at 31 December 2007, the total value of court proceedings in which the Bank is a defendant (inbound) was PLN 177,916 thousand (as at 31 December 2006: PLN 295,162 thousand), while the total value of court proceedings in which the Bank filed the claim (outbound) was PLN 73,891 thousand (as at 31 December 2006: PLN 84,886 thousand).

(in PLN thousand)

The most significant disputes of the PKO BP SA Group are described below:

a) Unfair competition proceedings

The Bank is a party to proceedings initiated on the basis of the decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów - UOKiK) upon request of the Polish Trade and Distribution Organization (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Mastercard/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange" fees for transactions made using Visa and Europay/ Eurocard/Mastercard cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the above practices did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO BP SA, in the amount of PLN 16,597 thousand. As at 31 December 2007, the Bank recognized a liability for the above amount. On 19 January 2007, the Bank filed an appeal from the decision of the President of UOKiK to the regional court. At the end of October 2007, the President of UOKiK sent the entire documentation to the Regional Court in Warsaw, the Court for Competition and Consumer Protection, including the appeals of the banks against the Decision, the banks' complaints against the immediate enforcement clause issued for the Decision as well as the banks' complaints against the costs of the proceedings. The Court has commenced the activities stipulated by the Code of Civil Procedure and issued a call to the parties to provide their reply to the appeals. As at 31 December 2007, there had been no other developments with respect to this matter.

b) Re-privatization claims relating to properties held by the Group

As at the date of these financial statements, six administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the holding company. These proceedings, in the event of an unfavorable outcome for the Bank, may result in re-privatization claims being raised against the Bank. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to three properties of the Bank claims were submitted by their former owners. Court proceedings are pending with respect to two properties. With respect to the other one property, the Bank is still in the process of negotiations in order to settle the legal status of this property. Until 31 December 2007 there had been no further developments with respect to this issue.

The consolidated financial statements for the year ended 31 December 2007 do not contain any provisions in respect of the potential liabilities described above.

In the opinion of the Management Board of PKO BP SA, the probability of serious claims arising against the Bank under the proceedings mentioned above is remote.

Financial liabilities granted

	31.12.2007	31.12.2006
Total financial liabilities granted:	**24 346 666**	**22 552 006**
to financial sector	564 551	1 709 213
to non-financial sector	23 551 708	19 145 852
to the public sector	230 407	1 696 941
of which: irrevocable liabilities granted	8 860 369	10 298 419

(in PLN thousand)

Guarantee liabilities granted

Guarantees	31.12.2007	31.12.2006
Liabilities granted to financial sector:	8 520	12 705
Liabilities granted to non-financial sector:	3 614 258	2 197 511
Liabilities granted to budget:	262 494	137 466
Total guarantees granted	**3 885 272**	**2 347 682**

In the years ended 31 December 2007 and 31 December 2006 respectively, the Bank and its subsidiaries did not grant any guarantees in respect of loans or advances and did not grant any guarantees to a single entity or a subsidiary thereof with a total value accounting for 10% of the Bank's equity.

Information on provisions for off-balance guarantee and financial liabilities is included in Note 42.

Contingent liabilities granted, by maturity as at 31 December 2007

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Financial liabilities granted	5 996 907	846 343	7 967 694	7 405 452	2 130 270	**24 346 666**
Guarantee liabilities granted	724 128	98 931	977 951	1 960 497	123 765	**3 885 272**
Total	**6 721 035**	**945 274**	**8 945 645**	**9 365 949**	**2 254 035**	**28 231 938**

Contingent liabilities granted, by maturity as at 31 December 2006

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Financial liabilities granted	4 889 986	1 120 944	7 858 996	6 579 706	2 102 374	**22 552 006**
Guarantee liabilities granted	443 339	96 189	526 452	1 220 916	60 786	**2 347 682**
Total	**5 333 325**	**1 217 133**	**8 385 448**	**7 800 622**	**2 163 160**	**24 899 688**

Off-balance sheet liabilities received

	31.12.2007	31.12.2006
Liabilities received	**1 078 717**	**6 304 823**
1. financial	358 604	1 258 783
2. guarantee	720 113	5 046 040

Assets pledged as collateral for contingent liabilities

As at 31 December 2007 and 31 December 2006 the Group did not have any assets pledged as collateral for contingent liabilities.

Right to sell or pledge collateral established for the Group

As at 31 December 2007 and 31 December 2006, there was no collateral established for the Bank which the Bank was entitled to sell or encumber with another pledge in the event of fulfillment of all obligations by the owner of this collateral.

47. Share capital

In the years ended 31 December 2007 and 31 December 2006, respectively, there were no changes in the amount of the share capital of the holding company.

(in PLN thousand)

As at 31 December 2007, the share capital of PKO BP SA amounted to PLN 1,000,000 thousand and consisted of 1,000,000 thousand shares with nominal value of PLN 1 each (as at 31 December 2006: PLN 1,000,000 thousand, 1,000,000 thousand shares with a nominal value of PLN 1 each) - shares fully paid.

As at 31 December 2007, 485,056 thousand shares were subject to public trading (as at 31 December 2006: 490,000 thousand shares).

As at 31 December 2007 and 31 December 2006, the subsidiaries, jointly controlled entities and associates of the Bank did not have any shares in PKO BP SA.

Information on the shareholders of PKO BP SA is presented in Note 1.

48. Other capital and retained earnings

	31.12.2007	31.12.2006
Reserve capital	5 592 311	4 529 920
Revaluation reserve	(43 066)	3 834
General banking risk reserve	1 070 000	1 070 000
Other reserves	1 518 025	1 505 943
Retained earnings	(72 192)	(166 771)
Total	**8 065 078**	**6 942 926**

49. Supplement information to the cash flow statement

Cash and cash equivalents

	31.12.2007	31.12.2006
Cash and amounts in the Central Bank	4 682 627	4 628 134
Current receivables from financial institutions	4 580 772	9 535 024
Total	**9 263 399**	**14 163 158**

Cash flow from operating activities - other adjustments

	2007	2006
Valuation, interest accrued, discount, premium on debt securities decreased by deferred tax	(296 021)	41 256
Tangible and intangible assets liquidation and impairment write-offs	(58 363)	30 369
Valuation, impairment allowances against investments in jointly controlled entities and associates	109 627	126 197
Foreign exchange differences on foreign entities translation	(34 089)	(9 590)
Other	-	(250)
Total other adjustments	**(278 846)**	**187 982**

(in PLN thousand)

Reconciliation of differences between the balance sheet changes and the cash flow statement changes of items presented under operating activities in the cash flow statement

Profit (loss) from investing activities	**2007**	**2006**
Income from sale and disposal of the tangible and intangible fixed assets	(83 684)	(15 121)
Sale and disposal costs of tangible and intangible fixed assets	11 680	12 619
Result from IFRS 5 classified asset	-	(21 296)
(Profit) loss from investing activities - total	**(72 004)**	**(23 798)**

Interests and dividends	**2007**	**2006**
Interest from available for sale portfolio securities, presented in the investing activities	(202 603)	(259 143)
Dividends received, presented in the investing activities	(6 267)	(3 604)
Interests paid from granted loans, presented in financial activity	1 580	1 308
Total interests and dividends	**(207 290)**	**(261 439)**

Change in amounts due from banks	**2007**	**2006**
Change in balance sheet's balances	8 138 271	(767 295)
Change in impairment write-offs for amounts due from banks	53	1 449
Exclusion of the cash and cash equivalents	(4 954 252)	2 039 747
Total change	**3 184 072**	**1 273 901**

Change in loans and advances to customers	**2007**	**2006**
Change in balance sheet's balances	(17 510 542)	(12 031 978)
Change in provisions for amounts due from customers	29 592	540 719
Total change	**(17 480 950)**	**(11 491 259)**

Change in amounts due to banks	**2007**	**2006**
Change in balance sheet's balances	351 398	2 268 883
Transfer of the repayments/received long term advances due from banks to financing activities	(2 649 228)	(294 794)
Total change	**(2 297 830)**	**1 974 089**

Change in amounts due to customers	**2007**	**2006**
Change in balance sheet's balances	3 103 418	6 759 612
Transfer of the repayments/received long term advances due from financial institutions other than banks to financing activities	(292 751)	(51 821)
Total change	**2 810 667**	**6 707 791**

Change in provisions	**2007**	**2006**
Change in balance sheet's balances	6 625	70 706
Change in impairment write-offs for amounts due from banks	(53)	(1 449)
Change in impairment write-offs for loans and advances to customers	(29 592)	(579 416)
Change of the deferred tax liability on the available for sale portfolio	10 831	(1 922)
Total change	**(12 189)**	**(512 081)**

(in PLN thousand)

Change in other liabilities	2007	2006
Change in balance sheet's balances	(488 014)	357 867
Interest and provision from subordinated liabilities	17 511	-
Reclassification of interests repayment from loans received from others than banks, financial institutions, presented in financial activity	23 195	2 676
Total change	**(447 308)**	**360 543**

50. Transactions with related parties

Transactions of the holding company with jointly controlled entities and associates accounted for using the equity metod.

All transactions with entities related by capital and personal relationships were entered into at an arm's length. The repayment terms are within a range from 1 month to 10 years.

31 December 2007

Entity	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fees and commission income	Total costs	including interest and fees and commission costs	Off – balance sheet liabilities granted
Sopot Zdrój Sp. z o.o.	49 400	48 696	1 033	678	678	10	10	131 833
Centrum Majkowskiego Sp. z o.o.	-	-	15 834	475	475	6	6	-
Kamienica Morska Sp. z o.o.	-	-	782	45	45	9	9	3 224
Promenada Sopocka Sp. z o.o.	15 204	15 013	1 066	285	285	15	15	27 617
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	10 155	1	1	223	223	-
Agencja Inwestycyjna „CORP” SA	468	-	10	1 255	-	2 340	-	-
CENTRUM HAFNERA Sp. z o.o.	-	-	4 842	18	18	325	325	3 582
Centrum Obsługi Biznesu Sp z	30 057	29 891	544	1 292	1 292	76	38	1 001
Bank Pocztowy SA	2	-	3 539	41	30	710	326	1 834
Kolej Gondolowa Jaworzyna Krynicka SA	996	-	4	91	91	35	-	508
Total	**96 127**	**93 600**	**37 809**	**4 181**	**2 915**	**3 749**	**952**	**169 599**

31 December 2006

Entity	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fees and commission income	Total costs	including interest and fees and commission costs	Off – balance sheet liabilities granted
Sopot Zdrój Sp. z o.o.	2 059	2 055	234	1 941	1 941	39	39	191 038
Centrum Majkowskiego Sp. z o.o.	8 692	8 605	108	401	401	7	7	30 856
Kamienica Morska Sp. z o.o.	537	534	22	16	16	-	-	2 926
Promenada Sopocka Sp. z o.o.	6 224	6 156	885	461	461	12	12	39 436
INTER FINANCE Polska Sp. z o.o.	-	-	468	1	1	13	13	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	2 365	1	1	197	197	-
Agencja Inwestycyjna „CORP” SA	223	-	-	1 454	-	4 016	52	-
CENTRUM HAFNERA Sp. z o.o.	-	-	8 759	42	42	220	220	3 831
Centrum Obsługi Biznesu Sp z	25 214	25 211	2 368	54	54	49	49	7 169
Bank Pocztowy SA	3	-	8 602	14	-	63	63	-
Kolej Gondolowa Jaworzyna Krynicka SA	2 918	2 000	1	143	143	14	-	586
Total	**45 870**	**44 561**	**23 812**	**4 528**	**3 060**	**4 630**	**652**	**275 842**

51. Transactions with the State budget and affiliated companies

Receivables, securities and liabilities from transactions with State budget, budgetary units and State Treasury related entities are disclosed in the Bank's balance sheet. The greatest loans agreements are presented in Note 3. The conditions of those transactions do not differ from market conditions.

According to the Act dated 30 November 1995 on the state support in the repayment of certain housing loans, the refund of guarantee premium to banks and amendments to certain acts (Journal of Laws 2003, No. 119, item 1115 with subsequent amendments), PKO BP SA receives payments from the State budget for the redemption of interest on housing loans. As part of the realization of statutory obligations by the State budget, during year ended 31 December 2007 the Bank recognized income in the amount of PLN 122,183 thousand (in 2006: PLN 155,032 thousand) due to temporary redemption by the State budget of interest on housing loans from the "old" portfolio. During this period, the Bank received PLN 107,348 thousand in cash (in 2006: PLN 135,236 thousand) in respect of temporary redemption by the State budget of interest on housing loans from the "old" portfolio. The difference of PLN 14,835 thousand (in 2006: PLN 19,796 thousand) between income recognized for this period and income received in cash is reflected in the balance sheet of the Group under "Loans and advances to customers".

PKO BP SA receives commission for settlements relating to the redemption of interest on housing loans (Journal of Laws, No.122, item 1310). For the year ended 31 December 2007, PKO BP SA received commission amounting to PLN 5,168 thousand (year ended 31 December 2006: PLN 4,619 thousand), which has been recognised in the income statement under "Fees and commission income".

The Act on the coverage of repayment of certain housing loans by State Treasury guarantees was passed on 29 November 2000 and came into force on 1 January 2001. The coverage of the "old" portfolio housing loan receivables by the guarantees of the State Treasury resulted in the neutralization of the default risk of these loans. The State Treasury guarantees are realized when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realization of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee.

As of 1 January 1996 the Bank became the general distributor of duty stamps. The amount received in this respect from the State budget in the year ended 31 December 2007 totalled PLN 27,146 thousand (2006: PLN 61,198 thousand) and was recognized in full by the Bank under "Fees and commission income".

In the year ended 31 December 2007, the Bank also recognized commission income of PLN 74 thousand (2006: PLN 113 thousand) in respect of its fees for servicing compensation payments made to pensioners who lost in 1991 the increases or additions to their pensions due for performing work in specific conditions or of a specific nature, as well as to public sector employees whose salaries were not adjusted in the second half of 1991 and in the first half of 1992. This amount was included under "Fees and commission income".

Dom Maklerski PKO BP (the Brokerage House of PKO BP) performs the role of an agent for the issue of retail Treasury bonds under the agreement signed between the Ministry of Finance as the issuer and the Bank on 11 February 2003. Under this agreement, Dom Maklerski receives a fee for providing the services of an agent for the issue of bonds. The amount received in this respect in 2007 was PLN 33,604 thousand (2006: PLN 48,085 thousand).

(in PLN thousand)

Significant transactions of PKO BP SA with the State Treasury related entities.

The transactions were concluded at arm's length.

Entity	31.12.2007			31.12.2006		
	Net receivables	Liabilities	Off-balance sheet guarantee and financial liabilities granted	Net receivables	Liabilities	Off-balance sheet liabilities granted
Entity 1	305 456	-	484 204	-	3 083	-
Entity 2	268 266	-	23 000	345 527	74 000	23 000
Entity 3	190 227	6 808	86 500	257 292	94 130	162 708
Entity 4	152 065	78 024	52 800	-	69 199	-
Entity 5	128 395	133 387	316 550	132 125	71 578	240 879
Entity 6	109 345	-	92 219	75 647	126 600	96 298
Entity 7	102 651	13 240	40 597	-	-	68 943
Entity 8	101 206	85 439	728 282	-	-	-
Entity 9	91 021	-	-	109 225	-	-
Entity 10	65 252	-	18 748	-	4 778	-
Entity 11	60 912	-	-	-	-	-
Entity 12	53 020	2 692	146 980	-	19 588	-
Entity 13	36 063	2 490	-	32 601	49 000	10 674
Entity 14	35 820	-	-	-	-	-
Entity 15	31 718	31 775	62 282	-	59 721	32 000
Other significant	202 241	1 680 370	1 229 488	642 737	1 502 883	1 421 605
Total	**1 933 658**	**2 034 225**	**3 281 650**	**1 595 154**	**2 074 560**	**2 056 107**

52. Benefits for the key management personnel of the holding company

a) Short-term employee benefits

Remuneration received from PKO BP SA

	2007	2006
Management Board		
Short-term employee benefits	1 655	1 848
Supervisory Board		
Short-term employee benefits	272	346
Total benefits	**1 927**	**2 194**

Remuneration received from the subsidiaries, associates and jointly controlled entities of PKO BP SA

	2007	2006
Management Board		
Short-term employee benefits	833	401
Supervisory Board		
Short-term employee benefits	287	62
Total benefits	**1 120**	**463**

(in PLN thousand)

b) Post-employment benefits

In the years ended 31 December 2007 and 31 December 2006, respectively, no post-employment benefits were paid.

c) Other long-term benefits

In the years ended 31 December 2007 and 31 December 2006, respectively, no “other long-term benefits” were paid.

d) Benefits due to termination of employment

In the years ended 31 December 2007 and 31 December 2006, respectively, no benefits were paid due to termination of employment.

e) Share-based payments

In the years ended 31 December 2007 and 31 December 2006, respectively, no benefits were paid in the form of share-based payments.

Loans, advances, guarantees and other allowances provided by the Bank to the management personnel and employees

	31.12.2007	31.12.2006
Employees	850 624	612 301
Members of the Management Board	5 036	352
Members of the Supervisory Board	513	254
Total	**856 173**	**612 907**

The terms of interest and terms of repayment of the above amounts do not differ from market terms and terms of repayment of similar banking products.

Remuneration received by members of Management and Supervisory Boards of the Group's subsidiaries

	2007	2006
Management Board		
Short-term employee benefits	9 091	6 938
Supervisory Board		
Short-term employee benefits	1 294	1 153
Total benefits	**10 385**	**8 091**

53. Business combinations

As at 31 December 2007 and 31 December 2006, there were no business combinations involving either the parent or any of its subsidiaries, associates or jointly controlled entities.

Presented below are significant disclosures relating to purchase or sale of shares in subsidiaries, associates and jointly controlled entities during the year 2007.

a) concerning KREDOBANK SA

On 20 April 2007, PKO BP signed an agreement with the European Bank for Reconstruction and Development (“EBRD”) concerning conditional purchase by PKO BP of shares in KREDOBANK SA. The transaction covered 6,194,908,483 shares of KREDOBANK SA with a total nominal value of UAH 61,949,084.83. These shares accounted for 28.2486% of the Company’s share capital and 28.2486% of votes at the General Shareholders’ Meeting. The condition necessary to complete the transaction was obtaining permission from the National Bank of Ukraine. On 26 July 2007, after receiving the permit from the National Bank of Ukraine, the purchase transaction was executed. The price paid for the shares was EUR 17,348,177.00. As a result of the above transaction, PKO BP SA holds shares in KREDOBANK SA accounting for a total of 98.1815% of the Company's share capital and giving right to 98.1815% of votes at the General Shareholders' Meeting.

(in PLN thousand)

Presented below are the details of goodwill arising on the acquisition of shares in KREDOBANK SA, which took place in 2007.

KREDOBANK SA	
Date of acquisition	**26.07.2007**
Percentage share in the share capital of Company	28.249%
Acquisition price	66 160
Carrying value of Company net assets on the acquisition date	134 963
Share of PKO BP SA in the fair value of net assets of KBU at acquisition date	38 125
Goodwill at the acquisition date	**28 035**

KREDOBANK SA is restricted in making dividend payments to the investor. In accordance with the decision of the Extraordinary General Shareholders' Meeting of KREDOBANK SA dated 17 November 2005, the Company introduced a moratorium for payment of dividends in the period 2005 – 2008, as required by the approved "Strategy for dynamic development of KREDOBANK SA".

b) The Capital Group of Bankowy Fundusz Leasingowy SA

On 18 June 2007, Bankowy Leasing Sp. z o.o. with its registered office in Łódź was entered in the National Court Register. The share capital of the Company amounts to PLN 1,300 thousand and is divided into 2,600 shares with a nominal value of PLN 500 each. All of the shares in the Company's share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO BP SA. The total price paid for the acquisition of these shares was PLN 1,109,296. The principal activity of the Company is the provision of operating and finance lease services.

On 2 August 2007, an increase in the share capital of Bankowy Fundusz Leasingowy SA was registered in the National Court Register, by a total amount of PLN 10 million. All of the new shares in the increased share capital were acquired by PKO BP SA. Following the registration of the new shares, PKO BP SA holds 100% of the share capital of BFL SA and 100% of votes at its General Shareholders' Meeting.

On 16 July 2007, BFL Nieruchomości Sp. z o.o. with its registered office in Łódź was entered in the National Court Register. The share capital of the Company amounts to PLN 1,100 thousand and is divided into 2,200 shares with a nominal value of PLN 500 each. All of the shares in the share capital of the Company were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO BP SA. The total price for the acquisition of these shares was PLN 1,109,296. The principal activity of the Company is the provision of operating and finance lease services with respect to real property.

As at 31 December 2007 and 31 December 2006, the investment in Bankowy Leasing Sp. z o.o. was accounted for using the full method in the consolidated financial statements of the PKO BP SA Group. As at 31 December 2007, the new subsidiaries of Bankowy Leasing Sp. z o.o. were accounted for using the full method in the consolidated financial statements of the PKO BP SA Group.

c) **The Capital Group of PKO Inwestycje Sp. z o.o.**

On 1 June 2007, the Pechersk Regional State Administration in Kiev (Ukraine) registered an increase in the share capital of UKRPOLINWESTYCJE Sp. z o.o. with its registered office in Kiev, which was effected through an increase in the nominal value of each share (from UAH 10,200 to UAH 15,250). The Company's share capital after this increase amounts to UAH 1,525,000 (the equivalent of USD 300,000) and is divided into 100 equal shares. Following the registration of the above changes, PKO Inwestycje Sp. z o.o., the Bank's subsidiary, holds 55 shares in UKROPOLINWESTYCJE Sp. z o.o.

(in PLN thousand)

with a total nominal value of UAH 838,750 (the equivalent of USD 165,000), giving right to 55 votes at the shareholders' meeting.

As at 31 December 2007 and 31 December 2006, the investment in UKRPOLINWESTYCJE Sp. z o.o. was accounted for using the full method in the consolidated financial statements of the PKO BP SA Group.

On 1 October 2007, ARKADIA Inwestycje Sp. z o.o. with its registered office in Międzyzdroje was entered in the National Court Register. The share capital of the company amounts to PLN 1 million and is divided into 1,000 shares with a nominal value of PLN 1,000 each. PKO Inwestycje Sp. z o.o. originally acquired 99% shares in the company, and purchased the remaining share in the company from the other shareholder on 8 November 2007. The company was set up for the purpose of carrying out the housing construction project "Osiedle Jantar" in Międzyzdroje.

On 21 December 2007 PKO Inwestycje Sp. z o.o. made an additional payment to the share capital of ARKADIA Inwestycje Sp. z o.o. in the amount of PLN 1 million.

As at 31 December 2007, the investment in ARKADIA Inwestycje Sp. z o.o. was accounted for using the full method in the consolidated financial statements of the PKO BP SA Group.

d) **Other subsidiaries, associates and jointly controlled entities**

On 10 January 2007, the Metropolitan Court in Budapest issued a decision on deleting Sonet Hungary Kft, a subsidiary of Inteligo Financial Services SA, from the register of entrepreneurs, thereby confirming the completion of the liquidation of this Company on 23 September 2006, i.e. the date on which the decision on the completion of liquidation became legally valid. The Company was deleted from the register on 11 January 2007.

54. Description of differences between the previously published financial statements and these financial statements

Presented below is the summary of significant changes included in the prior published data, restated for comparability purposes

Title (in relation to changed positions)	**2006** disclosed previously	**2006** comparative data	**Difference**	
Interest income	5 571 159	5 594 771	23 612	1)
Interest expense	(1 762 414)	(1 762 592)	(178)	1)
Fees and commission income	2 088 600	2 296 099	207 499	1), 2)
Fees and commission expense	(366 039)	(429 847)	(63 808)	1), 2)
Other operating income	1 021 737	805 656	(216 081)	1), 2), 3)
Other operating expenses	(237 625)	(493 907)	(256 282)	1), 2), 3), 4)
General administrative expenses	(4 117 178)	(3 811 940)	305 238	4)

1) Change in the presentation of selected items of income and expense of Dom Maklerski
2) Change in the presentation of fees and commissions connected with management of PKO TFI funds
3) Change in the presentation of impairment allowances for other assets
4) Change in the presentation of costs arising from the settlement of investments

(in PLN thousand)

Title (in relation to changed positions)	**31.12.2006** disclosed previously	**31.12.2006** comparative data	**Difference**	
Financial assets held for trading	392 380	998 635	606 255	5)
Derivative financial instruments	1 199 556	1 199 154	(402)	5)
Other financial instruments at fair value through profit and loss	11 360 064	11 518 705	158 641	5)
Amounts due to the other banks	4 193 090	4 351 608	158 518	5)
Derivative financial instruments	1 098 863	1 097 806	(1 057)	5)
Amounts due to customers	82 900 142	83 507 175	607 033	5)

5) Transfer of SBB from off-balance sheet liabilities

55. Events after the balance sheet date

On 8 February 2008 the holding company concluded a credit agreement with one of the PKO BP SA's customers ('the Borrower'). The subject of the credit agreement is an investment loan of PLN 1,230,000,000 designated to finance part of the Borrower's purchase price of financial assets. The investment loan agreement was concluded for the 10-year period. The collateral of the loan is among others registered pledge on the Borrower's financial assets and the Borrower's amounts held on it's current bank accounts. The interest rate of the investment loan is calculated as WIBOR 6M plus the Bank's margin and is to be paid every 6 months.

On 25 February 2008, Urszula Pałaszek resigned from the position of the Vice-Chairman of the Supervisory Board of PKO BP SA.

On 26 February 2008, the following members of the Supervisory Board of PKO BP SA resigned from their positions:

- Marek Głuchowski,
- Agnieszka Winnik – Kalemba,
- Tomasz Siemiątkowski,
- Jerzy Michałowski.

In addition, on 26 February 2008 the Extraordinary General Meeting of PKO BP SA dismissed Maciej Czapiewski from his position in the Supervisory Board of PKO BP SA. At the same time, the Extraordinary General Meeting of PKO BP SA appointed the following persons to the Supervisory Board:

- Marzenę Piszczek,
- Jerzego Osiatyńskiego,
- Jana Bossaka,
- Eligiusza Jerzego Krześniaka,
- Romana Sobieckiego,
- Ryszarda Wierzbę,

In accordance with the resolution, the above persons were appointed to the Supervisory Board as of 26 February 2008, for a period until the end of the current term and for the next term of the Supervisory Board of the Bank.

In accordance with the resolution of the Extraordinary General Meeting of PKO BP SA, Urszula Pałaszek was appointed to the Supervisory Board of the next term.

In accordance with the Decision of Minister of Treasury of 6 February 2008:

- Marzena Piszczek was designated to the position of Chairman of the Supervisory Board of the Bank,
- Eligiusz Jerzy Wrześniak was designated to the position of Vice-Chairman of the Supervisory Board of the Bank.

On 6 March 2008 the Bank received a notification on the court's meeting related to the settlement attempt motioned by the buyer in the first of non-performing loans sale transaction as described in Note 6 of these financial statements. The total claims amount which has not been included in the Bank's provisions as at 31 December 2007 amounts to PLN 34,630 thousand and relates to claims filed with by the Bank after the claiming period. In the Bank's opinion, there is no basis for recognize the above claims.

Signatures of all Members of the Management Board of the Bank

08.04.2008	Rafał Juszczak	President of the Board	.... (signature)
08.04.2008	Berenika Duda - Uhryn	Vice-President of the Board	.... (signature)
08.04.2008	Robert Działak	Vice-President of the Board	.... (signature)
08.04.2008	Mariusz Klimczak	Vice-President of the Board	.... (signature)
08.04.2008	Wojciech Kwiatkowski	Vice-President of the Board	.... (signature)
08.04.2008	Aldona Michalak	Vice-President of the Board	.... (signature)
08.04.2008	Adam Skowroński	Vice-President of the Board	.... (signature)
08.04.2008	Stefan Świątkowski	Vice-President of the Board	.... (signature)

Signature of person responsible for keeping the books of account

08.04.2008

Danuta Szymańska

Director of the Bank
(signature)

PKO BANK POLSKI

SPÓŁKA AKCYJNA

DIRECTORS' REPORT ON THE ACTIVITIES OF THE PKO BP SA GROUP IN 2007

WARSAW, APRIL 2008

TABLE OF CONTENTS:

1. INTRODUCTION

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO BP SA", "the Bank") is the holding company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group ("the Group", "the PKO BP SA Group").

NET PROFIT	PLN 2 903.6 MLN	+ 35.1% (y/y)	As a result of increase in income items by 18.8% (y/y), with a 7.1% (y/y) increase in costs
RESULT ON BUSINESS ACTIVITY	PLN 7 744.1 MLN	+ 18.8% (y/y)	Following increase in interest result by 21.2% (y/y) and in fees and commission result by 25.1% (y/y)
NET INTEREST INCOME	PLN 4 643.7 MLN	+ 21.2% (y/y)	As a result of a 29.7% (y/y) increase in net loan portfolio volume and higher deposit margins
NET FEES AND COMMISSION INCOME	PLN 2 335.2 MLN	+ 25.1% (y/y)	Due to a systematic increase in revenue from servicing investment funds, including management fees by 182.7% (y/y), and a 4.8% (y/y) increase in the number of banking cards and transactions made using those cards
COSTS	PLN -4 082.6 MLN	- 7.1% (y/y)	As a result of more promotional and advertising activities, implementation of next modules of the ZSI and keeping personnel costs on a stable level (+) 1.5% (y/y)
ROE net	26.2%	+ 3.5 p.p.	Following a 35.1% (y/y) increase in net profit and an increase in equity by a total of 17.7% (y/y)
ROA net	2.8%	+ 0.5 p.p.	With a 6.4% (y/y) increase in assets

2. FINANCIAL PERFORMANCE OF THE PKO BP SA GROUP[1]

Neither the Bank nor any other company from the PKO BP SA Group published any forecasts relating to the financial results for the year 2007.

2.1 Consolidated income statement

Table 1. Selected financial data of the PKO BP SA Group (in PLN million)

SELECTED FINANCIAL DATA
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

	period from 01.01.2007 to 31.12.2007	period from 01.01.2006 to 31.12.2006	Change (PLN million)	Change (%)
Result on business activity *:	**7 744.1**	**6 517.8**	**1 226.3**	**18.8%**
Net interest income	4 643.7	3 832.2	811.5	21.2%
Net fees and commission income	2 335.2	1 866.3	468.9	25.1%
Net other income	765.1	819.4	- 54.2	-6.6%
General administrative expenses	**- 4 082.6**	**- 3 811.9**	**- 270.6**	**-7.1%**
Operating result	**3 604.9**	**2 705.2**	**899.7**	**33.3%**
Result on impairment allowances	- 56.6	- 0.7	- 56.0	-87x
Gross profit (loss)	3 609.2	2 701.5	907.7	33.6%
Net profit (loss) (including minority interest)	2 941.4	2 207.4	733.9	33.2%
Net profit (loss) assigned to the shareholders of the holding company	**2 903.6**	**2 149.1**	**754.6**	**35.1%**

** taken as a total of income items*

Table 2. *Main items of income statement of the PKO BP SA Group (in PLN million)*

Profit and loss account line	2007	Change 2007/2006		Comment
Net interest income	4 643.7	21.2%	↑	(+) 21.2% (y/y) as a result of: 1) increase in interest margin on deposits related to increase in market rates, 2) dynamic increase in credit volume of 29.7% (y/y).
Net fees and commission income	2 335.2	25.1%	↑	(+) 25.1% (y/y) as a result of: 1) increase in the number of bank cards (of 4.8% y/y) and related transactions, 2) regular income increase from operations related to investment funds servicing (management fee included) of 182.7% (y/y), 3) fourfold income increase from credit insurance.
Net other income	765.1	-6.6%	↓	(-) 6.6% (y/y) as a result of: 1) lower result on securities operations compared to high securities sales results in 2006, 2) lower other operating income achieved by PKO Inwestycje due to lower sale of completed contracts.
General administrative expenses	-4 082.6	-7.1%	↓	Increase of 7.1% (y/y) as a result of: 1) increased scope of promotion and advertising activities, 2) implementation of succeeding modules of Integrated IT System along with employment reduction in PKO BP SA.
Result on impairment allowances	-56.6	-87x	↓	(-) 87x (y/y) as a result of increase in consumer and credit card loans impairment write-offs.

[1] *Potential differences in sums, share percentage and dynamics presented in this chapter result from amounts rounding to PLN million and share percentage rounding to one decimal.*

Net interest income

Table 3. Interest income and interest expense of the PKO BP SA Group (in PLN million)

NET INTEREST RESULT OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Items	**Period from 01.01.2007 to 31.12.2007**	**Structure 2007**	**Period from 01.01.2006 to 31.12.2006**	**Change 2007/2006**	**Comment**
Interest income, of which:	**6 582.4**	**100.0%**	**5 594.8**	**17.7%**	High growth of interest income (17.7% y/y) as a result of: 1. 31.8% growth on a year-to-year basis in interest income from loans and advances to customers – mainly due to rising market interest rates and a high growth of the loan portfolio (29.7% y/y), 2. decline in interest income from securities at fair value through profit or loss (-26.3% y/y) – due to the decrease of the portfolio of securities at fair value through profit or loss by 27.8% on a year-to-year basis, 3. decline in interest income from placements with other banks (-9.4% y/y) due to the decrease in the balance of placements with other banks by 62.2% on a year-to-year basis. 4. increase in average interest on Bank's loans up to 7.4%* - about 0.5pp as compared to the year of 2006.
From loans and advances granted to customers	5 164.1	78.5%	3 918.9	31.8%	
From securities at fair value through profit and loss	561.3	8.5%	762.1	-26.3%	
From placements with other banks	517.0	7.9%	570.6	-9.4%	
From investment securities	242.5	3.7%	259.7	-6.6%	
From trading securities	24.5	0.4%	22.7	8.1%	
Other	72.9	1.1%	60.7	20.1%	
Interest expenses, of which:	**- 1 938.7**	**100.0%**	**- 1 762.6**	**-10.0%**	A 10% growth in total interest expense on a year-to-year basis due to the increase of interest expense on the amounts due to customers (9.1% y/y) and the increase in interest expense on the amounts due to banks (44.1% y/y), and average interest rate increase on Bank's deposits up to 2.0%** - about 0.1 pp. as compared to the year of 2006.
From amounts due to customers	- 1 699.5	87.7%	- 1 557.4	-9.1%	
From placements of other banks	- 130.2	6.7%	- 90.4	-44.1%	
From own issue of debt securities	- 28.7	1.5%	- 5.2	-5.6x	
From other placements in the money market	-	0.0%	- 5.0	x	
Other	- 80.3	4.1%	- 104.7	23.3%	
Net interest income	**4 643.7**	**x**	**3 832.2**	**21.2%**	Net interest income in 2007 was PLN 812 million higher compared to the previous year, given a PLN 988 million increase in the value of interest income and a PLN 176 million increase in the value of interest expense.

****average loan interest calculated as a relation of loan interest income to average loans for the reporting period***
*****average deposit interest calculated as a relation of deposit interest expense to average deposits for the reporting period***

Net fees and commission income

Table 4. Fees and commission income and expense of the PKO BP SA Group (in PLN million)

FEES AND COMMISSION INCOME OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Items	**Period from 01.01.2007 to 31.12.2007**	**Structure 2007**	**Period from 01.01.2006 to 31.12.2006**	**Change 2007/2006**	**Comment**
Fees and commission income, of which:	**3 022.0**	**100.0%**	**2 296.1**	**31.6%**	Growth in fees and commission income by 31.6% y/y, as a result of among others: 1. growth in commission income from the servicing of the PKO TFI investment funds (2.8x y/y), 2. increase in the number of banking cards (+4.8% y/y) and the number of transactions made using these cards, 3. increase in the sales of loan insurance products.
From accounts servicing	777.7	25.7%	742.1	4.8%	
From payment cards	705.8	23.4%	549.9	28.3%	
From loans and advances granted	257.2	8.5%	224.2	14.7%	
From loans insurance	202.3	6.7%	46.3	4.4x	
From cash transactions	204.0	6.8%	208.6	-2.2%	
From investment funds servicing	610.4	20.2%	216.0	2.8x	
From operations with securities	87.7	2.9%	71.3	23.1%	
Other*	176.9	5.9%	237.7	-25.6%	
Fees and commission expenses, of which:	**- 686.8**	**100.0%**	**- 429.8**	**-59.8%**	The growth in fees and commission expense was caused by insurance-related expenses, which increased due to dynamic growth of the housing loan portfolio (41.8% y/y).
Relating to payment cards	- 254.1	37.0%	- 203.5	-24.9%	
Relating to acquisition services	- 125.8	18.3%	- 121.1	-3.9%	
Loan insurance	- 152.2	22.2%	- 6.9	-22.1x	
Asset management	- 105.2	15.3%	- 48.3	-2.2x	
Other	- 49.6	7.2%	- 50.1	1.1%	
Net fees and commission income	**2 335.2**	**x**	**1 866.3**	**25.1%**	Net fees and commission income in 2007 was PLN 469 million higher than in 2006 due to a regular increase in the value of fees and commission income from the servicing of investment funds by 182.7% (y/y) and an increase of the number of payment cards by 4.8% (y/y), along with an increase in volume of card transactions.

*** including distribution of numismatic marks, mass foreign operations, trust services, guarantees, lettes of credit, ect.**

General administrative expenses

Table 5. General administrative expenses (in PLN million)

GENERAL ADMINISTRATIVE EXPENSES OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Items	**Period from 01.01.2007 to 31.12.2007**	**Structure 2007**	**Period from 01.01.2006 to 31.12.2006**	**Change 2007/2006**	**Comment**
Employee costs	- 2 288.7	56.1%	- 2 255.3	-1.5%	Growth of 7.1% mainly as a result of: 1. personnel-related costs remaining at a stable level (1.5% y/y), 2. increase in depreciation/amortisation expense by 19.7% y/y (implementation of the Integrated Information System), 3. increase in non-personnel costs (increased promotion and advertising expenses)
Non-personnel costs	- 1 413.3	34.6%	- 1 238.8	-14.1%	
Depreciation and amortisation	- 380.6	9.3%	- 317.9	-19.7%	
TOTAL	**- 4 082.6**	**100.0%**	**- 3 811.9**	**-7.1%**	

Key financial ratios

Table 6. Financial ratios

Items	As at 31.12.2007	As at 31.12.2006	Change 2007/2006
ROA gross (gross profit (loss)/ average assets)*	3.4%	2.8%	0.6 pp.
ROA net (net profit (loss)/ average assets)	2.8%	2.2%	0.5 pp.
ROE gross (gross profit (loss)/ average equity)*	32.6%	28.5%	4.1 pp.
ROE net (net profit (loss)/ average equity)	26.2%	22.7%	3.5 pp.
C/I (costs to income ratio)	52.7%	58.5%	-5.8 pp.

**average assets/equity were calculated based on the arithmetical mean of the balances of assets/equity at the beginning and end of the reporting period*

2.2 Consolidated balance sheet

The balance sheet of the holding company has the most significant influence on the balance sheet of the PKO BP SA Group. It determines both the value and the structure of the Group's assets and liabilities. As at 31 December 2007, total assets of PKO BP SA accounted for 97.1% of total assets of the Group.

Main balance sheet items

Table 7. Main balance sheet items of the PKO BP SA Group (in PLN million)

THE BALANCE SHEET OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP						
Items	**As at 31.12.2007**	**Structure 2007**	**Change 2007/2006**	**As at 31.12.2006**	**Structure 2006**	**Comment**
Cash and amounts due from the Central Bank	4 682.6	4.3%	1.2%	4 628.1	4.5%	Increase in assets by PLN 6.5 billion as a result of increase in loans and advances granted to clients by 29.7% y/y and decrease in securities and amounts due from banks by PLN 12,185.2 million.
Amounts due from banks	5 292.3	4.9%	-60.6%	13 430.6	13.2%	
Loans and advances to customers	76 417.1	70.4%	29.7%	58 906.6	57.7%	
Investment securities	15 233.6	14.0%	-21.0%	19 280.5	18.9%	
Other assets	6 943.0	6.4%	20.1%	5 779.8	5.7%	
TOTAL ASSETS	**108 568.7**	**100.0%**	**6.4%**	**102 025.7**	**100.0%**	
Amounts due to other banks	4 704.4	4.3%	8.1%	4 353.0	4.3%	Increase in financial assets through increase in amounts due to customers by 3.7% y/y and in issue of Bank's subordinated debt by PLN 1.6 billion.
Amounts due to customers	86 610.6	79.8%	3.7%	83 507.2	81.8%	
Securities issued	1 793.7	1.7%	41x	43.7	0.0%	
Other liabilities	3 480.9	3.2%	-11.7%	3 941.2	3.9%	
Total liabilities	**96 589.7**	**89.0%**	**5.2%**	**91 845.1**	**90.0%**	
Total equity	**11 979.0**	**11.0%**	**17.7%**	**10 180.6**	**10.0%**	
TOTAL LIABILITIES AND EQUITY	**108 568.7**	**100.0%**	**6.4%**	**102 025.7**	**100.0%**	

Table 8. Loans and advances to customers of the PKO BP SA Group by type (PLN million)

LOANS ANS ADVANCES GRANTED TO CUSTOMERS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Type	**As at 31.12.2007**	**As at 31.12.2006**	**Change (PLN million)**	**Change (%)**	**Comment**
I. Net value of loans and advances	**74 806.0**	**57 964.0**	**16 842.0**	**29.1%**	Dynamics of gross loan protfolio on the level of 27.9% y/y along with its structure by type change - a decrease in share of loans and advances granted to budget entities by 5.2 p.p., along with an increase of loans and advances granted to financial entities by 4.4 p.p.
1.Gross value of loans and advances, of which granted to:	77 181.9	60 367.9	16 814.0	27.9%	
- budget entities	3 677.4	6 061.9	- 2 384.5	-39.3%	
- financial entities other than banks	1 185.2	370.0	815.2	3.2x	
- non-financial entities	72 319.2	53 935.9	18 383.3	34.1%	
2. Impairment allowances for exposures with impairment indicators	- 2 375.8	- 2 403.8	28.0	1.2%	
II. Net receivables from finance lease	**1 611.1**	**942.6**	**668.5**	**70.9%**	
Loans and advances granted to clients (I+II)	**76 417.1**	**58 906.6**	**17 510.5**	**29.7%**	

Table 9. Loans and advances to customers of the PKO BP SA Group by maturity (PLN million)

LOANS ANS ADVANCES GRANTED TO CUSTOMERS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Maturity	**As at 31.12.2007**	**Structure 2007**	**As at 31.12.2006**	**Structure 2006**	**Comment**
Gross value of loans and advances, of which granted to:	**77 181.9**	**100.0%**	**60 367.9**	**100.0%**	High growth of Bank's loan portfolio along with an increase in share of loans above 5 years by 10.2% - result of high volume of housing loan sales, and a decrease in loan shares from 3 months to 1 year.
up to 1 month	12 338.4	16.0%	10 531.5	17.4%	
from 1 to 3 months	1 857.2	2.4%	1 658.0	2.7%	
from 3 months to 1 year	7 658.5	9.9%	9 078.0	15.0%	
from 1 year to 5 years	22 495.1	29.1%	19 598.4	32.5%	
over 5 years	32 832.7	42.5%	19 501.9	32.3%	

Detailed information on the maturities of loans and advances granted to customers of the Group has been presented in Note 28 to the consolidated financial statements.

Table 10. Amounts due to to customers of the PKO BP SA Group by type (PLN million)

AMOUNTS DUE TO CUSTOMERS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Type	**As at 31.12.2007**	**As at 31.12.2006**	**Change (PLN million)**	**Change (%)**	**Comment**
Amounts due to the corporate sector	15 670.6	12 835.1	2 835.5	22.1%	Growth of liabilities to customers by 3.7% y/y as a result of a decrease in liabilities to individuals (-1.9% y/y), along with an increase in liabilities to budget sector (48.3% y/y).
Amounts due to the budget sector	4 691.2	3 162.7	1 528.5	48.3%	
Amounts due to individuals	66 248.8	67 509.4	- 1 260.6	-1.9%	
Total liabilities to customers	**86 610.6**	**83 507.2**	**3 103.4**	**3.7%**	

Table 11. Amounts due to to customers of the PKO BP SA Group by maturity (PLN million)

AMOUNTS DUE TO CUSTOMERS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Term	**As at 31.12.2007**	**Structure 2007**	**As at 31.12.2006**	**Structure 2006**	**Comment**
Current accounts and O/N deposits	**39 391.6**	**45.5%**	**33 065.1**	**39.6%**	Change within the term structure of liabilities to customers, of which long-term liabilities decreased in a favor of short-term liabilities (up to 1 month) that increased from 65.6% to 71.9% - low interest rates in Poland influence customers to choose current deposits over term deposits for purpose of investing cash surplus.
Current liabilities maturity dates:	**47 219.0**	**54.5%**	**50 442.1**	**60.4%**	
up to 1 month	22 852.0	26.4%	21 717.0	26.0%	
from 1 to 3 months	9 772.5	11.3%	11 267.1	13.5%	
from 3 months to 1 year	13 100.3	15.1%	15 776.4	18.9%	
from 1 year to 5 years	1 249.2	1.4%	1 585.8	1.9%	
over 5 years	245.0	0.3%	95.8	0.1%	
Total	**86 610.6**	**100.0%**	**83 507.2**	**100.0%**	

2.3 Equity and capital adequacy ratio

Table 12. Equity and capital adequacy ratio of the PKO BP SA Group (PLN million)

EQUITY OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP				
Items	**Period from 01.01.2007 to 31.12.2007**	**Period from 01.01.2006 to 31.12.2006**	**Change 2007/2006**	**Comment**
Equity, of which:	**11 979.0**	**10 180.6**	**17.7%**	+17.7% y/y as a result of: 1) retaining a portion of profits – the dividend for the year 2006 accounted for 47.87% of the net profit of the Bank, 2) increase in profit for the current period by 35.1% on a year-to-year basis.
Share capital	1 000.0	1 000.0	0.0%	
Reserve capital	5 592.3	4 529.9	23.5%	
General risk fund for unrealised banking activity risk	1 070.0	1 070.0	0.0%	
Other reserves	1 518.0	1 505.9	0.8%	
Revaluation reserve	- 43.1	3.8	x	
Currency translation differences from foreign operations	- 47.8	- 13.7	-3.5x	
Retained earnings	- 72.2	- 166.8	56.7%	
Result from current year	2 903.6	2 149.1	35.1%	
Minority interest	58.1	102.3	-43.2%	
Own funds	**9 983.4**	**7 076.8**	**41.1%**	Growth resulting from a high level of accumulated capital and subordinated debt issued by the Bank (PLN 1.6 billion).
Capital adequacy ratio (%)*	**12.02**	**11.80****	**0.22 pp.**	+0.22 pp. as a result of subordinated debt issued by the Bank, given an increase in the total capital requirement by 38.6% on a year-to-year basis.

**capital adequacy ration was calculated according to par. 10 of the Commission for Banking Supervision resolution no. 1/2007 dated 13 March 2007*

***comparative data (resulting from the amendments in the Banking Law as well as publication of the Commission for Banking Supervision resolutions)*

3. ORGANISATION OF THE PKO BP SA GROUP AND DIRECTIONS FOR FUTURE DEVELOPMENT

As at 31 December 2007, the PKO BP SA Group was composed of the Bank as the holding company and 19 direct or indirect subsidiaries, including 2 which were not consolidated due to their immateriality.

In the year 2007 the Bank started to work on a new development strategy. One of the objectives of the PKO BP SA's Growth Strategy - "The New Opening" ("*Nowe Otwarcie*") for the years 2007-2012 is to build a strong financial group. The Bank's activities are aimed at improvement of the effectiveness of the invested capital. The Bank is going to focus on developlent of the companies contributing to the Group's product offer expansion. PKO BP SA does not make investing in other financial sector entities operating on Polish and the Central and Eastern Europe's region markets. The Bank has the financial ability to undertake capital investments. The financial structure of the potential investments will be adjusted to the Bank's funds each time.

Successful implementation of this strategy will enable the Bank to improve service quality and client satisfaction as well as its financial performance. It will also lead to increase in the value of the Bank's income and net profit (showing a double-figure annual growth rate) while the C/I ratio will remain at the level of 40%.

3.1 Entities included in the financial statements

The consolidated financial statements includes the Bank – the parent company of the PKO BP SA Group and its subsidiaries as defined in IAS 27 „Consolidated and separate financial statements".

Table 13. Entities included in the consolidated financial statements of the PKO BP SA Group

No.	Entity name	Value of investment*	% of share capital	Consolidation method
		PLN thousand	%	
Parent company				
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
Direct subsidiaries				
2	KREDOBANK SA	307 365	98.1815	full
3	Powszechne Towarzystwo Emerytalne BANKOWY SA	205 785	100.00	full
4	Centrum Finansowe Puławska Sp. z o.o.	128 288	100.00	full
5	PKO Inwestycje Sp. z o.o.	123 313	100.00	full
6	PKO Towarzystwo Funduszy Inwestycyjnych SA	69 054	75.00	full
7	Inteligo Financial Services SA	59 602	100.00	full
8	Centrum Elektronicznych Usług Płatniczych eService SA	55 500	100.00	full
9	Bankowy Fundusz Leasingowy SA	40 000	100.00	full
10	Bankowe Towarzystwo Kapitałowe SA	18 566	100.00	full
Indirect subsidiaries				
Subsididaries of PKO Inwestycje Sp. z o.o.				
11	Wilanów Investments Sp. z o.o.	82 981	100.00	full
12	POMERANKA Sp. z o.o.	19 000	100.00	full
13	Fort Mokotów Sp. z o.o.	2 040	51.00	full
14	ARKADIA Inwestycje Sp. z o.o.	2 000	10000	full
15	UKRPOLINWESTYCJE Sp. z o.o.	519	55.00	full
Subsididaries of PTE BANKOWY SA				
16	Finanse Agent Transferowy Sp. z o.o.	2 861	100.00	full
Subsididaries of Bankowy Fundusz Leasingowy SA				
16	Bankowy Leasing Sp. z o.o.	1 309	100.00	full
17	BFL Nieruchomości Sp. z o.o.	1 109	100.00	full

* includes shares valued at cost and specific additional contributions to own funds

Table 14. Other subordinated entities included in the consolidated financial statements

No.	Entity name	Value of investment*	% of share capital	Consolidation method
		PLN thousand	%	
Jointly controlled entities				
1	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43	equity method
2	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	equity method
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.				
3	Sopot Zdrój Sp. z o.o.	58 923	100.00	equity method
4	Promenada Sopocka Sp. z o.o.	10 058	100.00	equity method
5	Centrum Majkowskiego Sp. z o.o.	6 609	100.00	equity method
6	Kamienica Morska Sp. z o.o.	976	100.00	equity method
Associates				
7	Bank Pocztowy SA	146 500	25.0001	equity method
8	Kolej Gondolowa Jaworzyna Krynicka SA	15 531	37.53	equity method
9	Ekogips SA – w upadłości	5 400	60.26	equity method
10	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	equity method
11	Agencja Inwestycyjna CORP SA	29	22.31	equity method
Associate of Bankowe Towarzystwo Kapitałowe SA				
12	FINDER SA	6 500	46.43	equity method

* includes shares and participations share value at cost and additional contributions to own funds

3.2 Changes in the organization of subsidiaries, associates and jointly controlled entities

In 2007, the following events influenced the structure of the PKO BP SA Group:

– purchase of KREDOBANK SA's shares from EBRD

On 20 April 2007, PKO BP SA signed a conditional agreement with European Bank for Reconstruction and Development ("EBRD") for purchase by PKO BP SA of the shares of KREDOBANK SA. The above transaction covered the shares of KREDOBANK SA which accounted for 28.2486% of the Company's share capital and votes at the General Shareholders' Meeting.

On 26 July 2007, after receiving the permit from the National Bank of Ukraine, the purchase transaction was executed. The price paid for the shares was EUR 17,348,177.00. As a result of the above transaction, PKO BP SA holds shares in KREDOBANK SA accounting for a total of 98.1815% of the Company's share capital and giving right to 98.1815% of votes at the General Shareholders' Meeting.

– acquisition of shares in the increased share capital of KREDOBANK SA

On 5 September 2007 PKO BP SA acquired 17,353,578,610 shares in the increased share capital of KREDOBANK SA, with a nominal value of UAH 173,535,786.10.

As a result of the above acquisition, the percentage of the Company's share capital and votes at the General Shareholders' Meeting held by PKO BP SA remained at the previous level of 98.1815%.

– acquisition of shares in the increased share capital of Bankowy Fundusz Leasingowy SA

On 2 August 2007, an increase in the share capital of Bankowy Fundusz Leasingowy SA was registered in the National Court Register, by a total amount of PLN 10 million.

All of the new shares in the increased share capital were acquired by PKO BP SA. Following the registration of the new shares, PKO BP SA holds shares representing 100% of the share capital of BFL SA and giving right to 100% of votes at the General Shareholders' Meeting of this company.

– incorporation of Bankowy Leasing Sp. z o.o.

On 18 June 2007, a new company, Bankowy Leasing Sp. z o.o. with its registered office in Łódź, was registered in the National Court Register. The Company's share capital amounts to PLN 1,300 thousand and is divided into 2,600 shares with a nominal value of PLN 500 each.

All of the shares were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO BP SA. The total price paid for the acquisition of these shares was PLN 1,309,296.

The principal activity of the Company is the provision of operating and finance lease services.

- incorporation of BFL Nieruchomości Sp. z o.o.

  On 16 July 2007, BFL Nieruchomości Sp. z o.o. with its registered office in Łódź was registered in the National Court Register. The Company's share capital amounts to PLN 1,100 thousand and is divided into 2,200 shares with a nominal value of PLN 500 each.

  All of the shares were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO BP SA. The total price paid for the acquisition of these shares was PLN 1,109,296.

  The principal activity of the Company is the provision of operating and finance lease services with respect to real property.

- additional investment of PKO Inwestycje Sp. z o.o. in UKRPOLINWESTYCJE Sp. z o.o.

  On 1 June 2007, the Pechersk Regional State Administration in Kiev, Ukraine, registered an increase in the share capital of UKRPOLINWESTYCJE Sp. z o.o. with its registered office in Kiev, which was effected through an increase in the nominal value of the shares (from UAH 10,200 to UAH 15,250). After the increase, the Company's share capital amounts to UAH 1,525,000 (the equivalent of USD 300,000) and is divided into 100 equal shares.

  Following the registration of the above changes, PKO Inwestycje Sp. z o.o., the Bank's subsidiary, holds 55 shares in UKROPOLINWESTYCJE Sp. z o.o. with a total nominal value of UAH 838,750 (the equivalent of USD 165,000), giving right to 55 votes at the shareholders' meeting.

- incorporation of ARKADIA Inwestycje Sp. z o.o.

  On 1 October 2007, a new company, ARKADIA Inwestycje Sp. z o.o. with its registered office in Międzyzdroje, was registered in the National Court Register. The Company's share capital amounts to PLN 1 million and is divided into 1,000 shares with a nominal value of PLN 1,000 each.

  At the date of the registration, the following subsidiaries of PKO BP SA were the shareholders of this company:

  - PKO Inwestycje Sp. z o.o., which acquired 999 shares with a total nominal value of PLN 999,000,
  - POMERANKA Sp. z o.o., which acquired 1 share with a nominal value of PLN 1,000.00.

  On 8 November 2007 PKO Inwestycje Sp. z o.o. purchased 1 share in ARKADIA Inwestycje Sp. z o.o. from POMERANKA Sp. z o.o. and thus became the owner of 100% shares in the share capital of this Company, giving right to 100% of votes at its shareholders' meeting. On 21 December 2007 PKO Inwestycje Sp. z o.o. made an additional payment to the share capital of ARKADIA Inwestycje Sp. z o.o. in the amount of PLN 1 million. The Company was incorporated for the purpose of carrying out the housing construction project "Osiedle Jantar" in Międzyzdroje.

- completion of liquidation proceedings of Sonet Hungary Kft

  On 10 January 2007, the Metropolitan Court in Budapest issued a decision on deleting Sonet Hungary Kft, a subsidiary of Inteligo Financial Services SA, from the register of entrepreneurs, thereby confirming the completion of the liquidation of this Company on 23 September 2006, i.e. the date on which the decision on the completion of liquidation became legally valid. The Company was deleted from the register on 11 January 2007.

At the same time, the following changes occurred in 2007 in the organisation of the affiliates of Bankowe Towarzystwo Kapitałowe SA – a subsidiary of PKO BP SA:

- with regard to FINDER Sp. z o.o.

  On 2 January 2007, FINDER SA was entered in the National Court Register, and thereby the process of transformation of this company from a limited liability company into a joint stock company has been completed. The level of interest held by BTK SA in the share capital and votes at the company's General Shareholders' Meeting did not change.

- with regard to INTER FINANCE Polska Sp. z o.o.

  On 23 April 2007, Bankowe Towarzystwo Kapitałowe SA sold 409 shares in the share capital of INTER FINANCE Polska Sp. z o.o., with a total nominal value of PLN 409 thousand. The selling price amounted to PLN 410 thousand. The shares covered by the transaction accounted for 45% of the company's share capital and entitled to 45% of votes at the shareholders' meeting of INTER FINANCE Polska Sp. z o.o. Following the disposal, Bankowe Towarzystwo Kapitałowe SA does not hold any shares in INTER FINANCE Polska Sp. z o.o.

– with regard to P.L. ENERGIA SA

On 17 January 2007, Bankowe Towarzystwo Kapitałowe SA acquired 25,500 shares in the increased share capital of P.L. ENERGIA SA, with a nominal value of PLN 100 each. These shares accounted for 33.77% of the Company's share capital and gave right to 32.08% of votes at its General Shareholders' Meeting. The price paid for the acquired shares was PLN 4,999,785.

On 11 September 2007 an increase in the share capital of P.L. ENERGIA SA was registered in the National Court Register, by an amount of PLN 5 million. Bankowe Towarzystwo Kapitałowe SA did not participate in the share capital increase. Accordingly, the share held by Bankowe Towarzystwo Kapitałowe SA in the share capital of P.L. ENERGIA SA has decreased from 33.77% to 20.32%, and its share in the total vote at the General Shareholders' Meeting has decreased from 32.08% to 19.69%.

On 31 December 2007 Bankowe Towarzystwo Kapitałowe SA sold, under the share sale agreement dated 22 November 2007, all of its shares in P.L. ENERGIA SA, for an amount of PLN 5,999,742. The shares were sold to P.L. ENERGIA SA for the purpose of redemption.

4. BUSINESS ACTIVITIES OF THE PKO BP SA GROUP[2]

The main events that influenced the activities and results of the PKO BP SA Group in 2007 were connected with the business activities carried out by the Group companies and the results achieved by the particular entities of the Group and have been described in the following sections of this *Directors' Report*.

4.1 Activities of PKO BP SA – the holding company of the PKO BP SA Group[3]

PKO BP SA is a universal bank which deals with both individual persons and legal entities as well as other domestic and foreign entities. PKO BP SA may hold and deal in foreign currencies, as well as enter in foreign currency transactions and open and hold bank accounts with foreign banks, and hold funds denominated in foreign currencies in such accounts.

	Bank's activity
Interest bearing assets	As at 31.12.2007 gross interest bearing assets of PKO BP SA amounted to PLN 96.5 billion, and were by PLN 7.1 billion, which is 5.3% higher than as at 31 December 2006, of which gross loans of PKO BP SA amounted to PLN 76.1 billion and during the year 2007 increased by PLN 16.5 billion, which is 27.8%; loans, accounting for 78.9% interest bearing assets, increased by 13.9 pp. compared to 2006 as a result of high growth.
Interest bearing liabilities	As at 31.12.2007 Bank's interest bearing liabilities amounted to PLN 86.9 billion and from the beginning of the year increased by PLN 1.3 billion (by 1.5%); 61.8% of total value of deposits were retail and private banking deposits and compared to the end of 2006 the share decreased by 3.2 pp.; compared to the year of 2006, retail banking deposits increased by 2.3%, housing deposits by 1.3%, small and midium enterprise deposits by 20.2% and corporate deposits by 39.9%.
Territorial structure of deposit base	The biggest share within territorial structure of the deposit base (excluding inter-bank deposits and online banking accounts' deposits) had regions: Mazowiecki (25.4%), Śląsko – Opolski (11.9%) and Wielkopolski (11.0%). Their total share in Bank's deposits amounted to 48.3% and compared to the end of 2006 decreased by 0.1 pp.
Number of accounts	Number of ROR and Inteligo accounts amounted to 6,207 thousand and increased by 189 thousand, of which: ROR accounts by 125 thousand, while the number of Inteligo current accounts by 64 thousand.
Number of banking cards	Total number of banking cards issued by PKO BP SA at the end of the year amounted to 7,296 thousand of units. Compared to the end of 2006 an increase of the total number of banking cards amounted to 336 thousand of units, including 75 thousand of credit cards.

Retail segment

The Bank's activities aiming at retail segment customers focused on modernizing and increasing the attractiveness of the products offered by the Bank as well as improving service quality and sales effectiveness. The activities taken by the Bank brought about an increase in the volume of loans and deposits in the retail segment.

	Retail segment
Credit volume	As at 31 December 2007 gross credits of retail segment of PKO BP SA amounted to PLN 23.3 billion and since the beginning of the year had increased by PLN 5.1 billion (i.e. by 28.0%).
Deposit volume	As at 31 December 2007, the total clients' savings of the retail segment along with the assets managed by PKO TFI amounted to PLN 77.4 billion and compared to the year of 2006 increased by PLN 7.4 billion (i.e. by 10.6%), of which deposits amounted to PLN 60.7 billion idecreased since the beginning of the year by PLN 0.8 billion (i.e. by 1.2%).
Online banking	The year of 2007 in the retail banking was characterized by constant, dynamic increase in the number of online banking users of PKO Inteligo. The number of customers utilizing PKO Inteligo increased by about 0.5 million from 1.4 million at the beginning of 2007 to over 1.9 million at the end of December of 2007.

[2] *The financial data of the PKO BP SA Group companies has been presented according to their IAS/IFRS financial statements*

[3] *This chapter contains management reporting data of the Bank; any differences in totals, percentages and dynamics result from the rounding of figures. The term "gross loans" means loans without interest*

Housing segment

	Housing segments
Credit volume	As at 31 December 2007 gross credits of housing segment of PKO BP SA amounted to PLN 34.8 billion and since the beginning of the year had increased by PLN 9.5 billion (ie. by 37.5%). Total debt arising from mortgage banking products offered amounted to PLN 31.8 billion at the end of December 2007. In 2007 the value of mortgage banking products increased by PLN 9.3 billion, which means an increase by 41.8%. Mortgages supported by the government amounted to PLN 9.3 billion at the end of December 2007, of which PLN 2.3 billion represents liability to the bank, and PLN 7 billion liability to the government. At the end of 2007 repayment of liability concerned about 112 thousand apartments.
Deposit volume	As at 31 December 2007 total deposits of the housing segment of PKO BP SA amounted to PLN 10.3 billion. Since the beginning of the year their volume had increased by PLN 0.13 billion (i.e. is by 1.3%).
Investment credits	In 2007 Bank became a leader in financing developer ventures, granting over PLN 2 billion of investment credits (in 2006 about PLN 1 billion, growth of 232 % y/y). As a result, a significant portfolio increase up to PLN 1.5 billion was noticed (from PLN 522 million at the end of 2006).
Thermo-modernisation credits	Bank also became a leader in granting therm-modern credits - among all others PKO BP SA granted the biggest number of 1,338 units representing the amount of PLN 310 million, which resulted in the credit portfolio increase by up to PLN 582 million from PLN 267 million in 2006.

Corporate segment

In 2007 the Bank continued to focus on the strengthening of its market position in this segment and on building an image of PKO BP SA as a financial institution which is active on the corporate market.

	Corporate segment
Credit volume	As at 31.12.2007 the total of gross corporate credits granted amounted to PLN 18 billion and increased by 12.3% compared to 31.12.2006.
Deposit volume	As at 31.12.2007 the total of corporate deposits granted amounted to PLN 13.5 billion and increased by 39.9% compared to 31.12.2006 .

Treasury segment

	Treasury segment
Inter-bank market	1. At the end of November, Bank's participation in transactions proceeded by 13 banks partcipating in ranking of Treasury Dealer of Securities (further as TDS) reached: for SPOT 9%, IRS 13% and 10% for FRA, amongst other transactions proceeded on MTSCeTO 12% belonged to PKO BP SA. 2. Bank took up 4th position (amongst 22 banks partcipating) in the TDS ranking.
Sale of products	Bank increased sale of treasury products to corporate clients - 50% increase in the value of SPOT's transactions, fivefold increase in value of FORWARD transactions and fourfold increase in value of derivative instruments. IRS and CIRS transactions have become elements of a standard offering.

Investment activities

At the end of December 2007, the Bank reported a profit on brokerage activities in the amount of PLN 133.7 million, which accounts for a 15.2% increase compared to the profit reported in 2006. This growth is mainly due to the 11.5% increase in net fees and commission income and the 4.5% decrease in non-personnel and personnel-related costs.

Financial results

As at 31 December 2007, the relation of the total assets of PKO BP SA to the total assets of the Group was 97.1%, and the share of net profit of PKO BP SA for the year 2007 in the consolidated net result of the Group amounted to 93.7%. Therefore, the Bank as the holding company has the greatest impact on the balance sheet and the income statement of the PKO BP SA Group. The results of PKO BP SA have been reflected in the consolidated results presented in chapter 2.

A detailed description of the activities of PKO BP SA - the holding company of the Group, including its business activity and financial performance for the year 2007, has been presented in the Directors' Report of PKO BP SA for 2007, which is an integral part of the annual report of PKO BP SA.

4.2 Activities of other Group companies [4]

SUBSIDIARY	SCOPE OF ACTIVITIES	ACTIVITIES OF OTHER GROUP COMPANIES
PKO Towarzystwo Funduszy Inwestycyjnych SA	Setting up and management of investment funds	− The value of the Company's equity as at 31 December 2007 amounted to PLN 147,370 thousand. − At the end of 2007 the Company reported a net profit of PLN 122,853 thousand (2006: net profit of PLN 64,315 thousand). − At the end of 2007, the value of assets of the funds managed by the Company amounted to PLN 16.7 billion, which gave the Company a 12.4 % share in the investment funds market and ranked it 3rd among such companies (according to data at the end of 2006: 8.65% share in the investment funds market and ranked 4th on that market). − In 2007, PKO TFI SA included the following 2 new funds in its offer: PKO/CREDIT SUISSE Strategic Allocation – specialized open-end investment fund and PKO/CREDIT SUISSE Umbrella – specialized open-end investment fund with the following sub-funds: PKO/CREDIT SUISSE Akcji Plus (equity fund), PKO/CREDIT SUISSE Zrównoważony Plus (balanced fund), PKO/CREDIT SUISSE Stabilnego Wzrostu Plus (stable growth fund) and PKO/CREDIT SUISSE Papierów Dłużnych Plus (debt securities fund) as well as PKO/CREDIT SUISSE Rynków Wschodzących (emerging markets fund) (a subfund of PKO/CREDIT SUISSE Światowy Fundusz Walutowy - Global Currency Fund). In this period the Company also sold the S-Collect FIZ closed-end securitization fund. − In 2007 the Company paid out a dividend for the year 2006 in the total amount of PLN 65 million (on a pre-tax basis), including a dividend to PKO BP SA in the amount of PLN 48,750 thousand.
KREDOBANK SA	KREDOBANK SA in Lvov conducts banking activities in Ukraine	− The value of equity of KREDOBANK SA as at 31 December 2007 amounted to PLN 201,863 thousand (an equivalent of UAH 419,326 thousand). − In 2007, KREDOBANK SA reported a net profit of PLN 2,508 thousand (UAH 5,210 thousand). In 2006, KREDOBANK SA reported a net profit of PLN 15,685 thousand (UAH 27,231 thousand). The decrease in the net profit was caused by reduction of the size of the Company's lending activities due to the need to maintain regulatory capital at the level required by the National Bank of Ukraine, as well as higher operating expenses incurred in the course of the Company's development. − The loan portfolio (gross) of KREDOBANK SA had increased by PLN 319 million (UAH 1,050 million) i.e. 23% since the beginning of the year 2007 and amounted to PLN 1,708 million (UAH 3,547 million) at the end of 2007. − The value of term deposits expressed as PLN equivalent had decreased by PLN 9 million i.e. 0.96% since the beginning of 2007 and amounted to PLN 977 million at the end of 2007. The value of term deposits in UAH increased in 2007 by UAH 256 million i.e. 14.43% and amounted to UAH 2,030 million at the year-end. − At 31 December 2007, KREDOBANK SA had 24 branches and 151 local offices in 19 (out of 24) Ukrainian provinces and the Autonomous Republic of Crimea. During the year 2007, the Bank's network increased by additional 4 branches and 45 local offices. − In January 2007, KREDOBANK SA received a subordinated loan from PKO BPSA for an amount of USD 7.5 million, to be repaid by 30 January 2015. − In February 2007, KREDOBANK issued 25,000 bonds with a total nominal value of UAH 25 million and a maturity of 20 February 2012. All bonds were sold to the clients on the Ukrainian market. − In September 2007, an increase of UAH 176,750,000 in the share capital of KREDOBANK SA was entered in the register. The increase was made by way of an additional share issue. Following registration of the increase, the value of the share capital of KREDOBANK SA is UAH 396,049,469.16 (i.e. PLN 190.66 million). − In October 2007, KREDOBANK SA signed a loan agreement with PKO BP SA under which it received a working capital loan in the amount of USD 20 million. All amounts relating to KREDOBANK SA at the end of 2006 were translated using the average NBP rate as at 31 December 2006 (1 UAH = 0.5760 PLN), while those at the end of 2007 were translated using the average NBP rate as at 31 December 2007 (1 UAH = 0.4814 PLN).
Powszechne Towarzystwo Emerytalne BANKOWY SA	Management of an open-end pension fund. Since 2003, the Bank has been in the possession of 100% of PTE's shares	− At 31 December 2007, the value of equity of the PTE BANKOWY SA Group (PTE BANKOWY SA and its subsidiary, Finanse Agent Transferowy Sp. z o.o.) amounted to PLN 114,232 thousand. − At the end of 2007, the PTE BANKOWY SA Group reported a net profit of PLN 20,287 thousand (2006: net profit of PLN 19,168 thousand). − At the end of 2007, the value of assets held by Bankowy OFE amounted to PLN 4,275 million, which means an increase of 15.4% compared to the end of 2006. − At 31 December 2007, the number of members accounts amounted to 473,883. − At the end of 2007, Bankowy OFE was ranked 8th on the market of pension funds as regards the value of assets and 9th as regards the number of accounts. − In the ranking of rates of return published by the Insurance and Pension Funds Supervisory Commission (KNUiFE), Bankowy OFE was ranked 15th in the period from 30 September 2004 to 28 September 2007 with the result of 43.811%, while the weighted average was 52.497%.
Inteligo Financial Services SA	Provision of e-banking services. The Company provides a platform for the development of electronic services of PKO BP SA in the field of keeping accounts and selling other banking products using interactive distribution channels	− The value of the Company's equity at the end of 2007 amounted to PLN 97,258 thousand. − The Company closed the year 2007 with a net profit of PLN 22,148 thousand (2006: net profit of PLN 31,696 thousand). − The value of deposits held by PKO BP SA customers using the Inteligo accounts increased in 2007 by PLN 231 million and amounted to PLN 2,064 million at the end of 2007. Growth in these deposits in 2007 was lower than in 2006 by PLN 79 million. − At the end of 2007, the Company provided access to e-banking systems for appx. 1.9 million customers of PKO BP SA using the PKO Inteligo service line and provided Inteligo account services to over 582 thousand customers. − In January 2007 the Company signed a data transmission services agreement with Bank Pocztowy SA to enable the bank to provide and maintain electronic access to bank accounts for its customers. − In February 2007 the Company was entered in the register of telecommunication companies kept by the Polish Electronic Communications Office (Urząd Komunikacji Elektronicznej – UKE).
Centrum Elektronicznych Usług Płatniczych eService SA	Acquisition (to the Bank's order) of points of sale (the so-called acceptors) to execute transactions with the use of payment cards, management of POS terminals' network, processing of data relating to card transactions performed at POS terminals and servicing of cash withdrawals at POS terminals installed, among other places, in PKO BP SA agencies and branches	− The value of the Company's equity as at 31 December 2007 amounted to PLN 40,689 thousand. − In 2007, the Company reported a net profit of PLN 19,902 thousand (2006: net profit of PLN 15,494 thousand). The increase in the net profit results mainly from continuous improvement of profitability of the acquired points of sale and development of additional functionalities i.e. higher sales of mobile phone recharge units and higher number of cash withdrawals made at PKO BP SA agencies and the post offices of Poczta Polska. − The number of eService terminals at the end of 2007 amounted to 46,092, which means an increase of 27.87% since the end of 2006. The Company's estimated share in the card acceptance market as regards the number of eService terminals was 29.61% at the end of 2007. − In 2007, eService terminals processed 100.6 million transactions with a total value of PLN 15.3 billion, which means a 30.3% increase in the value of processed transactions compared to 2006. As regards the value of generated card transactions, the Company's estimated share in the market at the end of 2007 was 28.82%. − The Company was the first in Poland to introduce in 2007 contactless payment card readers.
Bankowe Towarzystwo Kapitałowe SA	Venture capital activities	− The value of the Company's equity at the end of December 2007 amounted to PLN 13,338 thousand. − In 2007 the Company reported a net loss of PLN 968 thousand (2006: net loss of PLN 4,812 thousand). − At the end of 2007, the Company managed an investment portfolio of PLN 6.5 million at acquisition cost (carrying amount of PLN 7.4 million), which included investments in FINDER SA.
Bankowy Fundusz Leasingowy SA	Operating and finance lease services in respect of vehicles, machinery, equipment and real estate as well as other financial agency services. Special services of the Company include: BanCar Leasing - lease of passenger cars and trucks, BanTruck Leasing – lease of construction related machinery and Bankowy Wynajem - long-term lease of vehicles	− The value of equity of the BFL SA Group (BFL SA and its subsidiaries) at the end of 2007 amounted to PLN 47,013 thousand. − The BFL SA Group closed the year 2007 with a net profit of PLN 7,024 thousand (in 2006, the Company reported a net profit of PLN 4,523 thousand). − In 2007, the BFL SA Group companies concluded lease agreements for a total amount of PLN 1,371 million, which means an increase of 79.9% compared to 2006. The high rate of growth in the value of realised lease agreements results from the dynamic development of the lease market. As regards the net carrying amount of the leased assets, the Company ranked 8th at the end of 2007 (according to estimates published by the Polish Leasing Companies Association (Związek Przedsiębiorstw Leasingowych). − The total carrying amount of the investments leased out by the BFL SA Group at 31 December 2007 was PLN 1,595 million (end of 2006: PLN 945 million).

[4] *The financial data of the PKO BP SA Group companies for the year 2007 are derived from their unaudited financial statements*

SUBSIDIARY	SCOPE OF ACTIVITIES	ACTIVITIES OF OTHER GROUP COMPANIES
PKO Inwestycje Sp. z o.o.	Construction and development activities. PKO Inwestycje Sp. z o.o. specializes in management of big development projects. Development projects are carried out either by PKO Inwestycje Sp. z o. o. alone or by its subsidiaries	− The value of equity of the PKO Inwestycje Sp. z o. o. Group (PKO Inwestycje Sp. z o. o. and its subsidiaries) at the end of 2007 amounted to PLN 82,593 thousand. The decrease in equity compared to the end of 2006 results mainly from a change in the accounting treatment of the additional capital injections made by PKO Inwestycje Sp. z o.o. to its subsidiaries (reclassification of additional capital injections from equity to liabilities). − The PKO Inwestycje Sp. z o.o. Group closed the year 2007 with a net profit of PLN 13,621 thousand (2006: net profit of PLN 37,068 thousand). Fluctuations in the results are due to the accounting treatment applied to the investment projects carried out by the Group. − In 2007, the Company's activities were focused on the following development projects: - "Marina Mokotów" in Warsaw carried out by Fort Mokotów Sp. z o.o., - "Nowy Wilanów" in Warsaw carried out by Wilanów Investments Sp. z o.o., - "Neptun Park" in Gdańsk carried out by POMERANKA Sp. z o.o., - "Kuźmińska" in Kijev, Ukraine, carried out by UKRPOLINWESTYCJE Sp. z o.o.. − All construction work relating to the "Marina Mokotów" project carried out by Fort Mokotów Sp. z o.o. was completed in 2007. Currently the Company must ensure warranty services for work performed under this project. − In October 2007, a new project, "Osiedle Jantar" in Międzyzdroje, was commenced by ARKADIA Inwestycje Sp. z o.o. In March 2007 PKO Inwestycje Sp. z o.o. received a dividend for 2006 from Fort Mokotów Sp. z o.o. in the amount of PLN 30.6 million.
Centrum Finansowe Puławska Sp. z o.o.	The Company manages the building "Centrum Finansowe Puławska" located at 15 Puławska Street in Warsaw	− The value of the Company's equity at the end of 2007 amounted to PLN 211,410 thousand. − In 2007, the Company reported a net profit of PLN 4,346 thousand. In 2006 it reported a net profit of PLN 8,685 thousand, which was mainly due to the recognition of foreign exchange gains on a foreign currency loan before its conversion to PLN in April 2006. − The percentage of leased out office and commercial space in the CFP building was subject to slight fluctuations in 2007 and amounted to 96.4% at the end of 2007 (end of 2006: 98.5%). − At 31 December 2007, 84.7% of the commercial and office space in the CFP building was leased out to the PKO BP SA Group companies.

4.3 Other subordinated entities [5]

SUBORDINATED ENTITY	SCOPE OF ACTIVITIES	ACTIVITIES OF OTHER SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES
CENTRUM HAFFNERA Sp. z o.o.	CENTRUM HAFFNERA Sp. z o.o., together with its subsidiaries, carries out an investment project relating to re-vitalisation of Sopot's tourist centre	− The value of equity of THE CENTRUM HAFFNERA Sp. z o.o. Group (CENTRUM HAFFNERA Sp. z o.o. and its subsidiaries) at the end of 2007 amounted to PLN 92,560 thousand. − The Group closed the year 2007 with a net profit of PLN 2,098 thousand (2006: net profit of PLN 1,200 thousand).
Centrum Obsługi Biznesu Sp. z o.o.	The Company's activity is construction of offices and hotel complex in Poznań. In January 2007 the Company delivered for use the Sheraton Poznań Hotel	− The value of the Company's equity at the end of 2007 amounted to PLN 25,383 thousand. − The Company closed the year 2007 with a net loss of PLN 7,410 thousand (2006: net loss of PLN 8,843 thousand).
Bank Pocztowy SA	Banking activities	− The value of the Company's equity at the end of 2007 amounted to PLN 229,432 thousand. − At the end of December 2007, the Company reported a net profit of PLN 29,090 thousand (2006: net profit of PLN 24,367 thousand).
Kolej Gondolowa Jaworzyna Krynicka SA	Set up mainly for the purpose of construction and operation of cable railway from Krynica to Jaworzyna Krynicka and for carrying people on ski lifts	− The value of the Company's equity at the end of 2007 amounted to PLN 33,273 thousand. − The Company closed the year 2007 with a net profit of PLN 1,809 thousand (2006: net profit of PLN 2,274 thousand).
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Granting of suretyships and guarantees to secure the repayment of loans and advances granted by financial institutions to small and medium-sized enterprises (SMEs)	− The value of the Company's equity at the end of 2007 amounted to PLN 4,820 thousand. − The Company closed the year 2007 with a net profit of PLN 42 thousand (2006: net profit of PLN 140 thousand).
Agencja Inwestycyjna CORP SA	Management of business premises in Warsaw	− The value of the Company's equity at the end of 2007 amounted to PLN 1,122 thousand. − The Company closed the year 2007 with a net profit of PLN 315 thousand (2006: net profit of PLN 374 thousand).

4.4 International cooperation

Cooperation with the European Bank for Reconstruction and Development

− PKO BP SA participates in the "Loan Window" programme being part of the "UE/EBRD SME Finance Facility" (on the basis of the Loan Agreement of 21 February 2003 concluded by PKO BP SA and the European Bank for Reconstruction and Development for the financing of small and medium-sized enterprises). Until 31 December 2007, the Bank extended 3,117 loans for a total amount of EUR 62.65 million.

− In 2007, Bankowy Fundusz Leasingowy SA utilised successive tranches of the loan granted to it by the EBRD in 2005 for a total amount of PLN 60 million, amounting to PLN 40 million. As at

[5] The financial data of the PKO BP SA subordinated companies for the year 2007 are derived from their unaudited financial statements prepared in accordance with Polish Accounting Standards.

31 December 2007, the total amount of the funds utilized by the Company under this loan was PLN 60 million. These funds are to be used for the development of small and medium-sized enterprises.

Co-operation with other foreign institutions

In 2007, the Bank:

- entered into 2 ISDA Master Agreements with foreign banks and 2 Credit Support Annexes to the previous ISDA agreements, 2 TBMA/ISMA Global Repurchase Master Agreements, and participated in 2 syndicated loans organized for foreign banks on the European market, with a total value of PLN 125 million,
- entered into a loan agreement and a working capital loan agreement with an entity from the banking sector directly related to the Bank, for a total amount of PLN 70 million – both of these transactions were made at an arm's length,
- as at 31 December 2007, the Bank holds 29 *nostro* accounts denominated in 14 currencies, and keeps 38 *loro* accounts in 3 currencies,
- as part of cooperation with the UK NatWest, the branches of PKO BP SA in Poland started to accept applications for the opening of NatWest Welcome accounts; in December 2007 PKO BP SA opened its first UK outlet in London.

In addition, the banking supervisory authority of Ireland confirmed the receipt of a notification of the Bank's plans to conduct cross-border activities in Ireland.

In 2007 Bankowy Fundusz Leasingowy SA utilised PLN 56.9 million of the loan granted to it in 2006 by the European Investment Bank for an amount of EUR 50 million, and used these funds for the financing of small and medium-sized enterprises.

KREDOBANK SA provides its customers a wide range of services in the area of international transactions. KREDOBANK SA participates in the system of international settlements with financial institutions from 25 countries. It holds 40 *nostro* accounts and keeps 19 *loro* accounts.

4.5 Service promotion and image building

In 2007, the Bank's activities in the area of promotion were mainly focused on the following:

- strengthening the Bank's image among shareholders and clients as leader in the area of banking services in Poland – a modern organisation with an established reputation, safe, friendly and working on a partner-like basis with customers in each market segment,
- increasing the aspirations and prestige of the PKO BP SA brand,
- intensifying promotion activities supporting the sales of the Bank's products and services.

As part of promotion of the Bank's products and services, the Bank carried out promotional campaigns for specific products in the retail and corporate market, as well as image-building campaigns and direct marketing activities aiming at acquisition of new clients and strengthening of the relations with the existing business partners. This included organization of a number of various events, including educational-sales events, as well as workshops for the Bank's clients.

In 2007, public relations activities were carried out especially through the sponsorship and charity activities of the Bank. The Bank, acting as the patron and sponsor, supported the organization of a number of cultural, sports, social and local events through creative sponsorship programs.

Through the following programmes:

- "*PKO Bank Polski Kulturze Narodowej*" ("PKO BP for the Polish Culture") – the Bank continued to be the patron for the Warsaw and Cracow museums, the National Philharmonics in Warsaw and the Poznań and Łódź Philharmonics.
- "*PKO Bank Polski Blisko Ciebie*" ("PKO BP Close to You") – the Bank provided financial support for a number of spectacular artistic events, such as Rod Stewart's concert in the Gdańsk Shipyard and The Rolling Stones' concert in Warsaw.

Promotion activities carried out in 2007 by other Group companies were particularly focused on the following:

- ensuring advertising support for the sales of products, including in particular new products and services, and building positive corporate image (KREDOBANK SA),
- promotion of constructed housing estates: "Neptun Park" in Gdańsk Jelitkowo and "Nowy Wilanów" in Warsaw (PKO Inwestycje Sp. z o.o. and its subsidiaries),

- strengthening the position of PKO Towarzystwo Funduszy Inwestycyjnych SA on the investment funds market, among others, by carrying out an image-building campaign in the press on the occasion of the 10th anniversary of the Company's presence on the investment funds market and the sponsorship of a number of scientific, sports and musical events,
- activities supporting the image and promoting the services of Bankowy Fundusz Leasingowy SA, including the sponsorship of the "*Gazele Biznesu*" ranking and the carrying out of advertising campaigns in nationwide economic and business dailies and specialised magazines,
- promotional campaigns and competitions addressed to the customers of Inteligo Financial Services SA, Centrum Elektronicznych Usług Płatniczych eService SA and PTE BANKOWY SA,
- sponsorship of a number of cultural events, heath care and charity undertakings, and organisation of a conference devoted to commercial property management (Centrum Finansowe Puławska Sp. z o.o.).

In addition to its activities on the financial market, KREDOBANK SA provided support to cultural and artistic undertakings and participated in the resolving of current social problems. Its activities in this area included providing assistance to children and supporting Ukrainian arts, culture and sports. In April 2007 KREDOBANK SA and the Ukrainian Charity Fund organised an event (the "Heart to Heart" event) whose aim was to collect funds for the purchase of medical equipment for children's hospitals in Ukraine.

Awards and distinctions granted to members of the Group

- the title of the "Primary Market Leader" granted for the 3rd time to Dom Maklerski PKO BP for the introduction of the greatest number of new companies on the stock exchange in 2006,
- 1st place in *Newsweek's* ranking of "100 Most Valuable Companies in Poland",
- Promotional Emblem "*Teraz Polska*" – award granted for the European Program of PKO BP SA in the 17th "*Teraz Polska*" contest organised by the Polish Promotional Emblem Foundation under the patronage of the President of Poland,
- "Premium Brand 2006" in the category of financial institutions - title granted to PKO BP SA for the second time in the ranking of most reputable brands organised by MMT Management under the patronage of the monthly *FORBES*,
- Main Award in the ranking of "50 biggest banks in Poland" organised by the monthly BANK, and 1st prize in the category of "Internet Banks",
- "Bank of the Year 2007 in Poland" – prestigious award granted to PKO BP SA by the monthly "*The Banker*" for financial performance, development strategy and market achievements,
- 1st place in the category of "financial brands" in *Rzeczpospolita's* ranking of the strongest Polish brands,
- "Rock Awards 2006" – golden prize granted to Centrum Elektronicznych Usług Płatniczych eService SA for outstanding contribution to the development of payment card acceptance network and silver prize for implementing smart cards acceptance (both awards granted by MasterCard Europe),
- 1st place for Inteligo Financial Services SA and the title of "Newsweek's Friendly Bank" in the ranking of the most user-friendly online bank accounts,
- "Golden Portfolio" – award granted by *Gazeta Giełdy Parkiet* to PKO Towarzystwo Funduszy Inwestycyjnych SA, the company managing the PKO/CREDIT SUISSE Akcji Nowa Europa FIO, for the best investment results in this category,
- "Portfolio of the Year 2007" - award granted by the weekly *WPROST* to PKO Towarzystwo Funduszy Inwestycyjnych SA for the best Polish equities fund – PKO/CREDIT SUISSE Akcji Małych i Średnich Spółek FIO,
- 1st place for KREDOBANK SA in the category of "Company of the Year" in the area of consulting and investment services in the "Rycerz Galicki 2006" contest,
- 1st place for KREDOBANK SA in the category of "Foreign Investment", granted in the "Investor of the Year 2006" contest organised by public administration and the Chamber of Industry and Commerce in Lvov,
- 3rd place for KREDOBANK SA in the category of "the Most Trusted Bank of the Year", granted in the "MasterCard Bank 2007" contest,
- 3rd place for KREDOBANK SA in the ranking of the "Reporting transparency of Ukrainian banks in 2007", organised by Standard & Poor's,
- the title of the "Patron of Business Gazelles" (*Mecenas Gazel Biznesu)* granted to Bankowy Fundusz Leasingowy SA.

Furthermore, PKO BP SA, as the first bank in Poland, received the ISO/IEC 27001:2005 certificate, confirming compliance of the Information Security Management System with the ISO/IEC 27001:2005 standard.

5. INTERNAL ENVIRONMENT

5.1 Risk management policy

Risk management is one of the most important internal processes both in the Bank and in the other companies of the PKO BP SA Group, particularly in KREDOBANK SA and Bankowy Fundusz Leasingowy SA (BFL SA). The aim of risk management is to ensure an appropriate level of security and profitability of business activities in the changing legal and economic environment. The key risks in the PKO BP SA Group comprise credit risk, market risk and operational risk. Risk management covers credit risk management, market risk management and operational risk management.

5.1.1 Credit risk

The aim of creating an effective credit risk management system is to increase the level of security and profitability of the services offered. In credit risk management, the Bank, KREDOBANK SA and BFL SA are guided by the following rules:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in the internal rating or credit score assigned to this transaction,
- credit risk relating to potential and concluded loan transactions is measured on a regular basis taking into consideration changing external conditions and changes in the financial standing of the borrowers,
- the credit risk assessment performed for a given transaction is additionally verified by credit risk assessment forces which are independent of the business units, if the criteria for engaging such forces are met,
- credit risk is diversified by geographical regions, industry, products and clients,
- loan granting decisions may only be taken by authorized individuals,
- the Bank and the other PKO BP SA Group companies provide for credit risk by recognising impairment allowances (specific provisions) for loan exposures.

In 2007, the Bank developed the principles of assessment of credit capacity of individual customers to include an assessment of loan liabilities resulting from business activity, interest rate risk and currency risk if the currency in which the customer earns his/her income differs from the currency of the loan for which the customer has applied. In addition, in 2007 the Bank introduced detailed principles for the assessment of credit risk related to non-residents and Polish citizens working abroad.

During the year 2007, KREDOBANK SA revised its credit risk assessment methodologies for the following groups of customers: individual customers, corporate entities and sole traders, prepared for testing a project of automation of the lending process related to individual customers (using credit scoring methodologies) and developed a set of rules and regulations for assessment of the quality of investment projects.

In 2007, BFL SA developed and implemented simplified credit risk assessment methods for the following new products: BanLex Leasing and BanMed Leasing, which are addressed to the legal and medical sector.

5.1.2 Financial risk

The holding company of the Group has a coherent and well-developed financial risk management system, which also accounts for the risks generated by the other Group companies. Furthermore, the risk management policies of the other Group companies giving rise to significant financial risk are to a large extent adjusted to the policies applied by the holding company.

The holding company has implemented a specialized IT system supporting financial risk management, which improves the operating efficiency and IT security of the financial risk management process, increases the level of automation of computations and allows for their centralization. During the year 2007, the Bank continued to adjust this system to its current requirements and to the changes occurring in its macroeconomic environment.

During the year 2007, the Bank finalised its work on including the internal capital assessment process in the management of liquidity risk, interest rate risk and currency risk.

Financial risk profile of the Bank in 2007

Due to the structure of the Group, financial risk is mainly generated by the holding company, PKO BP SA. The Group's parent entity has a stable deposit base and a portfolio of liquid securities which ensure a sufficient financial liquidity, which is monitored and managed on a regular basis. In 2007, the Bank acquired a syndicated loan and issued subordinated debt securities in order to diversify its sources of financing. The Bank used derivative instruments (including credit derivatives) for investment and hedging purposes and held speculative positions in interest rates and foreign currencies. During the year 2007, the Bank performed regular assessments of financial institutions and reviewed the amounts of the assigned credit and settlement limits, and set limits for the new contractors on the interbank market in accordance with the requirements reported by the business departments.

5.1.3 Operational risk

Operational risk is defined as the risk of a loss arising from non-compliance or weakness of internal processes, people and systems or from external events. The objective of operational risk management is to optimise operational efficiency by reducing operating losses, rationalization of costs and increasing the speed and adequacy of the Bank's and other Group companies' response to events that are beyond their control.

The Group is guided by the following rules in operational risk management:

- operational risk management policies and procedures cover the full scope of the Group's activities,
- the above-mentioned regulations are in principle uniform in all of the Group companies, while any potential differences arise from the specific nature and size of the operations carried out by the Group companies,
- defined responsibilities and reporting lines in the area of operational risk management at various decision-taking levels,
- defined operational risk identification and assessment processes for all major areas of the Group's activities,
- operational risk management is performed at the level of comprehensive system solutions as well as day-to-day risk management activities.

Cooperation between the Group companies in the area of operational risk management is coordinated by the Compliance and Operational Risk Office, which, among others, issues opinions on the internal regulations governing the comprehensive system-based operational risk management, monitors operational events and reports on the Group's operational risks to the Management Board and Supervisory Board of the Bank.

The holding company, i.e. PKO BP SA, has the greatest impact on the Group's operational risk profile. Other Group companies, due to considerably smaller size of their operations, generate only a limited exposure to operational risk. In 2007, the Group companies improved the operational risk management process by implementing new solutions in the area of identification of operational risk, classification of operational events and calculation of the capital requirement for operational risk.

5.1.4 Capital adequacy

The objective of capital adequacy management is to ensure compliance of the Bank and the PKO BP SA Group with prudence regulations relating to capital requirements arising from the level of taken risk, which are quantified in the form of capital adequacy ratio.

The main tools used in capital adequacy management are as follows:

- selection of the methods of measurement of capital requirements for the individual types of risk which will be optimal in terms of the level of required capital, in accordance with Resolution 1/2007 of the Commission for Banking Supervision,
- internal procedures determining among others: classification of new operations to the trading book or to the banking book and the method of calculation of capital requirements for the individual types of risk,
- activities related to management of the level of own funds.

The level of the capital adequacy of the Group in 2007 was safe. Due to dynamic development of lending activities and implementation, as of 1 January 2008, of the requirements of the New Capital Accord (Basel II), the Bank took actions in order to maintain the capital adequacy ratio above the level of 10%. Specifically, in the 4th quarter of 2007 the Bank carried out an issue of subordinated debt securities and obtained approval of the Commission for Banking Supervision for including them in the Bank's own funds.

In 2007, the PKO BP SA Group adjusted its information systems, internal processes and internal regulations to the requirements of the New Capital Accord. It has created a capital management system whose aim is to maintain capital, at all times, at a level that is adequate to the risk profile of the Group and to improve its performance and enhance its value to the shareholders.

Capital management includes in particular identification of significant risks, assessment of internal capital for the individual types of risk, calculation of aggregated internal capital for all significant risks arising in the operations of the Bank and of the Group companies, as well as stress testing of capital adequacy.

In 2007 the Bank developed and approved its information policy in respect of capital adequacy (in accordance with the requirements of Resolution 6/2007 of the Commission for Banking Supervision dated 13 March 2007), which has been included on the Bank's website. In accordance with § 6 of Resolution 6/2007 of the Commission for Banking Supervision, the Bank publishes information about capital adequacy in a separate document on an annual basis, not later than within 30 days of the date of approval of the annual financial statements by the Annual General Meeting.

5.2 Major equity investments

Major equity investments of PKO BP SA and its subsidiaries relating to purchase and sale of shares in other subsidiaries, associates and jointly controlled entities are presented in point 3.2 of this Report.

5.3 Related party transactions

In 2007, PKO BP SA provided the following services to related entities (subsidiaries, associates and jointly controlled entities): keeping bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting bank guarantees and conducting spot foreign exchange operations.

In addition, under the lease agreement with Centrum Finansowe Puławska Sp. z o.o., the Bank made payments to the Company in 2007 for a total amount of PLN 45.6 million; these payments were mainly related to rent and operating fees.

All significant transactions of PKO BP SA with its subsidiaries, associates and jointly controlled entities, including the loan exposures of these companies to the Bank as at 31 December 2007, have been presented in the consolidated financial statements of the PKO BP SA Group for the year 2007.

5.4 Governing bodies of PKO BP SA in the reporting period

Members of Management Board in the reporting period:

Table 15. Members of the Management Baoard during the reporting period

No.	Name	Function	Appointment Date
1.	Sławomir Skrzypek	Vice-President of the Management Board	on 20.12.2005 appointed for the common term of Management Board that commenced on 19.05.2005
		Vice-President acting as the President of the Management Board	29.09.2006 resigned from these positions as of 10.01.2007
2.	Rafał Juszczak	Member of the Management Board*	as of 01.07.2006 appointed to the common term of the Management Board that commenced on 19.05.2005
		Vice-President of the Management Board	29.09.2006
		Vice-President acting as the President of the Management Board	11.04.2007 (on 2 April 2007 the Supervisory Board appointed Rafał Juszczak as of 11 April 2007, Vice-President of the Management Board, to act as President of the Management Board of PKO BP SA until a new President of the Management Board is elected)

No.	Name	Function	Appointment Date
		President of the Management	20.06.2007 (On 8 August 2007 the Commission for Banking Supervision [KNB] gave consent for appointing Rafał Juszczak as the President of the Management Board of the Bank)
3.	Wojciech Kwiatkowski**	Vice-President of the Manage-ment Board	as of 01.11.2006 appointed to the common term of the Management Board that commenced on 19.05.2005
4.	Jacek Obłękowski	Member of the Management Board	20.06.2002 on 19.05.2005 re-appointed to another term starting from this day
		Vice-President of the Manage-ment Board	29.09.2006. resigned from this position as of 31.01.2007
5.	Zdzisław Sokal	Member of the Manage-ment Board*	as of 01.07.2006 appointed for the common term of the Management Board that commenced on 19.05.2005
		Vice-President of the Manage-ment Board	29.09.2006 r. resigned from this position as of 13.03.2007
6.	Marek Głuchowski	Acting as the President of the Management Board	delegated to this position from 10.01.2007 to 23.01.2007 and from 27.01.2007 to 10.04.2007
7.	Robert Działak***	Vice-President of the Manage-ment Board	as of 23.02.2007 appointed for the common term of the Management Board that commenced on 19.05.2005
8.	Stefan Świątkowski***	Vice-President of the Manage-ment Board	as of 01.05.2007 appointed for the common term of the Management Board that commenced on 19.05.2005
9.	Adam Skowroński****	Vice-President of the Manage-ment Board	delegated temporarly to act as the Vice-President of the Management Board from 11.04.2007 to 30.04.2007; as of 23.07.2007 appointed for the common term of the Management Board that commenced on 19.05.2005
10.	Aldona Michalak****	Vice-President of the Manage-ment Board	as of 01.07.2007 appointed for the common term of the Management Board that commenced on 19.05.2005
11.	Mariusz Klimczak****	Vice-President of the Manage-ment Board	as of 15.07.2007 appointed for the common term of the Management Board that commenced on 19.05.2005
12.	Berenika Duda-Uhryn****	Vice-President of the Manage-ment Board	as of 10.09.2007 appointed for the common term of the Management Board that commenced on 19.05.2005

** Appointed by the Supervisory Board on 26 June 2006.; on 20 June 2007 the Supeevisory Board appointed the Vice-President of the Management Board, Rafał Juszczak, to act as the President of the Management Board for the common term of the Management Board that commenced on 19.05.2005.*

*** Appointed by the Supervisory Board on 29 September 2006.*

**** Appointed by the Supervisory Board on 22 February 2007.*

***** Appointed by the Supervisory Board on 20 June 2007.*

Table 16. Other functions performed by the Bank's Management Bard Members during the reporting period

No.	Name	Function
1.	Sławomir Skrzypek	Deputy Chairman of the Steering Committee for Implementation of Branch Modernisation Program (from 20.12.2005 to 31.10.2006 – according to the Management Board resolution no 343/C/2006 from 31.10.2006 up to the end of the period of performing the President of the Bank's Management Board did not participate in the Committee's works) Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006)

No.	Name	Function
2.	Rafał Juszczak	Deputy Chairman of the Integrated Information System Steering Committee (since 10.07.2006), Chairman of the Integrated Information System Steering Committee (since 14.02.2007) Member (since 17.07.2006) and later Deputy Chairman (since 31.10.2007) of the Steering Committee for Implementation of Branch Modernisation Program Chairman of the IIS Project Committee (from 01.07.2006 to 31.10.2007) Deputy Chairman of the Bank's Credit Committee (from 10.01.2007 to 16.07.2007) Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (from 17.01.2007 to 30.07.2007)
3.	Jacek Obłękowski	Deputy Chairman of the Bank's Credit Committee (since 26.10.2006) Chairman of the Steering Committee for Implementation of Branch Modernisation Program (since 15.03.2005) Deputy Chairman of the Integrated Information System Steering Committee (since 27.08.2002), Chairman of the Integrated Information System Steering Committee (since 4.01.2007) Member of the IIS Project Committee (since 24.04.2005)
4.	Zdzisław Sokal	Member of the Asset and Liability Committee (since 10.07.2006), Chairman of the Asset and Liability Committee (since 4.01.2007) Chairman of the Bank's Credit Committee (since 4.01.2007) Member of the Integrated Information System Steering Committee (since 10.07.2006), Deputy Chairman of the Integrated Information System Steering Committee (since 14.02.2007) Deputy Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006) Deputy Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (since 17.01.2007)
5.	Wojciech Kwiatkowski	Deputy Chairman of the Asset and Liability Committee (from 4.01.2007 to 19.03.2007 and from 15.05.2007 to 5.08.2007), Chairman of the Asset and Liability Committee (from 20.03.200 to 14.05.2007) and Member of the Asset and Liability Committee (from 6.08.2007 to 29.11.2007) Deputy Chairman of the Integrated Information System Steering Committee (from 14.02.2007 to 22.02.2007) Deputy Chairman of the Steering Committee for Implementation of Branch Modernisation Program (since 2.01.2007 to 31.01.2007 and after 23.02.2007), from 1.02.2007 to 23.02.2007 – Chairman of the Steering Committee for Implementation of Branch Modernisation Program Deputy Chairman of the Bank's Credit Committee (from 1.02.2007 to 22.02.2007) Member of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (from 17.01.2007 to 30.07.2007)
6.	Marek Głuchowski	Chairman of the Corporate and Commercial Governance Committee (from 11.01.2007 to 10.04.2007)
7.	Robert Działak	Deputy Chairman of the Asset and Liability Committee (from 20.03.2007 to 5.08.2007), Member of the Asset and Liability Committee (from 6.08.2007 to 26.11.2007) Deputy Chairman of the Bank's Credit Committee (from 23.02.2007 to 6.08.2007) Deputy Chairman of the Integrated Information System Steering Committee (since 23.02.2007) Chairman of the Steering Committee for Implementation of Branch Modernisation Program (since 23.02.2007) Member of the IIS Project Committee (since 23.02.2007) Deputy Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (from 10.04.2007 to 30.07.2007)
6.	Adam Skowroński	Deputy Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (from 11.04.2007 to 30.04.2007 and since 30.07.2007) Chairman of the Bank's Credit Committee (from 11.04 2007 to 30.04.2007) Deputy Chairman of the Asset and Liability Committee (since 24.07.2007)
8.	Stefan Świątkowski	Chairman of the Asset and Liability Committee (since 15.05.2007) Chairman of the Bank's Credit Committee (since 1.05.2007) Deputy Chairman of the Integrated Information System Steering Committee (since 1.05.2007) Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (since 30.07.2007)
9.	Mariusz Klimczak	Member of the Asset and Liability Committee (from 6.08.2007 to 26.11.2007) Deputy Chairman of the Asset and Liability Committee (since 16.07.2007)

Members of Supervisory Board

Table 17. The Bank's Supervisory Board during the reporting period

No.	Name	Function	Appointment / dismissal date
1.	Marek Głuchowski	President of the Supervisory Board	appointed on 18.04.2006, from 10.01 to 23.01.2007 and from 27.01.2007 to 10.04.2007 delegated to temporarily act as the President of the Management Board
2.	Urszula Pałaszek	Member of the Supervisory Board	appointed on 19.05.2005
		Vice-President of the Supervisory Board	since 20.05.2005
3.	Tomasz Siemiątkowski	Member of the Supervisory Board	appointed on 18.04.2006
		Secretary of the Supervisory Board	since 26.06.2006.
4.	Jerzy Michałowski	Member of the Supervisory Board	appointed on 18.04.2006
5.	Jerzy Osiatyński	Member of the Supervisory Board	appointed on 25.03.2002
		Member of the Supervisory Board	appointed on 19.05.2005, resigned as of 31.01.2007
6.	Adam Skowroński	Member of the Supervisory Board	appointed on 18.04.2006, on 2.04.2007 delegated to temporarily act as the Vice-President of the Management Board for the period from 11.04.2007 to 30.04.2007, on 23.07.2007 r. appointed as the Vice-President of the Bank's Management Board
7.	Agnieszka Winnik-Kalemba	Member of the Supervisory Board	appointed on 18.04.2006
8.	Maciej Czapiewski	Member of the Supervisory Board	appointed on 19.03.2007

On 9 May 2007 the Supervisory Board of the Bank set up the Strategy Implementation Committee.

Holders of commercial powers of attorney, Management Board meetings and implementation of resolutions of general shareholders' meetings and recommendations of the State Treasury Minister

As at 1 January 2007, there were 15 holders of commercial powers of attorney in PKO BP SA. During the year 2007, 1 holder of commercial powers of attorney were appointed and 4 holders of commercial powers of attorney were dismissed. As at 31 December 2007, there were 12 holders of commercial powers of attorney.

During the year 2007, the Management Board held 52 minuted meetings and took 600 resolutions.

The most important activities and decisions taken by the Management Board, that had an influence on the economic and financial position and activity of the Bank, have been presented in the relevant parts of the Directors' Report.

On 26 April 2007 the shareholders of PKO BP SA held an Ordinary General Meeting. The resolutions passed by the General Meeting, which called for taking specific actions, have been carried out.

Rules for appointing and dismissing members of the Management Board

In accordance with par. 19 Section 1 and Section 2 of the Bank's Articles of Association, Management Board members are appointed by the Supervisory Board for a common three-year term. Board members may only be dismissed for important reasons.

Authorisations granted to members Management Board

In accordance with par. 20 Section 1 of the Bank's Articles of Association, the scope of Management Board responsibilities includes all matters related to the conducting of Bank's affairs that have not been reserved by law or Articles of Association for the general shareholders' meeting or Supervisory Board, including purchase and disposal of property, property interests or perpetual usufruct, that do not require consent of the General Meeting in accordance with par. 9 section 1 point 5 of the Bank's Articles of Association.

According to par. 20 Section 2 of the Articles of Association, making decisions on incurring liabilities or disposing of assets the total value of which exceeds 5% of the Bank's equity in a transaction with a single entity shall fall within the scope of competence of the Management Board, with the proviso for the scope of competence of the general shareholders' meeting set out in par. 9 or the scope of competence of the Supervisory Board set out in par. 15 of the Articles of Association.

Contracts concluded between the issuer and persons performing management functions

In accordance with the definition contained in par. 2 Section 1 point 35 letter a. of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information provided by the issuers of securities (Journal of Laws No 209 item 1744), members of the Management Board are the persons who manage the Bank.

With each member of the Management Board in the year 2007, the Bank concluded two contracts binding in 2006, that provide for compensation in the event of resignation or dismissal without an important reason:

– employment contract, that provides for a severance payment amounting to a 3-month basic salary recently received by the Board member
– anti-competition contract, that provides compensation for complying with competition ban over a 6-month period after termination of the employment contract. This compensation amounts to 100% of the monthly basic salary received by the Board member prior to termination of the employment contract and is to be paid in arrears over the period of the ban.

The monthly basic salary is the equivalent of six times the average remuneration determined in the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Journal of Laws No 26, item 306 with subsequent changes), the so called "chimney" act.

Benefits provided to members of management and supervisory boards

Full information on remunerations and other benefits provided to members of the Bank's Management and Supervisory Boards in the reporting period has been presented in Note 52 of Additional Information to the Consolidated Financial Statements.

Bank's shares held by members of Management and Supervisory Boards

Table 18 presents Bank's shares held by members of Management and Supervisory Boards as at 31 December 2007. The nominal value is PLN 1 per share. Members of the Bank' Supervisory Board and the Management Board did not hold shares and participations in the Bank's subsidiaries as at 31 December 2007.

Table 18. Shares held by members of Management and Supervisory Boards of PKO BP SA as at 31 December 2007

No.	Name	Number of shares as at 31.12.2006	Purchase	Disposal	Number of shares as at 31.12.2007
I.	**Management Board**				
1.	Rafał Juszczak, President of the Management Board of PKO BP SA	-----	-----	-----	-----
2.	Berenika Duda-Uhryn, Vice-president of the Management Board of PKO BP SA	-----	-----	-----	-----
3.	Robert Działak, Vice-president of the Management Board of PKO BP SA	-----	-----	-----	-----
4.	Mariusz Klimczak, Vice-president of the Management Board of PKO BP SA	-----	-----	-----	-----
5.	Wojciech Kwiatkowski, Vice-president of the Management Board of PKO BP SA	-----	-----	-----	-----
6.	Aldona Michalak, Vice-president of the Management Board of PKO BP SA	-----	-----	-----	-----
7.	Adam Skowroński, Vice-president of the Management Board of PKO BP SA	-----	-----	-----	-----
8.	Stefan Świątkowski, Vice-president of the Management Board of PKO BP SA	-----	-----	-----	-----

No.	Name	Number of shares as at 31.12.2006	Purchase	Disposal	Number of shares as at 31.12.2007
II.	**Supervisory Board**				
1.	Marek Głuchowski, President of the Supervisory Board of PKO BP SA	-----	-----	-----	-----
2.	Urszula Pałaszek, Vice-president of the Supervisory Board of PKO BP SA	-----	-----	-----	-----
3.	Maciej Czapiewski, Member of the Supervisory Board of PKO BP SA	-----	-----	-----	-----
4.	Jerzy Michałowski, Member of the Supervisory Board of PKO BP SA	-----	-----	-----	-----
5.	Tomasz E. Siemiątkowski, Secretary of the Supervisory Board of PKO BP SA	-----	-----	-----	-----
6.	Agnieszka Winnik-Kalemba, Member of the Supervisory Board of PKO BP SA	-----	-----	-----	-----

5.5 Amendments to the Bank's Articles of Association

On 26 April 2007, the Ordinary General Meeting of PKO BP SA resolved to make amendments to the Bank's Articles of Association and authorized the Supervisory Board of the Bank to compile the consolidated text of the amended Articles of Association.

The amendments made to the Articles of Association were as follows:

- extending the scope of the principal activities of the Bank to include services related to sale and redemption of investment fund units,
- a requirement for Management Board to convene a General Meeting to appoint Supervisory Board members if, due to the expiry of the mandate of a Supervisory Board member, the number of Supervisory Board members falls below six,
- liquidation of the position of Vice President - First Deputy President of the Management Board,
- increase of the maximum number of Management Board members from eight to nine,
- deleting the provision requiring that declarations on behalf of the Bank shall be made by two commercial attorneys acting jointly,
- elimination of ruling as a form of decision-taking by Management Board,
- including legal matters within the scope of competence of the President of Management Board,
- amending the scope of matters within the competence of the Management Board member approved by the Commission for Banking Supervision to include risk (including credit risk) management, (previously this included strategy and planning, organisation and restructuring, investor relations and legal matters),
- introduction of the requirement to obtain the approval of the Supervisory Board for the appointment and dismissal of the director and deputy directors of the internal audit department.

The consolidated text of the Articles of Association of PKO BP SA was published on 26 June 2007 in current report No. 29/2007, and was included on the Bank's website.

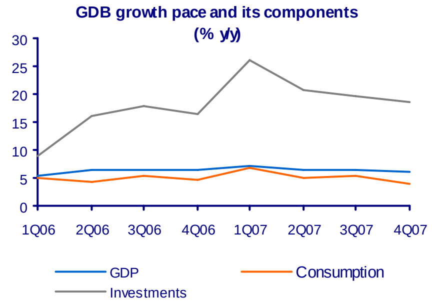
5.6 Corporate governance

The Bank's compliance with corporate governance rules in 2007 was described in the *Report on PKO BP SA's compliance with corporate governance rules in 2007*, which constitutes an appendix this Report.

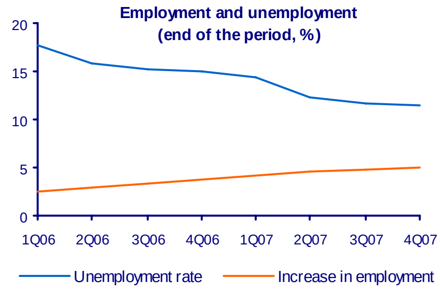
6. EXTERNAL ENVIRONMENT

Macroeconomic factors

During the year 2007 economic growth continued to accelerate. The dynamics of GDP in 2007 amounted to 6.5% y/y, compared to 6.2% in 2006. The revival in real economy was stimulated by a high growth in domestic demand – especially in the area of investments, coupled with a strong growth in the dynamics of individual consumption (improvement of the situation on the labour market and growth in the level of household disposable incomes).

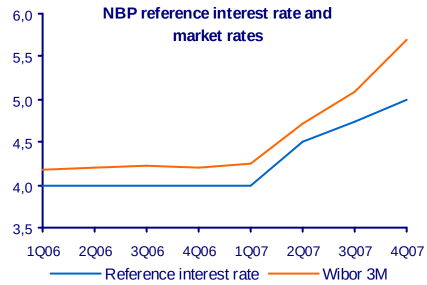


In 2007, official unemployment rate decreased by 3.4 pp (to 11.4% in December 2007), due to the positive influence of the economic revival, the inflow of EU funds to be used for active forms of fighting unemployment and continued economic emigration.



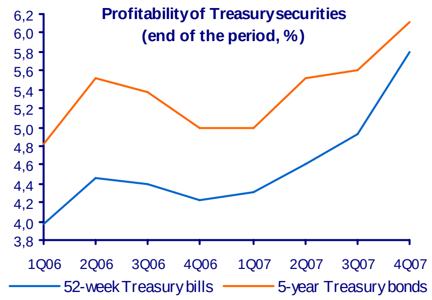
The average inflation rate increased from 1% in 2006 to 2.5% in 2007. In the first three quarters of 2007, the inflation rate was within the range of +/- 1 pp from the NBP's target inflation rate of 2.5%. In the 4th quarter of 2007, the inflation rate rapidly increased to 4% in December, mainly due to high rises in the prices of food.

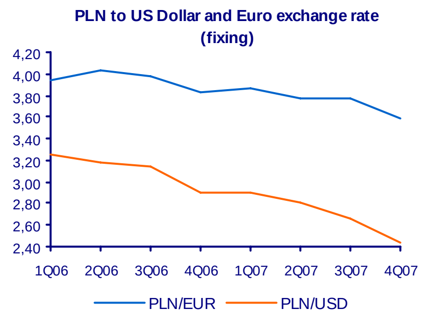
In 2007, the pressure of demand on the level of prices continued to be relatively small, which helped the "net" core inflation index remain below the CPI, within the corridor of 1.2% - 1.8%. The appreciation of PLN was an additional factor working towards a decrease in the level of inflation over the most of the year.



The Group's performance was also affected by the macroeconomic factors in Ukraine, where PKO BP SA's subsidiary, KREDOBANK SA, operates. The most important factors were as follows:

- continued economic boom with a stabilisation of the GDP dynamics from at 7.3% y/y,
- rapid increase in the inflation rate to the level of 16.6% y/y, compared to 11.6% in December 2006 - this was due to significant increases in the prices of food and continuing high rises of energy prices, as well as due to the continued strong internal consumption demand,
- increase in the growth rate of deposits to over 50% y/y at the end of 2007, compared to approximately 40% y/y at the end of 2006, given high growth rate of wages and salaries,
- increase in the growth rate of granted loans to appx. 75% y/y, compared to appx. 71% y/y at the end of 2006, due to high internal demand (including consumption demand) as well as continued changes in the banking system and high interest of the foreign capital in the banking sector in Ukraine,
- concentration of monetary policy by the National Bank of Ukraine in 2007 on the exchange rate objective in order to maintain the exchange rate at a stable level of 5.00-5.06 UAH/USD given the temporary pressure on depreciation of hrivna, especially during the periods of decline in demand for emerging market currencies,
- the reduction (in June 2007) of the main NBU interest rate by 50 base points to 8.0%.





Monetary policy of the National Bank of Poland

Pursuant to the NBP's "Monetary Policy Assumptions for the Year 2007", maintaining the annualised inflation rate at 2.5%, with allowable fluctuations of +/-1 percentage point, continued to be its main objective in 2007. Due to the risk of an increase in the inflation rate above the NBP's inflation target, given high rises in wages and salaries and a strong domestic demand, the Monetary Policy Council increased the NBP interest rates four times (in April, June, August and November) by a total of 100 base points, with the NBP's benchmark (reference) rate reaching the level of 5%.

Financial market

In 2007, there was an increase in the yields on Polish Treasury securities, from 70 bp in the case of long-term bonds to 170 bp in the case of short-term securities.

This increase was due to the following:
- significant deterioratin of inflation prospectives,
- the beginning of the cycle of tightening of monetary policy and increasing expectations of the investors regarding the target level of interest rates in the current cycle,
- rising interest rates in the Euro zone in the first half of the year,
- temporary outflow of funds from emerging markets in the 3rd and 4th quarter of 2007 due to the problems faced by the international financial markets.

The rising yields on Treasury securities, especially long-term Treasury bonds, were mitigated by the following factors:
- strong foundations of Polish economy compared to other developing countries,
- good current condition of the state budget and the resulting limited supply of Treasury securities on the primary market,
- the expected entry of Poland to the Euro zone within the next 5-10 years,
- the end of the tightening of monetary policy in the Euro zone and the beginning of a cycle of cutting interest rates in the US, with increasing expectations for further reductions of interest rates in 2008.

In addition, the deterioration of the situation on the international financial markets at the end of the year resulted in declines in liquidity and rises in market interest rates.

In 2007, the nominal exchange rate of PLN strengthened by more than 6.5% against EUR and by more than 16% against USD (according to year-end data). The strengthening of PLN was due to the sound foundations of the Polish economy and the positive reaction of the financial markets to the results of the early elections held at the end of the year. In the second half of the year, the PLN exchange rate continued to be strongly affected by the developments on the international financial markets. The considerable appreciation of PLN against USD was due to strong depreciation of USD on the global markets in 2007.

Regulatory environment

The Group's performance in 2007 was affected by the following new regulatory solutions:
- modified principles for payment of interest on the obligatory reserve
- an increase in the level of transfers to be made to the guaranteed money protection fund,
- granting the banks the right to deduct a portion of their specific provisions for certain exposures for corporate income tax purposes,
- modification of the reporting requirements for banks and additional requirements concerning risk assessment under the revised Banking Law,
- resolutions of the Commission for Banking Supervision providing the basis for implementation of new capital adequacy policies,
- advertising restrictions for investment funds in the resolution of the Commission for Banking Supervision,
- new requirements for prospects prepared by investment funds resulting from the Regulation of the Council of Ministers,
- new requirements (including reporting requirements) for banks engaged in the management of portfolios of securities, brokerage houses, Investment Fund Companies [TFI] and Pension Fund Companies [PTE] resulting from the Commission Regulation (EC) accompanying the MiFID directive,

– verdict of the Antimonopoly Court on the basis of which the banks' practice of charging commission on cash withdrawals was disallowed; in April 2007 PKO BP SA discontinued the practice of charging commission on cash withdrawals.

The situation of the PKO BP SA Group was additionally influenced by preparations to the implementation of the SEPA system in Poland as well as the legislation relating to the Ukrainian market, including the new rules relating to regulatory capital, creation of obligatory reserves, providing for non-performing loans, recommendations on corporate governance, and the new requirements for informing customers about lending terms.

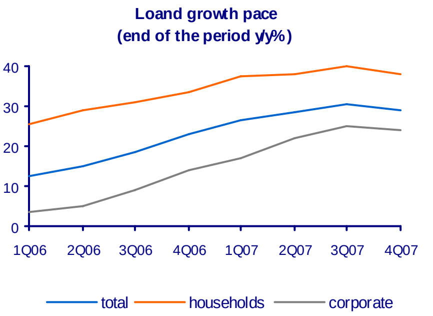
Competitive environment

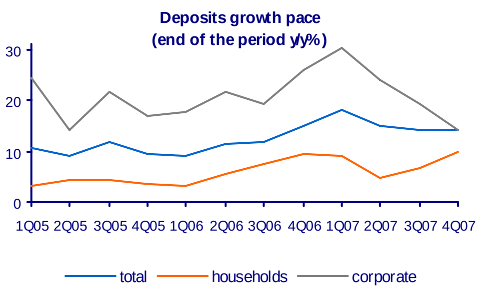
Banking sector

In 2007 the Polish banking sector recorded very good results despite the deteriorating situation on the international financial market. The visible improvement in customers' financial condition and the continuing demand for banking services were reflected in the dynamic rises in the volume of sales, while the increasing size of the operations coupled with rising interest rates had a positive impact on the financial performance of the banking sector.

The factors that had the greatest effect on the banks' performance were as follows:

- continued high increase in household loans (by more than 38%). The growth rate of housing loans slightly decreased compared to 2006 (appx. 51% in 2007 compared to appx. 55% in 2006), among others due to the rising interest rates of loans and the appreciation of PLN against CHF (which resulted in a decrease in the total value of such loans in PLN). The growth in housing loans accounted for $^{2}/_{3}$ of the annual growth in household loans. The growth rate of consumer loans increased (by 31% in 2007 compared to 23% in 2006) due to the rising credit capacity of less affluent households and more liberal lending policies applied by the banks;
- significant increase in corporate loans (by appx. 24% in 2007 compared to appx. 14% in 2006) due to the continuing revival in investments. A particularly high growth was noted in loans to small and medium-sized enterprises;
- increase in deposit base, mainly due to acceleration in the growth of household deposits in the second half of 2007 due to smaller inflow of cash to investment funds, resulting from deteriorating situation on the stock market. The increase in haouseholds deposits was also driven by good income situation of the households and rises in deposit interest rates. Household deposits increased by appx. 10% on a year-to-year basis, compared to appx. 8.6% in 2006, while term deposits continued to fall (by appx. 4% y/y). Corporate deposits rose by more than 14%, but their growth rate was definitely lower (appx. 26% in 2006);
- rise in banking network development expenses, rises in personnel-related costs and intensification of marketing activities.





The development of the banking sector was accompanied by changes in banking environment resulting from the preparation to and finalisation of the merger of Bank Pekao SA and BPH SA as well as increasing competition, mainly in the consumer finance and housing loans segment. As the growth rate of loans to the non-financial sector was much higher than the growth rate of deposits from this sector, financing terms deteriorated for majority of banks. This made the banks intensify their activities in seeking additional sources of financing and become more aggressive in competing for individual savings.

Non-banking sector

- The investment funds sector was one of the most dynamically developing segments of the financial market in 2007, after the factoring and lease market. Despite the unfavourable conditions on the Warsaw Stock Exchange, which were mainly due to the rising risk aversion on the global financial market caused by the crisis on the mortgage-backed financial instruments market, as well as the outflow of funds from domestic investment funds in December and November, the value of net assets held by fund management companies (TFI) in 2007 increased by more than 35% y/y, to PLN 133.5 billion. The increase in the investment funds' assets was more dynamic than the increase in bank deposits (term deposits showed a decrease).
- Open-end pension funds (OFE) market – in 2007, the value of assets held by open-end pension funds increased by 20.1% to PLN 140.0 billion. This was mainly due to the increased transfers from ZUS [Social Security Office] (PLN 17.7 billion). The result achieved by pension fund managers amounted to appx. PLN 7 billion, which was half the result for the year 2006 (this was mainly due to the lower growth of WSE indices). The number of pension fund members increased to 13.1 million (annual increase of appx. 781 thousand). At the end of 2007, pension funds held 7.5% of the shares in PKO BP SA, i.e. 0.1 pp more than in the previous year.
- Lease market – in 2007, the value of investments financed by lease companies amounted to appx. PLN 33 billion, which means an appx. 52% increase on a year-to-year basis. This was mainly triggered by the growth of investments. Almost 12.9% of domestic capital expenditures were financed by leases, which means an increase of 2.6 pp compared to 2006. Lease of vehicles was the most dynamically developing sector of the lease market, which was related to growth in demand for vehicles. Lease companies closely collaborated with banks, especially within their own capital groups.
- Factoring market was the most dynamically developing segment of the financial market in 2007. Total sales on this market amounted to appx. PLN 30.7 billion, which means an increase of more than 80% y/y. The strong development of this segment was mainly due to the growing awareness of the benefits that can be derived from factoring. Steel distribution companies and food industry had the greatest share in total sales on the factoring market.

Ukrainian banking sector

The macroeconomic situation in Ukraine positively impact the development of the Ukrainian banking sector. The bank's net assets raised by 75.9% reaching UAH 598.37 billion. Total loans increased by 74.1% up to UAH 426.9 billion and loans granted to individuals increased by 97.8% (up to UAH 155.3 billion). Total placements increased by 51.9% (up to UAH 280.1 billion), and individuals deposits by 53.9% (up to UAH 280.2 billion). In order to finance their credit action the Ukrainian banks acquired capital abroad, including their parent entites.

7. OTHER INFORMATION

Cooperation with rating agencies

Ratings are currently assigned to PKO BP SA by four rating agencies: Moody's, Standard & Poor's, Capital Intelligence and Fitch Ratings. These ratings are granted free of charge on the basis of generally available information. In 2007, the Bank requested Moody's Investors Service to assign to it additional chargeable ratings, which were granted to it on 31 October 2007.

Table 19. PKO BP ratings and cooperation with rating agencies in 2007

Rating category	Rating	Cooperation
Fitch Ratings		
Support rating	2	On 20 December 2007 Fitch Ratings issued a press release in which it retained the support rating for PKO BP SA at the level of 2.
Standard and Poor's		
Long-term domestic currency liabilities rating	BBBpi	-
Moody's Investors Service		
Long-term foreign currency deposit rating	A2 stable outlook	1. On 24 February 2007 Moody's Investors Service assigned two new ratings to the Bank: Aaa – Long-term domestic currency deposit rating with a stable outlook and P–1 – Short-term domestic currency deposit rating with a stable outlook. The new ratings were granted due to the implementation of the new JDA methodology (acquisition of external support) and the amendments to the BFSR methodology (measuring the internal financial strength of the bank). 2. On 11 April 2007 the Reuters agency announced that Moody's Investors Service had reduced PKO BP SA's long-term domestic currency deposit rating from Aaa to Aa2. The change in the rating was justified by changes in the JDA methodology. 3. On 31 October 2007 Moody's Investors Service assigned ratings to PKO BP SA at the request of the Bank. They were in line with the ratings assigned to the Bank by Moody's as part of providing "Public infomation". Therefore, the Agency has affirmed the high ratings given to the Bank in respect of its financial strength and the long-term and short-term domestic and foreign currency deposits.
Short-term foreign currency deposit rating	Prime-1 stable outlook	
Long-term domestic currency deposit rating	Aa2 stable outlook	
Short-term domestic currency deposit rating	Prime-1 stable outlook	
Financial strength	C stable outlook	
Capital Intelligence		
Long-term foreign currency liabilities rating	A-	1. On 8 March 2007 the Bank received a report by Capital Intelligence informing that the rating of PKO BP SA's financial strength was upgraded from BBB- to BBB with a stable outlook. The report was dated February 2007. The change in the rating was justified by a systematic growth of profitability. The Agency additionally underlined the improving quality of the loan portfolio and reporting transparency. 2. On 18 December 2007 the Agency provided the Bank with a report informing that its long-term foreign currency liabilities rating was upgraded from BBB+ to A- and the rating of PKO BP SA's financial strength was upgraded from BBB to BBB+ (both ratings had a stable outlook). The other ratings remained unchanged. The report was dated December 2007. The change in the ratings was justified by a systematic growth of the operating and net profit. The Agency additionally emphasized the improving quality of the loan portfolio, one of the best among the banks rated by the Agency. Large deposit base in the retail segment was quoted as the greatest strength of the Bank.
Short-term foreign currency liabilities rating	A2	
Domestic strength	BBB+	
Support rating	2	
Outlook	Stable	

In June 2007 Standard & Poor's retained the following ratings granted to KREDOBANK SA in 2006:
- International long-term credit rating – "B",
- Outlook – "Stable",
- International short-term credit rating – "B",
- Ukrainian rating - "uaBBB".

Shareholders holding, either directly or indirectly through subsidiaries, at least 5% of total votes at the general shareholders' meeting of the Issuer

According to the Bank's knowledge, the State Treasury is the only shareholder who holds, either directly or indirectly through subsidiaries, at least 5% of total votes at the General Shareholders' Meeting of the Bank. As at 31 December 2007, the State Treasury held 514,935,409 shares in the Bank.

At the date of this report, the interest held by the above shareholder in the share capital of PKO BP SA and votes at the General Shareholders' Meeting of the Bank amounted to 51.49%.

Table 20. Shares held by the State Treasury as at 31 December 2007

Shareholder	Number of the Bank's shares held	Percentage share in the share capital of the Bank	Number of votes at the AGM resulting from the shares held	Percentage share in total votes at the Bank's AGM
State Treasury	514 935 409	51.49%	514 935 409	51.49%

Holders of any type of securities giving special control rights with regard to the issuer

PKO BP SA does not issue any securities that give special control rights with regard to the Bank.

Off-balance sheet commitments

At the end of 2007, guarantees and other financial off-balance sheet commitments granted with respect to related parties amounted to PLN 732.0 million and increased by PLN 73.2 million compared to the end of 2006.

The largest commitments related to the following companies:

- Bankowy Fundusz Leasingowy SA – PLN 442.5 million,
- Bankowy Leasing Sp. z o.o. – PLN 64.5 million,
- Sopot Zdrój Sp. z o.o. – PLN 131.8 million.

All transactions with related parties were made at an arm's length.

The details of related party transactions are presented in Note 50 to the consolidated financial statements.

Issues of securities

The subscription for the purchase of bonds issued by PKO BP SA ended on 23 October 2007. The issue of securities was organised by the following Agents: Deutsche Bank Polska SA and HSBC Bank Polska SA.

The details of the issue were as follows:

- the total nominal value of bonds amounted to PLN 1,600,700,000,
- bonds were issued under the Bonds Law, and the funds obtained from the issue of bonds were allocated for the increase of the supplementary funds of PKO BP SA under art. 127 § 3 point 2 letter b of the Banking Law,
- the nominal value of one bond amounts to PLN 100,000,
- the issue price of one bond equals its nominal value,
- interest is calculated on a half-year basis based on the nominal value of bonds using a floating interest rate equal to WIBOR 6M plus a margin of 100 bp p.a. This margin will be increased by another 25 bp p.a. if PKO BP SA does not exercise its call option under which it may redeem all bonds before their maturity date after 5 years from the date of their issue,
- any benefits arising from bonds are exclusively of monetary nature.

Any potential obligations arising under these bonds until their full redemption should be assessed based on the statements and information provided by PKO BP SA as a public company, as required by the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies.

Reacquisition of own shares

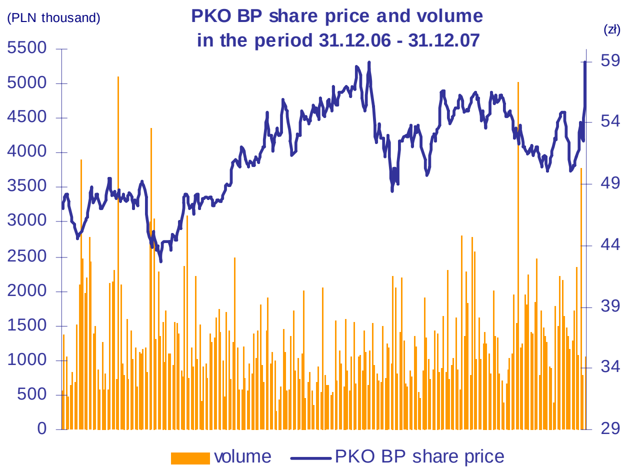
During the period covered by this Report, PKO BP SA did not re-acquire its shares on its own account.

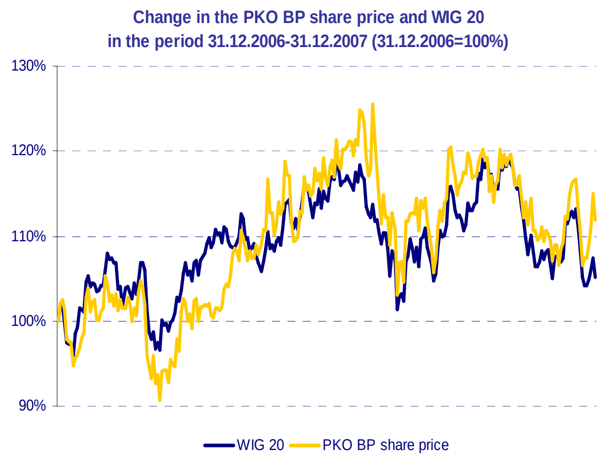
Listed price of the Bank's shares

During the year 2007, the price of the PKO BP SA shares demonstrated an upward tendency and reached its peak level of PLN 59.00 on 31 July 2007. The prices of the Bank's shares were affected by the trends prevailing on the Warsaw Stock Exchange and by the Bank's financial performance.

Table 21. Returns for the shareholder of PKO BP SA

Items	2006	2007
PKO BP's share price at the beginning of the year	29.00	47.00
PKO BP's share price at the end of the year	47.00	52.60
Dividend per share (PLN)	0.80	0.98
Total shareholder returns	**64.8%**	**14.0%**





Restrictions for the transfer of ownership of the Issuer's securities, any restrictions for exercising voting rights

In accordance with par. 6 section 2 of the Bank's Articles of Association, the conversion of the registered "A" class shares with a nominal value of PLN 510,000,000 into bearer shares and the transfer of these shares require an approval of the Polish Council of Ministers in the form of a resolution. Acquiring such consent results in the expiry of the above restrictions to the extent to which this consent was given.

Significant contracts and important agreements with the Central Bank or supervisory authorities

In 2007, the Bank disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in § 2 section 2 of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information provided by issuers of securities (Journal of Laws No. 209, item 1744).

On 7 December 2007, the Bank enetered into agreements relating to the bonds issue (agency agreement, depository agreement and dealer agreement) and an agreement binding the Bank to acquire bonds issued by on of the PKO BP SA's client ('the Client'). The agreements were concluded within the consortium of 7 banks. The banks consortium will organise the bonds issue program at a total value of PLN 6.2 billion. The bonds interest is based on the market reference interest rates correlated with the bonds maturity, interest coupon payment period or discount interest calculation period. The bonds issued within the program will be unsecured. The Bank is obliged to acquire the securities issued by the Client with a value of up to PLN 500 million within a period of 18 months. The agreements does not provide for contractual fines.

In 2007, the Bank entered into a loan agreement with a consortium of foreign banks under which it received a loan for an amount of CHF 950 million. The Bank will use this loan to finance its lending activities.

In 2007 the Bank carried out an issue of subordinated bonds with a value of PLN 1,600.7 million under an agreement concluded with banks operating in Poland. The means obtained from the issue were used to increase the Bank's supplementary funds.

In 2007, the Bank did not conclude any important agreements with either the Central Bank or the supervisory authorities.

In 2007, the other Group companies did not conclude any significant contracts and did not enter into any important agreements with either the Central Bank or the supervisory authorities.

At the date of this report, the Bank is not aware of any agreements that might result in changes to the proportion of shares held by the current shareholders.

Guarantees and financial commitments granted by the Group

As at 31 December 2007, the total value of granted guarantees and financial commitments amounted to PLN 28,231.9 million, with financial commitments making up 86.2% of this amount. The total value of granted guarantees and financial commitments increased by 13.4% on a year-to-year basis, while the value of guarantees alone increased by 65.5%.

Table 22. Off-balance sheet commitments granted by the Group (PLN million)

OFF-BALANCE SHEET ITEMS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Items	As at 31.12.2007	As at 31.12.2006	Change (PLN million)	Change (%)
Financial liabilities granted	**24 346.7**	**22 552.0**	**1 794.7**	**8.0%**
of which: irrevocable	8 860.4	10 298.4	- 1 438.1	-14.0%
Guarantee liabilities granted	**3 885.3**	**2 347.7**	**1 537.6**	**65.5%**
Total	**28 231.9**	**24 899.7**	**3 332.3**	**13.4%**

Loans taken and loan, guarantee and suretyship agreements

During the year 2007, PKO BP SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.
During the year 2007, KREDOBNK SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

Underwriting agreements and guarantees granted to subsidiaries

The Agreement for Organisation, Conducting and Servicing of a Bond Issuance Program signed by PKO BP SA with its subsidiary, Bankowy Fundusz Leasingowy SA, on 20 June 2006, was terminated on 15 June 2007.

The terms of the issue of bonds by Bankowy Fundusz Leasingowy SA are currently regulated by the Agreement for Organisation, Conducting and Servicing of a Bond Issuance Program signed by PKO BP SA on 14 December 2006, for an amount of up to PLN 500 million. Out of this amount, until 30 June 2007 the Company was allowed to issue bonds for an amount of up to PLN 350 million.

As at 31 December 2007, Bankowy Fundusz Leasingowy SA issued bonds for a total amount of PLN 405 million: bonds with a value of PLN 168.2 million were sold on the secondary market, and bonds with a value of PLN 236.8 million were acquired by PKO BP SA.

In 2007 PKO BP SA granted the following guarantees:

- a guarantee issued in respect of Bankowy Fundusz Leasingowy SA for an amount up to EUR 57 million, for the benefit of the European Investment Bank in Luxembourg (EIB), to secure the loan granted to the Company by the EIB; the guarantee was issued for a period ending on 31 March 2017,
- a guarantee issued in respect of Bankowy Fundusz Leasingowy SA for an amount up to PLN 44 million, for the benefit of the European Bank for Reconstruction and Development (EBRD), to secure the loan granted to the Company by the EBRD; the guarantee was issued for a period ending on 30 June 2013,
- a guarantee issued in respect of Bankowy Fundusz Leasingowy SA for an amount up to PLN 1,820 million, for the benefit of Cryolor Zone Industrielle des Jonquieres, to secure the Company's liabilities under the trilateral agreement between the above entity, the lessee and BFL SA, which purchased the leased asset from the above-mentioned entity; the guarantee was issued for a period ending on 5 December 2008,
- a guarantee issued in respect of Centrum Elektronicznych Usług Płatniczych eService SA for an amount up to PLN 340 thousand, for the benefit of PTK Centertel Sp. z o.o., to secure the Company's trade payables; the guarantee was issued for a period ending on 10 September 2008,

- a guarantee issued in respect of Centrum Elektronicznych Usług Płatniczych eService SA for an amount up to PLN 250 thousand, for the benefit of Polska Telefonia Cyfrowa Sp. z o.o., to secure the Company's trade payables; the guarantee was issued for a period ending on 20 September 2008.

Enforceable titles issued by the Group

During the year 2007, PKO BP SA issued 30,727 banking enforceable titles for a total amount of PLN 283,343,088.9.

In the case of KREDOBANK SA, the Ukrainian law does not allow to issue enforceable titles as defined in the Polish Banking Law.

Significant events after the balance sheet date

- On 24 January 2008, WISŁOK Inwestycje Sp. z o.o. with its registered office in Rzeszów was entered in the National Court Register. The share capital of the Company amounts to PLN 500 thousand and is divided into 5,000 shares with a nominal value of PLN 100 each. The Company's shareholders are PKO Inwestycje Sp. z o.o., which acquired 4,000 shares with a total value of PLN 400 thousand and Jedynka SA, which acquired 1,000 shares with a total value of PLN 100 thousand.
- On 28 January 2008 PKO Inwestycje Sp. z o.o., the Bank's subsidiary, acquired 50 shares in Baltic Dom 2 Sp. z o.o. with a total nominal value of PLN 25 thousand, which represented 50% of share capital of this company and gave right to 50% votes at the shareholders' meeting. The price paid for the shares was PLN 5,940 thousand.
- On 8 February 2008 the Bank signed a loan agreement with one of PKO BP SA's clients ("the Borrower"), under which it committed to grant an investment loan for an amount up to PLN 1,230,000,000, to finance part of the costs of acquisition of financial assets by the Borrower. The investment loan agreement was signed for a period of 10 years. It will be secured by collateral in the form of, among others, registered pledge on the financial assets and amounts held on the Borrower's bank accounts. Interest on this loan is based on WIBOR 6M plus the Bank's margin, and is payable on a 6-month basis. This agreement meets the criteria of a significant agreement, as the value of the services rendered under the agreement meets the criteria set out in § 2 section 1 point 51 of the Decree of the Minister of Finance dated 19 October 2005 on current and periodic reports submitted by the issuers of securities.
- As of 26 February 2008, the following members of the Supervisory Board of PKO BP SA resigned from their positions in the Supervisory Board:
    1. Mr Marek Głuchowski
    2. Mrs Agnieszka Winnik-Kalemba
    3. Mr Tomasz Siemiątkowski
    4. Mr Jerzy Michałowski

  In addition, Mrs Urszula Pałaszek resigned from the position of the Vice-Chairman of the Supervisory Board of PKO BP SA as of 25 February 2008.
- On 26 February 2008, under § 11 section 1 of the Bank's Articles of Association, the State Treasury, as the Eligible Shareholder, determined the number of the Supervisory Board members to include 7 persons. On 26 February 2008, based on Art. 385 § 1 of the Code of Commercial Companies and Partnerships, the Extraordinary General Meeting of PKO BP SA dismissed Maciej Czapiewski from his position in the Supervisory Board of PKO BP SA as of 26 February 2008. On 26 February 2008, based on Art. 385 § 1 of the Code of Commercial Companies and Partnerships, the Extraordinary General Meeting appointed the following persons to the Supervisory Board:
    1. Mr Jan Bossak
    2. Mr Eligiusz Jerzy Krześniak
    3. Mr Roman Sobiecki
    4. Mr Ryszard Wierzba
    5. Mrs Marzena Piszczek
    6. Mr Jerzy Osiatyński.

  In accordance with the resolution adopted by the Extraordinary General Meeting, the above persons were appointed to the Supervisory Board as of 26 February 2008, for a period until the end of the current term and for the next term of the Supervisory Board. In accordance with the above resolution, Mrs Urszula Pałaszek was appointed to the Supervisory Board of the next term.

The State Treasury, as the Eligible Shareholder under § 12 section 1 of the Articles of Association of PKO BP SA, appointed:

1. Mrs Marzena Piszczek – as President of the Bank's Supervisory Board of the current and next term,
2. Mr Eligiusz Jerzy Krześniak – as Vice-President of the Bank's Supervisory Board of the current and next term.

- On 6 March 2008 the Bank received a notification on the court's meeting related to the compromise trial motioned by the buyer in the first of non-performing loans sale transaction as described in Note 6 of additional notes to the financial statements. The total claims amount which has not been included in the Bank's provisions as at 31 December 2007 amounts to PLN 34,630 thousand and relates to claims recorded by the Bank after the claiming period. In the Bank's opinion, there is no basis for recognize the above claims.

Information regarding the contract with the entity authorised to audit financial statements

On 8 August 2005, the Bank entered into a contract with Ernst & Young Audit Sp. z o.o., an entity authorised to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2005, 2006 and 2007 and for a review of standalone and consolidated financial statements for the 6-month periods ended 30 June 2005, 2006 and 2007.

Total fees payable to Ernst & Young Audit Sp. z o.o. under the contracts for the audit and review of the standalone and consolidated financial statements amounted to PLN 878.0 thousand for the year 2007 and PLN 855.0 thousand (net of VAT) for the year 2006.

The total amount of the fees arising from contracts concluded with Ernst & Young Audit Sp. z o.o. for services other than the audit or review of financial statements was as follows: PLN 516.2 thousand (net of VAT) for the year 2007 and PLN 3,398.9 thousand (net of VAT) for the year 2006. The major part of the fees arising from contracts with Ernst & Young Audit Sp. z o.o. for services other than the audit of financial statements was associated with projects relating to the Bank's equity investments, consulting and advisory services, translation of interim reports and auditing work connected with the implementation of the Integrated Information System.

Representations of the Management Board

The Management Board of PKO BP SA hereby represents that, according to its best knowledge:

1. the annual financial statements and comparative data were prepared in accordance with the accounting principles in force and give a true and fair view of the financial position and results of the PKO BP SA Group;
2. the annual Directors' Report on the activities of the PKO BP SA Group gives a true view of the Group's development, achievements and standing, including a description of the main risks and threats.

The Management Board of PKO BP SA hereby represents that the entity authorised to audit financial statements which performed the audit of the annual consolidated financial statements was selected in accordance with law, and that both this entity and the certified auditors who performed the audit met the conditions required to issue an impartial and independent audit opinion, in accordance with the relevant national laws.

This Directors' Report on the activities of the PKO BP SA Group in 2007 consists of 36 consecutively numbered pages.

_ _
President of Management Board
Rafał Juszczak

_ _
Vice-President of Management Board
Berenika Duda-Uhryn

_ _
Vice-President of Management Board
Robert Działak

_ _
Vice-President of Management Board
Mariusz Klimczak

_ _
Vice-President of Management Board
Wojciech Kwiatkowski

_ _
Vice-President of Management Board
Aldona Michalak

_ _
Vice-President of Management Board
Adam Skowroński

_ _
Vice-President of Management Board
Stefan Świątkowski

Report
on application by PKO BP SA of corporate governance rules in the year 2007

prepared in accordance with §29 of the Stock Exchange Regulations and Resolution No. 1013/2007 of the Management Board of the Stock Exchange in Warsaw dated 11 December 2007 concerning defining the scope and structure of the report on application of corporate governance rules by listed companies

On 4 July 2007, the Supervisory Board of the Securities and Exchange Commission in Warsaw S.A, based on its Resolution No. 12/1170/2007, accepted new rules of corporate governance in the form of regulations called "*Dobre Praktyki Spółek Notowanych na GPW*" („Good practice of companies listed on the Stock Exchange in Warsaw"). The new rules of corporate governance became effective on 1 January 2008.

The Bank will take all possible steps to ensure that the recommendations and rules of corporate governance are applied to the widest extent. Where the given rule is either persistently not applied or incidentally breached, the Bank will inform the market about this fact in the manner defined in §29 of Regulations of the Stock Exchange in Warsaw.

Up to the date of publication of this report, the Bank has not informed the public about incident of violation of any specific corporate governance rule defined in the document called *„Dobre Praktyki Spółek Notowanych na GPW*".

I. Corporate governance rules applied by PKO BP SA in the year 2007

In 2007, PKO BP SA complied with all corporate governance rules adopted based on Resolution No. 44/1062/2004 of the Stock Exchange Council dated 15 December 2004 concerning adoption of corporate governance rules by listed entities who are issuers of shares, convertible bonds or senior bonds with priority of conversion into shares admitted to public trading on the official market, except for rules No. 5, 28 and 38, with which PKO BP SA complied partially, and rule No. 20 with which it did not comply at all.

Rule No. 5: *Attendance of a shareholder proxy at annual general meeting requires that the proxy's right to act on behalf of the shareholder is documented properly. One should assume that the document in writing, confirming the right to represent the shareholder, complies with appropriate binding laws and does not require any additional confirmations, unless its authenticity or prima facie validity rises doubts of company's management board (upon entering the proxy onto the annual general meeting attendance list) or chairman of the annual general meeting* – was complied with by the Bank partially.

Written authorisation is required, on invalidity penalty, to ensure participation of shareholder proxy at the Annual General Meeting of PKO BP SA and his ability to exercise voting right, issued by authorized persons, in accordance with a copy of appropriate register, or in the case of natural persons – in accordance with the provisions of the Civil Code. The signature on the authorization issued by the shareholder who is a natural person should be confirmed by a notary public. The right to represent the shareholder who is not a natural person should result from a copy of appropriate register presented upon preparation of the list of attendance at annual general meeting (filed as original document or a copy authenticated by a notary public), or alternatively from a sequence of authorizations. The name of the person issuing authorization on behalf of the shareholder who is not a natural person should be included in the current copy of the register appropriate to the given shareholder.

Rule No. 28: *The supervisory board should act in accordance with its by-laws which should be made available to the public. These by-laws should provide for establishing at least two committees: audit and remuneration committee. Audit committee should be composed of at least two independent members and of at least one member with qualifications and experience in accounting and finance. The tasks of the committees should be defined in detail in the by-laws of the supervisory board. The committees established by the supervisory board should file with the [supervisory] board annual reports on their activities. The reports should be made available by the company to the shareholders.* – was complied with by the Bank partially.

The Supervisory Board of PKO BP SA acts in accordance with its by-laws. The Bank included the content of the Supervisory Board by-laws on its Internet website. The by-laws of the Supervisory Board provide for the possibility of establishing standing Committees, in particular the Remuneration and Audit Committee, and define their tasks. The internal regulations of the Bank do not require that the Audit Committee is composed of two independent members. The Committee files with the Supervisory Board of the Bank an annual report on its activities within the timeframe that allows accounting for the content of such report in the assessment of the financial position of the Bank.

Rule No. 38: *Remuneration of members of management board should be determined on the basis of transparent procedures and policies, after taking into account its incentive character and after ensuring effective and smooth management of the company. Remuneration should match the size of business and reasonably relate to its actual financial results as well as to the scope of responsibility attached to the function held, after taking into account the level of remuneration of management board members of similar businesses on similar market.* – was complied with by the Bank partially.

The procedures and policies used to determine remuneration of the Bank's Management Board Members are transparent. The level of remuneration is adjusted to the provisions of the act dated 3 Mach 2000 concerning remuneration of persons managing certain corporate entities (Journal of Laws No. 26, item 306 with subsequent amendments). Given the above, the level of remuneration is not of incentive nature and does not relate to the size of the Bank's business, does not reasonably relate to the financial results of the Bank, does not relate to the scope of responsibilities attached to the Management Board Member function and does not account for the level of remuneration of management board members of other banks.

Rule No. 20:

a) *Independent persons should account for at least half of the members of the supervisory board. Independent members of the supervisory board should be free from any relations with the company, its shareholders or employees, as said relations could have a material impact on the ability of such independent members to take unbiased decisions;*
b) *Detailed criteria of independence should be defined in the company's articles of association;*
c) *Without the consent of at least one independent member of the company's supervisory board, no resolution should be passed in the following matters:*
   - *any type of allowance or benefit granted by the company or its related parties to supervisory board members;*
   - *approval to entering by the company or its related entity into a significant contract with the company's related party, member of the company's supervisory or management board or with entities related to said persons;*
   - *appointment of the company's certified auditor.*
d) *where one shareholder holds a block of shares giving the right to over 50% of the total number of votes, the supervisory board should be composed of at least two independent members, including the independent chairman of the audit committee, if such committee has been established.*

– was not complied with by the Bank.

Provisions of the Bank's Articles of Association and of other internal regulations of the Bank do not justify the institution of independent Supervisory Board Member

II. Annual General Meeting of the Bank, its manner of functioning and fundamental powers; the rights of shareholders and the manner of their execution

Annual General Meeting of PKO BP SA is convened as ordinary or extraordinary meeting in accordance with the provisions of the Code of Commercial Companies and the Bank's Articles of Association, and based on the policies defined in the by-laws of the Annual General Meeting (hereinafter "the AGM").

The fundamental powers of the AGM, apart from other matters defined in the binding laws, include adopting resolutions concerning the following matters:

1) appointment and dismissal of Supervisory Board Members;
2) approval of by-laws of the Supervisory Board,
3) determining the manner of buyout of shares and the amount of consideration for the shares subject to buyout,
4) creation and liquidation of special funds established from net profit appropriation,
5) disposal by the Bank of property items or perpetual usufruct right to property, from which the Bank conducts its business,
6) issuance of convertible bonds or other instruments giving the right to acquire or take up the Bank's shares.

Allowed to participate in the Annual General Meeting of the Bank are beneficiaries of rights attached to registered shares, as well as pledgees and usufructuaries having voting rights, who have been entered in the Register of Shares at least one week prior to holding the AGM, or holders of bearer shares, if they deposit with the Bank, at least one week prior to the date of the AGM at the latest, registered depository certificates issued by the entities maintaining the securities accounts and do not collect them prior to the closing of the Annual General Meeting.

The shareholder who is a natural person may participate in the AGM, exercise his voting right in person or by proxy. The shareholder who is not a natural person may participate in the AGM and exercise his voting right through a proxy authorized to file statements of will on his behalf, or by proxy.

To be valid, the authorisation shall be executed in writing and attached to the minutes of the AGM. The signature on the authorisation issued by the shareholder who is a natural person should be authenticated by a notary public. The right to represent the shareholder who is not a natural person should result from a copy of appropriate register presented at the time of the preparation of the AGM attendance list (filed as original or a copy authenticated by a notary public), or alternatively from a sequence of authorisations. The name of the person/ persons issuing authorisations on behalf of the shareholder who is not a natural person should be included in the current copy of appropriate register of the given shareholder.

Management Board Member or Bank employee may serve as proxy at the AGM of the Bank.

Drafts of resolutions proposed by the AGM and other important materials are presented to the shareholders together with the justification and opinion of the Supervisory Board before the AGM, within the timeframe that allows reading them and preparing their assessment.

The Bank's shareholder has the right to file with the Chairman of the AGM proposals for changes or supplements to drafts of resolutions included in the AGM agenda, and these should be drafted in writing, separately for each resolution draft, and should include justification. Such proposals, after being presented to the AGM by the Chairman, are put to the vote. The AGM participant requesting to include his objections towards the given resolution in the AGM minutes may concisely justify his standpoint.

Removing from the AGM agenda or desisting, at the request of the shareholders, from further discussing the matter included in the AGM agenda requires that the AGM resolution is adopted by the majority of ¾ votes, after prior consent of all those shareholders present at the AGM who applied for including the matter in the agenda.

Resolutions of the AGM are adopted by an absolute majority of votes, unless the binding laws or the Articles of Association of the Bank provide otherwise.

The AGM adopts resolutions by way of open vote, with the proviso that votes by secret ballot are ordered in the following circumstances:

1) elections,
2) applications for dismissal of members of the Bank's Management or Supervisory Board or liquidators,
3) applications for bringing the Bank's liquidators or members of the Management or Supervisory Board to justice,
4) in personal matters,
5) on demand of at least one shareholder present or represented at the AGM,
6) in other cases defined in binding law regulations.

A shareholder may not, either personally or by proxy, or while acting in the capacity of a proxy of another person, vote on resolutions concerning his liability towards the Bank on whatever account, including the acknowledgement of the fulfillment of his duties, release of any of his duties towards the Bank, or any dispute between him and the Bank.

Shareholders have the right to ask questions, through the Chairman of the AGM, to the Members of the Bank's Management or Supervisory Boards, the Bank's auditor or the persons whose presence at the AGM is considered indispensable by the Management or Supervisory Boards of the Bank.

For each of the agenda point, each shareholder has the right to one own speech and one reply. Shareholders may, during the course of discussion on each of the agenda points, apply for closing the list of speakers or closing the discussion on the given agenda point.

III. Composition and the manner of functioning of the authorities of PKO BP SA and their committees

1. Supervisory Board

The Bank's Supervisory Board is composed of 6 to 11 members appointed for a joint term of office of three years. Members of the Supervisory Board are appointed and dismissed by the Annual General Meeting.

As at 31 December 2007, the composition of the Bank's Supervisory Board was as follows:

1. Marek Głuchowski – President of the Supervisory Board
2. Urszula Pałaszek – Vice-president of the Supervisory Board
3. Tomasz Siemiątkowski – Secretary of the Supervisory Board
4. Maciej Czapiewski – Member of the Supervisory Board
5. Jerzy Michałowski – Member of the Supervisory Board
6. Agnieszka Winnik-Kalemba – Member of the Supervisory Board

Supervisory Board acts based on the by-laws decided by the Supervisory Board and approved by the AGM. Meetings of the Supervisory Board are convened at least once a quarter.

Supervisory Board adopts resolutions by an absolute majority of votes with the presence of at least half of the Members, including the President or Vice-president of the Supervisory Board, except for resolutions concerning those matters that are required to be accepted by, apart from the quorum indicated, the qualified majority of 2/3 of total votes. Excluded from the vote are those members of the Supervisory Board to whom the given voted matter relates.

In 2007, the following three Committees operated within the Supervisory Board of PKO BP SA: Audit Committee, Informatization and Strategy Implementation Committees.

Each Committee is composed of at least three members chosen by Members of the Supervisory Board from within its own circle.

Committee Meetings are convened as ordinary meetings not less often than once every two months. Meetings are convened by the Committee Chairman or Supervisory Board Member.

In the extraordinary mode, Committee meetings are convened by the President of the Supervisory Board on his initiative or at the request of the Supervisory Board Member or the Bank Management Board. Minutes are prepared from the meetings and the Committee Chairman presents the Supervisory Board, at its next meetings, with resolutions, conclusions and recommendations.

Each Committee presents the Bank's Supervisory Board with an annual report on its activities, with the proviso that the Audit and Informatization Committees are required to file their reports within the timeframe that allows the Bank to account for the content of those reports in the process of annual assessment of the financial position of the Bank.

Supervisory Board Audit Committee was established in order to exercise permanent supervision over the financial audit of the Bank and of the capital group. Included in the tasks of the Audit Committee are in particular:

1) overseeing appropriate implementation of the financial reporting policies of the Bank,
2) monitoring the work of internal auditors of the Bank,
3) presenting the Supervisory Board with recommendations as regards remuneration for the Bank auditors,
4) review of periodic and annual financial statements of the Bank (separate and consolidated), with special attention being paid to the following issues:
   - changes in binding accounting norms, policies and practices;
   - major areas of professional judgment;
   - significant post-audit adjustments;
   - statements relating to going concern;
   - compliance with binding accounting policies,
5) discussing post-audit issues, objections and doubts,
6) analysis of management letter issues forwarded by certified auditors and management responses to those issues,
7) preparation of recommendations to the Supervisory Board, which relate to assessment of management Board conclusions concerning profit appropriation (including in particular dividend policy) and issuance of securities,
8) review of management accounting system,
9) advisory and assessment services to the Supervisory Board concerning the financial audit of the Bank.

Bank Informatization Committee was established with a view to supervising information and telecommunication systems at the Bank, including implementation of the Integrated Information System.

As regards monitoring the functioning of the IT and telecommunication systems at the Bank, including monitoring the implementation of the integrated IT system, the following are included in the scope of activities of the Bank's Informatization Committee:

1) issuing opinions on the strategic directions of informatization at PKO BP S.A.,

2) analysis of the status of works aimed at implementation at the Bank of significant products and services supported by IT applications,
3) issuing opinions on the IT priorities adopted by the Bank,
4) issuing opinions on the principles of cooperation between the IT and other functions at the Bank as regards realization of key business processes,
5) feasibility study of IT projects relating to new applications with the budget of more than PLN 5 million,
6) issuing opinions on annual investment plans relating to the IT function,
7) analysis of the progress of works on implementation of strategic IT solutions,
8) legitimacy analysis of the use of outsourcing services in the IT area
9) issuing opinions on significant IT infrastructural projects,
10) issuing opinions on the model of organization of the IT function at the Bank.

Strategy Implementation Committee was established in order to exercise permanent supervision over implementation of the *Strategy of PKO BP SA for the years 2007-2012.*

Included in the scope of activities of the Committee concerning implementation of the Bank's strategy are, in particular, the following:

1) analysis of the progress of work relating to implementation of strategic initiatives, the realization of which is prerequisite to meeting the objectives defined in the Bank's Strategy,
2) analysis of the results of implementation of strategic initiatives, proposing supplementary or correcting measures,
3) issuing opinions on periodic reports on realization of the Bank's Strategy,
4) presenting to the Supervisory Board of the Bank recommendations for the activities required to be taken by the Bank to achieve objectives defined in the Bank's Strategy, where its realization is endangered,
5) discussing all contentious issues and doubts resulting from the analysis of the process of implementation of the Bank's Strategy,
6) rendering advisory and opinion-forming services to the Supervisory Board of the Bank as regards implementation and realization of the Bank's Strategy.

2. Management Board of the Bank

The Management Board of the Bank is composed of 3 to 9 members appointed by the Supervisory Board of the Bank for a joint term of office of three years. Appointment of two members of the Management Board, including President of the Management Board, requires approval by the Polish Commission for Banking Supervision.

As at 31 December 2007, the composition of the Management Board of the Bank was as follows:

1. Rafał Juszczak – President of the Management Board,
2. Berenika Duda-Uhryn – Vice-president of the Management Board,
3. Robert Działak – Vice-president of the Management Board,
4. Mariusz Klimczak – Vice-president of the Management Board,
5. Wojciech Kwiatkowski – Vice-president of the Management Board,
6. Aldona Michalak – Vice-president of the Management Board,
7. Adam Skowroński – Vice-president of the Management Board,
8. Stefan Świątkowski – Vice-president of the Management Board.

The manner of functioning of the Management Board is defined in the by-laws decided by the Management Board and approved by the Supervisory Board.

Management Board makes decisions in the form of resolutions, which are passed by an absolute majority of votes of those present at the Management Board Meeting. In the case of a voting tie, the President of the Management Board has the casting vote. For all matters outside the scope of ordinary Bank business to be effected, resolution of the Management Board is required.

In 2007, the following Committees established by the Bank's Management Board were operational, with Members of the Management Board acting as members of these Committees:

1) Asset Liability [Management] Committee (the „ALCO")
2) Credit Committee
3) Committee for the Project of Integrated IT System
4) Steering Committee for the Integrated IT System
5) Steering Committee for the Branch Modernization Program (operated until 31 December 2007)
6) Steering Committee for the activities adapting the Bank to the requirements of the Capital Accord Directive and the requirements of IAS 39
7) PKO BP SA Corporate Governance and Commercial Supervision Committee (operated until 31 December 2007)

IV. Basic characteristics of the Bank's internal control and risk management systems used in the process of preparation of financial statements

The Bank operates the internal control system which is an element of the Bank management function, and which is composed of the following items: control mechanisms, functional internal control and internal audit (institutional control).

Internal control system covers the entire activities of the Bank. The objective of the internal control system is to support decision processes which contribute to ensuring the following: the Bank's effectiveness and efficiency, truth and fairness of its financial reporting and the compliance of Bank's operations with binding laws and internal regulations of the Bank.

Control mechanisms cover policies, limits and procedures relating to operating activities of the Bank and to the activities aimed at verifying the correctness of the tasks performed, such as preparation of the financial statements. These are embedded in both the internal regulations and the Bank's IT system.

Functional internal control function is exercised on a permanent basis in all organisational units and in the Head Office of the Bank in the following manner:

– at the stage of legislative works, by way of defining in the internal regulations the manner and mode of realization of tasks, and appropriate control activities which guarantee the correct course of their realization,
– by employees in the course of their activities concerning the scope of business of organisational teams and units,
– at the stage of verification, by employees holding managerial functions or persons authorised by said employees, by way of verification of the correctness of the tasks carried out, and in particular of their compliance with binding laws and regulations, internal regulations of the Bank and prudence norms.

Internal audit function is performed by the Internal Audit Department. The objective of the Internal Audit Department is to deliver to the Management and Supervisory Boards of the Bank independent and objective information and assessments, especially about the following:

– adequacy and effectiveness of the internal control system, including the effectiveness of control mechanisms,

- Bank management system, including the effectiveness of business risk management,
- truth and fairness, completeness and the current status of the Bank's financial reporting and management information,
- quality of internal regulations and functionality of accounting and reporting systems,
- compliance with binding laws and regulations and internal regulations of the Bank.

The objective of audit function is also to indicate directions for the activities that serve to enhance the quality and effectiveness of realized tasks, including by way of briefings or instructions on matters within audit scope.

Audit plan is developed based on, among others, the results of prior audits, information concerning functioning of the Bank, risks identified in individual areas of the Bank's business and in the processes realized, including in the process of the preparation of the financial statements.

The control and risk management (in respect of the process of preparation of the financial statements) systems used are based on control mechanisms embedded in the functionality of the reporting systems, on the on-going verification of compliance with the books of accounts and other documents underlying the financial statements and with the binding laws concerning accounting principles and financial statements preparation.

The process of the preparation of the financial statements is subject to cyclical multi-level functional control, in particular concerning the correctness of accounting reconciliations, merit-based or substantial analysis or truth and fairness of financial information. In accordance with the internal regulations, the financial statements are accepted by the Management of the Bank and the Audit Committee established by the Supervisory Board of PKO BP SA.

Information included in the financial statements is prepared in accordance with International Financial Reporting Standards, after taking into account all data available.

Information concerning objectives and risk management policies as well as quantitative information relating to individual risk types is included in annual and periodic financial statements. The information referred to above comprises:

1) credit risk (including the risk of credit concentration),
2) market risk (interest rate, currency, derivatives and financial institutions credit risks as well as liquidity risk),
3) operating or business risk,
4) capital adequacy.

On an annual basis, in a separate non-financial reporting document, disclosed is the full scope of information relating to capital adequacy, in accordance with Resolution No. 6/2007 of the Commission for Banking Supervision.

The Polish original is the only binding version and should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

INDEPENDENT AUDITORS' REPORT

To the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

1. We have audited the attached consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group ('the Group') for which the holding company is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('the Company') located in Warsaw at Puławska 15, for year ended 31 December 2007 containing:
   - the consolidated income statement for the period from 1 January 2007 to 31 December 2007 with a net profit amounting to 2,903,632 thousand zlotys,
   - the consolidated balance sheet as at 31 December 2007 with total assets amounting to 108,568,683 thousand zlotys,
   - the consolidated statement of changes in equity for the period from 1 January 2007 to 31 December 2007 with a net increase in equity amounting to 1,798,435 thousand zlotys,
   - the consolidated cash flow statement for the period from 1 January 2007 to 31 December 2007 with a net cash outflow amounting to 4,899,759 thousand zlotys and
   - the additional information

   ('the attached consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements and the proper maintenance of consolidation documentation are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.
3. We conducted our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted by the Group and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has

[1] Translation of the following expression in Polish: '*rzetelność, prawidłowość i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne, prawidłowe i jasne*'

provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2007 to 31 December 2007, as well as its financial position[3] of the Group as at 31 December 2007;
   - have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the 'Directors' Report on the Group's activities for the period from 1 January 2007 to 31 December 2007 and the rules of preparation of annual consolidated statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these consolidated financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Arkadiusz Krasowski Certified Auditor No. 10018/7417	Dominik Januszewski Certified Auditor No. 9707/7255

Warsaw, 8 April 2008

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP

LONG-FORM AUDITORS’ REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS’ REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

I. GENERAL NOTES

1. Background

The holding company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group (hereinafter 'the Group' or 'the Capital Group') is Powszechna Kasa Oszczędności Bank Polski SA ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Decree of the Council of Ministers dated 18 January 2000 on the transformation of the state-owned bank, Powszechna Kasa Oszczędności Bank Państwowy, into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (Journal of Laws 28 January 2000, No. 5, item 55). The Company's registered office is located in Warsaw at Puławska 15 Street.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, Polish special edition chapter 13, title 29 page 609) and, based on the article 55.6a of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU. This requirement relates to the consolidated financial statements for the financial year beginning in 2005 and later.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000026438 on 12 July 2001.

The Company has been granted tax identification number (NIP) 525-000-77-38 on 14 June 1993 and statistical number (REGON) 016298263 on 18 April 2000.

The list of the subsidiaries, jointly controlled entities and associates were presented in the note 1 of the additional information to the audited consolidated financial statements for the year ended 31 December 2007.

The principal activities of the holding company are as follows:

- accepting cash call deposits and term deposits and keeping those deposits,
- keeping other types of bank accounts,
- granting loans,
- granting cash loans,
- granting and confirming bank guarantees and opening and confirming letters of credit,
- performing monetary bank settlements,
- performing operations involving checks, bills of exchange and warrants,
- issuing bank securities,
- issuing payment cards and performing operations using such cards,
- conducting forward transactions,
- purchasing and disposing debt

(in thousand zlotys)

Scope of activities of the subsidiaries, jointly controlled entities and associates was presented in note 1 of the additional information to the audited consolidated financial statements.

As at 31 December 2007, the Company's issued share capital amounted to 1,000,000 thousand zlotys and it comprised of 510,000,000 registered shares of the series A, 105,000,000 bearer shares of the series B and 385,000,000 bearer shares of the series C, with the nominal value of 1 zloty each.

Equity of the Group as at the above date amounted to 11,979,015 thousand zlotys.

In accordance with letter of the Investor Relations Bureau dated 4 April 2008, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	% of issued share capital
State Treasury	514,935,409	51.49%	514.935.409	51.49%
Other shareholders	485,064,591	48.51%	485,064,591	48.51%
	--------	--------	--------	--------
Total	1,000,000,000	100.00%	1,000,000,000	100.00%
	=====	=====	=====	=====

As at 8 April 2008, the holding company's Management Board was composed of:

Rafał Juszczak	- President
Berenika Duda-Uhryn	- Vice-President
Robert Działak	- Vice-President
Mariusz Klimczak	- Vice-President
Wojciech Kwiatkowski	- Vice-President
Aldona Michalak	- Vice-President
Adam Skowroński	- Vice-President
Stefan Świątkowski	- Vice-President

During 2007 and up to 8 April 2008, composition of the Bank's Mangement Board changed in the following way:

- On 10 January 2007 Mr Sławomir Skrzypek resigned from the position of the Vice-President of the Management Board of PKO BP SA due to his designation to the position of the President of the Narodowy Bank Polski.
- On 10 January 2007 the Supervisory Board of PKO BP SA appointed Mr Marek Głuchowski, the President of the Bank's Supervisory Board, to perform temporarily the duties of the President of the Bank's Management Board until 23 January 2007. Due to the fact that, during the period from 24 January 2007 to 26 January 2007, no candidate was appointed to be the acting President of the Management Board, the Supervisory Board delegated Mr Marek Głuchowski to act temporarily as President of the

Management Board of PKO BP SA, beginning from 27 January 2007 until 10 April 2007.

- As at 31 January 2007 Jacek Obłękowski resigned from the position of Vice-President of the Manegement Board.
- On 22 February 2007 the Supervisory Board appointed:
  - Mr Robert Działak to act as Vice-President of the Bank's Management Board as of 23 February 2007,
  - Mr Stefan Świątkowski to act as Vice-President of the Bank's Management Board as of 1 May 2007.
- On 13 March 2007 Mr Zdzisław Sokal resigned from the position of the Vice-President of the Bank's Management Board.
- On 2 April 2007 the Supervisory Board of PKO BP SA:
  - delegated Mr Marek Głuchowski, President of the Supervisory Board, to independently supervise the activities undertaken by the Bank's Management Board in conducting the affairs of PKO BP SA, beginning from 11 April 2007,
  - appointed, as of 11 April 2007, Mr Rafał Juszczak, Vice-President of the Management Board, to act as President of the Management Board of PKO BP SA until a new President of the Management Board is elected,
  - delegated Mr Adam Skowroński, Member of the Bank's Supervisory Board, to temporarily act as Vice-President of the Management Board during the period from 11 April 2007 to 30 April 2007.
- On 20 June 2007 the Supervisory Board of PKO BP SA passed resolutions appointing:
  - Mrs Aldona Michalak as the Vice-President of the Management Board as of 1 July 2007,
  - Mr Mariusz Klimczak as the Vice-President of the Management Board as of 15 July 2007,
  - Mr Adam Skowroński as the Vice-President of the Management Board as of 23 July 2007,
  - Mrs Berenika Duda-Uhryn as the Vice-President of the Management Board as of 10 September 2007.

On 8 August 2007 the Commission for Banking Supervision gave consent for appointing Mr Rafał Juszczak as President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

(in thousand zlotys)

2. Group Structure

As at 31 December 2007, the Powszechna Kasa Oszczędności Bank Polski Spółka Akacyjna Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of auditor's opinion	Name of authorised entity that audited financial statements	Balance sheet date
Direct subsidiaries				
Powszechne Towarzystwo Emerytalne BANKOWY SA	full	unqualified with emphasis of matter	Ernst & Young Audit sp. z o.o.	31.12.2007
Centrum Finansowe Puławska Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2007
PKO Inwestycje Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2007
Inteligo Financial Services SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2007
Centrum Elektronicznych Usług Płatniczych „eService" SA	full	unqualified	Ernst & Young Audit sp. z o.o.	31.12.2007
Bankowy Fundusz Leasingowy SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2007
Bankowe Towarzystwo Kapitałowe SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2007
PKO Towarzystwo Funduszy Inwestycyjnych SA	full	unqualified	Ernst & Young Audit Sp. z o.o.	31.12.2007
KREDOBANK SA	full	audit in progress	Ernst & Young (Ukraina)	31.12.2007
Indirect subsidiaries				
Finanse Agent Transferowy Sp. z o.o.	full	-	not subject to audit	31.12.2007
POMERANKA Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2007
Wilanów Investments Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2007
UKRPOLINWESTYCJE Sp. z o.o.	full	-	not subject to audit	31.12.2007
Fort Mokotów Sp. z o.o.	full	unqualified with emphasis of matter	Ernst & Young Audit sp. z o.o.	31.12.2007
ARKADIA Inwestycje Sp. z o.o.	full	-	not subject to audit	31.12.2007
Bankowy Leasing Sp. z o.o.	full	-	not subject to audit	
BFL Nieruchomości Sp. z o.o.	full	-	not subject to audit	

As at 31 December 2007 shares in the following jointly controlled entities and associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

Jointly controlled entities:

Name and registered office	Type of activity
Direct jointly controlled entities	
CENTRUM HAFFNERA Sp. z o.o.	Real estate development
Centrum Obsługi Biznesu Sp. z o.o.	Budowa i eksploatacja hotelu
Indirect jointly controlled entities	
Centrum Majkowskiego Sp. z o.o.	Real estate development
Kamienica Morska Sp. z o.o.	Real estate development
Sopot Zdrój Sp. z o.o.	Real estate development
Promenada Sopocka Sp. z o.o.	Real estate development

Associated entities:

Name and registered office	Type of activity
Bank Pocztowy SA	Financial services
Kolej Gondolowa Jaworzyna Krynicka SA	Construction and operation of cable
Ekogips SA – in bankruptcy	Production of construction elements
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Sureties in accordance with civil law and bill of exchange law
Hotel Jan III Sobieski Sp. z o.o.	Hotel services
Agencja Inwestycyjna CORP SA	Production on the market of construction Project
Associates of Bankowe Towarzystwo Kapitałowe S.A.	
FINDER Sp. z o.o.	car location and fleet management

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Notes 1, 30 and 53 of the additional information to the consolidated financial statements of the Group for the year ended 31 December 2007.

3. Consolidated Financial Statements

3.1 Auditors' report and audit of consolidated financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Bank's Supervisory Board 7 April 2005 to audit the Group's consolidated financial statements.

Ernst & Young Audit sp. z o.o. and the certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the consolidated financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act.

Under the contract executed on 8 August 2005 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2007.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole.

Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified report dated 8 April 2008, stating the following:

'To the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

1. We have audited the attached consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group ('the Group') for which the holding company is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('the Company') located in Warsaw at Puławska 15, for year ended 31 December 2007 containing:
   - the consolidated income statement for the period from 1 January 2007 to 31 December 2007 with a net profit amounting to 2,903,632 thousand zlotys,
   - the consolidated balance sheet as at 31 December 2007 with total assets amounting to 108,568,683 thousand zlotys,
   - the consolidated statement of changes in equity for the period from 1 January 2007 to 31 December 2007 with a net increase in equity amounting to 1,798,435 thousand zlotys,
   - the consolidated cash flow statement for the period from 1 January 2007 to 31 December 2007 with a net cash outflow amounting to 4,899,759 thousand zlotys and
   - the additional information

   ('the attached consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements and the proper maintenance of consolidation documentation are the responsibility of the Bank's

[1] Translation of the following expression in Polish: '*rzetelność, prawidłowość i jasność*'

Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

3. We conducted our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2007 to 31 December 2007, as well as its financial position[3] of the Group as at 31 December 2007;
   - have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

5. We have read the 'Directors' Report on the Group's activities for the period from 1 January 2007 to 31 December 2007 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities.'

   We conducted the audit of the consolidated financial statements during the period from 15 October 2007 to 14 December 2007 and from 28 January 2008 to 8 April 2008.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness[4] of the consolidated financial statements and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements consolidation

[2] Translation of the following expression in Polish: '*rzetelne, prawidłowe i jasne*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'
[4] Translation of the following expression in Polish: "*rzetelność ,prawidłowość i jasność*"

documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 8 April 2008, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete,
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements,

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2006 were audited by Dominik Januszewski, Certified Auditor No. 9707/7255, acting on behalf of Ernst & Young Audit sp. z.o.o. with its registered office in Warsaw at Rondo ONZ 1, an entity authorised to audit financial statements under no. 130.

The certified auditor issued an uqualified opinion on the consolidated financial statements for the year ended 31 December 2006. The consolidated financial statements of the Group for the year ended 31 December 2006 were approved by the General Shareholders' Meeting on 26 April 2007.

The consolidated financial statements of the Group for the financial year ended 31 December 2006, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 9 May 2007 with the National Court Register.

The introduction to the consolidated financial statements, the consolidated balance sheet as at 31 December 2006, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement for the year ended 31 December 2006, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 1205 on 13 July 2007.

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the financial performance of the Group for the years 2005 – 2007. The ratios were calculated on the basis of financial information included in the consolidated financial statements for years ended 31 December 2006 and 31 December 2007.

(in thousand zlotys)

	2007	2006	2005
Total assets	108,568,683	102,025,707	91,613,181
Shareholders' equity	11,979,015	10,180,580	8,774,990
Net profit attributable to the holding company	2,903,632	2,149,052	1,734,820
Gross profit	3,609,230	2,701,488	2,167,045
Total adequacy ratio in accordance with NBP methodology (%)	12.0%	11.8%	13.9%
Profitability ratio			
Profit before taxation / General administrative expenses	88.4%	70.9%	52.1%
Costs to income ratio			
General administrative expenses / Operating income	52.7%	58.5%	64.4%
Return on Equity (ROE)			
Net profit / Average shareholders' equity	26.2%	22.7%	19.7%[5]
Return on Assets (ROA)			
Net profit attributable to the holding company / Average assets	2.8%	2.2%	1.9%[5]
Rate of inflation:			
Yearly average	2.5%	1.0%	2.1%
December to December	4.0%	1.4%	0.7%

4.2 Comments

The following trends may be observed based on the above financial ratios:

- the Group's net profit attributable to the holding company for the year 2007 amounted to 2,903,632 thousand zlotys in comparison to the net profit for the year 2006 amounting to 2,149,052 thousand zlotys and amounting to 1,734,820 thousand zlotys for the year 2005.

[5] Average value of assets and equity for 2005 were calculated based on the total value of assets or equity as at 31 December 2004 presented in the financial statements for the year ended 31 December 2005 in compliance with International Accounting Standards.

- In the year 2006, compared the year 2005, there was an increase in the total assets of the Group. The total assets as at 31 December 2006 amounted to 102,025,707 thousand zlotys in comparison to 91,613,181 thousand zlotys as at 31 December 2005. Another increase in the total assets took place in the year 2007, as a result, the total assets amounted to 108,568,683 thousand zlotys as at 31 December 2007.
- The profitability ratio increased from 52.1% in the year 2005 up to 70.9% in the year 2006 and 88.4% in the year 2007.
- The costs to income ratio decreased to 58.5% in the year 2006 in comparison to 64.4% in the year 2005 and then in the year 2007 declined to 52.7%.
- As at 31 December 2007 the return on equity and return on assets ratios amounted to 26.2% and 2.8% respectively and increased compared to 22.7% and 2.2 % in the year 2006, and 19.7% and 1.9% in the year 2005.
- As at 31 December 2006 the capital adequacy ratio declined to 11.8% from 13.9% as at 31 December 2005 and than increased up to 12.0% as at 31 December 2007.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2007 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 1 of the additional information to the audited consolidated financial statements for the year ended 31 December 2007, the Management Board of the holding company has stated that the financial statements of the Group significant entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2007 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 2 of the additional information to the Group's consolidated financial statements for the year ended 31 December 2007.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2007.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in notes 2 and 31 of the additional information to the consolidated financial statements.

3.2 Shareholders' funds including minority interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Minority shareholders' interest amounted to 58,066 thousand zlotys as at 31 December 2007. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in notes 47 and 48 of the additional information to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2007 and include the financial data for the period from 1 January 2007 to 31 December 2007.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities except for the sale of all the shares in INTER FINANCE Polska Sp. z.o.o. by the Bankowe Towarzystwo Kapitałowe S.A., results of which were disclosed in the Group's consolidated financial statements in accordance with the appropriate legal and consolidated documentation.

6. Items which have an impact on the group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2007.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting.

8. Issues specific for the audit of banks

As at 31 December 2007, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Commission for Banking Supervision envisaged banking regulatory norms in relation to the following items:

- level of currency positions,
- concentration of credit risk,
- concentration of investments in shares,

- classification of loans and issued guarantees and surety ships to risk categories, recognition of provisions related to banking operations,
- solvency,
- level of obligatory reserve,
- capital adequacy.

During our audit we have not identified any facts indicating that during the period from 1 January 2007 to 31 December 2007 the Bank did not comply with these regulations. We have received written representation from the Management Board that during the year the banking regulatory norms were not breached.

9. Additional information

The additional information to the consolidated financial statements for the year ended 31 December 2007 was prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

10. Directors' Report

We have read the Directors' report on the Group's activities in the period from 1 January 2007 to 31 December 2007 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the audited consolidated financial statements reconciles with the consolidated financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities.

11. Materiality level

Professional judgment was applied taking into account the specific factors relating to the Bank to establish a level of materiality. This determination included considering both quantitative and qualitative factors.

12. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

13. Work of Experts

During our audit we have taken into account the results of the work of the following independent experts:

- property valuer – value of collateral were taken into account while calculating impairment allowances for loan receivables; valuation were performed by the property valuer ordered by the Bank,
- actuary – calculation of provisions for jubilee bonuses and retirement benefits.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Arkadiusz Krasowski
Certified Auditor No. 10018/7417

Dominik Januszewski
Certified Auditor No. 9707/7255

Warsaw, 8 April 2008