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

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

# FINANCIAL SUPERVISION AUTHORITY

## The annual report R 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 2007 covering period | from 2007-01-01 to 2007-12-31 |
| containing 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) | | (numer) |
| **(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 | 4 503 107 | 3 722 561 | 1 192 308 | 954 723 |
| Net fees and commission income | 2 037 095 | 1 749 863 | 539 371 | 448 786 |
| Operating result | 3 327 145 | 2 502 064 | 880 943 | 641 703 |
| Gross profit | 3 327 145 | 2 502 064 | 880 943 | 641 703 |
| Net profit | 2 719 991 | 2 047 391 | 720 184 | 525 093 |
| Total equity | 11 729 541 | 10 035 724 | 3 274 579 | 2 619 473 |
| Net cash flow from operating activities | (8 249 894) | 8 528 557 | (2 184 361) | 2 187 314 |
| Net cash flow from investing activities | 473 187 | (5 104 874) | 125 288 | (1 309 244) |
| Net cash flow from financing activities | 2 929 573 | (748 676) | 775 676 | (192 013) |
| Total net cash flow | (4 847 134) | 2 675 007 | (1 283 397) | 686 058 |
| Basic earnings per share - basic from profits for the period | 2.72 | 2.05 | 0.72 | 0.53 |
| Diluted earnings per share - diluted from profits for the period | 2.72 | 2.05 | 0.72 | 0.53 |
| Basic funds (Tier 1) | 8 324 409 | 6 634 547 | 2 323 956 | 1 731 715 |
| Suplementary funds (Tier 2) | 1 202 936 | - | 335 828 | - |

*(in PLN thousand)*

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

| | Notes | 2007 | 2006 |
|---|---|---|---|
| Interest income | 7 | 6 270 988 | 5 381 545 |
| Interest expense | 7 | (1 767 881) | (1 658 984) |
| **Net interest income** | | **4 503 107** | **3 722 561** |
| Fees and commission income | 8 | 2 648 092 | 2 151 063 |
| Fees and commission expense | 8 | (610 997) | (401 200) |
| **Net fees and commission income** | | **2 037 095** | **1 749 863** |
| Dividend income | 9 | 52 113 | 18 624 |
| Result from financial instruments at fair value | 10 | (77 701) | (94 420) |
| Result from investment securities | 11 | 6 521 | 49 091 |
| Foreign exchange result | 12 | 522 693 | 532 570 |
| Other operating income | 13 | 116 415 | 158 080 |
| Other operating expenses | 13 | (61 000) | (79 290) |
| **Net other operating income** | | **55 415** | **78 790** |
| Result on impairment | 15 | (44 948) | 34 018 |
| General administrative expenses | 14 | (3 727 150) | (3 589 033) |
| **Operating profit** | | **3 327 145** | **2 502 064** |
| **Profit (loss) before income tax** | | **3 327 145** | **2 502 064** |
| Income tax expense | 17 | (607 154) | (454 673) |
| **Net profit (loss)** | | **2 719 991** | **2 047 391** |
| | | | |
| Earnings per share: | | | |
| - basic earnings per share | | 2.72 | 2.05 |
| - diluted earnings per share | | 2.72 | 2.05 |

*(in PLN thousand)*

## 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 | 20 | 4 594 084 | 4 543 677 |
| Amounts due from banks | 21 | 5 346 882 | 13 349 723 |
| Financial assets held for trading | 22 | 1 202 919 | 997 432 |
| Derivative financial instruments | 23 | 1 556 750 | 1 199 349 |
| Other financial instruments at fair value through profit or loss | 24 | 8 101 534 | 11 373 301 |
| Loans and advances to customers | 25 | 73 822 193 | 57 339 790 |
| Investment securities, including: | 26 | 5 841 553 | 6 805 567 |
| Available for sale | | 5 841 553 | 6 805 567 |
| Shares in associates and jointly controlled entities | 27 | 1 054 395 | 892 301 |
| Intangible assets | 28 | 927 610 | 726 458 |
| Tangible fixed assets | 29 | 2 270 480 | 2 157 382 |
| Current tax receivables | 17 | 187 707 | - |
| Deferred tax asset | 17 | 35 531 | - |
| Other assets | 30 | 429 699 | 432 347 |
| **TOTAL ASSETS** | | **105 371 337** | **99 817 327** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Amounts due to the Central Bank | 32 | 1 279 | 1 387 |
| Amounts due to the other banks | 33 | 3 624 455 | 3 875 868 |
| Derivative financial instruments | 23 | 1 280 265 | 1 097 796 |
| Amounts due to customers | 35 | 85 246 546 | 82 277 072 |
| Subordinated liabilities | 36 | 1 614 885 | - |
| Other liabilities | 37 | 1 421 321 | 1 925 573 |
| Current tax liabilities | 17 | - | 170 960 |
| Deferred tax liability | 17 | - | 8 378 |
| Provisions | 38 | 453 045 | 424 569 |
| **TOTAL LIABILITIES** | | **93 641 796** | **89 781 603** |
| **Equity** | | | |
| Share capital | 43 | 1 000 000 | 1 000 000 |
| Other capital | 44 | 8 009 550 | 6 988 333 |
| Net profit for the year | | 2 719 991 | 2 047 391 |
| **TOTAL EQUITY** | | **11 729 541** | **10 035 724** |
| **TOTAL LIABILITIES AND EQUITY** | | **105 371 337** | **99 817 327** |

*(in PLN thousand)*

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

| 2007 | Share capital | Other capital | | | | Retained earnings | Net profit (loss) | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Reserve capital | Revaluation reserve | General banking risk fund | Other reserves | | | |
| **As at 1 January 2007** | **1 000 000** | **4 529 604** | **3 729** | **1 070 000** | **1 385 000** | **-** | **2 047 391** | **10 035 724** |
| Movement in available for sale investments less deferred tax | | | (46 174) | | | | | **(46 174)** |
| **Total income/expenses recognized directly in equity** | **-** | **-** | **(46 174)** | **-** | **-** | **-** | **-** | **(46 174)** |
| Net profit (loss) for the period | | | | | | | 2 719 991 | **2 719 991** |
| **Total income/expenses for the period** | **-** | **-** | **(46 174)** | **-** | **-** | **-** | **2 719 991** | **2 673 817** |
| Transfer of net profit from previous years | | | | | | 2 047 391 | (2 047 391) | **-** |
| Transfer from net profit to equity | | 1 062 391 | | | 5 000 | (1 067 391) | | **-** |
| Transfer from net profit to dividends | | | | | | (980 000) | | **(980 000)** |
| **As at 31 December 2007** | **1 000 000** | **5 591 995** | **(42 445)** | **1 070 000** | **1 390 000** | **-** | **2 719 991** | **11 729 541** |

| 2006 | Share capital | Other capital | | | | Retained earnings | Net profit (loss) | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Reserve capital | Revaluation reserve | General banking risk fund | Other reserves | | | |
| **As at 1 January 2006** | **1 000 000** | **3 297 080** | **(4 460)** | **1 000 000** | **1 380 000** | **430 976** | **1 676 798** | **8 780 394** |
| Movement in available for sale investments less deferred tax | - | - | 8 189 | - | - | - | - | **8 189** |
| **Total income/expenses recognized directly in equity** | **-** | **-** | **8 189** | **-** | **-** | **-** | **-** | **8 189** |
| Net profit (loss) for the period | - | - | - | - | - | - | 2 047 391 | **2 047 391** |
| **Total income/expenses for the period** | **-** | **-** | **8 189** | **-** | **-** | **-** | **2 047 391** | **2 055 580** |
| Transfer of net profit from previous years | - | - | - | - | - | 1 676 798 | (1 676 798) | **-** |
| Transfer from net profit to equity | - | 1 232 524 | - | 70 000 | 5 000 | (1 307 774) | - | **(250)** |
| Transfer from net profit to dividends | - | - | - | - | - | (800 000) | - | **(800 000)** |
| **As at 31 December 2006** | **1 000 000** | **4 529 604** | **3 729** | **1 070 000** | **1 385 000** | **-** | **2 047 391** | **10 035 724** |

*(in PLN thousand)*

## 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) | | 2 719 991 | 2 047 391 |
| Adjustments: | | (10 969 885) | 6 481 166 |
| Amortisation | | 322 159 | 268 778 |
| (Profit) loss from investing activities | 45 | (72 004) | (23 803) |
| Interest and dividends | 45 | (257 695) | (276 403) |
| Change in loans and advances to banks | 45 | 3 105 353 | 1 247 174 |
| Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss | | 3 066 280 | 8 505 341 |
| Change in derivative financial instruments (asset) | | (357 401) | (62 122) |
| Change in loans and advances to customers | 45 | (16 455 740) | (10 754 147) |
| Change in deferred tax asset | | (35 531) | - |
| Change in other assets | | 2 648 | (118 099) |
| Change in amounts due to banks | 45 | (2 304 851) | 1 933 454 |
| Change in derivative financial instruments (liability) and other financial liabilities at fair value through profit or loss | | 182 469 | (159 588) |
| Change in amounts due to customers | 45 | 2 687 410 | 6 336 192 |
| Change in provisions | 45 | 4 213 | (499 277) |
| Change in other liabilities | 45 | (463 546) | 262 069 |
| Income tax paid | | (998 900) | (738 506) |
| Current tax expense | | 640 233 | 472 972 |
| Other adjustments | 45 | (34 982) | 87 131 |
| **Net cash flow from operating activities** | | **(8 249 894)** | **8 528 557** |
| **Cash flow from investing activities** | | | |
| **Inflows from investing activities** | | **6 603 974** | **125 285** |
| Sale of investment securities | | 6 465 198 | - |
| Sale of intangible assets and tangible fixed assets | | 83 684 | 2 507 |
| Sale of assets classified as held for sale according to IFRS 5 | | - | 74 380 |
| Other investing inflows | | 55 092 | 48 398 |
| **Outflows from investing activities** | | **(6 130 787)** | **(5 230 159)** |
| Purchase of a subsidiary, net of cash acquired | | (172 759) | (87 689) |
| Purchase of shares in jointly controlled entities | | - | (44 371) |
| Purchase of investment securities | | (5 346 405) | (4 616 676) |
| Purchase of intangible assets and tangible fixed assets | | (611 623) | (481 423) |
| **Net cash generated from/(used in) investing activities** | | **473 187** | **(5 104 874)** |
| **Cash flow from financing activities** | | | |
| Issue of debt securities | | 1 597 374 | - |
| Dividends paid to holding company shareholders | | (980 000) | (800 000) |
| Long-term loans granted | | 2 376 198 | - |
| Repayment of long-term loans | | (40 804) | - |
| Other financing inflows/outflows | | (23 195) | 51 324 |
| **Net cash generated from/(used in) financing activities** | | **2 929 573** | **(748 676)** |
| Increase (decrease) of net cash and cash equivalents | | **(4 847 134)** | **2 675 007** |
| **Cash and cash equivalents at the beginning of the period** | | 13 879 643 | 11 204 636 |
| **Cash and cash equivalents at the end of the period** | 45 | **9 032 509** | **13 879 643** |
| included those with limited disposal | 31 | 8 120 | 5 487 |

## NOTES TO THE FINANCIAL STATEMENTS
## as at 31 December 2007

### 1. General information

The financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO BP SA", "the Bank") 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 Bank was established in 1919 as Pocztowa Kasa Oszczędnościowa. Since 1950 the Bank 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 into 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 (Cedułа 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 on the territory of the Republic of Poland.

In addition, the Bank performs its activities in United Kingdom through Foreign Banking Services Center (Centrum Bankowości Zagranicznej) in Warsaw.

**Going concern**

The financial statements of PKO BP SA have been prepared on the basis that the Bank 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 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 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.

**Information on members of the Management and Supervisory Boards of the Bank**

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 of the Bank.

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

*(in PLN thousand)*

- 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 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 | President of the Supervisory Board |
| • Urszula Pałaszek | Vice-President of the Supervisory Board |
| • Tomasz Siemiątkowski | Secretary of the Supervisory Board |
| • Jerzy Michałowski | Member of the Supervisory Board |
| • Maciej Czapiewski | 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 has presented in Note 50 (Events after Balance Sheet date).

**Internal organisational units of PKO BP SA**

The financial statements of PKO BP SA, comprising financial data for the year ended 31 December 2007 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which it performs its activities. As at 31 December 2007, these organisational units included: the Bank's Head Office in Warsaw, Dom Maklerski PKO BP SA, COK - Centrum Operacji Kartowych, CBE - Centrum Bankowości Elektronicznej Inteligo, 12 specialised units, 12 regional retail branches, 13 regional corporate branches, 574 independent branches, 564 subordinated branches, 70 corporate centres and 2,240 agencies. Except for Dom

*(in PLN thousand)*

Maklerski PKO BP SA, none of the organisational units listed above prepares separate financial statements.

### Indication whether the Bank is a holding company or a significant investor and whether it prepares consolidated financial statements

PKO BP SA is the holding company of the PKO BP SA Group and a significant investor for its subsidiaries, jointly controlled entities and associates together with their affiliates. Accordingly, PKO BP SA prepares consolidated financial statements for the Group, which include the financial data of these entities.

### Structure of the Group

| No. | Name of entity | Registered office | Activity | Share in the share capital (%) | |
|---|---|---|---|---|---|
| | | | | 31.12.2007 | 31.12.2006 |
| **PKO BP SA Group** | | | | | |
| | **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 | 98.1815 | 69.933 |
| | **Indirect subsidiaries** | | | | |
| | **Subsidiaris 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 | |
| 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 Bankowego Funduszu Leasingowego 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)*

Additionally the Bank holds shares in the following jointly controlled entities and associates:

### Jointly controlled entities

| No. | Name of entity | Registered office | Activity | Share in the share capital (%) | |
|---|---|---|---|---|---|
| | | | | 31.12.2007 | 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. (indirect 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 of entity | Registered office | Activity | Share in the share capital (%) | |
|---|---|---|---|---|---|
| | | | | 31.12.2007 | 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 – w upadłości | Warsaw | Production of construction elements | 60.26 | 60.26 |
| 4 | Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | Poznań | Sureties in accordance with civil law and bill of exchange law | 33.33 | 33.33 |
| 6 | Agencja Inwestycyjna CORP SA | Warsaw | Office real estate management | 22.31 | 22.31 |
| **Indirect associates** | | | | | |
| **Associates of Bankowe Towarzystwo Kapitałowe SA** | | | | | |
| 7 | FINDER SA**** | Warsaw | Car location and fleet management services | 46.43 | 46.43 |
| 9 | INTER FINANCE Polska Sp. z o.o.***** | Suchy Las near Poznania | Investing in sector of financial intermediation services on the Ukrainian market | - | 45.00 |

* The company was registered on 1 October 2007.
** The company was registered on 19 June 2007.
*** The company was registered on 16 July 2007.
*** Until 2 January 2007 - FINDER Sp. z o.o.
**** Shares in the company were sold on 23 April 2007.

Information about changes in the share capital of the subsidiaries is presented in Note 27.

### Approval of financial statements

These financial statements of PKO BP SA 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 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 Bank's activities, there are no differences between IFRS standards and IFRS standards endorsed by the EU as regards the accounting policies applied by the Bank.

### *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 Bank in the current year. The application of these regulations and interpretations had no material effect on the financial statements.

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

The Bank 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: Disclosures*

The Bank 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 Bank.

IFRIC 8, *Scope of IFRS 2*

The Bank applied IFRIC Interpretation 8. As a result, it amended certain of its accounting policies. The Bank reviewed transactions which involved an issue of shares (or as a result of which the Bank 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 Bank 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 Bank.

IFRIC 10, *Interim Financial Reporting and Impairment*

The Bank applied IFRIC Interpretation 10. According to this Interpretation, an entity may not reverse impairment losses recognised 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 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* - revised in March 2007, 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 of 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*, revised in January 2008 – applicable to annual periods beginning on after 1 January 2009,
- Amendments to IAS 32 and IAS 1, *Puttable Financial Instruments*, revised 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 Bank. The Bank plans to apply them in the periods indicated in the relevant standards and interpretations (without early adoption).

The Polish złoty is the functional currency of the Bank and the presentation currency of these financial statements.

**Principal accounting policies and methods applied by PKO BP SA**

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 PKO BP SA during the period from 1 January to 31 December 2007 are as follows:

**a) Estimates**

In preparing financial statements in accordance with IFRS, the Bank makes certain estimates and assumptions, which have a direct influence on both the financial statements presented and the additional information 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 Bank 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 Bank 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 Bank takes into consideration the reasons and sources of the uncertainties that are anticipated at the balance sheet date.

Estimates and assumptions made by the Bank are subject to periodic reviews. Adjustments to estimates are recognised 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 recognised 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 Bank in performing estimates include first of all the following areas:

- **Impairment of financial assets**

At each balance sheet date, the Bank assesses whether there is any objective evidence that the value of a given financial asset or a group of financial assets is impaired. Evidence indicating impairment are events or set 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 Bank estimates the amount of impairment allowance.

The Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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.

- **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 benefits and jubilee bonuses**

The provision for retirement 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, retirement and pension 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 recognised 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 Bank 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 Bank uses the estimated useful life.

**b) 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.

**c) Financial assets**

The Bank 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 Bank 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.

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 at fair value.

Interest income on these instruments is determined using the effective interest rate; the same applies to any amortisation of discount or premium, which is recognised 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 difference is included, respectively, in the result from 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 Bank 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 recognised 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”.

Embedded derivative instrument is recognised separately from the host contract, if all of the following conditions are met:

1) the hybrid (complex) 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 through profit or loss”.

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 amortised 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 recognised 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 recognised 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 amortised 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 amortised 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 Bank 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 Bank 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 amortised cost using the effective interest rate, with an allowance for impairment losses.

Amortised 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 amortisation of any difference between that initial amount and the amount at maturity, and decreased by any impairment losses. Valuation at amortised 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 Bank 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 Bank 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 Bank is able to hold them to maturity.

Financial assets in this category are valued at amortised cost using the effective interest rate. Cost amortisation 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.

**d) 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.

**e) 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 recognised as interest expense/income, as appropriate, and is amortized over the term of the contract using the effective interest rate.

**f) Impairment of financial assets**

At each balance sheet date, the Bank makes an assessment of whether there is objective evidence that a given financial asset is impaired. If such evidence exists, the Bank 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 of financial assets, and these cash flows are reliably measurable.

The following are considered by the Bank 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 Bank 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 Bank classifies loan and lease receivables on the basis of the amount of exposure into the individual and 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 Bank's 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 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.

**g) Derecognition of financial instruments**

Financial instruments are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the Bank transfers the financial asset to another entity. The financial asset is transferred when the Bank 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 Bank. When the Bank 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 Bank transfers substantially all the risks and rewards of ownership of the financial asset, then it derecognises the financial asset,
2) if the Bank retains substantially all the risks and rewards of ownership of the financial asset, then it continues to recognise the financial asset,
3) if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, then the Bank determines whether it has retained control of the financial asset. If the Bank has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset; if the Bank has not retained control, then the financial asset is derecognized.

The Bank 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 Bank derecognizes loans when they have been forgiven, when the period of limitation expired, or when the loan is not recoverable. Loans 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.

### h) 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/amortization 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/amortization 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/amortization charges and impairment losses 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 Bank 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 s of tangible fixed assets and intangible assets applied by PKO BP SA :

| Tangible assets | Periods |
|---|---|
| Buildings, premises, cooperative rights to premises | 40 - 60 years |
| Leasehold improvements (buildings, premises) | 10 years (or term of the lease, if shorter) |
| Plant and machinery | from 3 to 15 years |
| Computer hardw are | from 4 to 10 years |
| Motor vehicles | 5 years |

*(in PLN thousand)*

| Intangible assets | Periods |
|---|---|
| Licences for computer softw are | from 4 to 10 years |
| Copyright, including rights to computer softw are | 2 years |
| Other intangible assets | 5 years |

### i) 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 depreciation 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.

### j) Investments in subsidiaries, associates and jointly controlled entities

Investments in subsidiaries, associates and jointly controlled entities are stated at acquisition cost less impairment losses.

### k) 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 fulfil 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 recognised 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.

### l) Valuation of items denominated in foreign currencies and foreign exchange result

The Bank's 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.

### m) Currency exchange rates used in preparing financial statements

For translation of balance sheet and off-balance sheet items as at 31 December 2007 into Euro, the Bank 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 Bank 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. 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.

*(in PLN thousand)*

| 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 |

### n) Off-balance sheet liabilities granted

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

- 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 Bank,
- 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 fulfil 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.

### o) Deferred income tax

Due to timing differences between the moment income is recognized as earned and cost as incurred according to accounting and tax regulations, the Bank recognizes deferred tax liabilities (provisions) 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. The Bank can compensate deferred tax assets and deferred tax liabilities, when it has legal entitlement to it and when assets and liabilities concern tax imposed by the same tax authority. 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 recognised 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 realised 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 Bank 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 liabilities and deferred tax is related to the same tax payer and the same tax authority.

### p) Financial liabilities at fair value

Financial liabilities, other than valued at fair value through profit or loss, are valued at fair value through profit and loss include derivatives valued in accordance with point c) of this note.

### q) Financial liabilities at amortised cost

Financial liabilities valued at amortised 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.

### r) Debt instruments issued by the Bank

Debt instruments issued by the Bank 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 by the Bank as interest expense in the profit and loss.

### s) 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 Bank by contractors, which will be recognised 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”.

### t) 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”.

### u) 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 and pension bonuses upon retirement. The Bank periodically performs an actuarial valuation of the provision for future liabilities to employees.

The Bank creates accruals for the future liabilities of the Bank 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 for the costs of the current period which will be incurred in the future periods.

### v) Financial result

The Bank 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 losses.

- **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 Bank for services not related to the internal rate of return on loans and other receivables, as well as amounts charged by the Bank 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 recognised on a straight-line basis, received on loans granted with unspecified repayment dates.

- **Dividend income**

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

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

The result from financial instruments 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 from investment securities**

The result from 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 realised and unrealised, resulting from daily revaluation of assets and liabilities denominated in foreign currency using the average NBP 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 mostly 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 mostly 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.

### w) 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).

### x) Shareholders' Equity

Equity is comprised of the capital and funds created by the Bank in accordance with the binding legal regulations and the Articles of Association. Shareholders' equity also includes retained earnings and accumulated losses from previous years.

1) Share capital 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 Bank, from the appropriation of net profits and from share premium, and is allocated to cover balance-sheet losses, which can occur in accordance with activity performed by the Bank. Decisions of use of reserve capital is made by the General Shareholders' Meeting.
3) Revaluation reserve comprises the effects of re-measurement 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 reserve capital as envisaged by the Articles of Association are created by appropriation of net profits in amount passed by the General Shareholders' Meeting,
5) General banking risk fund in PKO BP SA is created from profit after taxation according to the Banking Law 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.

### y) 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.

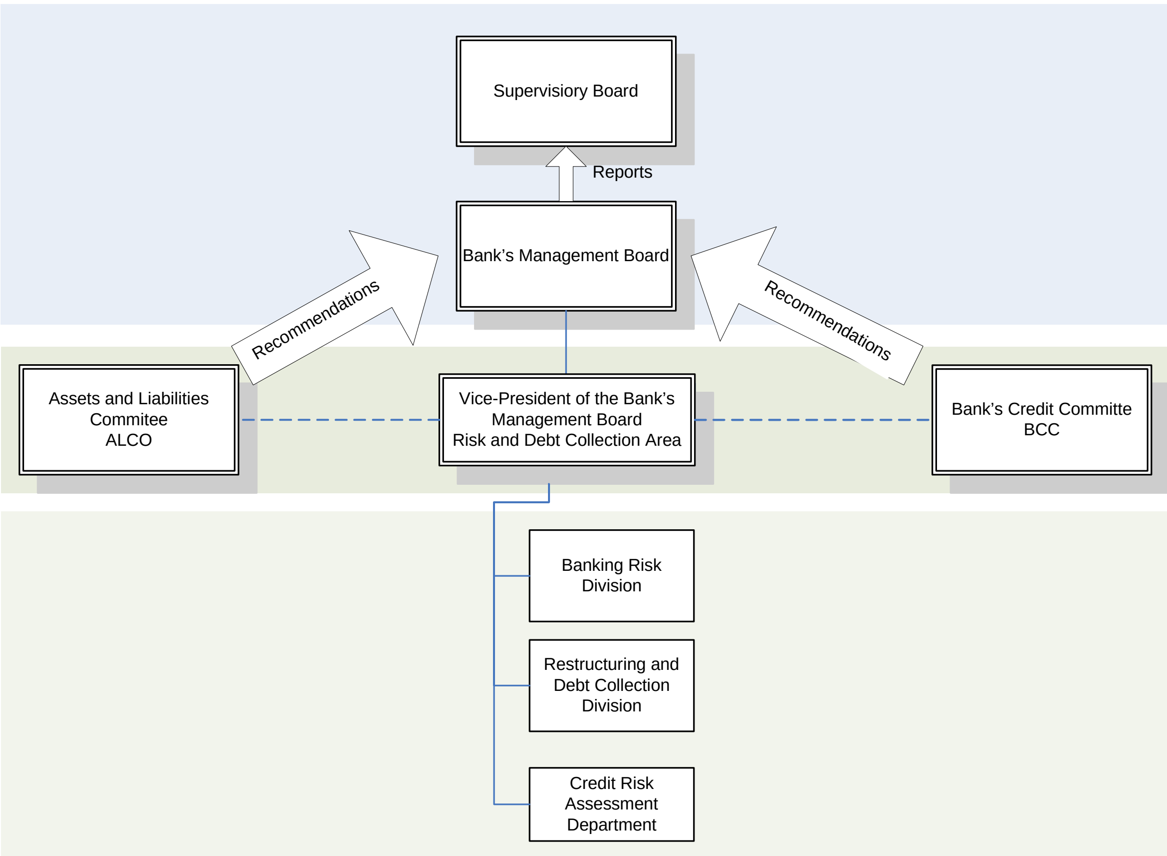
## 3. Objectives and principles relating to financial risk management

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 PKO BP SA is one of the most important objectives in the management of the Bank, 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 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 organisational 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:

- Asset & Liability Committee (ALCO),
- Credit Committee (CC, 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 & 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.

**Credit risk**

**Objectives and principles relating to financial risk management**

The realisation of the objectives of financial risk management is ensured by the use of advanced credit risk management methodologies, both at the level of individual loan exposures and the entire loan portfolio of the Bank. These methodologies are continuously reviewed and developed towards internal ratings-based approaches.

Credit risk management policies are determined by the Bank's Management Board. The management of the Banking Risk Division is responsible for the implementation and functioning of these policies.

Credit risk management in the Bank is comprised of the following:

- risk identification, which involves the determination of both current and potential sources of risk arising from current and planned operations of the Bank,
- risk measurement,
- comprehensive risk management, which involves activities' planning, issuing recommendations, developing supporting procedures and tools while giving consideration to business needs,
- risk monitoring, which involves continuous supervision of the level of risk taken by the Bank using the adopted risk measurement methodologies,
- risk reporting, which involves regular informing about the profile of the credit risk and the activities taken.

Credit risk management 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,

- IT environment which enables an information flow necessary for credit risk assessment and control.

The Bank makes use of various credit risk measurement methodologies for the purpose of identifying the portfolio credit risk and the profitability of the portfolios exposed to credit risk. Credit risk measurement methodologies are based on the calculation of risk measures such as: probability of default, recovery ratio, expected loss, or Credit VaR.

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

- cut off scores,
- minimum credit margins,
- industry limits,
- authorisation limits,
- concentration limits,
- stress tests.

The Bank continues to work on the development of the portfolio credit risk measurement methodology and the widening of the scope of the estimated portfolio credit risk measures. Portfolio credit risk measurement methodologies allow for, among others, providing for credit risk in the price of the services, determining the optimal value of cut off scores and determining the rates for recognising impairment losses using internal models.

The Bank uses the following measures for measuring portfolio credit risk:

- percentage and structure of non-performing loans,
- percentage and structure of the exposures for which impairment indicators have been identified on an individual basis,
- probability of default (PD),
- expected loss (EL),
- Credit Value at Risk (CVaR),
- performance measures for scoring methodologies (Accuracy Ratio).

The Bank develops its credit risk measurement methodology taking into account the requirements of the Internal Ratings-Based (IRB) approach so as to cover the whole of the loan portfolio by portfolio credit risk measurement.

**Main principles of organisation of the lending process**

In the lending process, the Bank follows the following rules:

- each loan transaction is covered by a comprehensive assessment of credit risk, which is reflected by the internal rating or score assigned to it by the Bank,
- 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,
- measurement of the credit risk arising from loan transactions undertaken by the Bank is performed on a regular basis taking into account the changes occurring in the external environment and in the financial condition of the borrowers,
- credit risk is diversified by geographical regions, industries, products and clients,
- loan granting decisions may only be taken by authorised individuals,
- the Bank provides for credit risk by recognising impairment allowances for loan exposures.

*(in PLN thousand)*

The above rules are included in the internal regulations of the Bank, whose main aim is to ensure a uniform and objective assessment of credit risk. These regulations determine the methods of estimating the level of credit risk arising from the individual loan exposures, as well as methods of providing for credit risk and taking loan granting decisions.

**Assessment of individual credit risk**

An assessment of the individual loan transactions is made by the Bank using credit scoring and ratings-based methods, which are created, developed and supervised by the Banking Risk Division. The use of these methods is supported by specialist central IT applications.

The Bank assesses the credit risk of individual customers at the following two levels: credit capacity and creditworthiness of the customer. An assessment of credit capacity involves examining the current financial condition of the customer, while the assessment of creditworthiness includes credit scoring assessment and an evaluation of information acquired from both external sources and the Bank's internal documentation.

The assessment of the credit risk of institutional customers is performed at the following two levels: the customer and the transaction (excluding institutional customers from the retail market, who are assessed on a simplified basis). The measures in these types of assessment are the rating of the customer and the rating of the transaction. The synthetic credit risk measure which reflects the level of the Bank's credit risk is called aggregate rating.

The information about credit ratings and credit scores is widely used by the Bank in credit risk management, the system of authorisations for taking loan granting decisions, in determining the level of activation of independent risk assessment forces and in the reporting system.

**Maximum credit risk exposure**

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

| Assets | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Amounts due from banks | 5 346 882 | 13 349 723 |
| Financial assets held for trading | 1 193 254 | 995 933 |
| Derivative financial instruments | 1 556 750 | 1 199 349 |
| Other financial instruments at fair value through profit or loss | 8 101 534 | 11 373 301 |
| Loans and advances to customers | 73 822 193 | 57 339 790 |
| Financial instruments available for sale | 5 762 209 | 6 714 917 |
| Other assets | 346 070 | 306 843 |
| **Total** | **96 128 892** | **91 279 856** |
| **Off-balance sheet items** | **31.12.2007** | **31.12.2006** |
| Irrevocable liabilities granted | 8 856 029 | 10 296 573 |
| Guarantees granted | 1 477 687 | 656 698 |
| Letters of credit granted | 562 155 | 237 650 |
| Guarantees of issue (underwriting) | 1 550 044 | 809 916 |
| **Total** | **12 445 915** | **12 000 837** |

*(in PLN thousand)*

### Analysis of portfolio by sector

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

| Loans and advances granted to bank clients | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Financial entities (other than banks) | 1 508 977 | 844 060 |
| Non-financial entities | 70 940 466 | 52 763 698 |
| State budget entities | 3 679 478 | 6 065 423 |
| **Total gross loans and advances** | **76 128 921** | **59 673 181** |
| Impairment allowance | (2 306 728) | (2 333 391) |
| **Total net loans and advances** | **73 822 193** | **57 339 790** |

### Analysis of portfolio by rating class

Exposures to corporate clients which are not considered to be individually impaired are classified by the Bank using internal ratings from A (first note) 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% |

### Collateral policy

Activities undertaken in respect of collateral are meant to properly secure the interests of the Bank 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 Bank.

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, authorisation 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, authorisation 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, authorisation to cash held in a bank account and freezing of cash held in a bank account.

*(in PLN thousand)*

**Concentration of credit risk in the Bank**

The Bank defines concentration of credit risk as the risk resulting from significant exposure to individual entities or groups of entities, credit rating of which is dependant on one common risk factor. The Bank analysis credit risk concentration by:

- biggest entities,
- biggest capital groups,
- industry,
- geographic regions,
- currencies.

**Concentration of credit risk by the biggest business entities**

The Banking Law specifies maximum concentration limits for the Bank. 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  of entities related by capital or management, cannot exceed 20% of the Bank's own funds if any of these entities is related to the Bank, or 25% of the Bank's  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.

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 | 0.69% | 1 | 2 054 034*** | 3.45% |
| 2 | 411 531 | 0.54% | 2 | 632 310 | 1.06% |
| 3 | 307 286 | 0.40% | 3 | 604 000 | 1.01% |
| 4 | 304 498 | 0.40% | 4 | 502 266 | 0.84% |
| 5 | 291 115 | 0.38% | 5 | 383 980 | 0.65% |
| 6 | 273 340 | 0.36% | 6 | 345 700 | 0.58% |
| 7 | 268 399 | 0.35% | 7 | 258 511 | 0.43% |
| 8 | 264 861 | 0.35% | 8 | 257 958 | 0.43% |
| 9 | 259 316 | 0.34% | 9 | 206 357 | 0.35% |
| 10 | 255 336 | 0.34% | 10 | 202 863 | 0.34% |
| 11 | 204 178 | 0.27% | 11 | 200 755 | 0.34% |
| 12 | 201 004 | 0.26% | 12 | 198 949 | 0.33% |
| 13 | 190 227 | 0.25% | 13 | 181 350 | 0.30% |
| 14 | 179 210 | 0.24% | 14 | 176 649 | 0.30% |
| 15 | 176 649 | 0.23% | 15 | 171 470 | 0.29% |
| 16 | 175 053 | 0.23% | 16 | 162 434 | 0.27% |
| 17 | 170 245 | 0.22% | 17 | 145 228 | 0.24% |
| 18 | 169 608 | 0.22% | 18 | 133 119 | 0.22% |
| 19 | 162 951 | 0.21% | 19 | 133 043 | 0.22% |
| 20 | 152 094 | 0.20% | 20 | 127 031 | 0.21% |
| **Total** | **4 938 964** | **6.48%** | **Total** | **5 023 973** | **11.86%** |

* 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.

*(in PLN thousand)*

**Concentration of credit risk by the biggest capital groups**

As at 31 December 2007, the greatest exposure of PKO BP SA towards a group of borrowers amounted to 2.79% and was due to the consolidation process of companies from the power supply industry.

Total exposure of the Bank towards 5 biggest capital groups

| 31.12.2007 | | | 31.12.2006 | | |
|---|---|---|---|---|---|
| **No.** | **Exposure** | **Share in the loan portfolio*** | **L.p.** | **Involvement** | **Share in the loan portfolio*** |
| 1 | 2 119 387 | 2.79% | 1 | 1 244 383 | 2.09% |
| 2 | 1 426 492 | 1.88% | 2 | 649 038 | 1.09% |
| 3 | 1 116 920 | 1.47% | 3 | 580 689 | 0.98% |
| 4 | 1 095 926 | 1.44% | 4 | 529 951 | 0.89% |
| 5 | 787 510 | 1.03% | 5 | 437 242 | 0.73% |
| **Total** | **6 546 235** | **8.61%** | **Total** | **3 441 303** | **5.78%** |

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

**Concentration 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.

Analysis of exposure to industry segments as at 31 December 2007 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 | 24.97% | 15.17% | 22.58% | 15.70% |
| G | Wholesale and retail trade, repair of motor vehicles and personal and household goods | 16.25% | 31.70% | 13.26% | 33.67% |
| L | Public administration and national defense, obligatory social security and public health insurance | 14.40% | 0.68% | 29.16% | 0.86% |
| K | Property management, lease and services related to the running of business activities | 10.91% | 9.28% | 8.92% | 8.80% |
| F | Construction | 4.93% | 10.87% | 3.21% | 9.22% |
| E | Electricity, gas and w ater production and supply | 4.52% | 0.16% | 7.49% | 0.18% |
| Other exposures | | 24.02% | 32.14% | 15.38% | 31.57% |
| **Total** | | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

*(in PLN thousand)*

### Concentration of credit risk by geographical region

Geographical concentration of credit risk (in %)

| Region | 31.12.2007 | 31.12.2006 |
|---|---|---|
| mazowiecki | 18.00% | 21.66% |
| śląsko-opolski | 13.56% | 14.17% |
| wielkopolski | 10.78% | 9.65% |
| małopolsko-świętokrzyski | 9.10% | 8.02% |
| dolnośląski | 8.22% | 7.70% |
| lubelsko-podkarpacki | 6.98% | 7.04% |
| zachodnio-pomorski | 7.22% | 6.66% |
| łódzki | 6.81% | 6.55% |
| pomorski | 6.60% | 5.78% |
| kujawsko-pomorski | 5.71% | 5.61% |
| warmińsko-mazurski | 3.77% | 3.60% |
| podlaski | 3.19% | 2.60% |
| Other | 0.06% | 0.96% |
| **Total** | **100.00%** | **100.00%** |

### Concentration of credit risk by currency

At the end of 2007 share of convertible currency exposures in the Bank's portfolio amounted to 20%. The greatest currency exposures of the Bank are those in CHF (78.1 %), which share in the Bank's portfolio decreased by 2.2 p.p. in relation to 2006.

Concentration of credit risk by currency (%)

| Currency | 31.12.2007 | 31.12.2006 |
|---|---|---|
| PLN | 80.00% | 76.80% |
| Foreign currencies, of which | 20.00% | 23.20% |
| CHF | 15.60% | 17.80% |
| EUR | 3.50% | 4.30% |
| USD | 0.90% | 1.10% |
| **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. These limits cover the type of transaction and currency of the loan. 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 financial assets:

| 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.

*(in PLN thousand)*

Financial assets which are overdue but not impaired include the following financial assets:

| 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: | 1 708 254 | 35 631 | 1 222 231 | 2 152 |
| *financial sector* | 426 | - | 1 925 | - |
| *public sector* | 109 653 | - | 94 436 | - |
| *non-financial sector* | 1 598 175 | 35 631 | 1 125 870 | 2 152 |
| **Total** | **1 708 294** | **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 and warranties and guarantees.

### Individually impaired financial assets

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Loans and advances granted to clients | 1 181 634 | 1 160 435 |
| Financial assets available for sale | 33 828 | 14 900 |
| **Total** | **1 215 462** | **1 175 335** |

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

- for loans and advances to customers: ceiling mortgage and ordinary mortgage, registered pledge, promissory note of the debtor and transfer of receivables with a carrying amount of PLN 671,889 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 Bank 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 filing 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 Bank 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 deadline,
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 its timely execution, the loan being restructured is reset from overdue to current.

An element of restructuring process is an evaluation of the ability of the debtor to fulfil the restructuring agreement conditions (debt payment according to agreed schedule) is an element of the restructuring process. Active restructuring agreements are monitored 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 Bank 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 Bank 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 Bank 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. Irrespective of the procedures indicated, for assets which, due to their nature, there are opportunities to find a buyer and to gain proposal profitable for the Bank.

The Bank takes steps to broadly disseminate information about assets being sold to the public, by publishing such information on the Bank websites, placing announcements in national press, using internet portals, e.g. to carry out internet auctions, sending tender. In addition, the Bank 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 Bank as a result of restructuring and debt collection activities. In addition, the Bank has entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Bank 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 were nil PLN.

**Market risk**

Market risk includes: interest rate risk, currency risk, capital adequacy risk, equity price risk in the trading book, 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 Banks' market risk reporting system, as described in the 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 Committee,
3) quarterly - considered during the Management Board meetings,
4) half-yearly - considered during the Supervisory Board meetings.

**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 a 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 be 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 behaviour 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.

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

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Debt securities | 10 249 727 | 15 021 274 |
| Loans and advances based on fixed interest rates | 327 179 | 734 753 |
| Deposits from customers based on fixed interest rates | (12 201 685) | (14 660 248) |
| Inter-bank and negotiable deposits | (19 482 320) | (16 655 690) |
| Inter-bank placement | 4 654 333 | 12 946 291 |
| **TOTAL** | **(16 452 766)** | **(2 613 620)** |

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

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Debt securities | 4 063 587 | 4 039 820 |
| Loans and advances based on variable interest rates | 76 601 451 | 59 491 751 |
| Deposits from customers based on variable interest rates | (55 137 377) | (51 585 402) |
| **TOTAL** | **25 527 661** | **11 946 169** |

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

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Derivative instruments | 283 928 | 107 362 |

| **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** |
| Periodic gap | (14 265 905) | 29 055 517 | 4 008 211 | (8 716 047) | (1 305 678) | (201 666) | 152 558 | 8 726 990 |
| Cumulative gap | (14 265 905) | 14 789 612 | 18 797 823 | 10 081 776 | 8 776 098 | 8 574 432 | 8 726 990 | - |
| | | | | | | | | |
| **PLN (PLN thousand)** | | | | | | | | |
| Periodic gap | (19 599 952) | 12 463 891 | 18 015 885 | (2 146 871) | (1 965 852) | 635 915 | (34 780) | 7 368 236 |
| Cumulative gap | (19 599 952) | (7 136 061) | 10 879 824 | 8 732 953 | 6 767 101 | 7 403 016 | 7 368 236 | - |
| | | | | | | | | |
| **USD (USD thousand)** | | | | | | | | **31.12.2007** |
| Periodic gap | (196 090) | 160 709 | (36 656) | (46 478) | - | 5 357 | (24 525) | (137 683) |
| Cumulative gap | (196 090) | (35 381) | (72 037) | (118 515) | (118 515) | (113 158) | (137 683) | - |

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

*(in PLN thousand)*

| Repricing Gap | 0-1 month | 1-3 months | 3-6 months | 6-12 months | 1-2 years | 2-5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|---|
| **USD (USD thousand)** | | | | | | | | **31.12.2006** |
| Periodic gap | (378 458) | 181 384 | 99 566 | 86 261 | - | - | 52 374 | 41 127 |
| Cumulative gap | (378 458) | (197 074) | (97 508) | (11 247) | (11 247) | (11 247) | 41 127 | - |
| | | | | | | | | |
| **EUR (EUR thousand)** | | | | | | | | **31.12.2007** |
| Periodic gap | 220 133 | 74 639 | (12 427) | (17 114) | 8 344 | 1 730 | (47 010) | 228 295 |
| Cumulative gap | 220 133 | 294 772 | 282 345 | 265 231 | 273 575 | 275 305 | 228 295 | - |
| | | | | | | | | |
| **EUR (EUR thousand)** | | | | | | | | **31.12.2006** |
| Periodic gap | (497 048) | 401 894 | (5 310) | 78 608 | 26 377 | 1 022 | 7 355 | 12 898 |
| Cumulative gap | (497 048) | (95 154) | (100 464) | (21 856) | 4 521 | 5 543 | 12 898 | - |
| | | | | | | | | |
| **CHF (CHF thousand)** | | | | | | | | **31.12.2007** |
| Periodic gap | 3 153 166 | (3 156 417) | (1 091) | (2 374) | - | (330) | 3 005 | (4 041) |
| Cumulative gap | 3 153 166 | (3 251) | (4 342) | (6 716) | (6 716) | (7 046) | (4 041) | - |
| | | | | | | | | |
| **CHF (CHF thousand)** | | | | | | | | **31.12.2006** |
| Periodic gap | 2 547 713 | (2 430 896) | (966) | (1 553) | (2 565) | - | - | 111 733 |
| Cumulative gap | 2 547 713 | 116 817 | 115 851 | 114 298 | 111 733 | 111 733 | 111 733 | - |

The Bank's exposure to the interest rate risk was within the adopted limits. The Bank was mainly exposed to PLN interest rate risk, which represents about 48% of Bank's value at risk (VaR) and about 43% in 2006.

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

| Name of sensivity measure | 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 thousand) | 101 905 | 108 072 |

The level of the interest rate risk of the Bank 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.

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

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. Nevertheless, this measure does not express absolute maximal loss, on which the Bank exposed is. The Bank adopts a 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 behaviour 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.

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.

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

| Name of sensivity measure | 31.12.2007 | 31.12.2006 |
|---|---|---|
| VaR for a 10-day time horizon (PLN thousand) | 1 646 | 4 598 |
| Appreciation of PLN +10% (PLN thousand) | 4 650 | 8 720 |

*(in PLN thousand)*

## Currency structure

In 2007 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.

| | *Currency translated to PLN – 31.12.2007* | | | | |
|---|---|---|---|---|---|
| | **PLN** | **EUR** | **CHF** | **Other** | **Total** |
| **ASSETS, of which:** | | | | | |
| Cash and balances with the Central Bank | 4 375 365 | 118 655 | 7 655 | 92 409 | **4 594 084** |
| Loans and advances and other amounts due from financial sector | 3 775 531 | 1 958 464 | 855 662 | 268 532 | **6 858 189** |
| Loans and advances to non-financial sector | 56 392 279 | 2 200 384 | 11 868 625 | 479 178 | **70 940 466** |
| Loans and advances to public sector | 3 672 915 | 4 476 | 33 | - | **3 677 424** |
| Securities | 13 296 955 | 1 272 759 | - | 602 932 | **15 172 646** |
| Non-current assets | 7 743 257 | - | - | - | **7 743 257** |
| Other assets and derivatives | 2 057 647 | 151 768 | 1 717 | 65 518 | **2 276 650** |
| TOTAL ASSETS (GROSS) | 91 313 949 | 5 706 506 | 12 733 692 | 1 508 569 | **111 262 716** |
| DEPRECIATION / AMORTISATION / IMPAIRMENT | (5 856 818) | (12 857) | (20 682) | (1 022) | **(5 891 379)** |
| TOTAL ASSETS (NET) | 85 457 131 | 5 693 649 | 12 713 010 | 1 507 547 | **105 371 337** |
| **LIABILITIES, of which:** | | | | | |
| Balances with the Central Bank | 1 279 | - | - | - | **1 279** |
| Amounts due to financial sector | 1 239 967 | 863 871 | 2 049 290 | 248 410 | **4 401 538** |
| Amounts due to non-financial sector | 73 625 863 | 838 389 | 30 223 | 5 286 964 | **79 781 439** |
| Amounts due to public sector | 4 660 415 | 13 764 | - | 13 845 | **4 688 024** |
| Subordinated liabilities | 1 614 885 | - | - | - | **1 614 885** |
| Provisions | 452 515 | 505 | - | 25 | **453 045** |
| Other liabilities and derivatives and deferred tax liabilities | 2 502 257 | 82 245 | 10 540 | 106 544 | **2 701 586** |
| Equity | 11 729 541 | - | - | - | **11 729 541** |
| **TOTAL EQUITY AND LIABILITIES** | **95 826 722** | **1 798 774** | **2 090 053** | **5 655 788** | **105 371 337** |
| **OFF-BALANCE SHEET LIABILITIES GRANTED** | **24 774 515** | **2 770 532** | **640 513** | **329 974** | **28 515 534** |

| | *Currency translated to PLN – 31.12.2006* | | | | |
|---|---|---|---|---|---|
| | **PLN** | **EUR** | **CHF** | **Other** | **Total** |
| **ASSETS, of which:** | | | | | |
| Cash and balances with the Central Bank | 4 322 855 | 124 570 | 7 323 | 88 929 | **4 543 677** |
| Loans and advances and other amounts due from financial sector | 9 762 998 | 1 086 452 | 164 639 | 3 183 522 | **14 197 611** |
| Loans and advances to non-financial sector | 39 228 009 | 2 285 503 | 10 696 069 | 554 117 | **52 763 698** |
| Loans and advances to public sector | 6 051 015 | 6 463 | 52 | 4 394 | **6 061 924** |
| Securities | 15 770 117 | 2 601 655 | - | 834 542 | **19 206 314** |
| Non-current assets | 7 406 197 | - | - | - | **7 406 197** |
| Other assets and derivatives | 1 647 035 | 29 321 | 1 684 | 20 326 | **1 698 366** |
| TOTAL ASSETS (GROSS) | 84 188 226 | 6 133 964 | 10 869 767 | 4 685 830 | **105 877 787** |
| DEPRECIATION / AMORTISATION / IMPAIRMENT | (6 013 839) | (22 146) | (19 316) | (5 159) | **(6 060 460)** |
| TOTAL ASSETS (NET) | 78 174 387 | 6 111 818 | 10 850 451 | 4 680 671 | **99 817 327** |
| **LIABILITIES, of which:** | | | | | |
| Balances with the Central Bank | 1 387 | - | - | - | **1 387** |
| Amounts due to financial sector | 1 548 556 | 1 349 259 | 44 | 1 195 808 | **4 093 667** |
| Amounts due to non-financial sector | 72 687 893 | 3 043 819 | 63 639 | 3 102 995 | **78 898 346** |
| Amounts due to public sector | 3 146 805 | 10 518 | - | 3 604 | **3 160 927** |
| Provisions | 423 987 | 575 | - | 7 | **424 569** |
| Other liabilities and derivatives and deferred tax liabilities | 3 073 914 | 5 550 | 29 151 | 94 092 | **3 202 707** |
| Equity | 10 035 724 | - | - | - | **10 035 724** |
| **TOTAL EQUITY AND LIABILITIES** | **90 918 266** | **4 409 721** | **92 834** | **4 396 506** | **99 817 327** |
| **OFF-BALANCE SHEET LIABILITIES GRANTED** | **22 160 296** | **1 807 071** | **898 870** | **229 727** | **25 095 964** |

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 in the Bank 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) profiles of derivative instruments,
3) limits and thresholds set for the risk related to derivative instruments,
4) 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.

**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 Bank 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 of the Bank.

To ensure an adequate liquidity level, the Bank 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.

| | 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** |
| **Implemented periodic gap** | 295 811 | 1 527 901 | 3 304 935 | 4 343 515 | 6 387 139 | 11 901 107 | 6 361 167 | (34 121 575) |
| **Implemented cumulative gap** | 295 811 | 1 823 712 | 5 128 647 | 9 472 162 | 15 859 301 | 27 760 408 | 34 121 575 | - |
| | | | | | | | | **31.12.2006** |
| **Implemented periodic gap** | 4 088 906 | 1 755 373 | 1 766 932 | 4 465 463 | 9 578 027 | 10 481 513 | 5 654 981 | (37 791 195) |
| **Implemented cumulative gap** | 4 088 906 | 5 844 279 | 7 611 211 | 12 076 674 | 21 654 701 | 32 136 214 | 37 791 195 | - |

In all time horizons, the Bank's cumulative periodic liquidity gap stated in real terms was positive both in 2007 and 2006. This means a surplus of assets receivable over liabilities payable.

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

| PLN thousand | 0-1 month | 1-3 months | 3-6 months | 6-12 months | 1-2 years | 2-5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | **31.12.2007** |
| Total off-balance receivables | 3 137 822 | 2 213 190 | 2 636 408 | 3 901 614 | 9 997 466 | 5 491 463 | 6 514 926 | 33 892 889 |
| Total off-balance liabilities | 3 224 597 | 2 105 843 | 2 498 399 | 3 799 604 | 9 412 308 | 5 139 605 | 6 236 867 | 32 417 223 |
| **Total individual gap** | (86 775) | 107 346 | 138 009 | 102 010 | 585 160 | 351 859 | 278 058 | 1 475 667 |
| **Total cumilative gap** | (86 775) | 20 571 | 158 580 | 260 590 | 845 750 | 1 197 609 | 1 475 667 | - |
| | | | | | | | | **31.12.2006** |
| Total off-balance 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 liabilities | 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 cumilative gap** | 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, however at the end of 2006 core deposits accounted for appx. 85% of total deposit base.

## Concentration of credit risk – interbank market

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

| Exposure on inter-bank market (PLN thousands)*) | | | | | |
|---|---|---|---|---|---|
| No. | Counterparty | Instrument type | | | Total |
| | | Deposit | Securities | Derivatives | |
| 1. | Counterparty 1 | 379 100 | - | 14 974 | 394 074 |
| 2. | Counterparty 2 | 335 965 | - | - | 335 965 |
| 3. | Counterparty 3 | 300 000 | - | 5 890 | 305 890 |
| 4. | Counterparty 4 | 293 280 | - | - | 293 280 |
| 5. | Counterparty 5 | 276 889 | - | 3 | 276 892 |
| 6. | Counterparty 6 | 232 386 | - | 15 464 | 247 850 |
| 7. | Counterparty 7 | 219 040 | 17 910 | - | 236 950 |
| 8. | Counterparty 8 | - | - | 204 608 | 204 608 |
| 9. | Counterparty 9 | 204 155 | - | (5 664) | 204 155 |
| 10. | Counterparty 10 | 179 100 | - | (331) | 179 100 |
| 11. | Counterparty 11 | 100 000 | - | 65 231 | 165 231 |
| 12. | Counterparty 12 | 150 000 | - | 12 373 | 162 373 |
| 13. | Counterparty 13 | 150 000 | - | (496) | 150 000 |
| 14. | Counterparty 14 | - | 150 451 | (24 350) | 150 451 |
| 15. | Counterparty 15 | 100 000 | - | 25 792 | 125 792 |
| 16. | Counterparty 16 | 100 000 | - | 25 307 | 125 307 |
| 17. | Counterparty 17 | 108 746 | - | 5 286 | 114 032 |
| 18. | Counterparty 18 | - | - | 107 840 | 107 840 |
| 19. | Counterparty 19 | 100 000 | - | - | 100 000 |
| 20. | Counterparty 20 | 100 000 | - | - | 100 000 |

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

In comparison the exposure of PKO BP SA on the interbank market at the end of 2006 is stated in the table below:

| Exposure on inter-bank market (PLN thousands)*) | | | | | |
|---|---|---|---|---|---|
| **No.** | **Counterparty**** | **Instrument type** | | | **Total** |
| | | **Deposit** | **Securities** | **Derivatives** | |
| 1. | Counterparty 13 | 961 945 | - | - | 961 945 |
| 2. | Counterparty 10 | 666 050 | - | (422) | 666 050 |
| 3. | Counterparty 21 | 650 000 | - | (3 881) | 650 000 |
| 4. | Counterparty 6 | 620 000 | - | 16 514 | 636 514 |
| 5. | Counterparty 22 | 600 000 | - | (1) | 600 000 |
| 6. | Counterparty 4 | 520 000 | - | - | 520 000 |
| 7. | Counterparty 23 | 500 000 | - | 7 768 | 507 768 |
| 8. | Counterparty 20 | 500 000 | - | - | 500 000 |
| 9. | Counterparty 24 | 258 977 | 200 000 | - | 458 977 |
| 10. | Counterparty 25 | 415 935 | - | - | 415 935 |
| 11. | Counterparty 26 | 400 000 | - | (1 235) | 400 000 |
| 12. | Counterparty 27 | 323 700 | - | - | 323 700 |
| 13. | Counterparty 28 | 305 603 | - | - | 305 603 |
| 14. | Counterparty 3 | 300 000 | - | 4 044 | 304 044 |
| 15. | Counterparty 29 | 300 000 | - | (2 854) | 300 000 |
| 16. | Counterparty 30 | 300 000 | - | (6 289) | 300 000 |
| 17. | Counterparty 31 | 250 000 | - | 38 454 | 288 454 |
| 18. | Counterparty 32 | 195 525 | 84 113 | - | 279 638 |
| 19. | Counterparty 12 | 250 000 | - | 28 840 | 278 840 |
| 20. | 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 exposure on the inter-banking market at the end 2007

For the purpose of determining the Bank'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 exposure arising from the other derivative instruments, if it is positive (otherwise he exposure arising from other derivative instruments is not included in total exposure).

PKO BP SA has entered into derivative transactions with 14 counterparties listed in the table applying 2007, 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, as 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 as at 31 December 2007 and 31 December 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. | Danmark | Counterparty 17 |
| 4. | France | Counterparty 6, Counterparty 12, Counterparty 25, Counterparty 26, Counterparty 30 |
| 5. | Spain | Counterparty 7, Counterparty 27, Counterparty 33 |
| 6. | Holland | Counterpart 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 |
| 12. | USA | Counterparty 14 |
| 13. | Great Britain | Counterparty 18, Counterparty 21, Counterparty 23, Counterparty 28 |
| 14. | Italy | Counterparty 32 |

Analysis of counterparties by rating is as follows. 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, Counterparty 25, Counterparty 27, Counterparty 30, Counterparty 31, Counterparty 33 |
| 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 |
| Without rating | Counterparty 26 |

*(in PLN thousand)*

## Assets and liabilities of the Bank 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 | 4 594 084 | - | - | - | - | - | **4 594 084** |
| Amounts due from banks | 2 616 443 | 1 859 600 | 676 264 | 108 465 | 86 386 | (276) | **5 346 882** |
| 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 | - | - | 2 000 246 | 4 325 480 | 1 775 808 | - | **8 101 534** |
| Loans and advances to customers | 12 163 487 | 1 800 001 | 7 375 435 | 21 965 001 | 32 824 997 | (2 306 728) | **73 822 193** |
| Securities available for sale | 166 816 | 253 478 | 222 076 | 4 253 016 | 972 983 | (26 816) | **5 841 553** |
| Derivative financial instruments* | 1 556 750 | - | - | - | - | - | **1 556 750** |
| Other | 1 908 717 | 97 923 | 82 265 | 578 846 | 2 387 103 | (149 432) | **4 905 422** |
| **Total assets** | **23 071 468** | **4 076 312** | **10 562 863** | **31 747 603** | **38 396 343** | **(2 483 252)** | **105 371 337** |
| | | | | | | | |
| **Liabilities:** | | | | | | | |
| Amounts due to the Central Bank | 1 279 | - | - | - | - | - | **1 279** |
| Amounts due to banks | 918 371 | 565 335 | 91 697 | 2 049 052 | - | - | **3 624 455** |
| Amounts due to customers | 61 785 318 | 9 653 501 | 12 659 998 | 1 136 725 | 11 004 | - | **85 246 546** |
| Subordinated liabilities | - | - | - | - | 1 614 885 | - | **1 614 885** |
| Derivative financial instruments* | 1 280 265 | - | - | - | - | - | **1 280 265** |
| Other liabilities | 873 169 | 661 003 | 156 205 | 99 506 | 84 483 | - | **1 874 366** |
| **Total liabilities:** | **64 858 402** | **10 879 839** | **12 907 900** | **3 285 283** | **1 710 372** | **-** | **93 641 796** |
| **Equity** | **-** | **-** | **-** | **-** | 11 729 541 | - | **11 729 541** |
| **Total** | **64 858 402** | **10 879 839** | **12 907 900** | **3 285 283** | **13 439 913** | - | **105 371 337** |
| | | | | | | | |
| **Liquidity gap:** | **(41 786 934)** | **(6 803 527)** | **(2 345 037)** | **28 462 320** | **24 956 430** | **(2 483 252)** | **-** |

* Additionally, the split of derivative instruments notionals according to maturity is presented in Note 23.

*(in PLN thousand)*

## Assets and liabilities of the Bank 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 | 4 543 677 | - | - | - | - | - | **4 543 677** |
| Amounts due from banks | 7 826 097 | 1 538 768 | 3 695 262 | 232 743 | 57 182 | (329) | **13 349 723** |
| Financial assets held for trading | 611 571 | 88 616 | 134 645 | 38 987 | 123 613 | - | **997 432** |
| Other financial instruments at fair value through profit or loss | 377 487 | 154 501 | 2 264 436 | 5 484 672 | 3 092 205 | - | **11 373 301** |
| Loans and advances to customers | 10 459 677 | 1 630 240 | 8 770 845 | 19 406 180 | 19 406 239 | (2 333 391) | **57 339 790** |
| Securities available for sale | 30 840 | 319 624 | 1 175 590 | 2 394 691 | 2 914 836 | (30 014) | **6 805 567** |
| Derivative financial instruments* | 1 199 349 | - | - | - | - | - | **1 199 349** |
| Other | 177 326 | 285 440 | 160 411 | 706 518 | 3 082 834 | (204 041) | **4 208 488** |
| **Total assets** | **25 226 024** | **4 017 189** | **16 201 189** | **28 263 791** | **28 676 909** | **(2 567 775)** | **99 817 327** |
| | | | | | | | |
| **Liabilities:** | | | | | | | |
| Amounts due to the Central Bank | 1 387 | - | - | - | - | - | **1 387** |
| Amounts due to banks | 1 918 168 | 866 260 | 913 000 | 178 440 | - | - | **3 875 868** |
| Amounts due to customers | 54 465 524 | 11 026 903 | 15 315 312 | 1 460 508 | 8 825 | - | **82 277 072** |
| Derivative financial instruments* | 1 097 796 | - | - | - | - | - | **1 097 796** |
| Other liabilities | 59 894 | 1 611 049 | 465 816 | 85 821 | 306 900 | - | **2 529 480** |
| **Total liabilities:** | **57 542 769** | **13 504 212** | **16 694 128** | **1 724 769** | **315 725** | - | **89 781 603** |
| **Equity** | - | **-** | **-** | **-** | **10 035 724** | - | **10 035 724** |
| **Total** | **57 542 769** | **13 504 212** | **16 694 128** | **1 724 769** | **10 351 449** | **-** | **99 817 327** |
| | | | | | | | |
| **Liquidity gap:** | **(32 316 745)** | **(9 487 023)** | **(492 939)** | **26 539 022** | **18 325 460** | **(2 567 775)** | **-** |

* Additionally, the split of derivative instruments notionals according to maturity is presented in Note 23.

**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 Bank is to maintain capital, at all times, at a level that is adequate to the risk profile of the Bank, as well as to improve the Bank'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 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: share capital, reserve capital, other reserve capitals,
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.

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 a verified profit for the first half of 2007.

In 2007, the value of own funds of the Bank increased by PLN 2,760,108 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,

*(in PLN thousand)*

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 Bank is presented in the table below.

| BANK'S EQUITY | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **Basic funds (Tier 1)** | **8 324 409** | **6 634 547** |
| Share capital | 1 000 000 | 1 000 000 |
| Reserve capital | 5 591 995 | 4 529 604 |
| Other reserve capital | 1 390 000 | 1 385 000 |
| 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 charge | 653 720 | - |
| Unrealised losses on debt and equity securities classified as available for sale | (54 607) | (4 119) |
| Capital exposure | (399 088) | (619 480) |
| Intangible assets | (927 611) | (726 458) |
| **Supplementary funds (Tier 2)** | **1 202 936** | **-** |
| 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 | 5 234 |
| Capital exposure | (399 087) | (5 234) |
| **Short-term equity (Tier 3)** | **15 997** | **148 687** |
| **TOTAL EQUITY** | **9 543 342** | **6 783 234** |

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

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

The Bank is 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, PKO BP SA did not identify any breaches in the above respect.

The capital adequacy ratio as at 31 December 2007 amounted to 11.87%, which means an increase of 0.18 p.p. compared to 31 December 2006. The increase in the capital adequacy ratio was mainly due to the incorporation of the verified part of the Bank's profits for the years 2006 and 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 Bank's own funds by 17%.

**Capital adequacy risk**

The objective of capital adequacy management is to ensure compliance of the Bank 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.

The level of the Bank's capital adequacy in 2007 was safe. Due to dynamic development of lending activities and implementation, as of 1.01.2008, of the requirements of the New Capital Accord, which resulted in increased capital requirements, the Bank 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 verified 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 securitisation 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 parent 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 1.01.2008).

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, 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 and to improve performance of the Bank and enhance its value to the shareholders. Capital management involves an assessment of the level of equity (capital adequacy of the Bank, profitability of the individual business lines and individual 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 Bank companies). The internal capital management process in the Bank 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 Bank companies,
4) stress testing of capital adequacy.

In addition, 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. 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 information 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 parent publishes information about capital adequacy in a separate document 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 Bank 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 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.

*(in PLN thousand)*

Capital requirement structure as at 31 December 2007:

**Balance sheet items**

| Instrument type | Carrying amount | Risk weighted value |
|---|---|---|
| Cash | 1 620 394 | - |
| Receivables | 79 392 313 | 65 324 840 |
| Debt securities | 11 712 303 | 152 804 |
| Other securities, shares | 1 254 958 | 510 353 |
| Non-current assets | 3 198 090 | 2 270 481 |
| Other | 4 960 139 | 3 196 312 |
| **Total banking portfolio** | **102 138 197** | **71 454 790** |
| Debt securities | 3 223 475 | 1 089 407 |
| Equity securities held for trading in the trading portfolio of the Bank | 9 665 | 9 665 |
| **Total trading portfolio** | **3 233 140** | **1 099 072** |
| **Total balance sheet instruments** | **105 371 337** | **72 553 862** |

**Off-balance sheet instruments**

| Instrument type | Replacement cost | Balance sheet equivalent | Risk weighted value |
|---|---|---|---|
| **Derivatives** | | | |
| *Interest rate instruments:* | *198 743 607* | *1 570 805* | *314 161* |
| FRA | 73 860 000 | 243 635 | 48 727 |
| IRS | 124 883 607 | 1 327 170 | 265 434 |
| *Foreign currency instruments:* | *14 823 154* | *887 745* | *178 305* |
| Currency forwards | 1 469 673 | 16 273 | 3 254 |
| Forwards - embedded derivatives | 199 | 2 | 1 |
| SWAP | 2 268 826 | 22 688 | 4 538 |
| CIRS | 11 049 299 | 845 774 | 169 155 |
| Options (delta equivalents - purchase of options) | 35 157 | 3 008 | 1 357 |
| *Other instruments:* | *231 606* | *28 021* | *5 605* |
| SBB | 281 | 28 | 6 |
| CDS | 231 325 | 27 993 | 5 599 |
| **Total derivatives** | **213 798 367** | **2 486 571** | **498 071** |
| of which: | | | |
| banking portfolio | 38 221 527 | 1 149 344 | 229 872 |
| trading portfolio | 175 576 840 | 1 337 228 | 268 198 |

**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 | 25 517 556 | 3 859 155 | 3 831 536 |
| Guarantees issued | 1 477 687 | 930 545 | 930 491 |
| Letters of credit | 562 155 | 280 758 | 280 487 |
| Other | 573 533 | 309 917 | 262 547 |
| **Total banking portfolio** | **28 130 931** | **5 380 374** | **5 305 061** |
| Underwriting guarantees | 9 107 | - | - |
| Guarantees of issue | 1 550 044 | 1 550 044 | 1 342 804 |
| **Total trading portfolio** | **1 559 151** | **1 550 044** | **1 342 804** |

*(in PLN thousand)*

| | Carrying amount and off-balance sheet value | Risk weighted value | Capital requirement |
|---|---|---|---|
| **Total banking portfolio (credit risk)** | **168 490 655** | **76 989 723** | **6 159 178** |

| Capital requirements for trading portfolio (market risk) | Capital requirement |
|---|---|
| **Market risk** | **248 023** |
| **of which:** | |
| Equity securities price risk | 1 187 |
| Debt instruments specific risk | 192 781 |
| Interest general risk | 54 055 |
| **Other:** | **24 272** |
| Settlement risk - delivery and contractor | 24 272 |
| **Total capital requirement (credit and market risk)** | **6 431 473** |

Capital requirement structure as at 31 December 2006:

| **Balance sheet items** | | |
|---|---|---|
| **Instrument type** | **Carrying amount** | **Risk weighted value** |
| Cash | 1 344 922 | - |
| Receivables | 70 689 513 | 46 033 638 |
| Debt securities | 15 032 048 | 258 323 |
| Other securities, shares | 975 071 | 392 559 |
| Non-current assets | 2 883 840 | 2 157 382 |
| Other | 4 830 451 | 3 541 261 |
| **Total banking portfolio** | **95 755 845** | **52 383 163** |
| 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** | **99 817 327** | **54 433 119** |

| **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* | *227 334* |
| 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** | **463 051** |
| of which: | | | |
| banking portfolio | 27 923 211 | 1 217 802 | 243 915 |
| trading portfolio | 125 326 458 | 1 095 529 | 219 136 |

*(in PLN thousand)*

**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)** | **151 397 099** | **56 142 066** | **4 491 365** |

| Capital requirements for trading portfolio (market riskt) | Capital requirement |
|---|---|
| **Market risk** | **132 165** |
| **of which:** | |
| Equity securities price risk | 214 |
| Debt 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)** | **4 640 052** |

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **Capital adequacy ratio** | **11.87** | **11,69*** |

*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 to events which are beyond their control.

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

- operational risk management policies and procedures cover the full scope of the Bank's activities,
- defined responsibilities and reporting lines in the area of operational risk management at various decision-taking levels,
- in internal regulations operational risk identification and assessment processes for all major areas of the Bank's activities is defined,
- the Bank regularly monitors operational events, which exceed the level of financial effects specified in internal regulations and inform the Management Board and the Supervisory Board about it,

- operational risk management is performed at the level of comprehensive system solutions as well as day-to-day risk management activities,
- selected units in the Headquarters and specialist organizational units, which are responsible for formulating detailed goals, deal with comprehensive operational risk management,
- tasks in area of operational risk management coordination are carried out by Operational Risk and Compatibility Department.

In 2007, in accordance with Resolution 1/2007 of the Commission for Banking Supervision, the Bank prepared solutions that ensure calculations of capital requirement for operational risk of the Bank using basic indicator method (BIA).

In addition the Bank started in 2007 a process of selecting a provider of special application for operational risk management support and launched the project of implementation of advanced operational risk measurement methods.

## 4. Fair value of financial assets and financial liabilities

The Bank holds certain 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 those 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 witch are not presented in fair values in the Bank'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 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 introduced in the Bank's offer during the last quarter of the reporting period;
- Liabilities towards clients: liabilities with no specified payment schedule, liabilities based on variable interest rates with a maturity up to 1 year in total, 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 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 inter-bank placements and deposits has been estimated based on the expected future cash flows discounted using the current inter-bank interest rates.

*(in PLN thousand)*

The table below shows a summary of the carrying amounts and fair values for the individual goups of financial instruments which have not been presented at fair value in the Bank'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 | 5 346 882 | 5 342 082 | 13 349 723 | 13 348 332 |
| Loans and advances to customers | 73 882 193 | 74 225 703 | 57 339 790 | 57 532 873 |
| Amounts due to other banks | 3 624 455 | 3 642 162 | 3 875 868 | 3 875 611 |
| Amounts due to customers | 85 246 546 | 85 251 267 | 82 277 072 | 82 275 100 |
| 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 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.

*(in PLN thousand)*

## 7. Interest income and expenses

### Interest income

| | 2007 | 2006 |
|---|---|---|
| Income from loans and advances granted to customers | 4 859 524 | 3 717 731 |
| Income from securities at fair value through profit or loss | 549 200 | 755 634 |
| Income from placements with other banks | 516 153 | 566 395 |
| Income from investment securities | 249 718 | 258 095 |
| Income from trading securities | 24 527 | 22 986 |
| Other | 71 866 | 60 704 |
| **Total** | **6 270 988** | **5 381 545** |

### Interest expenses

| | 2007 | 2006 |
|---|---|---|
| Relating to amounts due to customers | (1 575 237) | (1 478 951) |
| Relating to placements of other banks | (130 182) | (90 233) |
| Relating to own issue of debt securities | (17 511) | - |
| Other | (44 951) | (89 800) |
| **Total** | **(1 767 881)** | **(1 658 984)** |

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 5,697,261 thousand (in the year ended 31 December 2006: PLN 4,602,925 thousand). In the year 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 (1,723,929) thousand. In the year ended 31 December 2006: PLN (1,591,543) 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 | 5 512 308 | - | 5 512 308 |
| Financial liabilities evaluated according to amortised cost | - | (1 722 930) | (1 722 930) |
| **Total** | **5 512 308** | **(1 722 930)** | **3 789 378** |

| 2006 | Gains | Losses | Net result |
|---|---|---|---|
| Loans and advances | 4 516 451 | - | 4 516 451 |
| Financial liabilities evaluated according to amortised cost | - | (1 569 184) | (1 569 184) |
| **Total** | **4 516 451** | **(1 569 184)** | **2 947 267** |

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

*(in PLN thousand)*

## 8. 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:** | **252 707** | **220 866** |
| From loans and advances granted | 252 707 | 220 866 |
| **Other fees and commissions** | **2 394 178** | **1 929 608** |
| From accounts servicing | 755 818 | 721 445 |
| Relating to payment cards | 704 503 | 545 924 |
| From cash transactions | 203 820 | 208 467 |
| From credit insurance | 202 260 | 46 300 |
| From investment funds servicing | 281 961 | 112 970 |
| From operations with securities | 87 679 | 70 814 |
| From sale and distribution of marks of value | 28 523 | 56 457 |
| From foreign mass transactions servicing | 36 878 | 32 802 |
| Other* | 92 736 | 134 429 |
| **From trust servicing** | **1 207** | **589** |
| **Total** | **2 648 092** | **2 151 063** |

* Included in “Other” are, among others, commissions received: for public offering services ,for the bonds sale, for services provided to BFL, 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 | (283 868) | (224 710) |
| Relating to acquisition services | (125 786) | (121 014) |
| From credit insurance | (152 205) | (10 370) |
| From fees and commissions for operating services of other banks | (9 264) | (9 286) |
| From fees and commissions paid PPUP | (5 735) | (6 469) |
| From credit insurance | (34 139) | (29 351) |
| **Total** | **(610 997)** | **(401 200)** |

* Included in “Other” are, among others, expenses incurred by DM for the Warsaw Stock Exchange (GPW) and KDPW, costs of insurance premium for holders of PKO VISA GOLD and PKO EC/MC Business, valorisation of financial resources remaining at collective account, commission paid to agents.

## 9. Dividend income

| | 2007 | 2006 |
|---|---|---|
| **Dividend income from the issuers** | 3 288 | 3 604 |
| Securities classified as available for sale | 3 267 | 3 288 |
| Securities classified as held for trading | 21 | 316 |
| **Revenues from dividend allocated from subordinated entities** | 48 825 | 15 020 |
| **Total** | **52 113** | **18 624** |

*(in PLN thousand)*

## 10. Result from financial instruments at fair value

### Result from financial assets and liabilities at fair value through profit or loss:

| | 2007 | 2006 |
|---|---|---|
| Debt securities | (337 827) | (128 547) |
| Derivative instruments | 260 798 | 27 000 |
| Equity instruments | 291 | 718 |
| Other | (963) | 6 409 |
| **Total** | **(77 701)** | **(94 420)** |

| 2007 | Gains | Losses | Net result |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 5 983 290 | (5 734 740) | 248 550 |
| Financial assets identified on initial recognition at fair value through profit or loss | 125 063 | (451 314) | (326 251) |
| **Total** | **6 108 353** | **(6 186 054)** | **(77 701)** |

| 2006 | Gains | Losses | Net result |
|---|---|---|---|
| Financial assets held for trading | 5 188 134 | (5 149 600) | 38 534 |
| Financial assets identified on initial recognition at fair value through profit or loss | 194 786 | (327 740) | (132 954) |
| **Total** | **5 382 920** | **(5 477 340)** | **(94 420)** |

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 was PLN 259,835 thousand (in the year ended 31 December 2006: PLN 33,409 thousand).

### Fair value changes in hedge accounting

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

## 11. 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 | 7 557 | 61 985 |
| Losses taken from equity | (1 036) | (12 894) |
| **Total** | **6 521** | **49 091** |

## 12. Foreign exchange result

| | 2007 | 2006 |
|---|---|---|
| Foreign exchange differences resulting from financial instruments at fair value through profit or loss | 255 445 | 257 113 |
| Other foreign exchange differences | 267 248 | 275 457 |
| **Total** | **522 693** | **532 570** |

*(in PLN thousand)*

## 13. Other operating income and costs

| | 2007 | 2006 |
|---|---|---|
| **Other operating income** | | |
| Auxiliary revenues | 23 842 | 25 925 |
| Recovery of expired, written-off and unrecoverable receivables | 19 469 | 16 705 |
| Sales and liquidation of fixed assets and intangible assets | 17 555 | 14 880 |
| Sale of shares in subordinates | - | 20 716 |
| Other* | 55 549 | 79 854 |
| **Total** | **116 415** | **158 080** |

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

| | 2007 | 2006 |
|---|---|---|
| **Other operating costs** | | |
| Cost of finished goods, goods for resale and raw materials | (14 460) | (12 639) |
| Donations | (7 123) | (7 162) |
| Auxiliary costs of Bank | (4 224) | (4 327) |
| Cost of maintenance of property and intangible assets | (4 013) | (6 343) |
| Other* | (31 180) | (48 819) |
| **Total** | **(61 000)** | **(79 290)** |

* Included in "Other" are, among others: release of legal substitutions paid by the Bank, cost of impairment allowance for other receivables and costs due to debt collection proceedings.

## 14. General administrative expenses

| | 2007 | 2006 |
|---|---|---|
| Employee benefits | (2 155 112) | (2 150 561) |
| Non-personnel costs | (1 182 267) | (1 104 166) |
| Amortisation | (322 159) | (268 778) |
| Taxes and charge | (53 930) | (55 070) |
| Contribution and payments to Banking Guarantee Fund | (13 682) | (10 458) |
| **Total** | **(3 727 150)** | **(3 589 033)** |

## Payroll costs / Employee benefits

| | 2007 | 2006 |
|---|---|---|
| Salaries and wages | (1 720 214) | (1 664 024) |
| Insurance and other employee benefits | (363 414) | (339 011) |
| 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** | **(2 155 112)** | **(2 150 561)** |

*(in PLN thousand)*

## 15. 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 | Other | Decrease in impairment allowances due to derecognition of assets, not impacting the profit and loss account | Impairment allowances reversed during the period | Other | | |
| Financial assets available for sale carried at fair value through equity | 30 014 | 6 019 | - | - | 8 500 | 717 | 26 816 | 2 481 |
| not listed on stock exchange | 14 900 | 5 987 | - | - | 2 300 | - | 18 587 | (3 687) |
| 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 | 2 333 720 | 1 170 862 | - | 142 792 | 1 054 786 | - | 2 307 004 | (116 076) |
| 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 | 1 298 982 | 536 617 | - | 59 189 | 610 007 | - | 1 166 403 | 73 390 |
| receivables from banks | 329 | - | - | - | 53 | - | 276 | 53 |
| Tangible fixed assets | 51 220 | 478 | 79 | - | 49 820 | - | 1 957 | 49 342 |
| Intangible fixed assets | 31 681 | - | - | - | 16 308 | - | 15 373 | 16 308 |
| Investments in entities valued using the equity method | 54 470 | 10 666 | - | - | - | - | 65 136 | (10 666) |
| Other | 136 812 | 52 309 | - | 962 | 65 972 | - | 122 187 | 13 663 |
| **Total** | **2 637 917** | **1 240 334** | **79** | **143 754** | **1 195 386** | **717** | **2 538 473** | **(44 948)** |

*(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 | Other | Decrease in impairment allowances due to derecognition of assets, not impacting the profit and loss account | Impairment allowances reversed during the period | Other | | |
| Financial assets available for sale carried at fair value through equity | 40 864 | - | - | 9 736 | 1 114 | - | 30 014 | 1 114 |
| notowane na giełdach | - | - | - | - | - | - | - | - |
| not listed on stock exchange | 24 900 | - | - | 9 736 | 264 | - | 14 900 | 264 |
| Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments) | 15 964 | - | - | - | 850 | - | 15 114 | 850 |
| Loans and advances to customers and amounts due from banks valued at amortised cost | 2 869 301 | 1 013 895 | - | 478 273 | 1 025 354 | 45 849 | 2 333 720 | 11 459 |
| consumer loans | 603 576 | 269 303 | - | 74 473 | 294 994 | - | 503 412 | 25 691 |
| housing loans | 596 612 | 116 008 | - | 60 413 | 121 209 | - | 530 998 | 5 201 |
| corporate loans | 1 667 358 | 628 584 | - | 341 964 | 609 148 | 45 849 | 1 298 981 | (19 436) |
| receivables from banks | 1 755 | - | - | 1 423 | 3 | - | 329 | 3 |
| Tangible fixed assets | 50 221 | 1 414 | - | - | 261 | 154 | 51 220 | (1 153) |
| Intangible fixed assets | - | 31 681 | - | - | - | - | 31 681 | (31 681) |
| Investments in entities valued using the equity method | 72 567 | - | 30 826 | 31 349 | 17 575 | - | 54 469 | 17 575 |
| Other | 180 779 | 64 740 | - | - | 101 444 | 7 263 | 136 812 | 36 704 |
| **Total** | **3 213 732** | **1 111 730** | **30 826** | **519 358** | **1 145 748** | **53 266** | **2 637 916** | **34 018** |

*(in PLN thousand)*

## 16. Discontinued operations

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

## 17. Corporate income tax

| | 2007 | 2006 |
|---|---|---|
| **Income statement** | | |
| Current income tax expense | (640 233) | (479 567) |
| Deferred income tax related to temporary differences | 33 079 | 24 894 |
| **Tax expense disclosed in the income statement** | **(607 154)** | **(454 673)** |
| Tax expense disclosed in the consolidated equity | 10 829 | (1 921) |
| **Total** | **(596 325)** | **(456 594)** |

| | 2007 | 2006 |
|---|---|---|
| **Gross profit before taxation** | **3 327 145** | **2 502 064** |
| Corporate income tax calculated using the enacted tax rate 19% (2006: 19%) | (632 158) | (475 392) |
| **Permanent differences between accounting gross profit and taxable profit, of which:** | **24 345** | **20 049** |
| Other non-tax-deductible expenses | (19 169) | (26 768) |
| Reversed provisions and revaluation not constituting taxable revenue | 30 413 | 31 218 |
| Other non-taxable revenue | 3 366 | 5 193 |
| Dividend income | 9 901 | 3 539 |
| Other | (166) | 6 867 |
| **Other differences between gross financial result and taxable income, including donations** | **659** | **670** |
| **Income tax disclosed in the income statement** | **(607 154)** | **(454 673)** |
| **Effective tax rate** | **18.25%** | **18.17%** |
| Temporary difference due to the deferred tax presented in the profit and loss account | 33 079 | 24 894 |
| **Current Income tax expense disclosed in the income statement** | **(640 233)** | **(479 568)** |

### Liabilities/ receivables due to corporate income tax

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Current tax receivables | 187 707 | - |

*(in PLN thousand)*

### Deferred tax asset/liability

| | Balance sheet | | Income statement | |
|---|---|---|---|---|
| | **31.12.2007** | **31.12.2006** | **2007** | **2006** |
| **Deferred tax liability** | | | | |
| 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 | 136 730 | 74 346 | 62 384 | 17 174 |
| **Gross deferred tax liability** | **544 528** | **505 622** | - | - |
| **taken to income statement** | **543 332** | **503 697** | **39 635** | **(24 582)** |
| **taken to equity** | **1 196** | **1 925** | **-** | **-** |
| **Net deferred tax liability provision** | **(35 531)** | **8 378** | **-** | **-** |
| **Deferred tax assets** | | | | |
| Interest accrued on liabilities | 138 252 | 143 349 | (5 097) | (1 452) |
| Valuation of securities, of which: | 33 217 | 20 107 | 3 008 | 10 306 |
| taken to income statement | 22 065 | 19 057 | 3 008 | 10 306 |
| taken to equity | 11 152 | 1 050 | - | - |
| Valuation of derivative instruments | 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 positive differences recognized | 28 693 | 26 675 | 2 018 | 10 147 |
| **Gross deferred tax asset** | **580 059** | **497 243** | **-** | **-** |
| **taken to income statement** | **568 907** | **496 193** | **72 714** | **311** |
| **taken to equity** | **11 152** | **1 050** | - | - |
| **Deferred income tax asset (disclosed on the balance sheet)** | **35 531** | **-** | **-** | **-** |
| **Deferred tax liability (disclosed on the balance sheet)** | **-** | **8 378** | **-** | **-** |
| **Net deferred tax impact on income statement** | **-** | **-** | **(33 079)** | **(24 894)** |
| **Current tax liability** | **-** | **170 960** | **-** | **-** |

## 18. 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.

*(in PLN thousand)*

## 19. Transferred financial assets which do not qualify for derecognition

As at 31 December 2007 and 31 December 2006, the Bank 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.

## 20. Cash and amounts due from the Central Bank

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Current account w ith the Central Bank | 2 972 067 | 3 196 284 |
| Cash | 1 620 394 | 1 344 922 |
| Other funds | 1 623 | 2 471 |
| **Total** | **4 594 084** | **4 543 677** |

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). It must, however, 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.

## 21. Amounts due from banks

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Current accounts | 49 846 | 29 766 |
| Placements w ith other banks | 4 723 824 | 12 410 028 |
| Loans and advances granted | 513 629 | 326 051 |
| Cash in transit | 45 462 | 34 386 |
| Receivables due from repurchase agreement | 14 397 | 549 821 |
| **Total** | **5 347 158** | **13 350 052** |
| Impairment allow ance | (276) | (329) |
| **Net total** | **5 346 882** | **13 349 723** |

As at 31 December 2007, the nominal value of placements with other banks with a fixed interest rate amounted to PLN 4,644,000 thousand (as at 31 December 2006: PLN 12,274,821 thousand). Majority of those placements were short-term placements. As at 31 December 2007 and as at 31 December 2006 the Bank did not have placements with other banks with floating interest rate.

## 22. Financial assets held for trading

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Debt securities | 1 193 255 | 995 937 |
| - issued by the State Treasury | 1 193 129 | 995 469 |
| - issued by local government bodies | 126 | 468 |
| Shares in other entities - listed on stock exchange | 9 664 | 1 495 |
| **Total financial assets held for trading** | **1 202 919** | **997 432** |

*(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** | **610 076** | **88 616** | **134 645** | **38 987** | **123 613** | **995 937** |
| - issued by the State treasury | 610 076 | 88 616 | 134 177 | 38 987 | 123 613 | **995 469** |
| - issued by local government bodies | - | - | 468 | - | - | **468** |
| **Shares in other entities - not listed on stock exchange** | 1 495 | - | - | - | - | **1 495** |
| **Total** | **611 571** | **88 616** | **134 645** | **38 987** | **123 613** | **997 432** |

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 65 880
- Treasury bonds 803 444
- Bonds denominated in USD 14 553
- Bonds denominated in EUR 95 780
- Municipal bonds 458

*(in PLN thousand)*

## 23. Derivative financial instruments

### Derivative instruments used by the Bank

The Bank 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 Bank. As at 31 December 2007 and 31 December 2006, the Bank held the following derivative instruments:

| Type of contract | 31.12.2007 | | 31.12.2006 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| IRS | 882 382 | 814 520 | 644 580 | 773 572 |
| 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 | 28 145 | 36 375 | 5 867 | 11 926 |
| Options | 15 528 | 16 424 | 45 | 2 019 |
| Other | - | 393 | - | - |
| **Total** | **1 556 750** | **1 280 265** | **1 199 349** | **1 097 796** |

### Derivative instruments embedded in other instruments

The Bank 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 Bank 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 Bank 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 Bank has not identified any loan agreements containing embedded derivatives, where embedded derivatives should be separated and recognized on a stand-alone basis. However, the Bank 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 Bank enters into derivative transactions with other 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 | 132 685 954 | 15 279 760 | **249 767 214** | **814 520** | **882 382** |
| Purchase | 5 168 000 | 6 407 000 | 39 325 750 | 66 342 977 | 7 639 880 | **124 883 607** | **-** | **-** |
| Sale | 5 168 000 | 6 407 000 | 39 325 750 | 66 342 977 | 7 639 880 | **124 883 607** | **-** | **-** |
| 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** | | | | | | | | |
| 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** | **32 936 704** | **48 725 774** | **150 467 117** | **160 498 612** | **24 268 117** | **416 896 324** | **1 280 265** | **1 556 750** |

*(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 | 98 978 454 | 6 554 960 | **151 613 514** | **773 572** | **644 580** |
| Purchase | 2 900 000 | 3 734 000 | 16 406 050 | 49 489 227 | 3 277 480 | **75 806 757** | - | - |
| Sale | 2 900 000 | 3 734 000 | 16 406 050 | 49 489 227 | 3 277 480 | **75 806 757** | - | - |
| 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** | **130 266 796** | **16 061 935** | **300 609 213** | **1 097 796** | **1 199 349** |

*(in PLN thousand)*

## 24. Other financial instruments at fair value through profit or loss

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Debt securities | 8 101 534 | 11 373 301 |
| - issued by the State Treasury | 7 221 217 | 10 082 153 |
| - issued by other banks | 764 018 | 1 291 148 |
| - issued by other financial institutions | 116 299 | - |
| **Total** | **8 101 534** | **11 373 301** |

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 nominal amount | 31.12.2007 | 31.12.2006 |
|---|---|---|
| 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 |

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** | **-** | **-** | **2 000 246** | **4 325 480** | **1 775 808** | **8 101 534** |
| - issued by other banks | - | - | - | 505 390 | 258 628 | **764 018** |
| - issued by other financial institutions | - | - | - | 70 915 | 45 384 | **116 299** |
| - issued by the State Treasury | - | - | 2 000 246 | 3 749 175 | 1 471 796 | **7 221 217** |
| **Total** | **-** | **-** | **2 000 246** | **4 325 480** | **1 775 808** | **8 101 534** |

| 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** | **377 487** | **154 501** | **2 264 436** | **5 484 672** | **3 092 205** | **11 373 301** |
| - issued by other banks | 202 012 | - | 44 076 | 711 026 | 334 034 | **1 291 148** |
| - issued by the State Treasury | 175 475 | 154 501 | 2 220 360 | 4 773 646 | 2 758 171 | **10 082 153** |
| **Total** | **377 487** | **154 501** | **2 264 436** | **5 484 672** | **3 092 205** | **11 373 301** |

*(in PLN thousand)*

## 25. Loans and advances to customers

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **Loans and advances** | | |
| Receivables valued using the collective methods (IBNR) | 73 328 093 | 57 072 009 |
| Receivables valued using the individual method | 1 181 634 | 1 160 435 |
| Receivables valued using the portfolio methods | 1 619 194 | 1 440 737 |
| **Loans and advances - gross value** | **76 128 921** | **59 673 181** |
| Allowances against exposures with portfolio impairment | (1 363 864) | (1 237 180) |
| Allowances against exposures with individual impairment | (467 191) | (569 899) |
| Allowances against exposures with collective impairment (IBNR) | (475 673) | (526 312) |
| **Total impairment** | **(2 306 728)** | **(2 333 391)** |
| **Loans and advances - total net value** | **73 822 193** | **57 339 790** |

### Finance and operating leases

### Finance lease

The Bank does not have any receivables and payables according to finance lease.

### Operating leasing

Operating lease agreement is an agreement under which the lessor retains substantially all of the risks and rewards incidental to the ownership of an asset. 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 an arm's length.

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

| Total value of future lease payments under non-cancellable operating lease | 31.12.2007 | 31.12.2006 |
|---|---|---|
| For period: | | |
| up to 1 year | 93 407 | 86 602 |
| from 1 year to 5 years | 211 329 | 273 749 |
| above 5 years | 144 681 | 166 887 |
| **Total** | **449 417** | **527 238** |

Lease and sub-lease payments recognized as an expense in the period from 1 January 2007 to 31 December 2007 amounted to PLN 77,821 thousand (in the period from 1 January 2006 to 31 December 2006: PLN 145,300 thousand).

## 26. Investment securities

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **Available for sale** | **5 868 369** | **6 835 581** |
| - issued by central banks | 2 633 505 | 2 640 272 |
| - issued by other banks | 57 619 | 1 162 081 |
| - issued by other financial institutions | 233 754 | 134 783 |
| - issued by non-financial entities | 673 881 | 801 986 |
| - issued by the State Treasury | 1 093 563 | 1 170 431 |
| - issued by local government bodies | 1 176 047 | 926 028 |
| Impairment allowances | (26 816) | (30 014) |
| **Total net investment securities** | **5 841 553** | **6 805 567** |

*(in PLN thousand)*

## Changes in investment securities

| | 2007 | 2006 |
|---|---|---|
| **Available for sale** | | |
| **Balance at the beginning of the period** | **6 805 567** | **1 857 578** |
| Foreign exchange differences | (1 595) | (249) |
| Increases | 4 464 988 | 20 609 788 |
| Decreases (redemption) | (5 371 858) | (15 672 312) |
| Change in the fair value | (55 549) | 10 762 |
| **Balance at the end of the period** | **5 841 553** | **6 805 567** |

*(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 institutions | 1 353 | 140 685 | 90 861 | - | 423 | **233 322** |
| issued by non-financial entities | 136 030 | 107 292 | 6 546 | 394 154 | 5 716 | **649 738** |
| issued by the State Treasury | - | - | - | 613 488 | 480 075 | **1 093 563** |
| issued by local government bodies | 2 617 | 5 501 | 124 669 | 556 492 | 486 769 | **1 176 048** |
| **Total** | **140 000** | **253 478** | **222 076** | **4 253 016** | **972 983** | **5 841 553** |

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:

- bills of exchange 2 150
- corporate bonds 833 468
- corporate bonds in EUR 24 723
- municipal bonds 1 171 442
- treasury bonds 1 125 000
- bonds issued by National Bank of Poland 2 551 112

*(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 institutions | - | 129 146 | 117 | - | 320 | **129 583** |
| issued by non-financial entities | 826 | 189 335 | 2 022 | 584 315 | 2 916 | **779 414** |
| issued by the State Treasury | - | - | - | 1 170 431 | - | **1 170 431** |
| issued by local government bodies | - | 1 143 | 71 599 | 581 958 | 271 328 | **926 028** |
| **Total** | **826** | **319 624** | **1 175 590** | **2 394 691** | **2 914 836** | **6 805 567** |

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:

- bills of exchange 166 000
- corporate bonds 571 273
- corporate bonds in EUR 22 562
- municipal 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

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

*(in PLN thousand)*

## 27. Investments in subsidiaries, associates and jointly controlled entities

As at 31 December 2007, the Bank's investments in subsidiaries, associates and jointly controlled entities have been recognised at cost adjusted by impairment allowances.

The Bank's individual shares subsidiaries, jointly controlled entities and associates are presented below.

### 31 December 2007

| Entity name | Gross value | Impairment | Carrying value |
|---|---|---|---|
| **Subsidiaries** | | | |
| Powszechne Towarzystwo Emerytalne BANKOWY SA | 205 785 | - | 205 785 |
| KREDOBANK SA | 307 365 | - | 307 365 |
| Centrum Finansowe Puławska Sp. z o.o. | 128 288 | - | 128 288 |
| PKO Inwestycje Sp. z o.o. | 4 503 | - | 4 503 |
| Inteligo Financial Services SA | 59 602 | - | 59 602 |
| Centrum Elektronicznych Usług Płatniczych "eService" SA | 55 500 | - | 55 500 |
| Bankowy Fundusz Leasingowy SA | 40 000 | - | 40 000 |
| Bankowe Towarzystwo Kapitałowe SA | 18 566 | (10 666) | 7 900 |
| PKO Towarzystwo Funduszy Inwestycyjnych SA* (dawny PKO/Credit Suisse Towarzystwe Funduszy Inwestycyjnych SA) | 69 054 | - | 69 054 |
| Przedsiebiorstwo Informatyki Bankowej "Elbank" Sp. z o.o. (under liquidation) | 6 | (6) | - |
| International Trade Center Sp. z o.o. (under liquidation) | 33 | (33) | - |
| **Jointly controlled entities** | | | |
| Centrum Obsługi Biznesu Sp. z o.o | 17 498 | - | 17 498 |
| Grupa Centrum Haffnera Sp. z o.o. | 44 371 | - | 44 371 |
| **Associated entities** | | | |
| Bank Pocztowy SA | 146 500 | (33 500) | 113 000 |
| Kolej Gondolowa Jaworzyna Krynicka SA | 15 531 | (15 531) | - |
| Ekogips SA (in bankruptcy) | 5 400 | (5 400) | - |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 1 500 | - | 1 500 |
| Agencja Inwestycyjna CORP SA | 29 | - | 29 |
| **Total** | **1 119 531** | **(65 136)** | **1 054 395** |

*(in PLN thousand)*

### As at 31 December 2006

| Entity name | Gross value | Impairment | Carrying value |
|---|---|---|---|
| **Subsidiaries** | | | |
| Powszechne Towarzystwo Emerytalne BANKOWY SA | 205 785 | - | 205 785 |
| KREDOBANK SA | 144 605 | - | 144 605 |
| Centrum Finansowe Puławska Sp. z o.o. | 128 288 | - | 128 288 |
| PKO Inwestycje Sp. z o.o. | 4 503 | - | 4 503 |
| Inteligo Financial Services SA | 59 602 | - | 59 602 |
| Centrum Elektronicznych Usług Płatniczych "eService" SA | 55 500 | - | 55 500 |
| Bankowy Fundusz Leasingowy SA | 30 000 | - | 30 000 |
| Bankowe Towarzystwo Kapitałowe SA | 18 566 | - | 18 566 |
| PKO Towarzystwo Funduszy Inwestycyjnych SA* (dawny PKO/Credit Suisse Towarzystwe Funduszy Inwestycyjnych SA) | 69 054 | - | 69 054 |
| Przedsiebiorstwo Informatyki Bankowej "Elbank" Sp. z o.o. (under liquidation) | 6 | (6) | - |
| International Trade Center Sp. z o.o. (under liquidation) | 33 | (33) | - |
| **Jointly controlled entities** | | | |
| Centrum Obsługi Biznesu Sp. z o.o | 17 498 | - | 17 498 |
| Grupa Centrum Haffnera Sp. z o.o. | 44 371 | - | 44 371 |
| **Associated entities** | | | |
| Bank Pocztowy SA | 146 500 | (33 500) | 113 000 |
| Kolej Gondolowa Jaworzyna Krynicka SA | 15 531 | (15 531) | - |
| Ekogips SA (in bamkruptcy) | 5 400 | (5 400) | - |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 1 500 | - | 1 500 |
| Agencja Inwestycyjna CORP SA | 29 | - | 29 |
| **Total** | **946 771** | **(54 470)** | **892 301** |

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 | 25,0001% |
| 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** | **---** |
| **31.12.2006** | | | | | |
| Bank Pocztowy SA | 2 627 410 | 2 409 372 | 236 116 | 24 367 | 25,0001% |
| Kolej Gondolowa Jaworzyna Krynicka S.A. | 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** | **---** |

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

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

In 2007, the following events occurred in PKO BP:

*(in PLN thousand)*

### 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.

### b) concerning 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 100% of the share capital of BFL SA and 100% of votes at its General Shareholders' Meeting.

## 28. Intangible assets

| For the year ended 31 December 2007 | Patents and licenses | Other including expenses | Total |
|---|---|---|---|
| Purchase price as at 1 January 2007 including amortisation | 611 437 | 115 021 | **726 458** |
| Purchase | - | 296 043 | **296 043** |
| Impairment allowance | 16 308 | - | **16 308** |
| Amortisation | (108 192) | (2 408) | **(110 600)** |
| Transfers | 292 754 | (292 754) | **-** |
| Other value changes* | (2 536) | 1 937 | **(599)** |
| **Net carrying amount** | **809 771** | **117 839** | **927 610** |
| *As at 1 January 2007* | | | |
| Purchase price (gross carrying amount) | 1 276 516 | 128 640 | **1 405 156** |
| Accumulated amortisation and impairment allowance | (665 079) | (13 619) | **(678 698)** |
| **Net carrying amount** | **611 437** | **115 021** | **726 458** |
| *As at 31 December 2007* | | | |
| Purchase price (gross carrying amount) | 1 567 880 | 131 387 | **1 699 267** |
| Accumulated amortisation and impairment allowance | (758 109) | (13 548) | **(771 657)** |
| **Net carrying amount** | **809 771** | **117 839** | **927 610** |

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

An item of intangible assets which is significant for the Bank comprises capital expenditures incurred for the Integrated Information System (IIS). Cumulative capital expenditures incurred for the IIS system during the years 2003 – 2007 amounted to PLN 704,045 thousand (respectively till 31 December 2006 amounted PLN 534,527 thousand)

*(in PLN thousand)*

| For the year ended 31 December 2006 | Patents and licenses | Other including expenses | Total |
|---|---|---|---|
| Purchase price as at 1 January 2007 including amortisation | 183 133 | 342 173 | **525 306** |
| Purchase | - | 287 977 | **287 977** |
| Impairment allowance | (29 424) | (2 257) | **(31 681)** |
| Amortisation | (49 875) | (2 497) | **(52 372)** |
| Transfers | 507 603 | (507 603) | **-** |
| Other value changes* | - | (2 772) | **(2 772)** |
| **Net carrying amount** | **611 437** | **115 021** | **726 458** |
| *As at 1 January 2006* | | | |
| Purchase price (gross carrying amount) | 775 924 | 352 393 | **1 128 317** |
| Accumulated amortisation and impairment allowance | (592 791) | (10 220) | **(603 011)** |
| **Net carrying amount** | **183 133** | **342 173** | **525 306** |
| *As at 31 December 2006* | | | |
| Purchase price (gross carrying amount) | 1 276 516 | 128 640 | **1 405 156** |
| Accumulated amortisation and impairment allowance | (665 079) | (13 619) | **(678 698)** |
| **Net carrying amount** | **611 437** | **115 021** | **726 458** |

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

In the period from 1 January 2007 to 31 December 2007, PKO BP SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 599,943 thousand (in the period from 1 January 2006 to 31 December 2006: PLN 479,133 thousand).

*(in PLN thousand)*

## 29. 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 as at the beginning of the period** | **1 950 083** | **2 371 953** | **23 959** | **241 951** | **348 716** | **4 936 662** |
| **Increases, of which:** | **2 767** | **1 453** | **79** | **305 486** | **31** | **309 816** |
| Purchases and other changes | 2 767 | 1 453 | 79 | 305 486 | 31 | 309 816 |
| **Decreases, of which:** | **(32 755)** | **(248 012)** | **(12 659)** | **(6 229)** | **(22 543)** | **(322 198)** |
| Liquidation and sale | (25 029) | (245 372) | (12 354) | - | (20 924) | (303 679) |
| Other | (7 726) | (2 640) | (305) | (6 229) | (1 619) | (18 519) |
| **Transfers from expenses to tangible fixed assets** | **41 507** | **186 363** | **1 054** | **(269 903)** | **40 979** | **-** |
| **Gross value of fixed assets at the end of the period** | **1 961 602** | **2 311 757** | **12 433** | **271 305** | **367 183** | **4 924 280** |
| **Accumulated depreciation as at 1.01.2007** | **(430 564)** | **(1 973 790)** | **(21 979)** | **-** | **(301 727)** | **(2 728 060)** |
| **Increases, of which:** | (66 551) | (131 242) | (1 437) | - | (15 583) | (214 813) |
| Depreciation for the period | (65 870) | (130 361) | (1 358) | - | (15 565) | (213 154) |
| Other | (681) | (881) | (79) | - | (18) | (1 659) |
| **Decreases, of which:** | 10 149 | 246 401 | 12 560 | - | 21 920 | 291 030 |
| Liquidation and sale | 9 212 | 244 255 | 12 254 | - | 20 736 | **286 457** |
| Other | 937 | 2 146 | 306 | - | 1 184 | **4 573** |
| **Accumulated depreciation at the end of the period** | **(486 966)** | **(1 858 631)** | **(10 856)** | **-** | **(295 390)** | **(2 651 843)** |
| **Impairment allowances** | | | | | | |
| Opening balance | (50 406) | (79) | - | (700) | (35) | **(51 220)** |
| Increases | 49 149 | 79 | - | - | 35 | **49 263** |
| Closing balance | (1 257) | - | - | (700) | - | (1 957) |
| **Net book value** | **1 473 379** | **453 126** | **1 577** | **270 605** | **71 793** | **2 270 480** |
| **Opening balance** | **1 469 113** | **398 084** | **1 980** | **241 251** | **46 954** | **2 157 382** |
| **Closing balance** | **1 473 379** | **453 126** | **1 577** | **270 605** | **71 793** | **2 270 480** |

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 3,623 thousand (as at 31 December 2006: PLN 2,041 thousand). In the years ended 31 December 2007 and 31 December 2006, respectively, there were no restrictions on the Bank'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** | **1 945 255** | **2 346 287** | **33 807** | **209 706** | **334 410** | **4 869 465** |
| **Increases, of which:** | **-** | **-** | **-** | **193 446** | **-** | **193 446** |
| Purchases and other changes | - | - | - | 193 446 | - | 193 446 |
| **Decreases, of which:** | **(11 752)** | **(93 107)** | **(9 848)** | **(5 369)** | **(6 173)** | **(126 249)** |
| Liquidation and sale | (11 752) | (89 496) | (9 848) | - | (6 106) | (117 202) |
| Other | - | (3 611) | - | (5 369) | (67) | (9 047) |
| **Transfers from expenses to tangible fixed assets** | **16 580** | **118 773** | **-** | **(155 832)** | **20 479** | **-** |
| **Gross value of fixed assets at the end of the period** | **1 950 083** | **2 371 953** | **23 959** | **241 951** | **348 716** | **4 936 662** |
| **Accumulated depreciation as at the beginning of the period** | **(368 563)** | **(1 926 967)** | **(29 131)** | **-** | **(293 420)** | **(2 618 081)** |
| **Increases, of which:** | **(65 294)** | **(139 938)** | **(2 484)** | **-** | **(14 358)** | **(222 074)** |
| Depreciation for the period | (63 996) | (139 628) | (2 484) | - | (11 892) | (218 000) |
| Other | (1 298) | (310) | - | - | (2 466) | (4 074) |
| **Decreases, of which:** | **3 293** | **93 115** | **9 636** | **-** | **6 051** | **112 095** |
| Liquidation and sale | 3 293 | 89 315 | 9 636 | - | 6 051 | 108 295 |
| Other | - | 3 800 | - | - | - | 3 800 |
| **Accumulated depreciation at the end of the period** | **(430 564)** | **(1 973 790)** | **(21 979)** | **-** | **(301 727)** | **(2 728 060)** |
| **Impairment allowances** | | | | | | |
| Opening balance | (50 221) | - | - | - | - | (50 221) |
| Increases | (185) | (79) | - | (700) | (35) | (999) |
| Closing balance | (50 406) | (79) | - | (700) | (35) | (51 220) |
| **Net book value** | **1 469 113** | **398 084** | **1 980** | **241 251** | **46 954** | **2 157 382** |
| **Opening balance** | **1 526 471** | **419 320** | **4 676** | **209 706** | **40 990** | **2 201 163** |
| **Closing balance** | **1 469 113** | **398 084** | **1 980** | **241 251** | **46 954** | **2 157 382** |

In 2007 and 2006, PKO BP SA 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 25,640 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 Bank are presented below.

| | 2007 | 2006 |
|---|---|---|
| Direct average operating costs concerning the investment properties (including maintenance and repair costs) that in the given period did not bring rental income | 1 439 | 1 339 |

## 30. Other assets

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Settlements of transactions carried out using cards | 148 343 | 138 384 |
| Amounts due from customers | 156 938 | 98 776 |
| Fees and commission receivables | 21 377 | 66 174 |
| 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 |
| Inventory (related to utilization, auxiliary operations and investment) | 9 910 | 12 778 |
| Receivables from security trading | 6 614 | 40 811 |
| Other* | 62 252 | 59 330 |
| **Razem** | **429 699** | **432 347** |

* 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.

## 31. Assets pledged as collateral/security for liabilities

PKO BP SA had the following assets pledged as collateral/security for its own liabilities:

### Liabilities arising from sell-buy-back (SBB) transactions

As at 31 December 2007 the collaterals securing liabilities from sell-buy-back transactions (SBB) were as follows:

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Treasury bonds: | | |
| nominal value | 158 911 | 741 886 |
| carrying value | 160 943 | 746 656 |
| 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).

*(in PLN thousand)*

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Fund's value | 202 824 | 144 575 |
| Nominal value of collateral | 201 000 | 146 000 |
| Type of collateral | Treasury bonds | Treasury bonds |
| Maturity of collateral | 24.06.2008 | 24.03.2007 |
| Carrying value of collateral | 208 173 | 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.

## 32. 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%.

## 33. Amounts due to other banks

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Current accounts | 95 000 | 176 494 |
| Other banks' deposits | 3 485 953 | 3 680 162 |
| Other deposits from money market | 43 502 | 19 212 |
| **Total amounts due to other bank** | **3 624 455** | **3 875 868** |

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

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

## 35. Amounts due to customers

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **Amounts due to corporate entities** | **15 269 967** | **12 460 418** |
| Current accounts and overnight deposits | 6 642 774 | 5 966 667 |
| Term deposits | 8 535 866 | 6 453 102 |
| Other | 91 327 | 40 649 |
| **Amounts due to state budget entities** | **4 688 024** | **3 160 927** |
| Current accounts and overnight deposits | 3 549 004 | 2 235 107 |
| Term deposits | 1 031 971 | 798 259 |
| Other | 107 049 | 127 561 |
| **Amounts due to individuals** | **65 288 555** | **66 655 727** |
| Current accounts and overnight deposits | 28 868 302 | 24 574 830 |
| Term deposits | 36 297 530 | 42 062 758 |
| Other | 122 723 | 18 139 |
| **Total amounts due to customers** | **85 246 546** | **82 277 072** |

## 36. 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 b.p. 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 |

*movements 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 |
| **Subordinated liabilities as at the end of the period** | **1 614 885** |

In 2006 the Bank did not draw any subordinated liabilities.

*(in PLN thousand)*

## 37. Other liabilities

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Payments due | 198 251 | 188 140 |
| Prepayments | 197 154 | 174 704 |
| Other liabilities (relating to) | 1 025 916 | 1 562 729 |
| liabilities due to suppliers | 28 209 | 36 852 |
| inter-bank and inter-sector settlements | 124 650 | 571 812 |
| liabilities relating to settlements of security transactions | 322 897 | 230 586 |
| liabilities arising from transactions with non-financial entities | 66 083 | 93 591 |
| liabilities arising from social and legal transactions | 131 650 | 152 052 |
| liabilities arising from foreign currency activities | 64 176 | 76 464 |
| liabilities relating to payment cards | 41 120 | 3 541 |
| liabilities relating to investment activities and own operations | 33 525 | 56 765 |
| liabilities arising from repayments of advances to borrowers related with debt forgiveness due to State Treasury | 33 341 | 30 895 |
| liabilities due to UOKiK | 16 597 | 16 597 |
| settlement of financial instruments | 17 447 | 517 |
| settlement of acquisition of machines, tools, materials, works and services regarding building of tangible assets | 58 328 | 114 656 |
| liabilities arising from other settlements | 25 639 | 85 909 |
| liabilities relating to payments of benefits | 9 225 | 9 989 |
| other* | 53 029 | 82 503 |
| **Total** | **1 421 321** | **1 925 573** |

*Item "other" includes as at 31 December 2007, among others: liabilities arising from bank transfers and other payment orders, amounts due from the operating branch of PKO BP SA to PKO BP SA training and leisure centres in respect of funds deposited by these centres, balances arising from settlement of funds allocated by customers for the purchase of investment fund units, liabilities from sale of marks of value, balances arising from substitution services provided by Poczta Polska and payables to insurance companies.

As at 31 December 2007 and 31 December 2006, PKO BP SA did not have any overdue contractual liabilities.

## 38. 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** | **4 886** | **317 426** | **18 382** | **83 875** | **424 569** |
| Increase/revaluation | 1 955 | 3 331 | 48 746 | 69 761 | **123 793** |
| Release | - | - | (39 504) | (55 813) | **(95 317)** |
| **As at 31 December 2007** | **6 841** | **320 757** | **27 624** | **97 823** | **453 045** |

* 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.

| 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 |
|---|---|---|---|---|---|
| **Stan na 1 stycznia 2006 roku** | **5 614** | **210 764** | **16 627** | **92 027** | **325 032** |
| Increase/revaluation | - | 110 526 | 4 539 | 41 981 | **157 046** |
| Release | (728) | (3 864) | (2 784) | (50 133) | **(57 509)** |
| **As at 31 December 2006** | **4 886** | **317 426** | **18 382** | **83 875** | **424 569** |

* 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.

*(in PLN thousand)*

## 39. 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 Bank.

## 40. Social Fund ("ZFŚS")

In its balance sheet, the Bank 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 Bank. Accordingly, the balance of the Social Fund in the balance sheet of the Bank 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 | 96 284 |
| Amount on the Social Fund account | 36 481 | 17 845 |

| | 2007 | 2006 |
|---|---|---|
| Contributions to the Social Fund in the period | 29 396 | 29 306 |
| Non-refundable expenditure by the Social Fund in the period | 14 276 | 15 286 |

*(in PLN thousand)*

## 41. Contingent liabilities

As at 31 December 2007, 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 | **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 C** | corporate bonds | **149 833** | 2012-01-02 | Bonds Issue Agreement* |
| **Company D** | corporate bonds | **94 534** | 2011-11-30 | Bonds Issue Agreement* |
| **Company 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** | | **1 550 044** | | |

* 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 D** | corporate bonds | **174 365** | 2011-11-30 | Bonds Issue Agreement* |
| **Company B** | commercial bills | **69 920** | 2009-12-30 | Commercial Bill Issue Agreement |
| **Company F** | corporate bonds | **50 000** | 2008-02-27 | Bonds Issue Agreement* |
| **Entity C** | municipal bonds | **40 500** | 2017-12-31 | Bonds Issue Agreement* |
| **Company E**** | 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** | municipal and corporate 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.

*(in PLN thousand)*

## 42. 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).

The most significant disputes of PKO BP SA 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 PKO BP SA

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 unfavourable 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 of the properties, 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 financial statements for the year ended 31 December 2007 do not contain any provisions in respect of the potential liabilities in range of re-privatisation claims.

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:** | **24 298 778** | **22 583 330** |
| to financial sector | 642 077 | 1 807 501 |
| to non-financial sector | 23 426 294 | 19 078 888 |
| to the public sector | 230 407 | 1 696 941 |
| of which: irrevocable liabilities granted | 8 856 029 | 10 296 573 |

*(in PLN thousand)*

## Guarantee liabilities granted

| Guarantees | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Financial sector | 375 775 | 213 317 |
| Non-financial sector | 3 578 487 | 2 161 851 |
| Budget | 262 494 | 137 466 |
| **Total guarantees granted** | **4 216 756** | **2 512 634** |

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 38.

### 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 | 5 993 577 | 818 672 | 7 941 418 | 7 429 592 | 2 115 519 | **24 298 778** |
| Guarantee liabilities granted | 722 130 | 91 207 | 957 373 | 2 050 374 | 395 672 | **4 216 756** |
| **Total** | **6 715 707** | **909 879** | **8 898 791** | **9 479 966** | **2 511 191** | **28 515 534** |

### 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 | 4 886 135 | 1 115 041 | 7 806 604 | 6 659 340 | 2 116 210 | 22 583 330 |
| Guarantee liabilities granted | 614 486 | 93 537 | 501 669 | 1 221 633 | 81 309 | 2 512 634 |
| **Total** | **5 500 621** | **1 208 578** | **8 308 273** | **7 880 973** | **2 197 519** | **25 095 964** |

### Off-balance sheet liabilities received

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **Liabilities received** | **3 985 062** | **5 066 028** |
| 1. financial | 540 849 | 808 541 |
| 2. guarantee | 3 444 213 | 4 257 487 |

### Assets pledged as collateral for contingent liabilities

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

### Right to sell or pledge collateral established for the Bank

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 fulfilment of all obligations by the owner of this collateral.

*(in PLN thousand)*

## 43. 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.

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.

## 44. Other capital and retained earnings

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Reserve capital | 5 591 995 | 4 529 604 |
| other | 5 591 995 | 4 529 604 |
| Revaluation reserve of financial assets available for sale | (42 445) | 3 729 |
| General banking risk reserve | 1 070 000 | 1 070 000 |
| Other reserves | 1 390 000 | 1 385 000 |
| **Total** | **8 009 550** | **6 988 333** |

## 45. Supplement information to the cash flow statement

### Cash and cash equivalents

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Cash and amounts in the Central Bank | 4 594 084 | 4 543 677 |
| Current receivables from financial institutions | 4 438 425 | 9 335 966 |
| **Total** | **9 032 509** | **13 879 643** |

### Cash flow from operating activities - other adjustments

| | 2007 | 2006 |
|---|---|---|
| Valuation, interest accrued, discount, premium on debt securities decreased by deferred tax | (9 181) | (63 107) |
| Disposal of tangible and intangible assets | (36 466) | 55 274 |
| Valuation, impairment allowances against investments in jointly controlled entities and associates | 10 665 | 95 214 |
| Other | - | (250) |
| **Total other adjustments** | **(34 982)** | **87 131** |

*(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) | (15 115) |
| Sale and disposal costs of tangible and intangible fixed assets | 11 680 | 12 608 |
| Result from IFRS 5 clasified asset sale | - | (21 296) |
| **(Profit) loss from investing activities - total** | **(72 004)** | **(23 803)** |

| Interests and dividends | 2007 | 2006 |
|---|---|---|
| Interest from available for sale portfolio securities, presented in the investing activities | (202 603) | (258 095) |
| Dividends received, presented in the investing activities | (55 092) | (18 308) |
| **Total interests and dividends** | **(257 695)** | **(276 403)** |

| Change in amounts due from banks | 2007 | 2006 |
|---|---|---|
| Change in balance sheet's balances | 8 002 841 | (718 277) |
| Change in impairment writ-offs for amounts due from banks | 53 | 1 426 |
| Exclusion of the cash and cash equivalent | (4 897 541) | 1 964 025 |
| **Zmiana stanu razem** | **3 105 353** | **1 247 174** |

| Change in loans and advances to customers | 2007 | 2006 |
|---|---|---|
| Balance sheet balances change | (16 482 403) | (11 287 943) |
| Change in provisions for amounts due from customers | 26 663 | 533 796 |
| **Total change** | **(16 455 740)** | **(10 754 147)** |

| Change in amounts due to banks | 2007 | 2006 |
|---|---|---|
| Balance sheet balances change | (251 521) | 1 932 833 |
| Transfer of the repayments/received long term advances due from banks to financing activities | (2 053 330) | 621 |
| **Total change** | **(2 304 851)** | **1 933 454** |

| Change in amounts due to customers | 2007 | 2006 |
|---|---|---|
| Balance sheet balance change | 2 969 474 | 6 390 192 |
| Adjustments/reclassifications related to implementation of IFRS involving valuations in accordance with amortised cost and effective interest rate | (282 064) | (54 000) |
| **Total change** | **2 687 410** | **6 336 192** |

| Change in provisions | 2007 | 2006 |
|---|---|---|
| Balance sheet balances change | 20 098 | 37 867 |
| Change in impairment write-downs for amounts due from banks | (53) | (1 426) |
| Change in impairment write-downs for loans and advances to customers | (26 663) | (533 796) |
| Change of the deferred tax liability on the available for sale portfolio | 10 831 | (1 922) |
| **Total change** | **4 213** | **(499 277)** |

*(in PLN thousand)*

| **Change in other liabilities** | **2007** | **2006** |
|---|---|---|
| Balance sheet balances change | 1 110 633 | 259 393 |
| Reclassification of interests repayment from loans received from others than banks, financial institutions, presented in financial activity | 23 195 | 2 676 |
| Transfer of revenues from own issue | (1 597 374) | - |
| **Total change** | **(463 546)** | **262 069** |

*(in PLN thousand)*

## 46. Transactions with related parties

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

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

### 31 December 2007

| Entity | Type of relation | 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 |
|---|---|---|---|---|---|---|---|---|---|
| Powszechne Towarzystwo Emerytalne BANKOWY SA | Subsidiary | - | - | 688 | 443 | 405 | 107 | 107 | - |
| Centrym Finansowe Puławska Sp. z o.o. | Subsidiary | 96 044 | 93 909 | 31 872 | 5 030 | 5 027 | 38 027 | 718 | - |
| KREDOBANK SA | Subsidiary | 257 428 | 204 846 | 1 140 | 16 325 | 16 325 | 391 | 391 | 4 802 |
| PKO Inwestycje Sp. z o.o. | Subsidiary | 118 810 | - | 29 967 | 34 | 34 | 1 290 | 818 | 3 285 |
| Inteligo Financial Services SA | Subsidiary | - | - | 81 385 | 1 560 | 15 | 61 666 | 3 154 | - |
| Centrum Elektornicznych Usług Płatniczych "eService" | Subsidiary | 518 | - | 16 845 | 2 978 | 38 | 30 440 | 279 | 1 200 |
| Bankowy Fundusz Leasingowy SA | Subsidiary | 535 394 | 302 472 | 12 207 | 29 108 | 26 861 | 6 039 | 113 | 442 515 |
| Bankowe Towarzystwo Kapitałowe SA | Subsidiary | - | - | 5 986 | 4 | 4 | 29 | 29 | - |
| PKO Towarzystwo Funduszy Inwestycyjnych SA | Subsidiary | 14 491 | - | 35 136 | 126 120 | 125 223 | 774 | 788 | - |
| Fort Mokotów Sp. z o.o. | Indirect subsidiary | - | - | 5 086 | 8 | 8 | 428 | 422 | - |
| POMERANKA Sp. z o.o. | Indirect subsidiary | 39 487 | 39 310 | 7 129 | 1 582 | 1 542 | 923 | 923 | 27 879 |
| Wilanów Investments Sp. z o.o. | Indirect subsidiary | 10 150 | 10 150 | 5 136 | 343 | 343 | 471 | 471 | 16 183 |
| ARKADIA Inwestycje Sp. z o.o. | Indirect subsidiary | 16 300 | 16 300 | 707 | 163 | 163 | - | - | - |
| Bankowy Leasing Sp. z o.o. | Indirect subsidiary | 35 480 | 35 480 | 1 160 | 30 | 30 | 21 | 21 | 64 520 |
| BFL Nieruchomości Sp. z o.o. | Indirect subsidiary | 35 990 | 35 990 | 1 039 | 1 | 1 | 17 | 17 | 2 000 |
| Finanse - Agent Transferowy Sp. z o.o. | Indirect subsidiary | - | - | 264 | 5 | 5 | 40 | 40 | - |
| CENTRUM HAFNERA Sp. z o.o. | Jointly controlled company | - | - | 4 842 | 18 | 18 | 325 | 325 | 3 582 |
| Centrum Obsługi Biznesu Sp z o.o. | Jointly controlled company | 30 057 | 29 891 | 544 | 1 292 | 1 292 | 76 | 38 | 1 001 |
| Centrum Majkowskiego Sp. z o.o. | Indirect jointly controlled entities | - | - | 15 834 | 475 | 475 | 6 | 6 | - |
| Kamienica Morska Sp. z o.o. | Indirect jointly controlled entities | - | - | 782 | 45 | 45 | 9 | 9 | 3 224 |
| Sopot Zdrój Sp. z o.o. | Indirect jointly controlled entities | 49 400 | 48 696 | 1 033 | 678 | 678 | 10 | 10 | 131 833 |
| Promenada Sopocka Sp. z o.o. | Indirect jointly controlled entities | 15 204 | 15 013 | 1 066 | 285 | 285 | 15 | 15 | 27 617 |
| Bank Pocztowy SA | Associated entity | 2 | - | 3 539 | 41 | 30 | 710 | 326 | 1 834 |
| Kolej Gondolowa Jaworzyna Krynicka SA | Associated entity | 996 | - | 4 | 91 | 91 | 35 | - | 508 |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | Associated entity | - | - | 10 155 | 1 | 1 | 223 | 223 | - |
| Agencja Inwestycyjna „CORP" SA | Associated entity | 468 | - | 10 | 1 255 | - | 2 340 | - | - |
| **TOTAL** | | **1 256 219** | **832 057** | **273 556** | **187 915** | **178 939** | **144 412** | **9 243** | **731 983** |

*(in PLN thousand)*

## 31 December 2006

| Entity | Type of relation | 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 |
|---|---|---|---|---|---|---|---|---|---|
| Centrum Finansowe Puławska Sp. z o.o. | Subsidiary | 104 374 | 103 608 | 19 948 | 14 948 | 5 066 | 39 400 | 338 | - |
| Bankowe Towarzystwo Kapitałowe SA | Subsidiary | - | - | 1 495 | 4 | 4 | 275 | 275 | - |
| Powszechne Towarzystwo Emerytalne BANKOWY SA | Subsidiary | - | - | 2 125 | 774 | 760 | 688 | 688 | - |
| Centrum Elektronicznych Usług Płatniczych "eService" | Subsidiary | 228 | - | 8 589 | 2 011 | 1 077 | 23 402 | 312 | - |
| Bankowy Fundusz Leasingowy SA | Subsidiary | 613 617 | 502 137 | 15 169 | 25 861 | 24 762 | 1 638 | 13 | 274 048 |
| Inteligo Financial Services SA | Subsidiary | 314 | - | 61 875 | 1 444 | 14 | 63 925 | 1 953 | - |
| KREDOBANK SA | Subsidiary | 196 890 | 132 405 | 587 | 8 087 | 147 | - | - | 65 075 |
| PKO Inwestycje Sp. z o.o. | Subsidiary | 8 905 | - | 4 347 | 38 | 36 | 837 | 324 | 3 285 |
| PKO Towarzystwo Funduszy Inwestycyjnych SA | Subsidiary | - | - | 7 606 | 93 990 | 93 984 | 155 | 155 | 195 |
| POMERANKA Sp. z o.o. | Indirect subsidiary | 16 133 | 16 053 | 19 609 | 1 363 | 1 363 | 288 | 288 | 17 297 |
| Wilanów Investments Sp. z o.o. | Indirect subsidiary | 3 333 | 3 333 | 21 815 | 2 466 | 2 466 | 990 | 990 | 23 000 |
| Fort Mokotów Sp. z o.o. | Indirect subsidiary | - | - | 32 984 | 256 | 256 | 703 | 703 | - |
| Finanse - Agent Transferowy Sp. z o.o. | Indirect subsidiary | - | - | 1 146 | 4 | 4 | 58 | 58 | - |
| CENTRUM HAFFNERA Sp. z o.o. | Jointly controlled company | - | - | 8 759 | 42 | 42 | 220 | 220 | 3 831 |
| Centrum Obsługi Biznesu Sp. z o.o. | Jointly controlled company | 25 214 | 25 211 | 2 368 | 54 | 54 | 49 | 49 | 7 169 |
| Centrum Majkowskiego Sp. z o.o. | Indirect jointly controlled entities | 8 692 | 8 605 | 108 | 401 | 401 | 7 | 7 | 30 856 |
| Kamienica Morska Sp. z o.o. | Indirect jointly controlled entities | 537 | 534 | 22 | 16 | 16 | - | - | 2 926 |
| Sopot Zdrój Sp. z o.o. | Indirect jointly controlled entities | 2 059 | 2 055 | 234 | 1 941 | 1 941 | 39 | 39 | 191 038 |
| Promenada Sopocka Sp. z o.o. | Indirect jointly controlled | 6 224 | 6 156 | 885 | 461 | 461 | 12 | 12 | 39 436 |
| Agencja Inwestycyjna „CORP" SA | Associated entity | 223 | - | - | 1 454 | - | 4 016 | 52 | - |
| Bank Pocztowy SA | Associated entity | 3 | - | 8 602 | 14 | - | 63 | 63 | - |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | Associated entity | - | - | 2 365 | 1 | 1 | 197 | 197 | - |
| Kolej Gondolowa Jaworzyna Krynicka SA | Associated entity | 2 918 | 2 000 | 1 | 143 | 143 | 14 | - | 586 |
| INTER FINANCE Polska Sp. z o.o. | Associated entity | - | - | 468 | 1 | 1 | 13 | 13 | - |
| **TOTAL** | | **989 664** | **802 097** | **221 107** | **155 774** | **132 999** | **136 989** | **6 749** | **658 742** |

## 47. Transactions with the State budget and affiliated companies

The balance sheet of the Bank includes amounts due from, securities and liabilities resulting from transactions with the State Treasury, budget entities and the State Treasury's subsidiary companies. The biggest exposures have been presented in Note 3. Those transactions were concluded at the arm's length.

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 Bank under "Loans and advances to customers".

PKO BP SA receives commission for settlements relating to the redemption of interest on housing loans. 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 (Journal of Laws No. 122, item 1310) 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 financial and guarantee liabilities granted | Net receivables | Liabilities | Off – balance sheet financial and guarantee 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 signifiacant exposures** | 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** |

*(in PLN thousand)*

## 48. Benefits for the key management personnel of the Bank

a) Short-term employee benefits

### Remuneration received from PKO BP SA

| Name | Position | 2007 | 2006 |
|---|---|---|---|
| | **Management Board** | | |
| Juszczak Rafał | President of the Bank's Management Board | 237 | 128 |
| Skrzypek Sławomir | Acting President of the Bank's Management Board, Vice-President of the Management Board | 112 | 224 |
| Podsiadło Andrzej | President of the Management Board | - | 222 |
| Małecki Kazimierz | Vice-President, First Deputy President of the Management Board | - | 270 |
| Działak Robert | Vice-President of the President of the Management Board | 206 | - |
| Skowroński Adam | Vice-President of the President of the Management Board | 124 | - |
| Kwiatkowski Wojciech | Vice-President of the President of the Management Board | 200 | 32 |
| Michalak Aldona | Vice-President of the President of the Management Board | 102 | - |
| Berenika Duda-Uhryn | Vice-President of the President of the Management Board | 97 | - |
| Klimczak Mariusz | Vice-President of the President of the Management Board | 128 | - |
| Świątkowski Stefan | Vice-President of the President of the Management Board | 169 | - |
| Myjak Jarosław | Vice-President of the President of the Management Board | - | 32 |
| Sokal Zdzisław | Vice-President of the President of the Management Board | 120 | 128 |
| Demianiuk Danuta | Vice-President of the President of the Management Board | - | 237 |
| Kamiński Piotr | Member of the Management Board | - | 164 |
| Obłękowski Jacek | Vice-President of the Management Board, Member of the Management Board | 160 | 268 |
| Szewczyk Krystyna | Member of the Management Board | - | 143 |
| **Total short-term benefits to the Members of the Management Board** | | **1 655** | **1 848** |
| | **Supervisory Board** | | |
| Głuchowski Marek | Chairman of the Supervisory Board | 76 | 20 |
| Samojlik Bazyl | Chairman of the Supervisory Board | - | 30 |
| Pałaszek Urszula | Vice-Chairman of the Supervisory Board | 34 | 32 |
| Siemiątkowski Tomasz | Secretary of the Supervisory Board | 34 | 20 |
| Zdanowski Krzysztof | Secretary of the Supervisory Board | - | 16 |
| Skowroński Adam | Member of the Supervisory Board | 31 | 20 |
| Czapiewski Maciej | Member of the Supervisory Board | 24 | - |
| Michałowski Jerzy | Member of the Supervisory Board | 34 | 20 |
| Winnik-Kalemba Agnieszka | Member of the Supervisory Board | 34 | 20 |
| Kokoszczyński Ryszard | Member of the Supervisory Board | - | 30 |
| Kasiewicz Stanisław | Member of the Supervisory Board | - | 30 |
| Giryn Andrzej | Member of the Supervisory Board | - | 30 |
| Osiatyński Jerzy | Member of the Supervisory Board | 5 | 32 |
| Siwek Czesława | Member of the Supervisory Board | - | 16 |
| Szymański Władysław | Member of the Supervisory Board | - | 30 |
| **Total short-term benefits to the Members of the Supervisory Board** | | **272** | **346** |
| **Total short-term benefits** | | **1 927** | **2 194** |

*(in PLN thousand)*

**Remuneration received from the subordinated entities of PKO BP SA**

| Nam e | Position | 2007 | 2006 |
|---|---|---|---|
| **M anagem ent Board** | | | |
| Juszczak Rafał | President of the Management Board | 395 | 43 |
| Podsiadło Andrzej | President of the Management Board | - | 121 |
| Działak Robert | Vice-President of the President of the Management Board | 168 | - |
| Adam Skow roński | Vice-President of the President of the Management Board | 23 | - |
| Klimczak Mariusz | Vice-President of the President of the Management Board | 68 | - |
| Małecki Kazimierz | Vice-President, First Deputy President of the Management Board | - | 32 |
| Demianiuk Danuta | Vice-President of the President of the Management Board | - | 56 |
| Skrzypek Sław omir | Acting President of the Benk's Management Board, Vice-President of the Management Boarg | 5 | 149 |
| Św iątkow ski Stefan | Vice-President of the President of the Management Board | 91 | - |
| Kw iatkow ski Wojciech | Vice-President of the President of the Management Board | 83 | - |
| **Supervisory Board** | | | |
| Agnieszka Winnik-Kalemba | Member of the Supervisory Board | 222 | 62 |
| Marek Głuchow ski | Chairman of the Supervisory Board | 65 | - |
| **Total short-term benefits to the Mem bers of the Supervisory Board** | | **287** | **62** |
| **Total short-term benefits** | | **1 120** | **463** |

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.

*(in PLN thousand)*

**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.

## 49. 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 | 5 357 933 | 5 381 545 | 23 612 | 1) |
| Interest expense | (1 658 806) | (1 658 984) | (178) | 1) |
| Fee and commission income | 2 103 395 | 2 151 063 | 47 668 | 1) |
| Fee and commission expense | (385 711) | (401 200) | (15 489) | 1) |
| Other operating income | 214 330 | 158 080 | (56 250) | 1), 2) |
| Other operating cost | (79 927) | (79 290) | 637 | 1), 2) |

1) Change in the presentation of selected items of income and expense of Dom Maklerski
2) Change in the presentation of impairment allowances for other assets

| **Title** (in relation to changed positions) | **31.12.2006** disclosed previously | **31.12.2006** comparative data | **Difference** | |
|---|---|---|---|---|
| Financial assets held for trading | 391 177 | 997 432 | 606 255 | 3) |
| Derivative financial instruments | 1 199 751 | 1 199 349 | (402) | 3) |
| Other financial instruments at fair value through profit or loss | 11 214 660 | 11 373 301 | 158 641 | 3) |
| Loans and advances to customers | 57 220 980 | 57 339 790 | 118 810 | 4) |
| Investments in subsidiaries | 1 005 611 | 892 301 | (113 310) | 4) |
| Other assets | 437 847 | 432 347 | (5 500) | 4) |
| Amounts due to other banks | 3 717 350 | 3 875 868 | 158 518 | 3) |
| Derivative financial instruments | 1 098 853 | 1 097 796 | (1 057) | 3) |
| Amounts due to customers | 81 670 039 | 82 277 072 | 607 033 | 3) |

3) Transfer of SBB from off-balance sheet liabilities
4) Change in presentation of repayable capital contribution to subsidiaries

## 50. Events after the balance sheet date

On 8 February 2008 the Bank concluded a credit agreement with one of 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:

- Marzena Piszczek,
- Jerzy Osiatyński.,
- Jan Bossak,
- Eligiusz Jerzy Krześniak,
- Roman Sobiecki,
- Ryszard Wierzba.

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 Krześniak 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 PKO BP SA IN 2007

WARSAW, APRIL 2008

**TABLE OF CONTENTS:**

# 1. INTRODUCTION

| | | | |
|---|---|---|---|
| NET PROFIT | PLN 2 720.0 MLN | + 32.9% (y/y) | as a result of increase in income items by 17.2% (y/y), with a 3.8% (y/y) increase in costs |
| RESULT ON BUSINESS ACTIVITY | PLN 7 099.2 MLN | + 17.2% (y/y) | following increase in interest result by 21.0% (y/y) and in fees and commission result by 16.4% (y/y) |
| NET INTEREST INCOME | PLN 4 503.1 MLN | + 21.0% (y/y) | as a result of a 28.7% (y/y) increase in net loan portfolio volume and higher deposit margins |
| NET FEES AND COMMISSION INCOME | PLN 2 037.1 MLN | + 16.4% (y/y) | due to a systematic increase in revenue from servicing investment funds by 149.6% (y/y) and a 4.8% (y/y) increase in the number of banking cards and transactions made using those cards |
| COSTS | PLN -3 727.2 MLN | - 3.8% (y/y) | as a result of more promotional and advertising activities, implementation of the next modules of the IIS and keeping personnel costs on a stable level (+) 0.2% (y/y) |
| ROE net | 25.0% | + 3.2 p.p. | following a 32.9% (y/y) increase in net profit and an increase in equity by a total of 16.9% (y/y) |
| ROA net | 2.7% | + 0.5 p.p. | with a 5.6% (y/y) increase in assets |

## 2. FINANCIAL PERFORMANCE OF PKO BP SA[1]

### 2.1 Income statement

In the year 2007 PKO BP SA ('the Bank') reported the net profit of PLN 2,720.0 million (32.9% y/y).

*Table 1. Selected financial data of the Bank (PLN million)*

| SELECTED FINANCIAL DATA OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA | | | | |
|---|---|---|---|---|
| | **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 *:** | **7 099.2** | **6 057.1** | **1 042.2** | **17.2%** |
| Net interest income | 4 503.1 | 3 722.6 | 780.5 | 21.0% |
| Net fees and commission income | 2 037.1 | 1 749.9 | 287.2 | 16.4% |
| Net other income | 559.0 | 584.7 | - 25.6 | -4.4% |
| **General administrative expenses** | **- 3 727.2** | **- 3 589.0** | **- 138.1** | **-3.8%** |
| **Operating result** | **3 327.1** | **2 502.1** | **825.1** | **33.0%** |
| Result on impairment allowances | - 44.9 | 34.0 | - 79.0 | x |
| Gross profit (loss) | 3 327.1 | 2 502.1 | 825.1 | 33.0% |
| **Net profit (loss)** | **2 720.0** | **2 047.4** | **672.6** | **32.9%** |

** taken as a total of income items*

The sum of total income items in the Bank's income statement for the year 2007 amounted to PLN 7,099.2 million and was higher by PLN 1,042.2 million (i.e. 17.2%) than in 2006.

Table 2. *Main items of income statement of the Bank (PLN million)*

| Profit and loss account line | 2007 | Change 2007/2006 | Comment |
|---|---|---|---|
| Net interest income | 4 503.1 | 21.0% | (+) 21.0% (y/y) as a result of an increase in net credit portfolio volume by 28.7% and an increase in interest margin on deposits. |
| Net fees and commission income | 2 037.1 | 16.4% | (+) 16.4% (y/y) mainly as a result of:<br>1) increase in commission income for the service of PKO TFI investment funds (2.5x y/y),<br>2) increase in the number of banking cards (+ 4.8% y/y) and the number of transactions made using these cards,<br>3) increase in sale of credit repayment insurance. |
| Net other income | 559.0 | -4.4% | (-) 4.4% (y/y) as a result of:<br>1) lower result from security transactions compared to the high results on sales of securities in 2006<br>2) lower result from other net operating revenues and expenses due to a lack of one-off transactions, which impact the result in 2006. |
| General administrative expenses | -3 727.2 | -3.8% | Increase by 3.8% (y/y) and C/I on the level of 52.5% (-6.8 pp. y/y) along with:<br>1) decrease in employment - a number of job positions as at 31.12.2007: 30,659, a number of job positions as at 2006: 31,955,<br>2) increase in training expenses related to IIS,<br>3) increase in promotion and advertising expenses. |
| Result on impairment allowances | -44.9 | x | Annual change as a result of an increase in impairment allowances for consumer loans and credit cards. |

### *Net interest income*

[1] *Presented in this chapter potential differences is sums, percentage shares and dynamice result from amounts rounding to PLN million and and structure percentage shares rounding to one decimal.*

*Table 3. Interest income and interest expense of the Bank (PLN million)*

**NET INTEREST RESULT**
**OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA**

| Items | Period from 01.01.2007 to 31.12.2007 | Structure (2007) | Period from 01.01.2006 to 31.12.2006 | Change (%) | Comment |
|---|---|---|---|---|---|
| **Interest income, of which** | **6 271.0** | **100.0%** | **5 381.5** | **16.5%** | High growth of interest income (16.5% y/y) as a result of:<br>1) 30.7% y/y change in interest income from loans and advances granted to customers - mainly due to rising market interest rates and a high growth of the loan portfolio (28.7% y/y),<br>2) decline in interest income from securities at fair value through profit and loss (-27.3% y/y) - among others due to a decrease in the portfolio of securities at fair value through profit and loss by 28.8% y/y,<br>3) decline in interest income from placements with other banks (-8.9% y/y) due to a decrease in the balance of placements with other banks by 61.9% y/y,<br>4) increase in average interest on Bank's loans up to 7.4% - an increase in about 0.5 pp. compared to the year of 2006*. |
| From loans and advances granted to customers | 4 859.5 | 77.5% | 3 717.7 | 30.7% | |
| From securities at fair value through profit and loss | 549.2 | 8.8% | 755.6 | -27.3% | |
| From placements with other banks | 516.2 | 8.2% | 566.4 | -8.9% | |
| From investment securities | 249.7 | 4.0% | 258.1 | -3.2% | |
| From trading securities | 24.5 | 0.4% | 23.0 | 6.7% | |
| Other | 71.9 | 1.1% | 60.7 | 18.4% | |
| **Interest expenses, of which** | **- 1 767.9** | **100.0%** | **- 1 659.0** | **-6.6%** | A 6.6% growth in total interest expense due to the increase in interest expense on the amounts due to customers (3.6% y/y) and the increase in average interest on deposits up to 2.0% - an increase by about 0.1 p.p. compared to the year of 2006**. |
| From amounts due to customers | - 1 575.2 | 89.1% | - 1 479.0 | -6.5% | |
| From placements of other banks | - 130.2 | 7.4% | - 90.2 | -44.3% | |
| From own issue of debt securities | - 17.5 | 1.0% | - | x | |
| Other | - 45.0 | 2.5% | - 89.8 | 49.9% | |
| **Net interest income** | **4 503.1** | **x** | **3 722.6** | **21.0%** | Net interest income in 2007 was PLN 781 million higher than in the previous year, given a PLN 889 million increase in the interest income and a PLN 109 million increase in the 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 Bank (PLN million)*

**FEES AND COMMISSION INCOME**
**OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA**

| Items | Period from 01.01.2007 to 31.12.2007 | Structure (2007) | Period from 01.01.2006 to 31.12.2006 | Change (%) | Comment |
|---|---|---|---|---|---|
| **Fees and commission income, of which:** | **2 648.1** | **100.0%** | **2 151.1** | **23.1%** | Growth of fees and commission income by 23.1% y/y as a result of among others:<br>1) growth of commission income the servicing of the PKO TFI investment funds (+2.5x y/y),<br>2) increase in the number of banking cards (+ 4.8% y/y) and the number of transactions made using these cards,<br>3) increase in the sale of loan repayment insurance (high growth of credit portfolio). |
| From accounts servicing | 755.8 | 28.5% | 721.4 | 4.8% | |
| From payment cards | 704.5 | 26.6% | 545.9 | 29.0% | |
| From loans and advances granted | 252.7 | 9.5% | 220.9 | 14.4% | |
| From loans insurance | 202.3 | 7.6% | 46.3 | 4.4x | |
| From cash transactions | 203.8 | 7.7% | 208.5 | -2.2% | |
| From investment funds servicing | 282.0 | 10.6% | 113.0 | 2,5x | |
| From operations with securities | 87.7 | 3.3% | 70.8 | 23.8% | |
| Other* | 159.3 | 6.0% | 224.3 | -29.0% | |
| **Fees and commission expenses, of which:** | **- 611.0** | **100.0%** | **- 401.2** | **-52.3%** | The growth of fees and commission expense was determined by bancassurance expenses, which increased due to dynamic growth of the housing loan portfolio (41.8% y/y). |
| Relating to payment cards | - 283.9 | 46.5% | - 224.7 | -26.3% | |
| Relating to acquisition services | - 125.8 | 20.6% | - 121.0 | -3.9% | |
| Loan insurance | - 152.2 | 24.9% | - 10.4 | -14.7x | |
| Other | - 49.1 | 8.0% | - 45.1 | -8.9% | |
| **Net fees and commission income** | **2 037.1** | **x** | **1 749.9** | **16.4%** | Net fees and commission income in 2007 was PLN 287 million higher compared to the previous year due to a regular increase by PLN 149.6% (y/y) in fees and commission income for servicing investment funds and an increase in the number of banking cards by 4.8% (y/y). |

*** including revenue from distribution of the marks of value, mass foreign operations, trust services, guarantees, letters of credit, etc..***

## *General administrative expenses*

*Table 5. General administrative expenses of the Bank (PLN million)*

| GENERAL ADMINISTRATIVE EXPENSES OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA | | | | | |
|---|---|---|---|---|---|
| **Items** | **Period from 01.01.2007 to 31.12.2007** | **Structure (2007)** | **Period from 01.01.2006 to 31.12.2006** | **Change (%)** | **Comment** |
| Employee costs | - 2 155.1 | 57.8% | - 2 150.6 | -0.2% | Growth of 3.8% y/y mainly as a result of:<br>1) personnel-related costs remaining at a stable level (0.2% y/y), given an increase in payroll costs by 3.4% y/y,<br>2) increase in amortisation/depreciation expense - 19.9% y/y (implementation of the Integrated Information System),<br>3) increase in non-personnel costs and other expenses (increased promotion and advertising expenses). |
| Non-personnel costs | - 1 249.9 | 33.5% | - 1 169.7 | -6.9% | |
| Depreciation and amortisation | - 322.2 | 8.6% | - 268.8 | -19.9% | |
| **TOTAL** | **- 3 727.2** | **100.0%** | **- 3 589.0** | **-3.8%** | |

### Key financial ratios

*Table 6. Financial ratios of the Bank*

| RATIOS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA | | | |
|---|---|---|---|
| **Items** | **As at 31.12.2007** | **As at 31.12.2006** | **Change (pp.)** |
| **ROA gross** (gross profit (loss)/ average assets )* | 3.2% | 2.6% | 0.6 pp. |
| **ROA net** (net profit (loss)/ average assets )* | 2.7% | 2.2% | 0.5 pp. |
| **ROE gross** (gross profit (loss)/ average equity)* | 30.6% | 26.6% | 4 pp. |
| **ROE net** (net profit (loss)/ average equity)* | 25.0% | 21.8% | 3.2 pp. |
| **C/I** (costs to income ratio)* | 52.5% | 59.3% | -6.8 pp. |

**average representing the arithmetical mean of the prevailing total assets and equity at the beginning and end of the reporting period*

## 2.2 The balance sheet of the Bank

### Main balance sheet items

*Table 7. Main balance sheet items of the Bank (PLN million)*

| BALANCE SHEET OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA | | | | | | |
|---|---|---|---|---|---|---|
| **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 | 4 594.1 | 4.4% | 1.1% | 4 543.7 | 4.6% | Increase in assets by 5.6% y/y as a result of increase in loans and advances granted to consumers by 28.7% y/y and decrease in securities and amounts due from banks by PLN 12,033.1 million. |
| Amounts due from banks | 5 346.9 | 5.1% | -59.9% | 13 349.7 | 13.4% | |
| Loans and advances to customers | 73 822.2 | 70.1% | 28.7% | 57 339.8 | 57.4% | |
| Investment securities | 15 146.0 | 14.4% | -21.0% | 19 176.3 | 19.2% | |
| Other assets | 6 462.2 | 6.1% | 19.5% | 5 407.8 | 5.4% | |
| **Total assets** | **105 371.3** | **100.0%** | **5.6%** | **99 817.3** | **100.0%** | |
| Amounts due to other banks | 3 625.7 | 3.4% | -6.5% | 3 877.3 | 3.9% | Increase in assets financed with an increase in amounts due to customers by 3.6% y/y and with an issue of the Bank's subordinated debt at PLN 1.6 billion. |
| Amounts due to customers | 85 246.5 | 80.9% | 3.6% | 82 277.1 | 82.4% | |
| Liabilities arising from securities issued | 1 614.9 | 1.5% | x | - | 0.0% | |
| Other liabilities | 3 154.6 | 3.0% | -13.0% | 3 627.3 | 3.6% | |
| **Total liabilities** | **93 641.8** | **88.9%** | **4.3%** | **89 781.6** | **89.9%** | |
| Total equity | 11 729.5 | 11.1% | 16.9% | 10 035.7 | 10.1% | |
| **Total liabilities and equity** | **105 371.3** | **100.0%** | **5.6%** | **99 817.3** | **100.0%** | |

*Table 8. Loans and advances to customers of the Bank by type (PLN million)*

| STRUCTURE | As at 31.12.2007 | As at 31.12.2006 | Change (PLN thousand) | Change 2007/2006 | Comment |
|---|---|---|---|---|---|
| | **LOANS AND ADVANCES GRANTED TO CUSTOMERS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA** | | | | |
| **Gross value of loans and advances granted to customers** | **76 128.9** | **59 673.2** | **16 455.7** | **27.6%** | Growth of the gross loan portfolio at the level of 27.6% y/y along with the change in its structure - a decrease in loans and advances granted to budget entities by 5.3 p.p. with an increase in loans and advances granted to non-financial entities by 4.8 p.p. |
| -budget entities | 3 677.4 | 6 061.9 | - 2 384.5 | -39.3% | |
| -financial entities other than banks | 1 511.0 | 847.6 | 663.5 | 78.3% | |
| -non-financial entities | 70 940.5 | 52 763.7 | 18 176.8 | 34.4% | |
| **Impairment allowances for exposures with impairment indicators** | **- 2 306.7** | **- 2 333.4** | **26.7** | **1.1%** | |
| **Net value of loans and advances granted to customers** | **73 822.2** | **57 339.8** | **16 482.4** | **28.7%** | |

*Table 9. Loans and advances to customers of the Bank by maturity (PLN million)*

| MATURITY | As at 31.12.2007 | Structure (2007) | As at 31.12.2006 | Structure (2006) | Comment |
|---|---|---|---|---|---|
| | **LOANS AND ADVANCES GRANTED TO CUSTOMERS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA** | | | | |
| **Gross value of loans and advances granted:** | **76 128.9** | **100.0%** | **59 673.2** | **100.0%** | High growth of the Bank's loan portfolio along with an increase in the share of loans with maturity over 1 year by 6.9 p.p.- as a result of a high volume of housing loans sale; and a decrease in the share of loans with maturity from 1 month to 3 months. |
| up to 1 month | 12 163.5 | 16.0% | 10 441.6 | 17.5% | |
| from 1 month to 3 months | 1 800.0 | 2.4% | 1 630.2 | 2.7% | |
| from 3 months to 1 year | 7 375.4 | 9.7% | 8 770.8 | 14.7% | |
| from 1 year to 5 years | 21 965.0 | 28.9% | 19 406.2 | 32.5% | |
| over 5 years | 32 825.0 | 43.1% | 19 424.4 | 32.6% | |

Detailed information on the maturities of loans and advances granted to customers of the Bank has been presented in Note 25 to the Bank's financial statements.

*Table 10. Amounts due to customers of the Bank by type (PLN million)*

| STRUCTURE | As at 31.12.2007 | As at 31.12.2006 | Change (PLN thousand) | Change 2007/2006 | Comment |
|---|---|---|---|---|---|
| | **AMOUNTS DUE TO CUSTOMERS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA** | | | | |
| Amounts due to corporate sector | 15 270.0 | 12 460.4 | 2 809.5 | 22.5% | Growth of amounts due to customers by 3.6% y/y as a result of a decrease in amounts due from individuals (-2.1% y/y) along with an increase in amounts due to the budget sector (48.3% y/y). |
| Amounts due to budget sector | 4 688.0 | 3 160.9 | 1 527.1 | 48.3% | |
| Amounts due to individuals | 65 288.6 | 66 655.7 | - 1 367.2 | -2.1% | |
| **Total liabilities to customers** | **85 246.5** | **82 277.1** | **2 969.5** | **3.6%** | |

*Table 11. Amounts due to customers of the Bank by maturity (PLN million)*

| MATURITY | As at 31.12.2007 | Structure (2007) | As at 31.12.2006 | Structure (2006) | Comment |
|---|---|---|---|---|---|
| | **AMOUNTS DUE TO CUSTOMERS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA** | | | | |
| **Current accounts and O/N deposits** | **39 060.1** | **45.8%** | **32 776.6** | **39.8%** | The level of domestic interest rates influenced the customers' preferences in terms of investing the cash surplus - funds movement from term to current deposits. |
| **Current liabilities w/ maturity dates:** | **46 186.5** | **54.2%** | **49 500.5** | **60.2%** | |
| up to 1 month | 22 725.2 | 26.7% | 21 688.9 | 26.4% | |
| from 1 month to 3 months | 9 653.5 | 11.3% | 11 026.9 | 13.4% | |
| from 3 months to 1 year | 12 660.0 | 14.9% | 15 315.3 | 18.6% | |
| from 1 year to 5 years | 1 136.7 | 1.3% | 1 460.5 | 1.8% | |
| over 5 years | 11.0 | 0.0% | 8.8 | 0.0% | |
| **Total amounts due to customers** | **85 246.5** | **100.0%** | **82 277.1** | **100.0%** | |

At the end of 2007, the following regions had the greatest share in the geographical structure of the deposit base[2] (excluding interbank deposits and funds held in Internet accounts): mazowiecki (25.4%), śląsko-opolski (11.9%), wielkopolski (11.0%). Their aggregate share in total deposits of the Bank amounted to 48.3% and decreased by 0.1 pp compared to the end of 2006.

### *Equity and capital adequacy ratio*

[2] *Structure according to the management reports of PKO BP SA*

*Table 12. Equity of the Bank (PLN million)*

**OWN FUNDS AND CAPITAL ADEQUACY RATIO OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA**

| Items | As at 31.12.2007 | As at 31.12.2006 | Change (%) | Comment |
|---|---|---|---|---|
| **Equity, of which:** | **11 729.5** | **10 035.7** | **16.9%** | |
| Share capital | 1 000.0 | 1 000.0 | 0.0% | |
| Reserve capital | 5 592.0 | 4 529.6 | 23.5% | +16.9% y/y as a result of:<br>1) retaining a portion of profits - the dividend income for the year of 2006 accounted for 47.87%,<br>2) increase in profit for the period by 32.9% y/y. |
| General risk fund for unrealised banking activity risk | 1 070.0 | 1 070.0 | 0.0% | |
| Other reserve capital | 1 390.0 | 1 385.0 | 0.4% | |
| Revaluation reserves | -42.4 | 3.7 | x | |
| Result from current year | 2 720.0 | 2 047.4 | 32.9% | |
| **Own funds** | **9 543.3** | **6 783.2** | **40.7%** | Growth resulting from a high level of accumulated profits and subordinated debt issued by the Bank (PLN 1.6 billion). |
| **Capital adequacy ratio (%)*** | **11.87** | **11.69**** | **0.18 p.p.** | +0.18 p.p. as a result of subordinated debt issued by the Bank, given an increase in the total capital requirement by 38.6% y/y. |

**capital adequacy ratio 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's resolutions)*

# 3. BUSINESS DEVELOPMENT

## 3.1 The Bank's development path in the years 2007-2012

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 development of the companies contributing to the Group's product offer expansion. PKO BP SA does not make it impossible to invest in other financial sector entities operating on Polish and the Central and Eastern Europe's region markets. The Bank possesses the financial ability to undertake the capital investment. 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%.

## 3.2 Business areas

### 3.2.1 Retail segment

The Bank's activities aiming at retail banking customers, including private banking, focused on modernizing and increasing the attractiveness of the products offered by the Bank as well as improving service quality and sales effectiveness.

*Table 13. Balances of loans and advances in the retail segment (PLN million)*

| Items | As at 31.12.2007 | As at 31.12.2006 | Change 2006/2007 |
|---|---|---|---|
| Loans gross*), of which: | | | |
| - retail banking | 12 815.7 | 11 518.0 | 11.3% |
| - private banking | 3 598.4 | 2 132.4 | 68.7% |
| - small and medium enterprises | 6 907.1 | 4 574.9 | 51.0% |
| **Total** | **23 321.3** | **18 225.3** | **28.0%** |

*managing credits (gross) - without interest due and interest not due

*Table 14. Balances of deposits in the retail segment (PLN million)*

| Items | As at 31.12.2007 | As at 31.12.2006 | Change 2006/2007 |
|---|---|---|---|
| Consumer deposits, of which: | | | |
| - retail banking | 39 265.3 | 38 367.4 | 2.3% |
| - private banking | 14 501.6 | 17 324.5 | -16.3% |
| - small and medium enterprises | 6 957.5 | 5 787.7 | 20.2% |
| **Total deposits** | **60 724.4** | **61 479.5** | **-1.2%** |
| **Asset management by PKO TFI** | **16 685.4** | **8 541.7** | **95.3%** |
| **Total clients' savings** | **77 409.8** | **70 021.2** | **10.6%** |

*Bank's management data

*Table 15. Changes in the retail banking deposit products during the year 2007*

| New deposit product | Features of product | Value of the sale (PLN millions) | Period of the offer |
|---|---|---|---|
| Investment deposit 'Akcji/ Zrównoważony' | One year deposit with a split of funds into a deposit part and an investment part (intended to acquire participation units of PKO/Credit Suisse 'Akcji – fundusz inwestycyjny otwarty' or 'Zrównoważony - fundusz inwestycyjny otwarty'). | 1 976.4 | 12.12.2006 -31.01.2007 |
| Investment deposit 'Zrównoważony/ Amerykańskiego Rynku Akcji' | Product in which funds are divided into the deposit and investment part in the 50:50 proportion (allocated for the purchase of participation units issued by the PKO/Credit Suisse balanced open-end investment fund ('*Zrównoważony – fundusz inwestycyjny otwarty*') and by the Global Currency Fund - specialized open-end investment fund, a Sub-fund of the American Stock Market ('*Światowy Fundusz Walutowy - specjalistyczny fundusz inwestycyjny otwarty, Subfundusz Amerykańskiego Rynku Akcji*'). | 752.7 | 26.02.2007 -26.03.2007 |
| Investment deposit 'Strategicznej Alokacji' | Annual deposit (marketed under the Polish name: '*Porywająca Siła Zysków*') with funds divided into the deposit and investment part (the investment part is allocated for the purchase of participation units issued by the PKO/Credit Suisse Strategic Allocation Fund – specialized open-end investment fund ('*Fundusz Strategicznej Alokacji - specjalistyczny fundusz inwestycyjny otwarty*'). | 1 163.9 | 13.06.2007 -26.07.2007 |

*Table 16. Changes in the retail banking credit products during the year 2007*

| Loan product | Changes introduced into offer |
|---|---|
| Cash loan | Product offered by the Bank since 10 September 2007 (marketed under the Polish name: '*Max Pożyczka Mini Rata*'), characterised by an increased accessibility due to limited documentation requirements, among others documentation of income by an income declaration submitted by the customer. |
| Quick Credit Service (Szybki Serwis Kredytowy - SSK) | Changes were made to the price of the product and the lending process – the range of potential customers was extended to include customers with lower credit rating. |

As part of the cooperation with customers from the SME's segment, the Bank carried out the activities presented in table 17 in order to make its product offer more attractive and adjust it to customers' needs.

*Table 17. Changes in the products for SME's during the year 2007*

| Product | Changes introduced into offer |
|---|---|
| 'Super Pakiet' | A new product combining administration of personal and corporate funds. The launching of this product was accompanied by temporary promotional campaigns. |
| Debt Consolidation Program | Comprises the following two products: '*Kredyt Plan obrotowy*' (working capital loans) and '*Kredyt Plan Inwestycyjny*' (investment loans). Allows for combining different financing needs within each of the plans. |
| Overdraft in the 'Partner' account | Lending procedures have been made easier with regard to determining the maximum amount of the loan, due to being linked to temporary loan insurance provided by PZU SA. |
| Investment loans and working capital loans | Lending procedures have been made easier with regard to loan utilization, due to being linked to temporary loan insurance provided by PZU SA. |

### *Savings-settlement accounts, Inteligo accounts and banking cards*

*Table 18. Accounts and banking cards of the Bank (thousand of pieces)*

| Items | As at 31.12.2007 | As at 31.12.2006 | Change 2007/2006 |
|---|---|---|---|
| **Total number of accounts, of which:** | **6 207** | **6 018** | **189** |
| - ROR accounts | 5 548 | 5 423 | 125 |
| - current Inteligo accounts | 659 | 595 | 64 |
| **Total number of banking cards, of which:** | **7 296** | **6 960** | **336** |
| - retail segment | 6 670 | - | - |

*Table 19. Retail segment operational data – number of branches, ATMs, agencies*

| Items | As at 31.12.2007 | As at 31.12.2006 | Change 2007/2006 |
|---|---|---|---|
| Total number of institutions | 1 233 | 1 239 | - 6 |
| **- within Retail Market Area:** | **1 150** | **1 156** | **- 6** |
| Regional Retail Branches | 12 | 12 | - |
| independent branches | 574 | 574 | - |
| subordinated branches | 564 | 570 | - 6 |
| **Number of ATM machines** | **2 106** | **2 024** | **82** |
| **Number of agencies** | **2 240** | **2 277** | **- 37** |

### *Electronic banking*

As regards the electronic banking the year of 2007 was the year of a constant, dynamic growth of the number of the electronic banking users through the PKO Inteligo service. The number of users of the PKO Inteligo service increased by 0.5 million from 1.4 million at the beginning of the year up to over 1.9 million at the end of December 2007.

#### 3.2.2 Housing segment

*Table 20. Balances of loans and placements in the housing segment (PLN million)*

| Items | As at 31.12.2007 | As at 31.12.2006 | Change 2006/2007 |
|---|---|---|---|
| Credits gross*), of which: | | | |
| - housing market | 31 846.0 | 22 461.7 | 41.8% |
| - housing liability (including supported by government) | 2 919.9 | 2 822.6 | 3.4% |
| **Total** | **34 765.9** | **25 284.3** | **37.5%** |
| Housing deposits | 10 289.7 | 10 160.4 | 1.3% |

### *Mortgage banking*

The balance of loans and advances granted within the products of mortgage banking amounted to PLN 31.8 billion as at the end of December 2007 (41.8% y/y).

*Table 21. Significant events in the mortgage banking area*

| Achievement | Description |
|---|---|
| **Record-breaking sales** | The predominating product in the sales of mortgage loans was the 'WŁASNY KĄT' loan, which accounted for 80% of total sales in this segment. |
| **Products offered to customers in England** | The Bank developed offering terms for the 'WŁASNY KĄT' mortgage loan for customers living in Great Britain and taking loans for the purchase of real estate in Poland. |

### *Housing loans covered by state assistance*

At the end of December 2007, the total balance of housing loans covered by state assistance amounted to PLN 9.3 billion of which 2.3 billion constituted the Bank's loans and PLN 7 billion constituted the State Treasury's debt. As at the end of the year 2007, 112 thousand of apartments were included in the debt repayment.

### *Products for institutional customers*

In the year 2007, the Bank achieved leader's position in financing the real-estate development undertakings. The most important events as regards the servicing of the Bank's institutional customers have been presented in the Table 22.

*Table 22. Significant events in the area of institutional customers' services*

| Achievement | Description |
|---|---|
| Sale of the "Nowy Dom" loans | In 2007 the Bank granted investor loans with a record breaking value of PLN 2 billion (2006: appx. PLN 1 billion, an increase of 232% y/y). As a result, the Bank recorded a significant increase in the value of the loan portfolio, to PLN 1.5 billion (from PLN 522 million at the end of 2006). |
| Thermo-modernisation loans | The Bank became the leader in thermo-modernisation loans; during the year 2007 it granted 1,338 loans with a total value exceeding PLN 310 million (the highest amount among all banks granting such loans) - as a result the loans portfolio's value increased to PLN 582 million from PLN 267 million in 2006. |

### *Deposits held in housing plan passbooks*

As part of extending the range of its housing plan products, starting from 1 February 2007 the Bank began to offer a housing plan passbook linked to the PKO TFI SA investment funds. As at 31 December 2007, PKO BP SA kept over 2 million housing plan passbook accounts, with total savings amounting to PLN 6,965.6 million. This number included 57 thousand housing plan passbook accounts linked to the PKO TFI SA investment funds, with the value of savings of PLN 417.6 million.

### 3.2.3 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 the Bank as a financial institution which is active on the corporate market.

*Table 23. Balances of loans and placements in the corporate segment (PLN million)*

| Items | As at 31.12.2007 | As at 31.12.2006 | Change 2006/2007 |
|---|---|---|---|
| Corporate credits gross*) | 17 973.6 | 16 008.6 | 12.3% |
| Corporate deposits | 13 542.4 | 9 680.4 | 39.9% |

** Bank's management data*

*Table 24. Corporate segment operational data – number of branches and ATMs*

| Items | As at 31.12.2007 | As at 31.12.2006 | Change 2007/2006 |
|---|---|---|---|
| Total number of institutions | 1 233 | 1 239 | - 6 |
| **- within Corporate Market Area:** | **83** | **83** | **-** |
| Regional Corporate Branches | 13 | 13 | - |
| Corporate Consumer Groups | - | 13 | - 13 |
| Corporate Centers | 70 | 57 | 13 |
| **Number of ATM machines** | **2 106** | **2 024** | **82** |

*Table 25. Significant events in the area of corporate banking*

| Achievement | Description |
|---|---|
| Lending activities | 1. In 2007 the Bank organised 11 syndicated loans, under which the Bank's exposure amounted to PLN 1,162.8 million, and entered into 12 bilateral agreements with a total value of PLN 1,416.5 million.<br>2. The Bank entered into a bank guarantee agreement in respect of an entity related to the Bank, for an amount of EUR 57 million. The above transaction was made at an arm's length. |
| Issue of non-treasury securities | 1. In 2007 the Bank concluded 29 agreements for the issue of municipal bonds with a total value of PLN 524.7 million, among others for the city of Bydgoszcz (PLN 288 million) and for the Lubuskie Voivodship (PLN 85 million).<br>2. In addition, the Bank concluded 9 agreements for the issue of corporate bonds with a total value of PLN 904.9 million. This included participation in the issue of corporate bonds as part of a banking consortium, with a total value of PLN 6.2 billion (transaction with a significant customer of the Bank). |
| New products | In 2007, the Bank launched a new Business-type credit card. This product is addressed to both the existing customers of the Bank as well as to entities which have no bank account with PKO BP SA (potential customers). The new credit cards can also be used to make online purchases. |

### 3.2.4 Treasury segment

*Table 26. Significant events in the treasury segment*

| Achievement | Description |
|---|---|
| Exposure to interest rate risk | The Bank maintained moderate exposure to the interest rate risk. It adjusted its investment policy to current market conditions: in the period of an increased interest rate risk, the Bank made use of hedging transactions (mainly IRS). |
| Interbank transactions | 1. At the end of November 2007, the Bank's share in the volume of transactions entered into by the 13 banks taking part in the competition for the Dealer in Treasury Securities (DTS) was as follows: SPOT 9%, IRS 13% and FRA 10%. The volume of transactions made by PKO BP SA on the MTSCeTO market accounted for 12% of all transactions entered into on this market.<br>2. The Bank was ranked 4th (out of 22) in the DTS competition. |
| Sales of products | The Bank increased sales of treasury products to corporate customers: 50% increase in the value of SPOT transactions, five-fold increase in the value of FORWARD transactions and four-fold increase in the value of derivative transactions. IRS and CIRS transactions have also become a standard part of the Bank's product offer. |

### 3.2.5 Investment segment

As at the end of December 2007, The Bank earned PLN 133.7 million of the financial result from the brokerage services which was 15.2% higher compared to the result of the year 2006. The financial result dynamics resulted mainly from the 11.5% y/y increase in commission and 4.5% y/y lower personnel and non-personnel costs.

*Table 27. The Bank's achievements in the investment area*

| Achievement | Description |
|---|---|
| **Stock market** | 1. Turnover of PLN 29.3 billion, i.e. PLN 7.2 billion higher than in 2006. The Bank's share in the total turnover on the stock market was 6.35% (a decrease by 0.5 pp compared to 2006).<br>2. Acting as a market maker on the stock market, the Bank recorded PLN 7.9 billion volume (i.e. 2.1 billion higher volume compared to 2006) - first place on the market. |
| **Bonds market** | The Bank's share in the total turnover on the bonds' market was 45.9%, which means that the Bank retained the leading position on this market (with turnover of PLN 1.5 billion). |
| **Future contract market** | Turnover of 793.9 thousand of future contracts (i.e. 201.9 thousand more in comparison with 2006), which means that the Bank has a share of 4.26% in future contract market's turnover. |
| **Options market** | Increase in the turnover (volume of transactions) by 183%, with the volume of transactions amounting to 139.3 thousand. The Bank's share in the turnover on the index options market was 17.6%, which means an increase of 6 p.p. compared to 2006. |
| **New Connect market** | Turnover (value of transactions) of PLN 18.6 million since August 2007 (with a share of 6.14%, the Bank was ranked 7th on this market). At the end of 2007, the Bank was a market maker for 13 companies on the New Connect market, which ranked it 1st in terms of the number of companies served. |
| **Primary market** | As part of its primary market activities, the Bank carried out:<br>1. The initial public offering of ELEKTROTIM S.A., Makarony Polskie SA, Armatura Kraków, OPONEO.PL.;<br>2. Public offerings for Projprzem S.A. and TIM S.A., Internet Group S.A. and Centrostal S.A.;<br>3. Private placement for EMC Instytut Medyczny S.A. for an amount of PLN 5.8 million; issue of corporate bonds by Drozapol as part of incentive program and subscription for bonds by program participants;<br>4. Subscription for the 2nd issue of the Multi Asset Best Strategy bonds by Deutsche Bank AG (in the 3rd quarter of 2007). |
| **Value of customers' assets** | At the end of 2007, the value of assets held by customers on investment and registration accounts was PLN 27.8 billion, which means an increase of 3.7% compared to 2006. |

### *Custodian look at activities*

The Bank is a direct participant in the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych*) and Securities Register (NBP). The Bank keeps customer investments accounts and services transactions made on the domestic and foreign markets. As a member of the Council of Depository Banks (*Rada Banków Depozytariuszy*) and the Council for Non-treasury Securities (*Rada ds. Nieskarbowych Papierów Dłużnych*) operating as part of the Polish Banks Association (*Związek Banków Polskich*), the Bank participates in the creation of regulations and market standards.

## 3.3 International cooperation

In 2007, the Bank:

- participates in the "Loan Window" program 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,
- 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 for foreign banks within the banks consortium organised 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,
- the Bank held 29 *nostro* accounts denominated in 14 currencies, and kept 38 *loro* accounts in 3 currencies (as at 31 December 2007),
- 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.

### 3.4 Promotion and image building activities

Promotion activities of the Bank in the year 2007 mainly focused on the following:

1. 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,
2. increasing the aspirations and prestige of the PKO BP SA brand,
3. 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 – 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 for the series 'Freedom Space' organised in the Gdańsk Shipyard and The Rolling Stones' concert in Warsaw.

***Awards and distinctions granted to PKO BP SA***

In the year 2007, the Bank was granted numerous awards and distinctions, of which the most significant were:

1. 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,
2. 1st place in *Newsweek's* ranking of "100 Most Valuable Companies in Poland",
3. 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,
4. "Premium Brand 2006" in the category of financial institutions - title granted to the Bank for the second time in the ranking of most reputable brands organised by MMT Management under the patronage of the monthly *FORBES*,
5. 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",
6. "Bank of the Year 2007 in Poland" – prestigious award granted to the Bank by the monthly "*The Banker*" for financial performance, development strategy and market achievements,
7. 1st place in the category of "financial brands" in *Rzeczpospolita's* ranking of the strongest Polish brands,
8. European Medal in the $14^{th}$ edition of competition organised by the Office of the Committee for European Integration and Business Centre Club for '*Szybki Serwis Kredytowy'.*

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.

# 4. INTERNAL ENVIRONMENT

## 4.1 Risk management policy

Risk management system is one of the most important internal processes in the Bank which aims to ensure an appropriate level of security and profitability of credit activities in the changing legal and economic environment. The system comprises credit risk, market risk and operational risk.

### 4.1.1 Credit risk

In the process of credit risk management, the Bank makes use of advanced credit risk management methodologies, which are continuously reviewed and developed towards internal ratings-based approaches. Credit risk management policies are determined by the Bank's Management Board, while the Banking Risk Division is responsible for the implementation and functioning of these policies.

Credit risk management process in the Bank includes identification of both current and potential sources of risk, as well as risk measurement. Comprehensive credit risk management in the Bank involves activities' planning, issuing recommendations and developing procedures/tools to support credit risk management processes. The Bank monitors the level of the risk it takes within the credit risk management process using the risk measurement methodologies adopted by the Bank and reports on the level of credit risk for the purposes of the Bank's overall risk management.

In 2007 the Bank continues to work on the development of the portfolio credit risk measurement methodology and the widening of the scope of the estimated portfolio credit risk measures. Portfolio credit risk measurement methodologies allow for, among others, providing for credit risk in the price of the services, determining the optimal value of cut off scores and determining the rates for recognising impairment losses using internal models.

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.

### 4.1.2 Financial risk

In 2007, the Bank revised the principles and procedures relating to management of currency risk, derivative risk, liquidity risk and the credit risk of financial institutions. The revised regulations contain additional solutions allowing for calculation of the internal capital required for market risk and liquidity risk and its utilization in the process of risk management in the Bank.

In 2007, the Bank continued the development of the specialised IT system supporting financial risk management and the activities aiming at achieving compliance with the requirements of the CRD directive. The Bank also amended its internal regulations relating to the consideration of the ratings assigned by external financial institutions in the calculation of capital requirements for credit risk, by adjusting them to the resolutions of the Commission for Banking Supervision.

The Bank has a stable deposit base and a portfolio of liquid securities which ensure that the Bank possess sufficient financial liquidity. In 2007, the Bank acquired a syndicated loan and issued subordinated debt securities in order to diversify its sources of financing. In the year 2007, the Bank's risk measures for interest rate risk, currency risk, derivatives risk and liquidity risk went for a secure level. In its activities, 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.

### 4.1.3 Operational risk

Operational risk in the Bank is defined as the risk of an operational loss resulting from non-compliance or weakness of internal processes, people and systems or from external events. Operational risk includes legal risk, however does not include reputation risk and strategic risk. The objective of operational risk management is to optimise operational efficiency of the Bank by reducing operating losses, rationalization of costs and increasing the speed and adequacy of the Bank's response to events that are beyond their control.

Operational risk management policies and procedures cover the full scope of the Bank's activities, and the operational risk management process is based among others on use of system solutions as well as day-to-day risk management activities, including distinction of a specialised unit in the Bank's structure – the Compliance and Operational Risk Office – responsible for operational risk management.

In 2007, following the publication of Resolution 1/2007 of the Commission for Banking Supervision dated 13 March 2007, the Bank developed solutions ensuring calculation of the capital requirement for the Bank's operational risk using the Basic Indicator Approach (BIA). In addition, in December 2007 the Bank started the process of selection of the provider of a specialised application to support operational risk management and launched the project of implementation of the Advanced Measurement Approaches (AMA).

### 4.2 Capital adequacy

The objective of capital adequacy management is to ensure compliance of the Bank 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 Bank manages its capital adequacy through selection of the methods of measurement of capital requirements for the individual types of risk in accordance with Resolution 1/2007 of the Commission for Banking Supervision, internal procedures and activities related to management of the level of own funds.

The level of the capital adequacy of the Bank 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 Bank adjusted its information systems, internal processes and internal regulations to the requirements of the New Capital Accord and 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 Bank and to improve its performance and enhance its value to the shareholders.

The Bank's process of internal 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, as well as stress testing of capital adequacy.

In 2007, the Bank developed and implemented 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 par. 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.

### 4.3 Organisational and capital connections

***Investing activities***

PKO BP SA holds shares and participations in other financial and non-financial entities. The list of direct and indirect exposures of the Bank as at 31 December 2007 has been presented in the below tables:

*Table 28. The Bank's subsidiaries, jointly controlled entities and associates*

| No. | ENTITY NAME | Exposure value* | Share in votes at the AGM |
|---|---|---|---|
| | | PLN thousand | % |
| | **Subsidiaries** | | |
| 1 | KREDOBANK SA | 307 365 | 98.1815 |
| 2 | Powszechne Towarzystwo Emerytalne BANKOWY SA | 205 785 | 100.00 |
| 3 | Centrum Finansowe Puławska Sp. z o.o. | 128 288 | 100.00 |
| 4 | PKO Inwestycje Sp. z o.o. | 123 313 | 100.00 |
| 5 | PKO Towarzystwo Funduszy Inwestycyjnych SA | 69 054 | 75.00 |
| 6 | Inteligo Financial Services SA | 59 602 | 100.00 |
| 7 | Centrum Elektronicznych Usług Płatniczych eService SA | 55 500 | 100.00 |
| 8 | Bankowy Fundusz Leasingowy SA | 40 000 | 100.00 |
| 9 | Bankowe Towarzystwo Kapitałowe SA | 18 566 | 100.00 |
| 10 | International Trade Center Sp. z o.o. w likwidacji | 33 | 65.00 |
| 11 | Przedsiębiorstwo Informatyki Bankowej „Elbank" Sp. z o.o. w likwidacji | 6 | 100.00 |
| | **Jointly controlled entities** | | |
| 12 | CENTRUM HAFFNERA Sp. z o.o. | 44 371 | 49.43 |
| 13 | Centrum Obsługi Biznesu Sp. z o.o. | 17 498 | 41.44 |
| | **Associated entities** | | |
| 14 | Bank Pocztowy SA | 146 500 | 25.0001 |
| 15 | Kolej Gondolowa Jaworzyna Krynicka SA | 15 531 | 36.71 |
| 16 | Ekogips SA – w upadłości | 5 400 | 23.52 |
| 17 | Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 1 500 | 33.33 |
| 18 | Agencja Inwestycyjna CORP SA | 29 | 22.31 |

* includes shares and participations value at cost and specific additional capital contributions

The Bank's subsidiaries, associates and jointly controlled entities were set up in order to support the core business functions of PKO BP SA in the realization of their sales targets by offering additional services, as well as to provide services to the Bank and to increase the share of PKO BP SA in the profits earned on the international financial markets.

Detailed information on the Bank's subsidiaries, associates and jointly controlled entities is presented in the Directors' Report on the Activities of the PKO BP SA Group.

*Table 29. Indirect exposures of the Bank*

| No. | ENTITY NAME | Exposure value* | Share in votes at the AGM |
|---|---|---|---|
| | | PLN thousand | % |
| | **Subsidiaries of PKO Inwestycje Sp. z o.o.** | | |
| 1 | Wilanów Investments Sp. z o.o. | 82 981 | 100.00 |
| 2 | POMERANKA Sp. z o.o. | 19 000 | 100.00 |
| 3 | Fort Mokotów Sp. z o.o. | 2 040 | 51.00 |
| 4 | ARKADIA Inwestycje Sp. z o.o. | 2 000 | 100.00 |

| No. | ENTITY NAME | Exposure value* | Share in votes at the AGM |
|---|---|---|---|
| | | PLN thousand | % |
| 5 | UKRPOLINWESTYCJE Sp. z o.o. | 519 | 55.00 |
| | **Subsidiaries of Bankowy Fundusz Leasingowy SA** | | |
| 6 | Bankowy Leasing Sp. z o.o. | 1 309 | 100.00 |
| 7 | BFL Nieruchomości Sp. z o.o. | 1 109 | 100.00 |
| | **Subsidiary of PTE BANKOWY SA** | | |
| 8 | Finanse Agent Transferowy Sp. z o.o. | 2 861 | 100.00 |
| | **Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.** | | |
| 9 | Sopot Zdrój Sp. z o.o. | 58 923 | 100.00 |
| 10 | Promenada Sopocka Sp. z o.o. | 10 058 | 100.00 |
| 11 | Centrum Majkowskiego Sp. z o.o. | 6 609 | 100.00 |
| 12 | Kamienica Morska Sp. z o.o. | 976 | 100.00 |
| | **Subsidiary of Bankowe Towarzystwo Kapitałowe SA** | | |
| 13 | FINDER SA | 6 500 | 46.43 |

* includes shares and participations value at cost and specific capital contributions

In 2007, the most significant changes in the Bank's capital and organisational connections relating to the subordinated entities were:

- purchase of KREDOBANK SA's shares from the European Bank for Reconstruction and Development accounting for 28.2486% of the Company's share capital and votes at the General Shareholders' Meeting; as the result of the above transaction the Bank's share in the Company's share capital and votes at the AGM increased from 69.933% up to 98.1815%,
- acquisition of 17,353,578,610 shares in the increased share capital of KREDOBANK SA at a total nominal value of UAH 173,535,786.10; as a result of the above acquisition, the percentage share in 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 at a total nominal amount of PLN 10 million; as a result of the above acquisition PKO BP SA remains the only shareholder of the Company,
- acquisition by Bankowy Fundusz Leasingowy SA's – the Bank's subsidiary – all shares in the newly incorporated company, Bankowy Leasingowy Sp. z o.o.; the principal activity of the Company is the provision of operating and finance lease services
- acquisition by Bankowy Fundusz Leasingowy SA's – the Bank's subsidiary – all shares in the newly incorporated company, BFL Nieruchomości Sp. z o.o.; the principal activity of the Company is the provision of operating and finance lease services with respect to real property,
- acquisition by PKO Inwestycje Sp. z o.o. – the Bank's subsidiary – 99% of shares in the newly incorporated company, ARKADIA Inwestycje Sp. z o.o. and purchase of the remaining shares from the other Company's shareholder; the Company was incorporated for the purpose of carrying out the housing construction project "Osiedle Jantar" in Międzyzdroje,
- PKO Inwestycje Sp. z o.o.'s capital contribution to ARKADIA Inwestycje Sp. z o.o. at PLN 1 million,
- increase in UKRPOLINWESTYCJE Sp. z o.o. exposure of PKO Inwestycje Sp. z o. o. – the Bank's subsidiary – as the result of increase in the nominal value of shares,
- disposal of all shares in INTER FINANCE Polska Sp. z o.o. held by Bankowe Towarzystwo Kapitałowe SA – the Bank's subsidiary,
- acquisition by Bankowe Towarzystwo Kapitałowe SA – the Bank's subsidiary – 25,500 shares in P.L. ENERGIA SA at a total nominal value of PLN 2,550 thousand,
- transition of the company FINDER Sp. z o.o. into FINDER SA,

– completion of liquidation proceedings of Sonet Hungary Kft – the subsidiary of Inteligo Financial Services SA.

***Investment objectives***

One of the aims of the Growth Strategy of PKO BP SA – "The New Beginning" for the years 2007-2012, is to build a strong financial holding. The Bank will focus on the improvement of the return on capital employed. The Bank plans to concentrate on the development of those companies which offer additional products to those already offered by the PKO BP SA Group, and does not preclude making investments in other entities from the financial sector operating on the Polish market or in the Central and Eastern Europe.

The list of significant transactions between PKO BP SA and its subordinated entities, including credit debt of those entities towards the Bank as at 31 December 2007 has been presented in the Additional Information to the Financial Statements of PKO BP SA for the year 2007.

### 4.4 Related party transactions

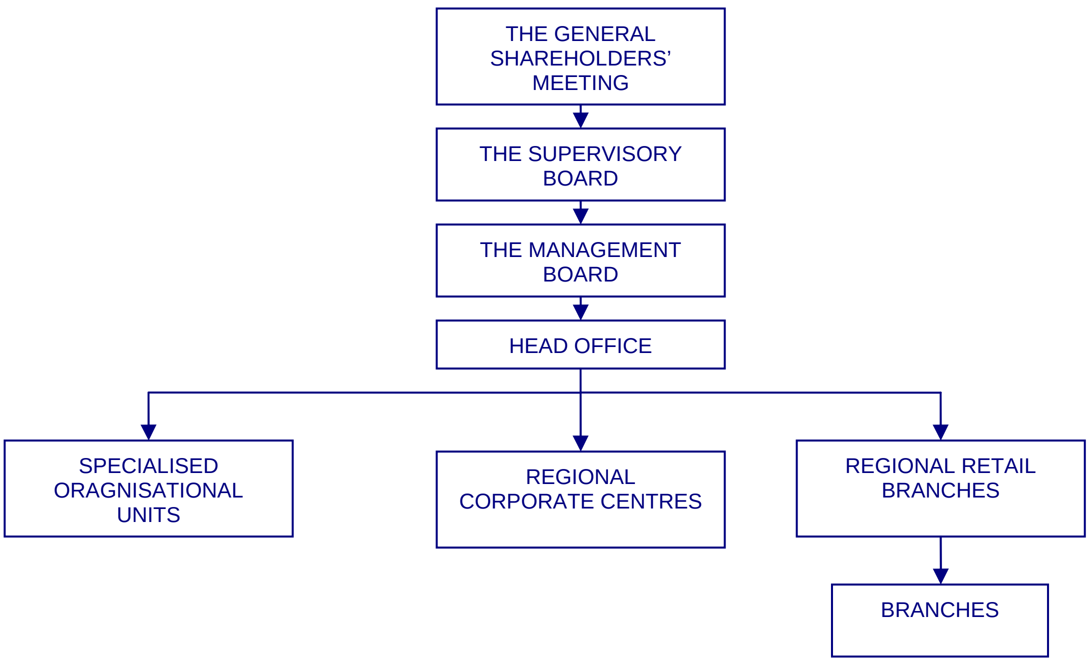
***Transactions with a value of EUR 500 thousand or exceeding EUR 500 thousand***

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.

### 4.5 Organization of the Bank

*Table 30. The Bank's organisation structure scheme*




In 2007, organisational activities were focused on creating or strengthening the Bank's structures dedicated to the realization of its most important business objectives, in accordance with the New Strategy of the Bank. In order to improve the management efficiency and effectiveness of the Bank's operations, the Bank modified the structure of the separated operational areas grouping functional divisions, the organisational units of the Head Office and the organizational units of the Bank that are not part of any division, which are responsible for realization of specific groups of tasks within the vertical structure of the Bank.

## 4.6 Governing bodies of the Bank in the reporting period

### *Members of the Management Board in the reporting period*

*Table 31. Members of the Management Board during the reporting period*

| No. | Name | Function | Appointment date |
|---|---|---|---|
| 1. | Sławomir Skrzypek | Vice-President of the Manage-ment Board | on 20.12.2005 appointed for the common term of Management Board that commenced on 19.05.2005 |
| | | Vice-President | 29.09.2006 |
| | | acting as the President of the Management Board | 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 Manage-ment 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) |
| | | 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 Manage-ment Board | 20.06.2002<br>on 19.05.2005 re-appointed to another term starting from this day |
| | | Vice-President of the Manage-ment Board | 29.09.2006.<br>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.<br>resigned from this position as of 13.03.2007 |
| 6. | Marek Głuchowski | Acting as the President of the Manage-ment Board | delegated to this position from<br>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 temporarily to act as the Vice-President of the Management Board from 11.04.2007 to 30.04.2007;<br>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 |

| No. | Name | Function | Appointment date |
|---|---|---|---|
| 12. | Berenika Duda-Uhryn**** | Vice-President of the Management 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 Supervisory 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 32. Other functions performed by the Bank's Management Board 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)<br>Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006) |
| 2. | Rafał Juszczak | Deputy Chairman of the Integrated Information System Steering Committee (since 10.07.2006),<br>Chairman of the Integrated Information System Steering Committee (since 14.02.2007)<br>Member (since 17.07.2006) and later Deputy Chairman (since 31.10.2007) of the Steering Committee for Implementation of Branch Modernisation Program<br>Chairman of the IIS Project Committee (from 01.07.2006 to 31.10.2007)<br>Deputy Chairman of the Bank's Credit Committee (from 10.01.2007 to 16.07.2007)<br>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)<br>Chairman of the Steering Committee for Implementation of Branch Modernisation Program (since 15.03.2005)<br>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)<br>Deputy Chairman 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)<br>Chairman of the Bank's Credit Committee (since 4.01.2007)<br>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)<br>Deputy Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006)<br>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)<br>Deputy Chairman of the Integrated Information System Steering Committee (from 14.02.2007 to 22.02.2007)<br>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<br>Deputy Chairman of the Bank's Credit Committee (from 1.02.2007 to 22.02.2007)<br>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)<br>Deputy Chairman of the Bank's Credit Committee (from 23.02.2007 to 6.08.2007)<br>Deputy Chairman of the Integrated Information System Steering Committee (since 23.02.2007)<br>Chairman of the Steering Committee for Implementation of Branch Modernisation Program (since 23.02.2007)<br>Member of the IIS Project Committee (since 23.02.2007) |

| No. | Name | Function |
|---|---|---|
| | | 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)<br>Chairman of the Bank's Credit Committee (from 11.04 2007 to 30.04.2007)<br>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)<br>Chairman of the Bank's Credit Committee (since 1.05.2007)<br>Deputy Chairman of the Integrated Information System Steering Committee (since 1.05.2007)<br>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)<br>Deputy Chairman of the Asset and Liability Committee (since 16.07.2007) |

### *Members of the Bank's Supervisory Board*

*Table 33. 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,<br>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,<br>resigned as of 31.01.2007 |
| 6. | Adam Skowroński | Member of the Supervisory Board | appointed on 18.04.2006,<br>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,<br>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 was 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, the Management Board members are appointed by the Supervisory Board for a common three-year term. According to par. 19 section 4 of the Bank's Articles of Association the 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 the 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 provision 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 48 of Additional Information to the Financial Statements of PKO BP SA for the year 2007.

***Bank's shares held by members of Management and Supervisory Boards***

Table 18 presents Bank's shares held by members of the Bank's 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 34. PKO BP SA's shares held by members of Management and Supervisory Boards of the Bank 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,<br>President of the Management Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 2. | Berenika Duda-Uhryn, | ----- | ----- | ----- | ----- |

| No. | Name | Number of shares as at 31.12.2006 | Purchase | Disposal | Number of shares as at 31.12.2007 |
|---|---|---|---|---|---|
| | Vice-president of the Management Board of PKO BP SA | | | | |
| 3. | Robert Działak,<br>Vice-president of the Management Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 4. | Mariusz Klimczak,<br>Vice-president of the Management Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 5. | Wojciech Kwiatkowski,<br>Vice-president of the Management Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 6. | Aldona Michalak,<br>Vice-president of the Management Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 7. | Adam Skowroński,<br>Vice-president of the Management Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 8. | Stefan Świątkowski,<br>Vice-president of the Management Board of PKO BP SA | ----- | ----- | ----- | ----- |
| **II.** | **Supervisory Board** | | | | |
| 1. | Marek Głuchowski,<br>President of the Supervisory Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 2. | Urszula Pałaszek,<br>Vice-president of the Supervisory Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 3. | Maciej Czapiewski,<br>Member of the Supervisory Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 4. | Jerzy Michałowski,<br>Member of the Supervisory Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 5. | Tomasz E. Siemiątkowski,<br>Secretary of the Supervisory Board of PKO BP SA | ----- | ----- | ----- | ----- |
| 6. | Agnieszka Winnik-Kalemba,<br>Member of the Supervisory Board of PKO BP SA | ----- | ----- | ----- | ----- |

### 4.7 The Bank's personnel

The number of PKO BP SA employees as at 31 December 2007 was 30,659 (in terms of full-time equivalent) and decreased by 1,296 i.e. 4.1% compared to 31 December 2006. The average number of employees in 2007 amounted to 31,303 (in terms of full-time equivalent) and decreased by 1,370 compared to 2006.

***Activities relating to changes in employment level and structure***

In 2007, the Bank continued the process of optimising employment. Optimisation of employment was supported by selection of employees whose qualifications and professional skills matched their job requirements. The process of employment optimisation was mainly conducted through the release of natural reserves, including employee attrition due to statutory and early retirement.

***Remuneration system***

The primary legal act that regulates the remuneration system at the Bank is the Collective Bargaining Agreement, which covers all employees working for the Bank on the basis of employment contracts, except for members of Management Board, whose salaries are subject to the limitations resulting from the so-called "Chimney Law".

The Collective Bargaining Agreement determines the following elements of remuneration:

– remuneration for work performed, including basic salary/wage, periodic bonuses, awards, annual bonuses, additional payments arising from the Labour Code and other payments determined by binding legal regulations,
– monetary benefits arising from employment relationship – paid out upon the fulfilment of the conditions defined in the Collective Bargaining Agreement, such as jubilee bonuses and retirement benefits,
– general table of job positions linked to 9 employment position categories, which sets out the required level of education and the minimum length of service to hold these positions, and a table

of the minimum monthly levels of basic salary/wage for the particular employment position categories.

Based on delegation contained in the Collective Bargaining Agreement, specific regulations are determined by way of Management Board resolutions agreed with the trade unions with respect to the following aspects: granting discretionary bonuses (on a quarterly basis), granting one-off awards for outstanding professional achievements, granting annual bonuses based on the Bank's performance.

*Table 35. Average basic salary in the selected groups of positions as at 31 December 2007*

| Employees' goups | Basic salary |
|---|---|
| High management | 8 559 |
| Middle management | 5 262 |
| Other employees | 3 181 |
| **Total** | **3 645** |

### *Employee benefits*

Benefits granted from the Social Fund to current employees (including those on a child care leave), pensioners, persons receiving pre-retirement allowances and members of their families in 2007.

*Table 36. Benefits granted to the Bank's employees from the Social Fund (ZFŚS)*

| Items | Number of people, who has benefited from assistance | Total amount of benefits (in PLN) |
|---|---|---|
| Repayable benefits (loans for housing purposes) | 5 804 | 54 926 300 |
| Non-repayable benefits (including: grants, co-finansing organised and non-organised recreation, co-financing of culture and sport events, redemption of loans, gifts, and other non-repayable benefits) | 55 598 | 14 275 660 |
| **TOTAL** | **61 402** | **69 201 960** |

The Bank implemented uniform "Standards of medical care for PKO BP SA employees", which, in addition to the regular benefits required by the Labour Code, provide employees with an additional health care protection in the form of a number of diversified medical service packages. A wide range of medical services for all employees is part of the fringe benefits linked to employment with PKO BP SA. The services are provided by LUX-MED SA under an agreement dated 26 June 2007. The decision to enter into this agreement was approved by the Bank's Supervisory Board.

### *Changes to remuneration terms*

During the year 2007, the principles of granting performance bonuses to employees were modified effectively as of 1 January 2008. According to the amended principles the bonus criteria is based on the individual sales plans. This should support realization of the sales plan thanks to the flexibility of setting up new sales goals for the particular quarters and units according to current market conditions.

As of 1 March 2007 the salaries of the Bank's employees were increased. The amount of the increase was determined individually for each employee within the limits of the funds available for distribution.

### *Group redundancies*

In connection with the process of employment optimisation and the planned reduction of employment in 2007, on 29 November 2006 the Bank signed an "Agreement on the rules of terminating employment contracts with PKO BP SA employees for reasons independent of employees". In 2007, 1,045 persons left the Bank under the group redundancy program.

### *Collective disputes*

There were no collective disputes in the Bank during the period under review.

### *Collective Bargaining Agreements terminated, suspended or signed*

In the period under review, the Collective Bargaining Agreement was neither terminated nor suspended by the Bank.

### 4.8 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.

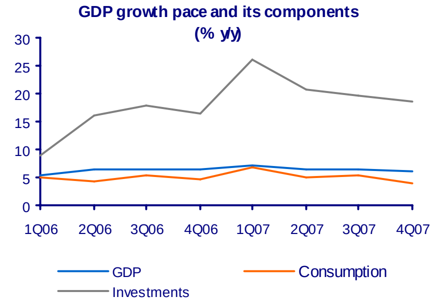
### 4.9 Corporate governance

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.

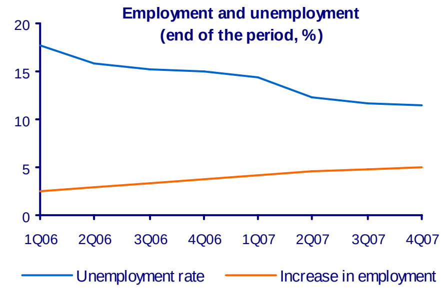
## 5. EXTERNAL ENVIRONMENT

### *Macroeconomic factors*

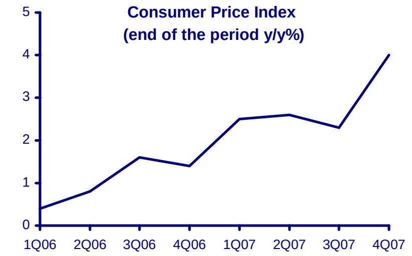
During the year 2007 economic growth continued to accelerate. The dynamics of GDP in 2007 amounted to 6.5% y/y, compared to 6.2% in 2006. The revival in real economy was stimulated by a high growth in domestic demand – especially in the area of investments, coupled with a growth in the dynamics of individual consumption.




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.

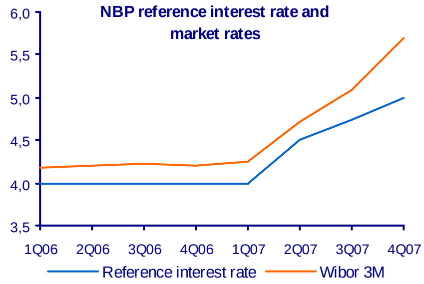



The average annual inflation rate increased in 2007 up to 2.5% from 1% in 2006. In the 4th quarter of 2007, the inflation rapidly increased to 4% in December, mainly due to high rises in the prices of food. In 2007, the pressure of demand on the level of prices continued to be relatively small, which 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.



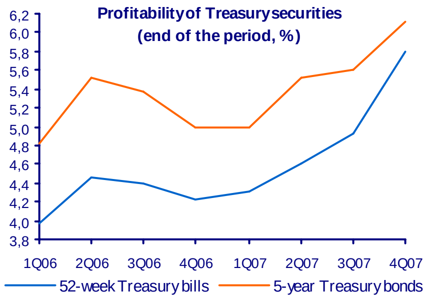

### *Monetary policy of the National Bank of Poland*

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, 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%.



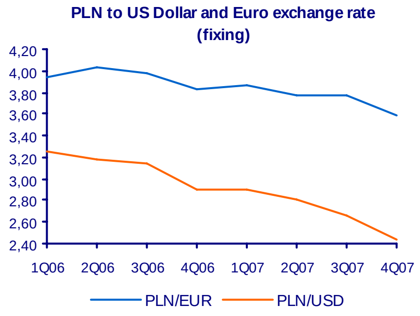

### *Financial market*

In 2007, there was an increase in the yields on Polish Treasury securities, as a result of among others: the deterioration of inflation prospective, 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 as well as the temporary outflow of funds from emerging markets in the 3rd and 4th quarter of 2007 (an effect of the problems faced by the international financial markets).




The noted rising yields on Treasury securities, especially long-term Treasury bonds, were mitigated among other by strong foundations of Polish economy compared to other developing countries as well as a good current condition of the state budget and the resulting limited supply of Treasury securities on the primary market and 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.

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. In the second half of the year, the PLN exchange rate continued to be strongly affected by the developments on the international financial markets.



***Regulatory environment***

The Bank's performance in 2007 was affected by the following new regulatory solutions:

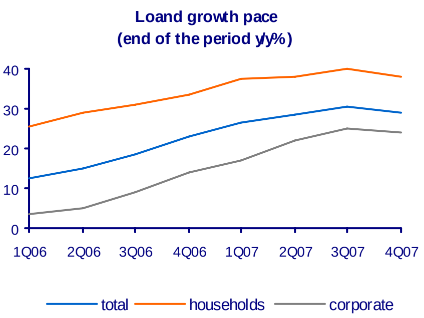
– modified principles for payment of interest on the obligatory reserve,
– an increase in the level of transfers to be made to the guaranteed money protection fund,
– granting the banks the right to deduct a portion of their specific provisions for certain exposures for corporate income tax purposes,
– 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,
– new requirements (including reporting requirements) among others for banks engaged in the management of portfolios of securities, 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.

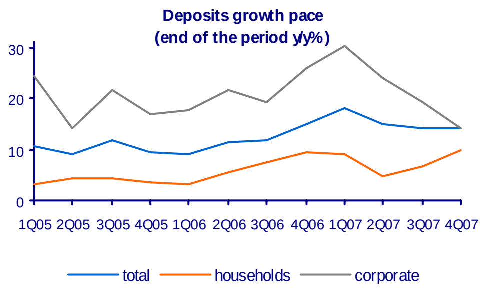
The situation of the Bank was additionally influenced by preparations to the implementation of the SEPA system.

***Competitive environment***

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:

– high increase in household loans (by more than 38%) mainly as a result of the record-breaking sales of housing loans (by ca. 51%). The growth rate of consumer loans also increased (by 31%) 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,
– increase in deposit base, mainly due to acceleration in the growth of household deposits in the second half of 2007 (smaller inflow of cash to investment funds). 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.

## 6. 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 37. 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).<br>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.<br>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 emphasised the improving quality of the loan portfolio and reporting transparency.<br>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 | |

### *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 38. 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% |

### *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 46 to the 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 par. 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 b.p. p.a. This margin will be increased by another 25 b.p. 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*

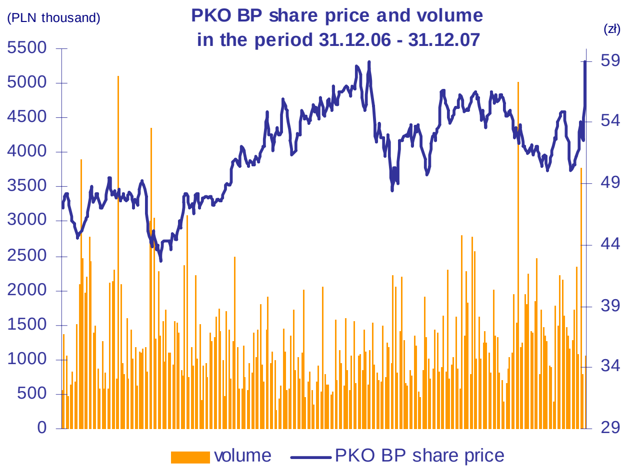
During the period covered by this Report, the Bank did not re-acquire its shares on its own account.

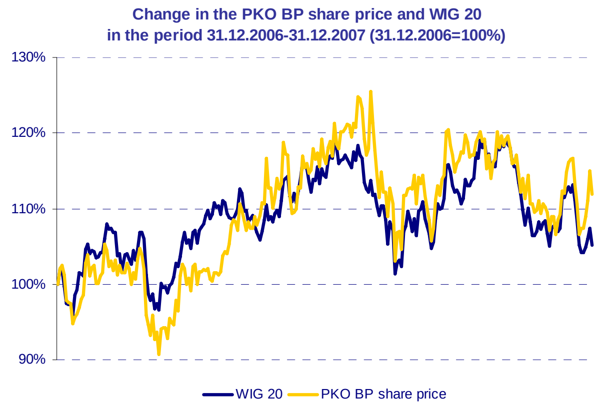
### *Listed price of the Bank's shares*

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 39. 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 par. 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).

1. On 7 December 2007, the Bank entered 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 one of the Bank's clients. 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.
2. 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.
3. 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.

***Guarantees and financial commitments granted by the Bank***

As at 31 December 2007, the total value of granted guarantees and financial commitments amounted to PLN 28,516 million, with financial commitments making up 85.2% of this amount. The total value of granted guarantees and financial commitments increased by 13.6% on a year-to-year basis, while the value of guarantees alone increased by 67.8%.

*Table 40. Off-balance sheet commitments granted by the Bank (PLN million)*

| OFF-BALANCE SHEET ITEMS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA | | | | |
|---|---|---|---|---|
| **Items** | **As at 31.12.2007** | **As at 31.12.2006** | **Change (PLN million)** | **Change (%)** |
| **Financial liabilities granted** | 24 298,8 | 22 583,3 | 1 715,4 | 7,6% |
| of which: irrevocable | 8 856,0 | 10 296,6 | -1 440,5 | -14,0% |
| **Guarantee liabilities granted** | 4 216,8 | 2 512,6 | 1 704,1 | 67,8% |
| **Total** | **28 515,5** | **25 096,0** | **3 419,6** | **13,6%** |

During the year 2007, the Bank did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

***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.

***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:

1. to Bankowy Fundusz Leasingowy S.A.:
   - a guarantee 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 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 for an amount up to PLN 1,820 thousand, 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,
2. 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,
3. 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 Bank***

During the year 2007, PKO BP SA issued 30,727 banking enforceable titles for a total amount of PLN 283,343,088.9.

***Proceedings pending before the court, arbitration tribunal or public administrative authority***

As at 31 December 2007, the total value of court proceedings in which the Bank is a defendant (inbound) was PLN 177,916 thousand, while the total value of court proceedings in which the Bank filed the claim (outbound) was PLN 73,891 thousand. No court proceedings with the participation of

PKO BP SA are in progress, the value of which amounts to at least 10% of the Bank's shareholders' equity.

***Significant events after the balance sheet date***

1. 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.
2. 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.
3. 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.
4. 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-President of the Supervisory Board of PKO BP SA as of 25 February 2008.
5. On 26 February 2008, under par. 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 par. 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 par. 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 par. 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.

6. 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 the Additional Information to the financial statements of the Bank. 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.

***Integrated Information System***

1. On 30 July 2007 the Bank entered into Annex No. 2 to the Agreement for Delivery and Implementation of the Integrated Information System (IIS) of 18 August 2003 between PKO BP SA and Accenture Sp z o.o., Alnova Technologies Corporation S.L. and Softbank S.A., acting as the Consortium.
   The purpose of the Annex No. 2 is, among others, expanding the current scope of works related to the implementation of the IIS, resulting from the Bank's decision to extend the functional scope of the information system being implemented. The net remuneration due to the Consortium for the performance of works set out in the Annex No. 2 shall be USD 11,038,042. According to Annex No. 2 the mass implementation of the IIS shall be completed at the end of November 2008.
2. On 21 December 2007, the Bank signed Annex No. 3 ("Annex") to the agreement for the delivery and implementation of the Integrated Information System (IIS) dated 18 August 2003 between PKO BP SA and Accenture Sp. z o.o., Alnova Technologies Corporation S.L. and Asseco Poland S.A., operating as Consortium. The subject of this Annex is, among others, to extend the scope of work related to the implementation of the IIS as a consequence of the Bank's decision to increase the functionalities of the information system being implemented. The fee payable to the Consortium for the work specified in the Annex will be USD 10.2 million (net of VAT). Annex No. 3 provides that the mass implementation of the IIS will be completed at the end of November 2008.

The above agreements are a continuation of the previous agreement disclosed in the Share Issue Prospectus, Annex No. 1 to this agreement disclosed in Current Report No. 42/2004. During the last 12 months, the Bank concluded, as part of its regular cooperation with one of the Consortium members, Asseco Poland S.A., agreements relating to the information systems currently operational at the Bank. The total value of all those agreements does not meet the criteria of a significant agreement.

***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 the Bank 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 Bank;
2. the annual Directors' Report on the activities of the Bank gives a true view of the Bank'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 financial statements of PKO BP SA 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 in 2007 consists of 36 consecutively numbered pages.

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President of Management Board
Rafał Juszczak

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Vice-President of Management Board
Berenika Duda-Uhryn

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Vice-President of Management Board
Robert Działak

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Vice-President of Management Board
Mariusz Klimczak

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Vice-President of Management Board
Wojciech Kwiatkowski

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Vice-President of Management Board
Aldona Michalak

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Vice-President of Management Board
Adam Skowroński

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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 financial statements for the year ended 31 December 2007 of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('the Bank') located in Warsaw at Puławska 15 Street , containing:
   - the income statement for the period from 1 January 2007 to 31 December 2007 with a net profit amounting to 2,719,991 thousand zlotys,
   - the balance sheet as at 31 December 2007 with total assets amounting to 105,371,337 thousand zlotys,
   - the statement of changes in equity for the period from 1 January 2007 to 31 December 2007 with a net increase in equity amounting to 1,693,817 thousand zlotys,
   - the cash flow statement for the period from 1 January 2007 to 31 December 2007 with a net cash outflow amounting to 4,847,134 thousand zlotys and
   - the additional information

   ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached 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 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 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 financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność, prawidłowość i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne, prawidłowe i jasne*'

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2007 to 31 December 2007, as well as its financial position[3] as at 31 December 2007;
   - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's Articles of Association.
5. We have read the 'Directors' Report 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 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.

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*

# LONG-FORM AUDITORS' REPORT
# SUPPLEMENTING THE INDEPENDENT AUDITORS' REPORT
# ON THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 31 DECEMBER 2007

# I. GENERAL NOTES

## 1. Background

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (hereinafter 'PKO BP SA', 'the Bank') 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 Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000026438 on 12 July 2001.

The Bank 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 Bank is the holding company of the Powszechna Kasa Oszczędności Bank Polski Spółki Akcyjna capital group. Details of transactions with affiliated entities and the list of companies in which the Bank holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 1 and 46 of the additional information to the audited financial statements for the year ended 31 December 2007.

The principal activities of the Bank 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.

As at 31 December 2007, the Bank'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 as at the above date amounted to 11,729,541 thousand zlotys.

In accordance with the letter of the Investor Relations Bureau dated 4 April 2008, the ownership structure of the Bank's issued share capital was as follows:

*(in thousand zlotys)*

| | 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 Bank'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.

## 2. Financial Statements

On 19 May 2005 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

### 2.1 Auditors' report and audit of 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 on 7 April 2005 to audit the Bank's 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 financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – 'the Accounting Act').

Under the contract executed on 8 august 2005 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2007.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the 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 financial statements for the year ended 31 December 2007 of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('the Bank') located in Warsaw at Puławska 15 Street , containing:
   - the income statement for the period from 1 January 2007 to 31 December 2007 with a net profit amounting to 2,719,991 thousand zlotys,
   - the balance sheet as at 31 December 2007 with total assets amounting to 105,371,337 thousand zlotys,
   - the statement of changes in equity for the period from 1 January 2007 to 31 December 2007 with a net increase in equity amounting to 1,693,817 thousand zlotys,
   - the cash flow statement for the period from 1 January 2007 to 31 December 2007 with a net cash outflow amounting to 4,847,134 thousand zlotys and
   - the additional information

   ('the attached financial statements').

2. The truth and fairness[1] of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached 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 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 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 financial statements. We believe our audit has provided a

[1] Translation of the following expression in Polish: '*rzetelność, prawidłowość i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne, prawidłowe i jasne*'

reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2007 to 31 December 2007, as well as its financial position[3] as at 31 December 2007;
   - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's Articles of Association.

5. We have read the 'Directors' Report 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 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 Bank's financial statements during the period from 15 October 2007 to 14 December 2007 and from 28 January 2008 to 8 April 2008. We were present at the Bank's head office from 15 October 2007 to 14 December 2007 and from 28 January 2008 to 8 April 2008 and in the Bank's branches from 15 October 2007 to 19 October 2007.

## 2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 8 April 2008, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

## 2.3 Financial statements for prior financial year

The Bank's financial statements 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 authorized

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'
[4] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"

*(in thousand zlotys)*

for performing audit with the number 130 in the auditors' register. The certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2006.

The Bank's financial statements for the year ended 31 December 2006 were approved by the General Shareholders' Meeting on 26 April 2007, and the shareholders resolved to appropriate the 2006 net profit as follows:

| | |
|---|---|
| Dividends for the shareholders | 980,000 |
| Reserve capital | 1,062,391 |
| Other reserve capital | 5,000 |
| | -------- |
| | 2,047,391 |
| | ======== |

The financial statements for the financial year ended 31 December 2006 , together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 9 May 2007 with the National Court Register.

The introduction to the financial statements, the balance sheet as at 31 December 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2006, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1205 on 13 July 2007.

The approved closing balances as at 31 December 2006 were correctly brought forward in the accounts as the opening balances at 1 January 2007.

## 3. Analytical Review

### 3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the financial performance of the Bank for the years 2005 - 2007. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2007 and 31 December 2006.

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Total assets** | 105 371 337 | 99 817 327 | 90 327 516 |
| **Shareholders' equity** | 11 729 541 | 10 035 724 | 8 780 394 |
| **Net profit** | 2 719 991 | 2 047 391 | 1 676 798 |

*(in thousand zlotys)*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Gross profit** | 3 327 145 | 2 502 064 | 2 073 310 |
| **Total adequacy ratio in accordance with NBP methodology (%)** | 11.9% | 11.7% | 14.1% |
| **Profitability ratio** | 89.3% | 69.7% | 57.1% |
| Profit before taxation / General administrative expenses | | | |
| **Costs to income ratio** | 52.5% | 59.3% | 62.6% |
| General administrative expenses / Operating income | | | |
| **Return on Equity (ROE)** | 25.0% | 21.8% | 19.0%[5] |
| Net profit / Average shareholders' equity | | | |
| **Return on Assets (ROA)** | 2.7% | 2.2% | 1.9%[5] |
| Net profit / Average assets | | | |
| **Rate of inflation:** | | | |
| Yearly average | 2.5% | 1.0% | 2.1% |
| December to December | 4.0% | 1.4% | 0.7% |

## 3.2 Comments

The following trends may be observed based on the above financial ratios:

- Net profit for the year 2007 amounted to 2,719,991 thousand zlotys compared to the net profit for the year 2006 amounting to 2,047,391 thousand zlotys and 1,676,798 thousand zlotys for the year 2005.
- In 2006, compared to the year 2005, there was an increase in the Bank's total assets, which on 31 December 2006 reached 99,817,327 thousand zlotys, compared to 90,327,516 thousand zlotys on 31 December 2005. Another increase in the total assets took place in the year 2007, as a result the total assets amounted to 105,371,337 thousand zlotys as at 31 December 2007.

[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.

- The profitability ratio increased from 57.1% in the year 2005 to 69.7% in the year 2006 and 89.3% in the year 2007.
- Cost to income ratio decreased to 59.3% in the year 2006 compared to 62.6% in the year 2005 and then in the year 2007 declined to 52.5%.
- As at 31 December 2007 the return on equity and return on asset ratios amounted to 25.0% and 2.7% respectively and increased compared to 21.8% and 2.2% in the year 2006, and 19.0% and 1.9 in the year 2005.
- The Bank's capital adequacy ratio declined to 11.7% as at 31 December 2006 from 14.1% as at 31 December 2005 and than increased up to 11.9% in the year 2007.

### 3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Bank 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 financial statements for the year ended 31 December 2007, the Management Board has stated that the financial statements were prepared on the assumption that the Bank 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.

### 3.4 Application of prudence regulations

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 ofr 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.

## 3.5. Correctness of calculation of capital adequacy ratio

During our audit we have not identified any irregularities in relation to the calculation, in all material respects, of the capital adequacy ratio as of 31 December 2007 in accordance with Resolution no 1/2007 of the Banking Supervisory Board dated 13 March 2007 on the scope and detailed principles for determining capital requirements for particular risks, including the scope and conditions of application of statistical methods and the scope of disclosures attached to the requests for the approval of the use of such methods, the principles and conditions of accounting for debt transfer agreements, sub-participation agreements, credit derivative agreements and other than debt transfer or sub-participation agreements in determining capital requirements, the conditions, scope and method of making use of ratings assigned by external credit rating institutions and export credit agencies, the method and detailed principles for calculating bank's capital adequacy ratio, the scope and method of accounting for banks' holding activities in the calculation of capital requirements and capital adequacy ratio and of designating additional balance sheet items to be accounted for jointly with the bank's own funds in capital adequacy calculation, and the scope, method and conditions for their designation (Official NBP Journal of 30 March 2007).

## II. DETAILED REPORT

### 1. Accounting System

The Bank's accounts are kept using the Zorba 3000 and ZSI Alnova (main Bank's accounting systems) and additional systems (Promak, Profile, SSGW, Flex Cube) in the Bank's head office.

The Bank has up-to-date documentation, as required under Article 10 of the Accounting Act, including a chart of accounts approved by the Bank's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

### 2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2007.
Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2007.

### 3. Additional information

The additional information to the 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.

### 4. Directors' Report

We have read the Directors' report on the Bank'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 financial statements reconciles with the 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 (Journal of Law No. 209, item 1744).

## 5. 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.

## 6. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Bank's Articles of Association were breached during the financial year.

## 7. 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