



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)		
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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
Supplementary funds (Tier 2)	1 202 936	-	335 828	-

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

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



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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

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

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

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			
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 inflow s		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 inflow s/ outflow s		(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 Pocztaowa 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
		%		%
<i>As at 31 December 2007</i>				
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
<i>As at 31 December 2006</i>				
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 (Cedula 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 Juszczyk 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 Obłąkowski 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:

- 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 Juszczyk, 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 Juszczyk 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

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	Powszechny 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 Puławska	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					
Subsidiaries of PTE BANKOWY SA					
11	Finanse Agent Transferowy Sp. z o.o.	Warsaw	Intermediary 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	-

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 Poczty 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 Poznań	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 derivatives 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 life 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.

Equity instruments

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.

Debt instruments

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.

Equity instruments

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.

Debt instruments

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 hardware	from 4 to 10 years
Motor vehicles	5 years

Intangible assets	Periods
Licences for computer software	from 4 to 10 years
Copyright, including rights to computer software	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 zloty 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 zloty, 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.

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 lowest 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.

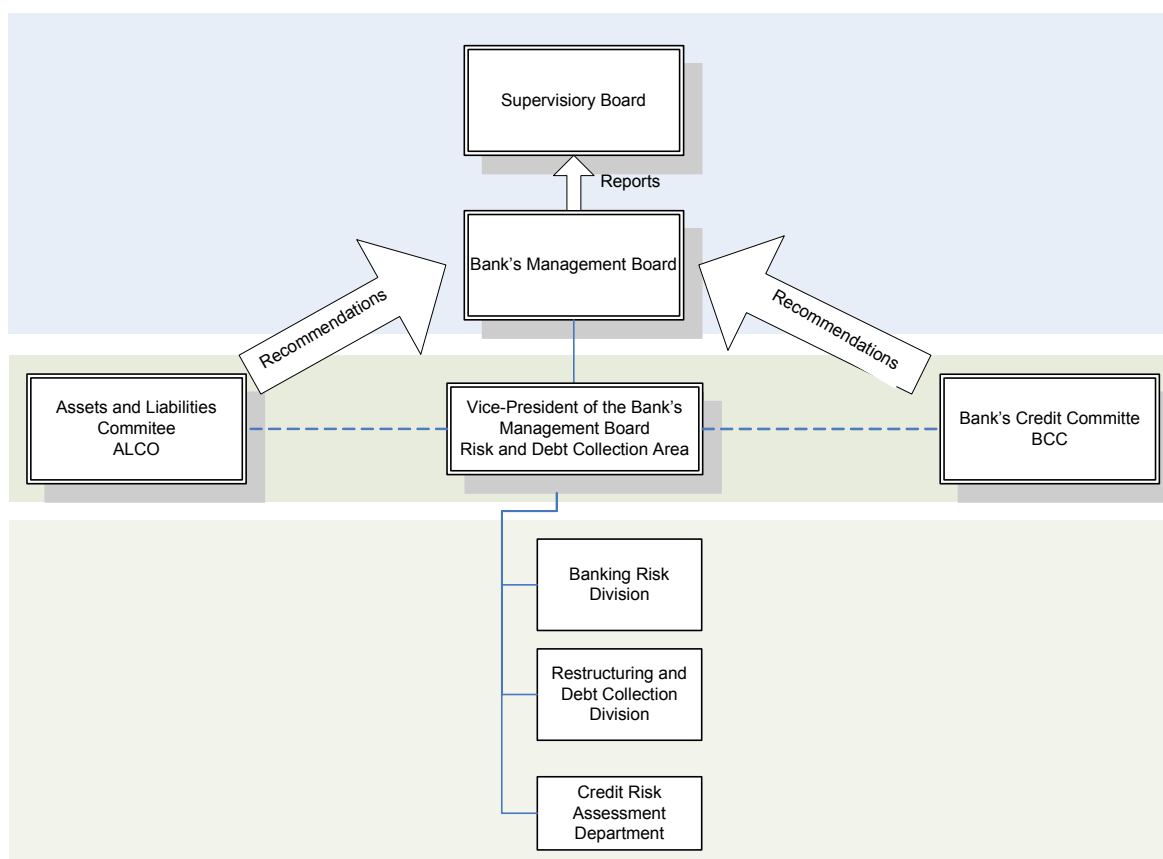
3. Objectives and principles relating to financial risk management

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.

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

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.

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.

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 water 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%

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 anxieted contracts and contracts with discounts in repayment we additionally included.

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
<i>financial sector</i>	426	-	1 925	-
<i>public sector</i>	109 653	-	94 436	-
<i>non-financial sector</i>	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.

Value 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.

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 funds³. 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

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 cumulative 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 cumulative 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) ¹⁾					
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) ¹⁾						
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 counterparties 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 the 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):

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

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

(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.

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

(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 notional amounts 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 than 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 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,

- 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.

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			
<i>Interest rate instruments:</i>	<i>198 743 607</i>	<i>1 570 805</i>	<i>314 161</i>
FRA	73 860 000	243 635	48 727
IRS	124 883 607	1 327 170	265 434
<i>Foreign currency instruments:</i>	<i>14 823 154</i>	<i>887 745</i>	<i>178 305</i>
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
<i>Other instruments:</i>	<i>231 606</i>	<i>28 021</i>	<i>5 605</i>
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

	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			
<i>Interest rate instruments:</i>	<i>137 881 756</i>	<i>1 178 589</i>	<i>235 718</i>
FRA	62 075 000	199 614	39 923
IRS	75 806 756	978 975	195 795
<i>Foreign currency instruments:</i>	<i>15 367 913</i>	<i>1 134 742</i>	<i>227 334</i>
Currency forw ards	982 571	34 970	6 994
Forw ards - 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 w hich:			
banking portfolio	27 923 211	1 217 802	243 915
trading portfolio	125 326 458	1 095 529	219 136

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 risk)	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 which 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.

The table below shows a summary of the carrying amounts and fair values for the individual groups of financial instruments which have not been presented at fair value in the 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.

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.

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

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

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)

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)

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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

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	-

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.

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 with 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 with 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 allowance	(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

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for the year ended 31 December 2007*

(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

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(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

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.

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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

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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

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.

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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

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
Allow ances against exposures w ith portfolio impairment	(1 363 864)	(1 237 180)
Allow ances against exposures w ith individual impairment	(467 191)	(569 899)
Allow ances against exposures w ith 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 allow ances	(26 816)	(30 014)
Total net investment securities	5 841 553	6 805 567

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(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

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

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(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.

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			
Powszechna 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 Towarzystwo Funduszy Inwestycyjnych SA)	69 054	-	69 054
Przedsiębiorstwo 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 Poczty 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

As at 31 December 2006

Entity name	Gross value	Impairment	Carrying value
Subsidiaries			
Pow szechne Tow arzystw o Emerytalne BANKOWY SA	205 785	-	205 785
KREDOBANK SA	144 605	-	144 605
Centrum Finansow e Puław ska Sp. z o.o.	128 288	-	128 288
PKO Inw estycje 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
Bankow y Fundusz Leasingow y SA	30 000	-	30 000
Bankow e Tow arzystw o Kapitałow e SA	18 566	-	18 566
PKO Tow arzystw o Funduszy Inw estycyjnych SA* (daw ny PKO/Credit Suisse Tow arzystw e Funduszy Inw estycyjnych SA)	69 054	-	69 054
Przedsiębiorstw o Informatyki Bankow ej "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 Poczto w y SA	146 500	(33 500)	113 000
Kolej Gondolow a Jaw orzyna Krynicka SA	15 531	(15 531)	-
Ekogips SA (in bankrupcy)	5 400	(5 400)	-
Poznański Fundusz Poręczeń Kredytow ych Sp. z o.o.	1 500	-	1 500
Agencja Inw estycyjna 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 Poczto w y SA	3 098 960	2 848 798	256 025	29 090	25,0001%
Kolej Gondolow a Jaw orzyna Krynicka SA	36 825	2 550	11 700	1 809	37,53%
Poznański Fundusz Poręczeń Kredytow ych Sp. z o.o.	14 653	9 575	312	42	33,33%
Agencja Inw estycyjna 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 Poczto w y SA	2 627 410	2 409 372	236 116	24 367	25,0001%
Kolej Gondolow a Jaw orzyna Krynicka S.A.	38 289	6 733	12 225	2 274	37,53%
Poznański Fundusz Poręczeń Kredytow ych Sp. z o.o.	11 028	6 204	178	140	33,33%
Agencja Inw estycyjna "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:

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
<i>As at 1 January 2007</i>			
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
<i>As at 31 December 2007</i>			
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 allow ance	(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
<i>As at 1 January 2006</i>			
Purchase price (gross carrying amount)	775 924	352 393	1 128 317
Accumulated amortisation and impairment allow ance	(592 791)	(10 220)	(603 011)
Net carrying amount	183 133	342 173	525 306
<i>As at 31 December 2006</i>			
Purchase price (gross carrying amount)	1 276 516	128 640	1 405 156
Accumulated amortisation and impairment allow ance	(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).

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.

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(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.

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.

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.

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

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.

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

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.

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

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 w rit-offs for amounts due from banks	53	1 426
Exclusion of the cash and cash equivalent	(4 897 541)	1 964 025
Zm iana 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 w ith 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 w rite-dow ns for amounts due from banks	(53)	(1 426)
Change in impairment w rite-dow ns 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)

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

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for the year ended 31 December 2007*



(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

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(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
Powszechna Towarzystwo Emerytalne BANKOWY SA	Subsidiary	-	-	688	443	405	107	107	-
Centrum 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 Elektronicznych 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 Poczty 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 Poreczeń 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

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(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	-
Powszechnie 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 Sopotcka 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).

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 significant 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

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 Bazył	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-Kałemba Agnieszka	Member of the Supervisory Board	34	20
Kokoszczynski 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
Siwiek Czesław	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

Remuneration received from the subordinated entities of PKO BP SA

Name	Position	2007	2006
Management 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 Skowroński	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 Sławomir	Acting President of the Bank's Management Board, Vice-President of the Management Board	5	149
Świątkowski Stefan	Vice-President of the President of the Management Board	91	-
Kwiatkowski Wojciech	Vice-President of the President of the Management Board	83	-
Supervisory Board			
Agnieszka Winnik-Kalemba	Member of the Supervisory Board	222	62
Marek Głuchowski	Chairman of the Supervisory Board	65	-
Total short-term benefits to the Members 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.

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 its 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 Juszczyk	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 Michałak	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)