

***POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SPÓŁKA AKCYJNA***

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

I. GENERAL NOTES

1. Background

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (hereinafter 'PKO BP SA', 'the Bank') was incorporated on the basis of a Decree of the Council of Ministers dated 18 January 2000 on the transformation of the state-owned bank, Powszechna Kasa Oszczędności Bank Państwowy, into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (Journal of Laws 28 January 2000, No. 5, item 55). The Company's registered office is located in Warsaw at Puławska 15 Street.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000026438 on 12 July 2001.

The Bank has been granted tax identification number (NIP) 525-000-77-38 on 14 June 1993 and statistical number (REGON) 016298263 on 18 April 2000.

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

The principal activities of the Bank are as follows:

- accepting cash call deposits and term deposits and keeping those deposits,
- keeping other types of bank accounts,
- granting loans,
- granting cash loans,
- granting and confirming bank guarantees and opening and confirming letters of credit,
- performing monetary bank settlements,
- performing operations involving checks, bills of exchange and warrants,
- issuing bank securities,
- issuing payment cards and performing operations using such cards,
- conducting forward transactions,
- purchasing and disposing debt.

As at 31 December 2007, the Bank's issued share capital amounted to 1,000,000 thousand zlotys and it comprised of 510,000,000 registered shares of the series A, 105,000,000 bearer shares of the series B and 385,000,000 bearer shares of the series C, with the nominal value of 1 zloty each.

Equity as at the above date amounted to 11,729,541 thousand zlotys.

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

POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA
Long-form auditors' report supplementing the independent auditors' report
for the year ended 31 December 2007
(in thousand zlotys)

	Number of shares	Number of votes	Par value of shares (PLN)	% of issued share capital
State Treasury	514,935,409	51.49%	514.935.409	51.49%
Other shareholders	485,064,591	48.51%	485,064,591	48.51%
Total	1,000,000,000	100.00%	1,000,000,000	100.00%

As at 8 April 2008, the Bank's Management Board was composed of:

Rafał Juszczyk	- President
Berenika Duda-Uhryn	- Vice-President
Robert Działak	- Vice-President
Mariusz Klimczak	- Vice-President
Wojciech Kwiatkowski	- Vice-President
Aldona Michalak	- Vice-President
Adam Skowroński	- Vice-President
Stefan Świątkowski	- Vice-President

During 2007 and up to 8 April 2008, composition of the Bank's Management Board changed in the following way:

- On 10 January 2007 Mr Sławomir Skrzypek resigned from the position of the Vice-President of the Management Board of PKO BP SA due to his designation to the position of the President of the Narodowy Bank Polski.
- On 10 January 2007 the Supervisory Board of PKO BP SA appointed Mr Marek Głuchowski, the President of the Bank's Supervisory Board, to perform temporarily the duties of the President of the Bank's Management Board until 23 January 2007. Due to the fact that, during the period from 24 January 2007 to 26 January 2007, no candidate was appointed to be the acting President of the Management Board, the Supervisory Board delegated Mr Marek Głuchowski to act temporarily as President of the Management Board of PKO BP SA, beginning from 27 January 2007 until 10 April 2007.
- As at 31 January 2007 Jacek Obłąkowski resigned from the position of Vice-President of the Management Board.
- On 22 February 2007 the Supervisory Board appointed:
 - Mr Robert Działak to act as Vice-President of the Bank's Management Board as of 23 February 2007,
 - Mr Stefan Świątkowski to act as Vice-President of the Bank's Management Board as of 1 May 2007.

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- On 13 March 2007 Mr Zdzisław Sokal resigned from the position of the Vice-President of the Bank's Management Board.
- On 2 April 2007 the Supervisory Board of PKO BP SA:
 - delegated Mr Marek Głuchowski, President of the Supervisory Board, to independently supervise the activities undertaken by the Bank's Management Board in conducting the affairs of PKO BP SA, beginning from 11 April 2007,
 - appointed, as of 11 April 2007, Mr Rafał Juszcak, Vice-President of the Management Board, to act as President of the Management Board of PKO BP SA until a new President of the Management Board is elected,
 - delegated Mr Adam Skowroński, Member of the Bank's Supervisory Board, to temporarily act as Vice-President of the Management Board during the period from 11 April 2007 to 30 April 2007.
- On 20 June 2007 the Supervisory Board of PKO BP SA passed resolutions appointing:
 - Mrs Aldona Michalak as the Vice-President of the Management Board as of 1 July 2007,
 - Mr Mariusz Klimczak as the Vice-President of the Management Board as of 15 July 2007,
 - Mr Adam Skowroński as the Vice-President of the Management Board as of 23 July 2007,
 - Mrs Berenika Duda-Uhryn as the Vice-President of the Management Board as of 10 September 2007.

On 8 August 2007 the Commission for Banking Supervision gave consent for appointing Mr Rafał Juszcak as President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

2. Financial Statements

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

2.1 Auditors' report and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Bank's Supervisory Board on 7 April 2005 to audit the Bank's financial statements.

Ernst & Young Audit sp. z o.o. and the certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – 'the Accounting Act').

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

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Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified report dated 8 April 2008, stating the following:

'To the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

1. We have audited the attached financial statements for the year ended 31 December 2007 of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('the Bank') located in Warsaw at Puławska 15 Street, containing:
 - the income statement for the period from 1 January 2007 to 31 December 2007 with a net profit amounting to 2,719,991 thousand zlotys,
 - the balance sheet as at 31 December 2007 with total assets amounting to 105,371,337 thousand zlotys,
 - the statement of changes in equity for the period from 1 January 2007 to 31 December 2007 with a net increase in equity amounting to 1,693,817 thousand zlotys,
 - the cash flow statement for the period from 1 January 2007 to 31 December 2007 with a net cash outflow amounting to 4,847,134 thousand zlotys and
 - the additional information('the attached financial statements').
2. The truth and fairness¹ of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair² and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.
3. We conducted our audit of the attached financial statements in accordance with the following regulations being in force in Poland:
 - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
 - the auditing standards issued by the National Chamber of Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a

¹ Translation of the following expression in Polish: *'rzetelność, prawidłowość i jasność'*

² Translation of the following expression in Polish: *'rzetelne, prawidłowe i jasne'*

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

4. In our opinion, the attached financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2007 to 31 December 2007, as well as its financial position³ as at 31 December 2007;
 - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's Articles of Association.
5. We have read the 'Directors' Report for the period from 1 January 2007 to 31 December 2007 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities.'

We conducted the audit of the Bank's financial statements during the period from 15 October 2007 to 14 December 2007 and from 28 January 2008 to 8 April 2008. We were present at the Bank's head office from 15 October 2007 to 14 December 2007 and from 28 January 2008 to 8 April 2008 and in the Bank's branches from 15 October 2007 to 19 October 2007.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁴ of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 8 April 2008, confirming that:

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

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

2.3 Financial statements for prior financial year

The Bank's financial statements for the year ended 31 December 2006 were audited by Dominik Januszewski, Certified Auditor No. 9707/7255, acting on behalf of Ernst & Young Audit sp. z.o.o. with its registered office in Warsaw at Rondo ONZ 1, an entity authorized

³ Translation of the following expression in Polish: *'sytuacja majątkowa i finansowa'*

⁴ Translation of the following expression in Polish: *"rzetelność, prawidłowość i jasność"*

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

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

Dividends for the shareholders	980,000
Reserve capital	1,062,391
Other reserve capital	5,000

	2,047,391
	=====

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

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

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

3. Analytical Review

3.1 Basic data and financial ratios

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

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

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

3.2 Comments

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

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

⁵ Average value of assets and equity for 2005 were calculated based on the total value of assets or equity as at 31 December 2004 presented in the financial statements for the year ended 31 December 2005 in compliance with International Accounting Standards.

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

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Bank is unable to continue as a going concern for at least twelve months subsequent to 31 December 2007 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 1 of the additional information to the audited financial statements for the year ended 31 December 2007, the Management Board has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2007 and that there are no circumstances that would indicate a threat to its continued activity.

3.4 Application of prudence regulations

As at 31 December 2007, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Commission of Banking Supervision envisaged banking regulatory norms in relation to the following items:

- level of currency positions,
- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and issued guarantees and surety ships to risk categories, recognition of provisions related to banking operations,
- solvency,
- level of obligatory reserve,
- capital adequacy.

During our audit we have not identified any facts indicating that during the period from 1 January 2007 to 31 December 2007 the Bank did not comply with these regulations. We have received written representation from the Management Board that during the year the banking regulatory norms were not breached.

3.5. Correctness of calculation of capital adequacy ratio

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

II. DETAILED REPORT

1. Accounting System

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

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

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

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

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

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2007.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2007.

3. Additional information

The additional information to the financial statements for the year ended 31 December 2007 was prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Bank's activities in the period from 1 January 2007 to 31 December 2007 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the audited financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).

5. Materiality level

Professional judgment was applied taking into account the specific factors relating to the Bank to establish a level of materiality. This determination included considering both quantitative and qualitative factors.

6. Conformity with Law and Regulations

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

7. Work of Experts

During our audit we have taken into account the results of the work of the following independent experts:

- property valuer – value of collateral were taken into account while calculating impairment allowances for loan receivables; valuation were performed by the property valuer ordered by the Bank,
- actuary – calculation of provisions for jubilee bonuses and retirement benefits.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Arkadiusz Krasowski
Certified Auditor No. 10018/7417

Dominik Januszewski
Certified Auditor No. 9707/7255

Warsaw, 8 April 2008