



Translation of the Directors' Report on the activities of PKO BP SA in 2007
The only binding version is the originally issued Polish version of the Directors' Report



PKO BANK POLSKI
SPÓŁKA AKCYJNA

DIRECTORS' REPORT
ON THE ACTIVITIES OF PKO BP SA IN 2007

WARSAW, APRIL 2008



TABLE OF CONTENTS:

1. INTRODUCTION	3
2. FINANCIAL PERFORMANCE OF PKO BP SA.....	4
2.1 INCOME STATEMENT.....	4
2.2 THE BALANCE SHEET OF THE BANK.....	6
3. BUSINESS DEVELOPMENT.....	9
3.1 THE BANK'S DEVELOPMENT PATH IN THE YEARS 2007-2012	9
3.2 BUSINESS AREAS.....	9
3.2.1 RETAIL SEGMENT.....	9
3.2.2 HOUSING SEGMENT	11
3.2.3 CORPORATE SEGMENT.....	12
3.2.4 TREASURY SEGMENT	13
3.2.5 INVESTMENT SEGMENT.....	13
3.3 INTERNATIONAL COOPERATION.....	14
3.4 PROMOTION AND IMAGE BUILDING ACTIVITIES.....	15
4. INTERNAL ENVIRONMENT.....	16
4.1 RISK MANAGEMENT POLICY.....	16
4.1.1 CREDIT RISK	16
4.1.2 FINANCIAL RISK	16
4.1.3 OPERATIONAL RISK.....	16
4.2 CAPITAL ADEQUACY	17
4.3 ORGANISATIONAL AND CAPITAL CONNECTIONS	17
4.4 RELATED PARTY TRANSACTIONS.....	20
4.5 ORGANIZATION OF THE BANK	20
4.6 GOVERNING BODIES OF THE BANK IN THE REPORTING PERIOD	21
4.7 THE BANK'S PERSONNEL	25
4.8 AMENDMENTS TO THE BANK'S ARTICLES OF ASSOCIATION.....	27
4.9 CORPORATE GOVERNANCE.....	27
5. EXTERNAL ENVIRONMENT	28
6. OTHER INFORMATION	30



1. INTRODUCTION

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



2. FINANCIAL PERFORMANCE OF PKO BP SA¹

2.1 Income statement

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






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

SELECTED FINANCIAL DATA OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA				
	Period from 01.01.2007 to 31.12.2007	Period from 01.01.2006 to 31.12.2006	Change (PLN million)	Change (%)
Result on business activity*:	7 099.2	6 057.1	1 042.2	17.2%
Net interest income	4 503.1	3 722.6	780.5	21.0%
Net fees and commission income	2 037.1	1 749.9	287.2	16.4%
Net other income	559.0	584.7	- 25.6	-4.4%
General administrative expenses	- 3 727.2	- 3 589.0	- 138.1	-3.8%
Operating result	3 327.1	2 502.1	825.1	33.0%
Result on impairment allowances	- 44.9	34.0	- 79.0	x
Gross profit (loss)	3 327.1	2 502.1	825.1	33.0%
Net profit (loss)	2 720.0	2 047.4	672.6	32.9%

* taken as a total of income items

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

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

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

Net interest income

¹ Presented in this chapter potential differences in sums, percentage shares and dynamics result from amounts rounding to PLN million and and structure percentage shares rounding to one decimal.



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

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

*average loan interest calculated as a relation of loan interest income to average loans for the reporting period

**average deposit interest calculated as a relation of deposit interest expense to average deposits for the reporting period

Net fees and commission income

Table 4. Fees and commission income and expense of the Bank (PLN million)

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

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

General administrative expenses

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



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

Key financial ratios

Table 6. Financial ratios of the Bank

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

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

2.2 The balance sheet of the Bank

Main balance sheet items

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

BALANCE SHEET OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA						
Items	As at 31.12.2007	Structure (2007)	Change 2007/2006	As at 31.12.2006	Structure (2006)	Comment
Cash and amounts due from the Central Bank	4 594.1	4.4%	1.1%	4 543.7	4.6%	Increase in assets by 5.6% y/y as a result of increase in loans and advances granted to consumers by 28.7% y/y and decrease in securities and amounts due from banks by PLN 12,033.1 million.
Amounts due from banks	5 346.9	5.1%	-59.9%	13 349.7	13.4%	
Loans and advances to customers	73 822.2	70.1%	28.7%	57 339.8	57.4%	
Investment securities	15 146.0	14.4%	-21.0%	19 176.3	19.2%	
Other assets	6 462.2	6.1%	19.5%	5 407.8	5.4%	
Total assets	105 371.3	100.0%	5.6%	99 817.3	100.0%	
Amounts due to other banks	3 625.7	3.4%	-6.5%	3 877.3	3.9%	Increase in assets financed with an increase in amounts due to customers by 3.6% y/y and with an issue of the Bank's subordinated debt at PLN 1.6 billion.
Amounts due to customers	85 246.5	80.9%	3.6%	82 277.1	82.4%	
Liabilities arising from securities issued	1 614.9	1.5%	x	-	0.0%	
Other liabilities	3 154.6	3.0%	-13.0%	3 627.3	3.6%	
Total liabilities	93 641.8	88.9%	4.3%	89 781.6	89.9%	
Total equity	11 729.5	11.1%	16.9%	10 035.7	10.1%	
Total liabilities and equity	105 371.3	100.0%	5.6%	99 817.3	100.0%	

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



Translation of the Directors' Report on the activities of PKO BP SA in 2007
The only binding version is the originally issued Polish version of the Directors' Report

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

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

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

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

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

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

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

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

At the end of 2007, the following regions had the greatest share in the geographical structure of the deposit base² (excluding interbank deposits and funds held in Internet accounts): mazowiecki (25.4%), śląsko-opolski (11.9%), wielkopolski (11.0%). Their aggregate share in total deposits of the Bank amounted to 48.3% and decreased by 0.1 pp compared to the end of 2006.

Equity and capital adequacy ratio

² Structure according to the management reports of PKO BP SA



Translation of the Directors' Report on the activities of PKO BP SA in 2007
The only binding version is the originally issued Polish version of the Directors' Report

Table 12. Equity of the Bank (PLN million)

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

*capital adequacy ratio was calculated according to par. 10 of the Commission for Banking Supervision resolution no. 1/2007 dated 13 March 2007

**comparative data (resulting from the amendments in the Banking Law as well as publication of the Commission for Banking Supervision's resolutions)



3. BUSINESS DEVELOPMENT

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

In the year 2007 the Bank started to work on a new development strategy. One of the objectives of the PKO BP SA's Growth Strategy - "The New Opening" ("Nowe Otwarcie") for the years 2007-2012 is to build a strong financial group. The Bank's activities are aimed at improvement of the effectiveness of the invested capital. The Bank is going to focus on development of the companies contributing to the Group's product offer expansion. PKO BP SA does not make it impossible to invest in other financial sector entities operating on Polish and the Central and Eastern Europe's region markets. The Bank possesses the financial ability to undertake the capital investment. The financial structure of the potential investments will be adjusted to the Bank's funds each time.

Successful implementation of this strategy will enable the Bank to improve service quality and client satisfaction as well as its financial performance. It will also lead to increase in the value of the Bank's income and net profit (showing a double-figure annual growth rate) while the C/I ratio will remain at the level of 40%.

3.2 Business areas

3.2.1 Retail segment

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

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

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

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

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

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

*Bank's management data



Translation of the Directors' Report on the activities of PKO BP SA in 2007
The only binding version is the originally issued Polish version of the Directors' Report

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

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

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

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

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

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

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



Savings-settlement accounts, Inteligo accounts and banking cards

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

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

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

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

Electronic banking

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

3.2.2 Housing segment

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

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

Mortgage banking

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

Table 21. Significant events in the mortgage banking area

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



Housing loans covered by state assistance

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

Products for institutional customers

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

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

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

Deposits held in housing plan passbooks

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

3.2.3 Corporate segment

In 2007 the Bank continued to focus on the strengthening of its market position in this segment and on building an image of the Bank as a financial institution which is active on the corporate market.

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

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

* Bank's management data

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

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



Table 25. Significant events in the area of corporate banking

Achievement	Description
Lending activities	<ol style="list-style-type: none"> In 2007 the Bank organised 11 syndicated loans, under which the Bank's exposure amounted to PLN 1,162.8 million, and entered into 12 bilateral agreements with a total value of PLN 1,416.5 million. The Bank entered into a bank guarantee agreement in respect of an entity related to the Bank, for an amount of EUR 57 million. The above transaction was made at an arm's length.
Issue of non-treasury securities	<ol style="list-style-type: none"> In 2007 the Bank concluded 29 agreements for the issue of municipal bonds with a total value of PLN 524.7 million, among others for the city of Bydgoszcz (PLN 288 million) and for the Lubuskie Voivodship (PLN 85 million). In addition, the Bank concluded 9 agreements for the issue of corporate bonds with a total value of PLN 904.9 million. This included participation in the issue of corporate bonds as part of a banking consortium, with a total value of PLN 6.2 billion (transaction with a significant customer of the Bank).
New products	In 2007, the Bank launched a new Business-type credit card. This product is addressed to both the existing customers of the Bank as well as to entities which have no bank account with PKO BP SA (potential customers). The new credit cards can also be used to make online purchases.

3.2.4 Treasury segment

Table 26. Significant events in the treasury segment

Achievement	Description
Exposure to interest rate risk	The Bank maintained moderate exposure to the interest rate risk. It adjusted its investment policy to current market conditions: in the period of an increased interest rate risk, the Bank made use of hedging transactions (mainly IRS).
Interbank transactions	<ol style="list-style-type: none"> At the end of November 2007, the Bank's share in the volume of transactions entered into by the 13 banks taking part in the competition for the Dealer in Treasury Securities (DTS) was as follows: SPOT 9%, IRS 13% and FRA 10%. The volume of transactions made by PKO BP SA on the MTSCeTO market accounted for 12% of all transactions entered into on this market. The Bank was ranked 4th (out of 22) in the DTS competition.
Sales of products	The Bank increased sales of treasury products to corporate customers: 50% increase in the value of SPOT transactions, five-fold increase in the value of FORWARD transactions and four-fold increase in the value of derivative transactions. IRS and CIRS transactions have also become a standard part of the Bank's product offer.

3.2.5 Investment segment

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



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

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

Custodian look at activities

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

3.3 International cooperation

In 2007, the Bank:

- participates in the "Loan Window" program being part of the "UE/EBRD SME Finance Facility" (on the basis of the Loan Agreement of 21 February 2003 concluded by PKO BP SA and the European Bank for Reconstruction and Development for the financing of small and medium-sized enterprises). Until 31 December 2007, the Bank extended 3,117 loans for a total amount of EUR 62.65 million,
- entered into 2 ISDA Master Agreements with foreign banks and 2 Credit Support Annexes to the previous ISDA agreements, 2 TBMA/ISMA Global Repurchase Master Agreements, and participated in 2 syndicated loans for foreign banks within the banks consortium organised on the European market, with a total value of PLN 125 million,
- entered into a loan agreement and a working capital loan agreement with an entity from the banking sector directly related to the Bank, for a total amount of PLN 70 million – both of these transactions were made at an arm's length,
- the Bank held 29 *nostro* accounts denominated in 14 currencies, and kept 38 *loro* accounts in 3 currencies (as at 31 December 2007),
- as part of cooperation with the UK NatWest, the branches of PKO BP SA in Poland started to accept applications for the opening of NatWest Welcome accounts; in December 2007 PKO BP SA opened its first UK outlet in London.

In addition, the banking supervisory authority of Ireland confirmed the receipt of a notification of the Bank's plans to conduct cross-border activities in Ireland.



3.4 Promotion and image building activities

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

1. strengthening the Bank's image among shareholders and clients as leader in the area of banking services in Poland – a modern organisation with an established reputation, safe, friendly and working on a partner-like basis with customers in each market segment,
2. increasing the aspirations and prestige of the PKO BP SA brand,
3. intensifying promotion activities supporting the sales of the Bank's products and services.

As part of promotion of the Bank's products and services, the Bank carried out promotional campaigns for specific products in the retail and corporate market, as well as image-building campaigns and direct marketing activities aiming at acquisition of new clients and strengthening of the relations with the existing business partners – organization of a number of various events, including educational-sales events, as well as workshops for the Bank's clients.

In 2007, public relations activities were carried out especially through the sponsorship and charity activities of the Bank. The Bank, acting as the patron and sponsor, supported the organization of a number of cultural, sports, social and local events through creative sponsorship programs.

Through the following programmes:

- “PKO Bank Polski Kulturze Narodowej” (“PKO BP for the Polish Culture”) – the Bank continued to be the patron for the Warsaw and Cracow museums, the National Philharmonics in Warsaw and the Poznań and Łódź Philharmonics,
- “PKO Bank Polski Blisko Ciebie” (“PKO BP Close to You”) – the Bank provided financial support for a number of spectacular artistic events, such as Rod Stewart's concert for the series 'Freedom Space' organised in the Gdańsk Shipyard and The Rolling Stones' concert in Warsaw.

Awards and distinctions granted to PKO BP SA

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

1. the title of the “Primary Market Leader” granted for the 3rd time to Dom Maklerski PKO BP for the introduction of the greatest number of new companies on the stock exchange in 2006,
2. 1st place in *Newsweek's* ranking of “100 Most Valuable Companies in Poland”,
3. Promotional Emblem “*Teraz Polska*” – award granted for the European Program of PKO BP SA in the 17th “*Teraz Polska*” contest organised by the Polish Promotional Emblem Foundation under the patronage of the President of Poland,
4. “Premium Brand 2006” in the category of financial institutions - title granted to the Bank for the second time in the ranking of most reputable brands organised by MMT Management under the patronage of the monthly *FORBES*,
5. Main Award in the ranking of “50 biggest banks in Poland” organised by the monthly *BANK*, and 1st prize in the category of “Internet Banks”,
6. “Bank of the Year 2007 in Poland” – prestigious award granted to the Bank by the monthly “*The Banker*” for financial performance, development strategy and market achievements,
7. 1st place in the category of “financial brands” in *Rzeczpospolita's* ranking of the strongest Polish brands,
8. European Medal in the 14th edition of competition organised by the Office of the Committee for European Integration and Business Centre Club for ‘*Szybki Serwis Kredytowy*’.

Furthermore, PKO BP SA, as the first bank in Poland, received the ISO/IEC 27001:2005 certificate, confirming compliance of the Information Security Management System with the ISO/IEC 27001:2005 standard.



4. INTERNAL ENVIRONMENT

4.1 Risk management policy

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

4.1.1 Credit risk

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

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

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

In 2007, the Bank developed the principles of assessment of credit capacity of individual customers to include an assessment of loan liabilities resulting from business activity, interest rate risk and currency risk if the currency in which the customer earns his/her income differs from the currency of the loan for which the customer has applied. In addition, in 2007 the Bank introduced detailed principles for the assessment of credit risk related to non-residents and Polish citizens working abroad.

4.1.2 Financial risk

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

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

The Bank has a stable deposit base and a portfolio of liquid securities which ensure that the Bank possess sufficient financial liquidity. In 2007, the Bank acquired a syndicated loan and issued subordinated debt securities in order to diversify its sources of financing. In the year 2007, the Bank's risk measures for interest rate risk, currency risk, derivatives risk and liquidity risk went for a secure level. In its activities, the Bank used derivative instruments (including credit derivatives) for investment and hedging purposes and held speculative positions in interest rates and foreign currencies. During the year 2007, the Bank performed regular assessments of financial institutions and reviewed the amounts of the assigned credit and settlement limits, and set limits for the new contractors on the interbank market.

4.1.3 Operational risk

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



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

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

4.2 Capital adequacy

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

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

The level of the capital adequacy of the Bank in 2007 was safe. Due to dynamic development of lending activities and implementation, as of 1 January 2008, of the requirements of the New Capital Accord (Basel II), the Bank took actions in order to maintain the capital adequacy ratio above the level of 10%. Specifically, in the 4th quarter of 2007 the Bank carried out an issue of subordinated debt securities and obtained approval of the Commission for Banking Supervision for including them in the Bank's own funds.

In 2007, the Bank adjusted its information systems, internal processes and internal regulations to the requirements of the New Capital Accord and created a capital management system whose aim is to maintain capital, at all times, at a level that is adequate to the risk profile of the Bank and to improve its performance and enhance its value to the shareholders.

The Bank's process of internal capital management includes in particular identification of significant risks, assessment of internal capital for the individual types of risk, calculation of aggregated internal capital for all significant risks arising in the operations of the Bank, as well as stress testing of capital adequacy.

In 2007, the Bank developed and implemented its information policy in respect of capital adequacy (in accordance with the requirements of Resolution 6/2007 of the Commission for Banking Supervision dated 13 March 2007), which has been included on the Bank's website. In accordance with par. 6 of Resolution 6/2007 of the Commission for Banking Supervision, the Bank publishes information about capital adequacy in a separate document on an annual basis, not later than within 30 days of the date of approval of the annual financial statements by the Annual General Meeting.

4.3 Organisational and capital connections

Investing activities

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



Translation of the Directors' Report on the activities of PKO BP SA in 2007
The only binding version is the originally issued Polish version of the Directors' Report

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

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

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

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

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

Table 29. *Indirect exposures of the Bank*

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



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

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

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

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



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

Investment objectives

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

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

4.4 Related party transactions

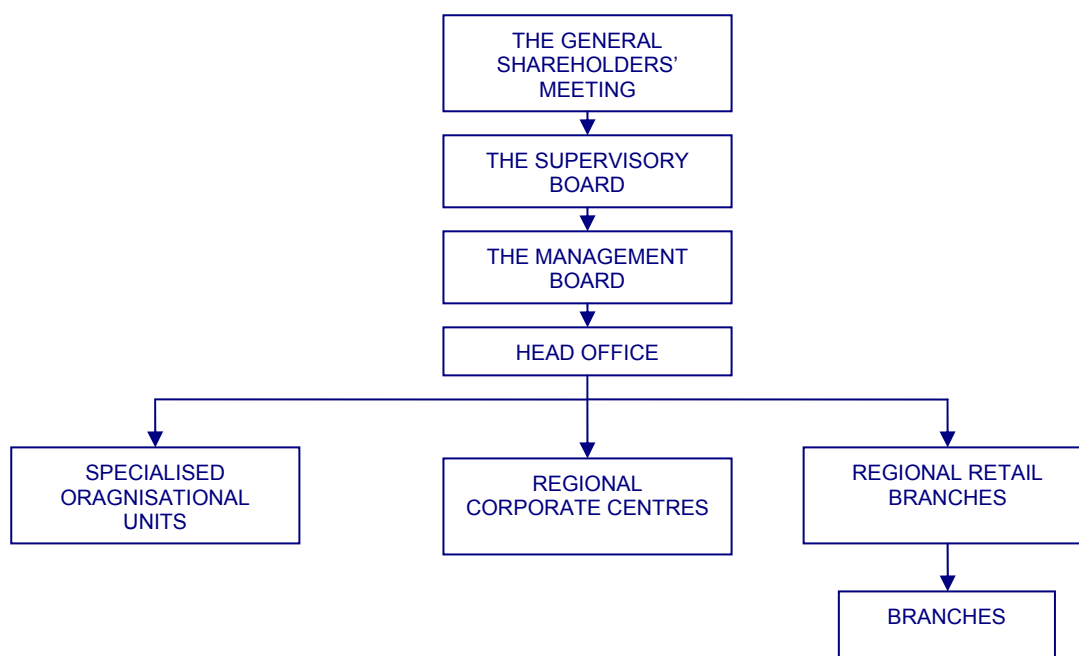
Transactions with a value of EUR 500 thousand or exceeding EUR 500 thousand

In 2007, PKO BP SA provided the following services to related entities (subsidiaries, associates and jointly controlled entities): keeping bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting bank guarantees and conducting spot foreign exchange operations.

In addition, under the lease agreement with Centrum Finansowe Puławska Sp. z o.o., the Bank made payments to the Company in 2007 for a total amount of PLN 45.6 million; these payments were mainly related to rent and operating fees.

4.5 Organization of the Bank

Table 30. The Bank's organisation structure scheme



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



4.6 Governing bodies of the Bank in the reporting period

Members of the Management Board in the reporting period

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

No.	Name	Function	Appointment date
1.	Sławomir Skrzypek	Vice-President of the Management Board	on 20.12.2005 appointed for the common term of Management Board that commenced on 19.05.2005
		Vice-President	29.09.2006
		acting as the President of the Management Board	resigned from these positions as of 10.01.2007
2.	Rafał Juszczyk	Member of the Management Board*	as of 01.07.2006 appointed to the common term of the Management Board that commenced on 19.05.2005
		Vice-President of the Management Board	29.09.2006
		Vice-President acting as the President of the Management Board	11.04.2007 (on 2 April 2007 the Supervisory Board appointed Rafał Juszczyk as of 11 April 2007, Vice-President of the Management Board, to act as President of the Management Board of PKO BP SA until a new President of the Management Board is elected)
		President of the Management	20.06.2007 (On 8 August 2007 the Commission for Banking Supervision [KNB] gave consent for appointing Rafał Juszczyk as the President of the Management Board of the Bank)
3.	Wojciech Kwiatkowski**	Vice-President of the Management Board	as of 01.11.2006 appointed to the common term of the Management Board that commenced on 19.05.2005
4.	Jacek Obłąkowski	Member of the Management Board	20.06.2002 on 19.05.2005 re-appointed to another term starting from this day
		Vice-President of the Management Board	29.09.2006. resigned from this position as of 31.01.2007
5.	Zdzisław Sokal	Member of the Management Board*	as of 01.07.2006 appointed for the common term of the Management Board that commenced on 19.05.2005
		Vice-President of the Management Board	29.09.2006 r. resigned from this position as of 13.03.2007
6.	Marek Głuchowski	Acting as the President of the Management Board	delegated to this position from 10.01.2007 to 23.01.2007 and from 27.01.2007 to 10.04.2007
7.	Robert Działak***	Vice-President of the Management Board	as of 23.02.2007 appointed for the common term of the Management Board that commenced on 19.05.2005
8.	Stefan Świątkowski****	Vice-President of the Management Board	as of 01.05.2007 appointed for the common term of the Management Board that commenced on 19.05.2005
9.	Adam Skowroński****	Vice-President of the Management Board	delegated temporarily to act as the Vice-President of the Management Board from 11.04.2007 to 30.04.2007; as of 23.07.2007 appointed for the common term of the Management Board that commenced on 19.05.2005
10.	Aldona Michalak****	Vice-President of the Management Board	as of 01.07.2007 appointed for the common term of the Management Board that commenced on 19.05.2005
11.	Mariusz Klimczak****	Vice-President of the Management Board	as of 15.07.2007 appointed for the common term of the Management Board that commenced on 19.05.2005



Translation of the Directors' Report on the activities of PKO BP SA in 2007
The only binding version is the originally issued Polish version of the Directors' Report

No.	Name	Function	Appointment date
12.	Berenika Duda-Uhryn****	Vice-President of the Management Board	as of 10.09.2007 appointed for the common term of the Management Board that commenced on 19.05.2005

* Appointed by the Supervisory Board on 26 June 2006; on 20 June 2007 the Supervisory Board appointed the Vice-President of the Management Board, Rafał Juszczyk, to act as the President of the Management Board for the common term of the Management Board that commenced on 19.05.2005.

** Appointed by the Supervisory Board on 29 September 2006.

*** Appointed by the Supervisory Board on 22 February 2007.

**** Appointed by the Supervisory Board on 20 June 2007.

Table 32. *Other functions performed by the Bank's Management Board Members during the reporting period*

No.	Name	Function
1.	Sławomir Skrzypek	Deputy Chairman of the Steering Committee for Implementation of Branch Modernisation Program (from 20.12.2005 to 31.10.2006 – according to the Management Board resolution no 343/C/2006 from 31.10.2006 up to the end of the period of performing the President of the Bank's Management Board did not participate in the Committee's works) Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006)
2.	Rafał Juszczyk	Deputy Chairman of the Integrated Information System Steering Committee (since 10.07.2006), Chairman of the Integrated Information System Steering Committee (since 14.02.2007) Member (since 17.07.2006) and later Deputy Chairman (since 31.10.2007) of the Steering Committee for Implementation of Branch Modernisation Program Chairman of the IIS Project Committee (from 01.07.2006 to 31.10.2007) Deputy Chairman of the Bank's Credit Committee (from 10.01.2007 to 16.07.2007) Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (from 17.01.2007 to 30.07.2007)
3.	Jacek Obłąkowski	Deputy Chairman of the Bank's Credit Committee (since 26.10.2006) Chairman of the Steering Committee for Implementation of Branch Modernisation Program (since 15.03.2005) Deputy Chairman of the Integrated Information System Steering Committee (since 27.08.2002), Chairman of the Integrated Information System Steering Committee (since 4.01.2007) Deputy Chairman of the IIS Project Committee (since 24.04.2005)
4.	Zdzisław Sokal	Member of the Asset and Liability Committee (since 10.07.2006), Chairman of the Asset and Liability Committee (since 4.01.2007) Chairman of the Bank's Credit Committee (since 4.01.2007) Member of the Integrated Information System Steering Committee (since 10.07.2006), Deputy Chairman of the Integrated Information System Steering Committee (since 14.02.2007) Deputy Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006) Deputy Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (since 17.01.2007)
5.	Wojciech Kwiatkowski	Deputy Chairman of the Asset and Liability Committee (from 4.01.2007 to 19.03.2007 and from 15.05.2007 to 5.08.2007), Chairman of the Asset and Liability Committee (from 20.03.2007 to 14.05.2007) and Member of the Asset and Liability Committee (from 6.08.2007 to 29.11.2007) Deputy Chairman of the Integrated Information System Steering Committee (from 14.02.2007 to 22.02.2007) Deputy Chairman of the Steering Committee for Implementation of Branch Modernisation Program (since 2.01.2007 to 31.01.2007 and after 23.02.2007), from 1.02.2007 to 23.02.2007 – Chairman of the Steering Committee for Implementation of Branch Modernisation Program Deputy Chairman of the Bank's Credit Committee (from 1.02.2007 to 22.02.2007) Member of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (from 17.01.2007 to 30.07.2007)
6.	Marek Głuchowski	Chairman of the Corporate and Commercial Governance Committee (from 11.01.2007 to 10.04.2007)
7.	Robert Działak	Deputy Chairman of the Asset and Liability Committee (from 20.03.2007 to 5.08.2007), Member of the Asset and Liability Committee (from 6.08.2007 to 26.11.2007) Deputy Chairman of the Bank's Credit Committee (from 23.02.2007 to 6.08.2007) Deputy Chairman of the Integrated Information System Steering Committee (since 23.02.2007) Chairman of the Steering Committee for Implementation of Branch Modernisation Program (since 23.02.2007) Member of the IIS Project Committee (since 23.02.2007)



No.	Name	Function
		Deputy Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (from 10.04.2007 to 30.07.2007)
6.	Adam Skowroński	Deputy Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (from 11.04.2007 to 30.04.2007 and since 30.07.2007) Chairman of the Bank's Credit Committee (from 11.04.2007 to 30.04.2007) Deputy Chairman of the Asset and Liability Committee (since 24.07.2007)
8.	Stefan Świątkowski	Chairman of the Asset and Liability Committee (since 15.05.2007) Chairman of the Bank's Credit Committee (since 1.05.2007) Deputy Chairman of the Integrated Information System Steering Committee (since 1.05.2007) Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (since 30.07.2007)
9.	Mariusz Klimczak	Member of the Asset and Liability Committee (from 6.08.2007 to 26.11.2007) Deputy Chairman of the Asset and Liability Committee (since 16.07.2007)

Members of the Bank's Supervisory Board

Table 33. *The Bank's Supervisory Board during the reporting period*

No.	Name	Function	Appointment / dismissal date
1.	Marek Głuchowski	President of the Supervisory Board	appointed on 18.04.2006, from 10.01 to 23.01.2007 and from 27.01.2007 to 10.04.2007 delegated to temporarily act as the President of the Management Board
2.	Urszula Pałaszek	Member of the Supervisory Board	appointed on 19.05.2005
		Vice-President of the Supervisory Board	since 20.05.2005
3.	Tomasz Siemiątkowski	Member of the Supervisory Board	appointed on 18.04.2006
		Secretary of the Supervisory Board	since 26.06.2006.
4.	Jerzy Michałowski	Member of the Supervisory Board	appointed on 18.04.2006
5.	Jerzy Osiatyński	Member of the Supervisory Board	appointed on 25.03.2002
		Member of the Supervisory Board	appointed on 19.05.2005, resigned as of 31.01.2007
6.	Adam Skowroński	Member of the Supervisory Board	appointed on 18.04.2006, on 2.04.2007 delegated to temporarily act as the Vice-President of the Management Board for the period from 11.04.2007 to 30.04.2007, on 23.07.2007 r. appointed as the Vice-President of the Bank's Management Board
7.	Agnieszka Winnik-Kalembe	Member of the Supervisory Board	appointed on 18.04.2006
8.	Maciej Czapiewski	Member of the Supervisory Board	appointed on 19.03.2007

On 9 May 2007 the Supervisory Board of the Bank set up the Strategy Implementation Committee.

Holders of commercial powers of attorney, Management Board meetings and implementation of resolutions of General Shareholders' Meetings and recommendations of the State Treasury Minister

As at 1 January 2007, there were 15 holders of commercial powers of attorney in PKO BP SA. During the year 2007, 1 holder of commercial powers of attorney was appointed and 4 holders of commercial powers of attorney were dismissed. As at 31 December 2007, there were 12 holders of commercial powers of attorney.

During the year 2007, the Management Board held 52 minuted meetings and took 600 resolutions.

The most important activities and decisions taken by the Management Board, that had an influence on the economic and financial position and activity of the Bank, have been presented in the relevant parts of the Directors' Report.

On 26 April 2007 the shareholders of PKO BP SA held an Ordinary General Meeting. The resolutions passed by the General Meeting, which called for taking specific actions, have been carried out.



Rules for appointing and dismissing members of the Management Board

In accordance with par. 19 Section 1 and Section 2 of the Bank's Articles of Association, the Management Board members are appointed by the Supervisory Board for a common three-year term. According to par. 19 section 4 of the Bank's Articles of Association the board members may only be dismissed for important reasons.

Authorisations granted to members Management Board

In accordance with par. 20 Section 1 of the Bank's Articles of Association, the scope of the Management Board responsibilities includes all matters related to the conducting of Bank's affairs that have not been reserved by law or Articles of Association for the General Shareholders' Meeting or Supervisory Board, including purchase and disposal of property, property interests or perpetual usufruct, that do not require consent of the General Meeting in accordance with par. 9 section 1 point 5 of the Bank's Articles of Association.

According to par. 20 Section 2 of the Articles of Association, making decisions on incurring liabilities or disposing of assets the total value of which exceeds 5% of the Bank's equity in a transaction with a single entity shall fall within the scope of competence of the Management Board, with the provision for the scope of competence of the General Shareholders' Meeting set out in par. 9 or the scope of competence of the Supervisory Board set out in par. 15 of the Articles of Association.

Contracts concluded between the issuer and persons performing management functions

In accordance with the definition contained in par. 2 Section 1 point 35 letter a. of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information provided by the issuers of securities (Journal of Laws No 209 item 1744), members of the Management Board are the persons who manage the Bank.

With each member of the Management Board in the year 2007, the Bank concluded two contracts binding in 2006, that provide for compensation in the event of resignation or dismissal without an important reason:

- employment contract, that provides for a severance payment amounting to a 3-month basic salary recently received by the Board member
- anti-competition contract, that provides compensation for complying with competition ban over a 6-month period after termination of the employment contract. This compensation amounts to 100% of the monthly basic salary received by the Board member prior to termination of the employment contract and is to be paid in arrears over the period of the ban.

The monthly basic salary is the equivalent of six times the average remuneration determined in the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Journal of Laws No 26, item 306 with subsequent changes), the so called "chimney" act.

Benefits provided to members of management and supervisory boards

Full information on remunerations and other benefits provided to members of the Bank's Management and Supervisory Boards in the reporting period has been presented in Note 48 of Additional Information to the Financial Statements of PKO BP SA for the year 2007.

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

Table 18 presents Bank's shares held by members of the Bank's Management and Supervisory Boards as at 31 December 2007. The nominal value is PLN 1 per share. Members of the Bank' Supervisory Board and the Management Board did not hold shares and participations in the Bank's subsidiaries as at 31 December 2007.

Table 34. *PKO BP SA's shares held by members of Management and Supervisory Boards of the Bank as at 31 December 2007*

No.	Name	Number of shares as at 31.12.2006	Purchase	Disposal	Number of shares as at 31.12.2007
I.	Management Board				
1.	Rafał Juszczyk, President of the Management Board of PKO BP SA	----	----	----	----
2.	Berenika Duda-Uhryn,	----	----	----	----



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

4.7 The Bank's personnel

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

Activities relating to changes in employment level and structure

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

Remuneration system

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

The Collective Bargaining Agreement determines the following elements of remuneration:

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



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

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

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

Employees' groups	Basic salary
High management	8 559
Middle management	5 262
Other employees	3 181
Total	3 645

Employee benefits

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

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

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

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

Changes to remuneration terms

During the year 2007, the principles of granting performance bonuses to employees were modified effectively as of 1 January 2008. According to the amended principles the bonus criteria is based on the individual sales plans. This should support realization of the sales plan thanks to the flexibility of setting up new sales goals for the particular quarters and units according to current market conditions. As of 1 March 2007 the salaries of the Bank's employees were increased. The amount of the increase was determined individually for each employee within the limits of the funds available for distribution.

Group redundancies

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

Collective disputes

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

Collective Bargaining Agreements terminated, suspended or signed

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



4.8 Amendments to the Bank's Articles of Association

On 26 April 2007, the Ordinary General Meeting of PKO BP SA resolved to make amendments to the Bank's Articles of Association and authorized the Supervisory Board of the Bank to compile the consolidated text of the amended Articles of Association.

The amendments made to the Articles of Association were as follows:

- extending the scope of the principal activities of the Bank to include services related to sale and redemption of investment fund units,
- a requirement for Management Board to convene a General Meeting to appoint Supervisory Board members if, due to the expiry of the mandate of a Supervisory Board member, the number of Supervisory Board members falls below six,
- liquidation of the position of Vice President - First Deputy President of the Management Board,
- increase of the maximum number of Management Board members from eight to nine,
- deleting the provision requiring that declarations on behalf of the Bank shall be made by two commercial attorneys acting jointly,
- elimination of ruling as a form of decision-taking by Management Board,
- including legal matters within the scope of competence of the President of Management Board,
- amending the scope of matters within the competence of the Management Board member approved by the Commission for Banking Supervision to include risk (including credit risk) management, (previously this included strategy and planning, organisation and restructuring, investor relations and legal matters),
- introduction of the requirement to obtain the approval of the Supervisory Board for the appointment and dismissal of the director and deputy directors of the internal audit department.

The consolidated text of the Articles of Association of PKO BP SA was published on 26 June 2007 in current report No. 29/2007, and was included on the Bank's website.

4.9 Corporate governance

The Bank's compliance with corporate governance rules in 2007 was described in the *Report on PKO BP SA's compliance with corporate governance rules in 2007*, which constitutes an appendix this Report.



5. EXTERNAL ENVIRONMENT

Macroeconomic factors

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

In 2007, official unemployment rate decreased by 3.4 pp (to 11.4% in December 2007), due to the positive influence of the economic revival, the inflow of EU funds to be used for active forms of fighting unemployment and continued economic emigration.

The average annual inflation rate increased in 2007 up to 2.5% from 1% in 2006. In the 4th quarter of 2007, the inflation rapidly increased to 4% in December, mainly due to high rises in the prices of food. In 2007, the pressure of demand on the level of prices continued to be relatively small, which helped the “net” core inflation index remain below the CPI, within the corridor of 1.2% - 1.8%. The appreciation of PLN was an additional factor working towards a decrease in the level of inflation over the most of the year.

Monetary policy of the National Bank of Poland

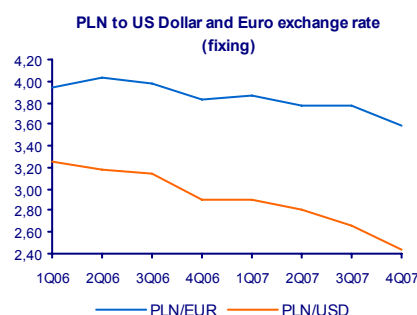
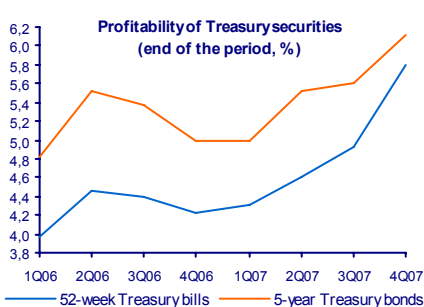
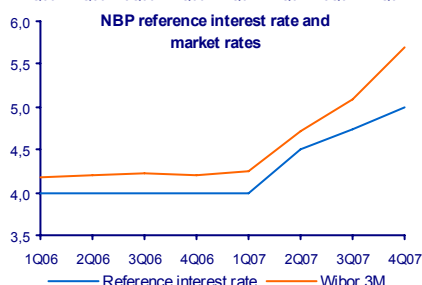
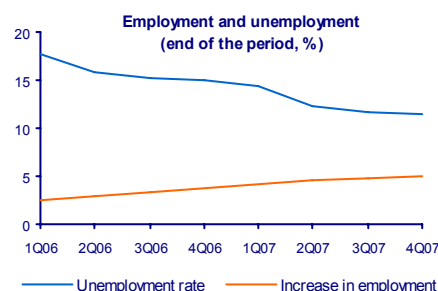
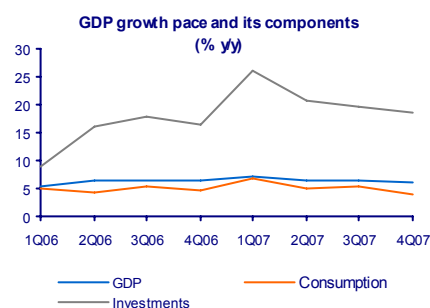
Pursuant to the NBP's “Monetary Policy Assumptions for the Year 2007”, maintaining the annualised inflation rate at 2.5%, with allowable fluctuations of +/-1 percentage point, continued to be its main objective in 2007. Due to the risk of an increase in the inflation rate above the NBP's inflation target, the Monetary Policy Council increased the NBP interest rates four times (in April, June, August and November) by a total of 100 base points, with the NBP's benchmark (reference) rate reaching the level of 5%.

Financial market

In 2007, there was an increase in the yields on Polish Treasury securities, as a result of among others: the deterioration of inflation prospective, the beginning of the cycle of tightening of monetary policy and increasing expectations of the investors regarding the target level of interest rates in the current cycle, rising interest rates in the Euro zone as well as the temporary outflow of funds from emerging markets in the 3rd and 4th quarter of 2007 (an effect of the problems faced by the international financial markets).

The noted rising yields on Treasury securities, especially long-term Treasury bonds, were mitigated among other by strong foundations of Polish economy compared to other developing countries as well as a good current condition of the state budget and the resulting limited supply of Treasury securities on the primary market and the end of the tightening of monetary policy in the Euro zone and the beginning of a cycle of cutting interest rates in the US.

In 2007, the nominal exchange rate of PLN strengthened by more than 6.5% against EUR and by more than 16% against USD (according to year-end data). The strengthening of PLN was due to the sound foundations of the Polish economy. In the second half of the year, the PLN exchange rate continued to be strongly affected by the developments on the international financial markets.





Regulatory environment

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

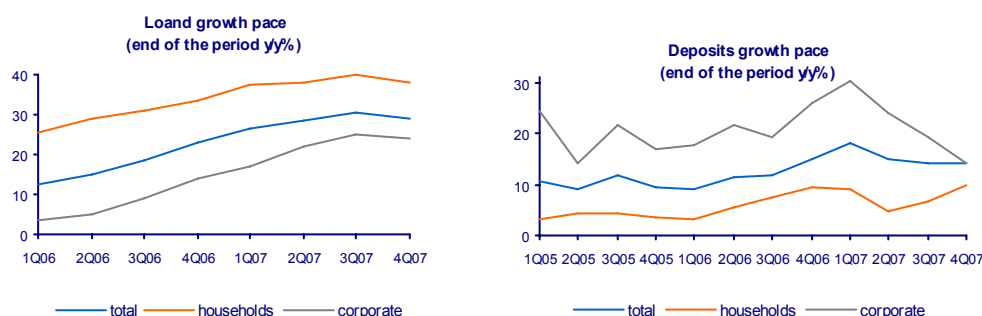
- modified principles for payment of interest on the obligatory reserve,
- an increase in the level of transfers to be made to the guaranteed money protection fund,
- granting the banks the right to deduct a portion of their specific provisions for certain exposures for corporate income tax purposes,
- modification of the reporting requirements for banks and additional requirements concerning risk assessment under the revised Banking Law,
- resolutions of the Commission for Banking Supervision providing the basis for implementation of new capital adequacy policies,
- new requirements (including reporting requirements) among others for banks engaged in the management of portfolios of securities, resulting from the Commission Regulation (EC) accompanying the MiFID directive,
- verdict of the Antimonopoly Court on the basis of which the banks' practice of charging commission on cash withdrawals was disallowed; in April 2007 PKO BP SA discontinued the practice of charging commission on cash withdrawals.

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

Competitive environment

In 2007 the Polish banking sector recorded very good results despite the deteriorating situation on the international financial market. The visible improvement in customers' financial condition and the continuing demand for banking services were reflected in the dynamic rises in the volume of sales, while the increasing size of the operations coupled with rising interest rates had a positive impact on the financial performance of the banking sector. The factors that had the greatest effect on the banks' performance were as follows:

- high increase in household loans (by more than 38%) mainly as a result of the record-breaking sales of housing loans (by ca. 51%). The growth rate of consumer loans also increased (by 31%) due to the rising credit capacity of less affluent households and more liberal lending policies applied by the banks,



- significant increase in corporate loans (by appx. 24% in 2007 compared to appx. 14% in 2006) due to the continuing revival in investments,
- increase in deposit base, mainly due to acceleration in the growth of household deposits in the second half of 2007 (smaller inflow of cash to investment funds). Household deposits increased by appx. 10% on a year-to-year basis, compared to appx. 8.6% in 2006, while term deposits continued to fall (by appx. 4% y/y). Corporate deposits rose by more than 14%, but their growth rate was definitely lower (appx. 26% in 2006),
- rise in banking network development expenses, rises in personnel-related costs and intensification of marketing activities.

The development of the banking sector was accompanied by changes in banking environment resulting from the preparation to and finalisation of the merger of Bank Pekao SA and BPH SA as well as increasing competition, mainly in the consumer finance and housing loans segment. As the growth rate of loans to the non-financial sector was much higher than the growth rate of deposits from this sector, financing terms deteriorated for majority of banks. This made the banks intensify their activities in seeking additional sources of financing and become more aggressive in competing for individual savings.



6. OTHER INFORMATION

Cooperation with rating agencies

Ratings are currently assigned to PKO BP SA by four rating agencies: Moody's, Standard & Poor's, Capital Intelligence and Fitch Ratings. These ratings are granted free of charge on the basis of generally available information. In 2007, the Bank requested Moody's Investors Service to assign to it additional chargeable ratings, which were granted to it on 31 October 2007.

Table 37. *Ratings and cooperation with rating agencies in 2007*

Rating category	Rating	Cooperation
Fitch Ratings		
Support rating	2	On 20 December 2007 Fitch Ratings issued a press release in which it retained the support rating for PKO BP SA at the level of 2.
Standard and Poor's		
Long-term domestic currency liabilities rating	BBBpi	-
Moody's Investors Service		
Long-term foreign currency deposit rating	A2 stable outlook	<ol style="list-style-type: none"> On 24 February 2007 Moody's Investors Service assigned two new ratings to the Bank: Aaa – Long-term domestic currency deposit rating with a stable outlook and P-1 – Short-term domestic currency deposit rating with a stable outlook. The new ratings were granted due to the implementation of the new JDA methodology (acquisition of external support) and the amendments to the BFSR methodology (measuring the internal financial strength of the bank). On 11 April 2007 the Reuters agency announced that Moody's Investors Service had reduced PKO BP SA's long-term domestic currency deposit rating from Aaa to Aa2. The change in the rating was justified by changes in the JDA methodology. On 31 October 2007 Moody's Investors Service assigned ratings to PKO BP SA at the request of the Bank. They were in line with the ratings assigned to the Bank by Moody's as part of providing "Public information". Therefore, the Agency has affirmed the high ratings given to the Bank in respect of its financial strength and the long-term and short-term domestic and foreign currency deposits.
Short-term foreign currency deposit rating	Prime-1 stable outlook	
Long-term domestic currency deposit rating	Aa2 stable outlook	
Short-term domestic currency deposit rating	Prime-1 stable outlook	
Financial strength	C stable outlook	
Capital Intelligence		
Long-term foreign currency liabilities rating	A-	<ol style="list-style-type: none"> On 8 March 2007 the Bank received a report by Capital Intelligence informing that the rating of PKO BP SA's financial strength was upgraded from BBB- to BBB with a stable outlook. The report was dated February 2007. The change in the rating was justified by a systematic growth of profitability. The Agency additionally emphasized the improving quality of the loan portfolio and reporting transparency. On 18 December 2007 the Agency provided the Bank with a report informing that its long-term foreign currency liabilities rating was upgraded from BBB+ to A- and the rating of PKO BP SA's financial strength was upgraded from BBB to BBB+ (both ratings had a stable outlook). The other ratings remained unchanged. The report was dated December 2007. The change in the ratings was justified by a systematic growth of the operating and net profit. The Agency additionally emphasized the improving quality of the loan portfolio, one of the best among the banks rated by the Agency. Large deposit base in the retail segment was quoted as the greatest strength of the Bank.
Short-term foreign currency liabilities rating	A2	
Domestic strength	BBB+	
Support rating	2	
Outlook	Stable	

Shareholders holding, either directly or indirectly through subsidiaries, at least 5% of total votes at the general shareholders' meeting of the Issuer

According to the Bank's knowledge, the State Treasury is the only shareholder who holds, either directly or indirectly through subsidiaries, at least 5% of total votes at the General Shareholders' Meeting of the Bank. As at 31 December 2007, the State Treasury held 514,935,409 shares in the Bank.

At the date of this report, the interest held by the above shareholder in the share capital of PKO BP SA and votes at the General Shareholders' Meeting of the Bank amounted to 51.49%.

Table 38. *Shares held by the State Treasury as at 31 December 2007*

Shareholder	Number of the Bank's shares held	Percentage share in the share capital of the Bank	Number of votes at the AGM resulting from the shares held	Percentage share in total votes at the Bank's AGM
State Treasury	514 935 409	51.49%	514 935 409	51.49%



Off-balance sheet commitments

At the end of 2007, guarantees and other financial off-balance sheet commitments granted with respect to related parties amounted to PLN 732.0 million and increased by PLN 73.2 million compared to the end of 2006.

The largest commitments related to the following companies:

- Bankowy Fundusz Leasingowy SA – PLN 442.5 million,
- Bankowy Leasing Sp. z o.o. – PLN 64.5 million,
- Sopot Zdrój Sp. z o.o. – PLN 131.8 million.

All transactions with related parties were made at an arm's length.

The details of related party transactions are presented in Note 46 to the financial statements.

Issues of securities

The subscription for the purchase of bonds issued by PKO BP SA ended on 23 October 2007. The issue of securities was organised by the following Agents: Deutsche Bank Polska SA and HSBC Bank Polska SA.

The details of the issue were as follows:

- the total nominal value of bonds amounted to PLN 1,600,700,000,
- bonds were issued under the Bonds Law, and the funds obtained from the issue of bonds were allocated for the increase of the supplementary funds of PKO BP SA under art. 127 par. 3 point 2 letter b of the Banking Law,
- the nominal value of one bond amounts to PLN 100,000,
- the issue price of one bond equals its nominal value,
- interest is calculated on a half-year basis based on the nominal value of bonds using a floating interest rate equal to WIBOR 6M plus a margin of 100 b.p. p.a. This margin will be increased by another 25 b.p. p.a. if PKO BP SA does not exercise its call option under which it may redeem all bonds before their maturity date after 5 years from the date of their issue,
- any benefits arising from bonds are exclusively of monetary nature.

Any potential obligations arising under these bonds until their full redemption should be assessed based on the statements and information provided by PKO BP SA as a public company, as required by the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies.

Reacquisition of own shares

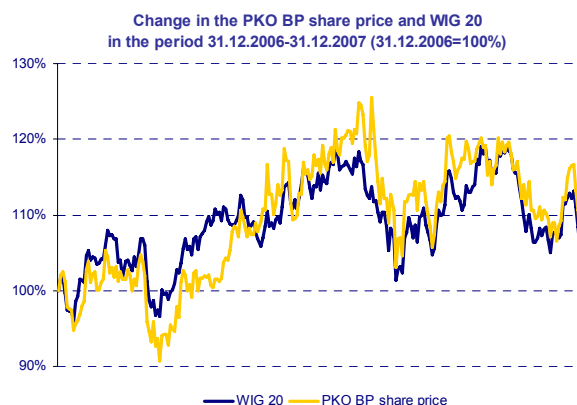
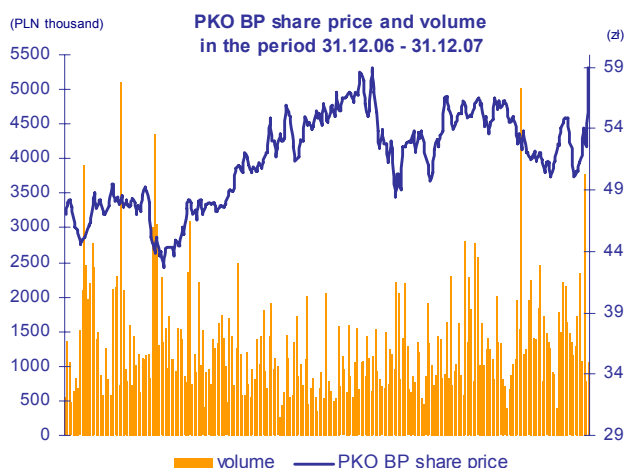
During the period covered by this Report, the Bank did not re-acquire its shares on its own account.

Listed price of the Bank's shares

During the year 2007, the price of the PKO BP SA shares demonstrated an upward tendency and reached its peak level of PLN 59.00 on 31 July 2007. The prices of the Bank's shares were affected by the trends prevailing on the Warsaw Stock Exchange and by the Bank's financial performance.

Table 39. Returns for the shareholder of PKO BP SA

Items	2006	2007
PKO BP's share price at the beginning of the year	29,00	47,00
PKO BP's share price at the end of the year	47,00	52,60
Dividend per share (PLN)	0,80	0,98
Total shareholder returns	64,8%	14,0%



Restrictions for the transfer of ownership of the Issuer's securities, any restrictions for exercising voting rights

In accordance with par. 6 section 2 of the Bank's Articles of Association, the conversion of the registered "A" class shares with a nominal value of PLN 510,000,000 into bearer shares and the transfer of these shares require an approval of the Polish Council of Ministers in the form of a resolution. Acquiring such consent results in the expiry of the above restrictions to the extent to which this consent was given.

Significant contracts and important agreements with the Central Bank or supervisory authorities

In 2007, the Bank disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in par. 2 section 2 of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information provided by issuers of securities (Journal of Laws No. 209, item 1744).

1. On 7 December 2007, the Bank entered into agreements relating to the bonds issue (agency agreement, depository agreement and dealer agreement) and an agreement binding the Bank to acquire bonds issued by one of the Bank's clients. The agreements were concluded within the consortium of 7 banks. The banks consortium will organise the bonds issue program at a total value of PLN 6.2 billion. The bonds interest is based on the market reference interest rates correlated with the bonds maturity, interest coupon payment period or discount interest calculation period. The bonds issued within the program will be unsecured. The Bank is obliged to acquire the securities issued by the Client with a value of up to PLN 500 million within a period of 18 months. The agreements does not provide for contractual fines.
2. In 2007, the Bank entered into a loan agreement with a consortium of foreign banks under which it received a loan for an amount of CHF 950 million. The Bank will use this loan to finance its lending activities.
3. In 2007 the Bank carried out an issue of subordinated bonds with a value of PLN 1,600.7 million under an agreement concluded with banks operating in Poland. The means obtained from the issue were used to increase the Bank's supplementary funds.

Guarantees and financial commitments granted by the Bank

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



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

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

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

Holders of any type of securities giving special control rights with regard to the issuer

PKO BP SA does not issue any securities that give special control rights with regard to the Bank.

Underwriting agreements and guarantees granted to subsidiaries

The Agreement for Organisation, Conducting and Servicing of a Bond Issuance Program signed by PKO BP SA with its subsidiary, Bankowy Fundusz Leasingowy SA, on 20 June 2006, was terminated on 15 June 2007.

The terms of the issue of bonds by Bankowy Fundusz Leasingowy SA are currently regulated by the Agreement for Organisation, Conducting and Servicing of a Bond Issuance Program signed by PKO BP SA on 14 December 2006, for an amount of up to PLN 500 million. Out of this amount, until 30 June 2007 the Company was allowed to issue bonds for an amount of up to PLN 350 million.

As at 31 December 2007, Bankowy Fundusz Leasingowy SA issued bonds for a total amount of PLN 405 million: bonds with a value of PLN 168.2 million were sold on the secondary market, and bonds with a value of PLN 236.8 million were acquired by PKO BP SA.

In 2007 PKO BP SA granted the following guarantees:

1. to Bankowy Fundusz Leasingowy S.A.:
 - a guarantee for an amount up to EUR 57 million, for the benefit of the European Investment Bank in Luxembourg (EIB), to secure the loan granted to the Company by the EIB; the guarantee was issued for a period ending on 31 March 2017,
 - a guarantee for an amount up to PLN 44 million, for the benefit of the European Bank for Reconstruction and Development (EBRD), to secure the loan granted to the Company by the EBRD; the guarantee was issued for a period ending on 30 June 2013,
 - a guarantee for an amount up to PLN 1,820 thousand, for the benefit of Cryolor Zone Industrielle des Jonquieres, to secure the Company's liabilities under the trilateral agreement between the above entity, the lessee and BFL SA, which purchased the leased asset from the above-mentioned entity; the guarantee was issued for a period ending on 5 December 2008,
2. a guarantee issued in respect of Centrum Elektronicznych Usług Płatniczych eService SA for an amount up to PLN 340 thousand, for the benefit of PTK Centertel Sp. z o.o., to secure the Company's trade payables; the guarantee was issued for a period ending on 10 September 2008,
3. a guarantee issued in respect of Centrum Elektronicznych Usług Płatniczych eService SA for an amount up to PLN 250 thousand, for the benefit of Polska Telefonia Cyfrowa Sp. z o.o., to secure the Company's trade payables; the guarantee was issued for a period ending on 20 September 2008.

Enforceable titles issued by the Bank

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

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

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



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

Significant events after the balance sheet date

1. On 24 January 2008, WISŁOK Inwestycje Sp. z o.o. with its registered office in Rzeszów was entered in the National Court Register. The share capital of the Company amounts to PLN 500 thousand and is divided into 5,000 shares with a nominal value of PLN 100 each. The Company's shareholders are PKO Inwestycje Sp. z o.o., which acquired 4,000 shares with a total value of PLN 400 thousand and Jedynka SA, which acquired 1,000 shares with a total value of PLN 100 thousand.
2. On 28 January 2008 PKO Inwestycje Sp. z o.o., the Bank's subsidiary, acquired 50 shares in Baltic Dom 2 Sp. z o.o. with a total nominal value of PLN 25 thousand, which represented 50% of share capital of this company and gave right to 50% votes at the shareholders' meeting. The price paid for the shares was PLN 5,940 thousand.
3. On 8 February 2008 the Bank signed a loan agreement with one of PKO BP SA's clients ("the Borrower"), under which it committed to grant an investment loan for an amount up to PLN 1,230,000,000, to finance part of the costs of acquisition of financial assets by the Borrower. The investment loan agreement was signed for a period of 10 years. It will be secured by collateral in the form of, among others, registered pledge on the financial assets and amounts held on the Borrower's bank accounts. Interest on this loan is based on WIBOR 6M plus the Bank's margin, and is payable on a 6-month basis.
4. As of 26 February 2008, the following members of the Supervisory Board of PKO BP SA resigned from their positions in the Supervisory Board:
 1. Mr Marek Głuchowski
 2. Mrs Agnieszka Winnik-Kalemba
 3. Mr Tomasz Siemiątkowski
 4. Mr Jerzy Michałowski

In addition, Mrs Urszula Pałaszek resigned from the position of the Vice-President of the Supervisory Board of PKO BP SA as of 25 February 2008.

5. On 26 February 2008, under par. 11 section 1 of the Bank's Articles of Association, the State Treasury, as the Eligible Shareholder, determined the number of the Supervisory Board members to include 7 persons. On 26 February 2008, based on Art. 385 par. 1 of the Code of Commercial Companies and Partnerships, the Extraordinary General Meeting of PKO BP SA dismissed Maciej Czapiewski from his position in the Supervisory Board of PKO BP SA as of 26 February 2008. On 26 February 2008, based on Art. 385 par. 1 of the Code of Commercial Companies and Partnerships, the Extraordinary General Meeting appointed the following persons to the Supervisory Board:
 1. Mr Jan Bossak
 2. Mr Eligiusz Jerzy Krześniak
 3. Mr Roman Sobiecki
 4. Mr Ryszard Wierzba
 5. Mrs Marzena Piszczek
 6. Mr Jerzy Osiatyński.

In accordance with the resolution adopted by the Extraordinary General Meeting, the above persons were appointed to the Supervisory Board as of 26 February 2008, for a period until the end of the current term and for the next term of the Supervisory Board. In accordance with the above resolution, Mrs Urszula Pałaszek was appointed to the Supervisory Board of the next term.

The State Treasury, as the Eligible Shareholder under par. 12 section 1 of the Articles of Association of PKO BP SA, appointed:

1. Mrs Marzena Piszczek – as President of the Bank's Supervisory Board of the current and next term,



2. Mr Eligiusz Jerzy Krześniak – as Vice-President of the Bank's Supervisory Board of the current and next term.
6. On 6 March 2008 the Bank received a notification on the court's meeting related to the compromise trial motioned by the buyer in the first of non-performing loans sale transaction as described in Note 6 the Additional Information to the financial statements of the Bank. The total claims amount which has not been included in the Bank's provisions as at 31 December 2007 amounts to PLN 34,630 thousand and relates to claims recorded by the Bank after the claiming period. In the Bank's opinion, there is no basis for recognize the above claims.

Integrated Information System

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

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

Information regarding the contract with the entity authorised to audit financial statements

On 8 August 2005, the Bank entered into a contract with Ernst & Young Audit Sp. z o.o., an entity authorised to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2005, 2006 and 2007 and for a review of standalone and consolidated financial statements for the 6-month periods ended 30 June 2005, 2006 and 2007.

Total fees payable to Ernst & Young Audit Sp. z o.o. under the contracts for the audit and review of the standalone and consolidated financial statements amounted to PLN 878.0 thousand for the year 2007 and PLN 855.0 thousand (net of VAT) for the year 2006.

The total amount of the fees arising from contracts concluded with Ernst & Young Audit Sp. z o.o. for services other than the audit or review of financial statements was as follows: PLN 516.2 thousand (net of VAT) for the year 2007 and PLN 3,398.9 thousand (net of VAT) for the year 2006. The major part of the fees arising from contracts with Ernst & Young Audit Sp. z o.o. for services other than the audit of financial statements was associated with projects relating to the Bank's equity investments, consulting and advisory services, translation of interim reports and auditing work connected with the implementation of the Integrated Information System.

Representations of the Management Board

The Management Board of the Bank hereby represents that, according to its best knowledge:



1. the annual financial statements and comparative data were prepared in accordance with the accounting principles in force and give a true and fair view of the financial position and results of the Bank;
2. the annual Directors' Report on the activities of the Bank gives a true view of the Bank's development, achievements and standing, including a description of the main risks and threats.

The Management Board of PKO BP SA hereby represents that the entity authorised to audit financial statements which performed the audit of the annual financial statements of PKO BP SA was selected in accordance with law, and that both this entity and the certified auditors who performed the audit met the conditions required to issue an impartial and independent audit opinion, in accordance with the relevant national laws.

This Directors' Report on the activities of the PKO BP SA in 2007 consists of 36 consecutively numbered pages.

President of Management Board
Rafał Juszczyk

Vice-President of Management Board
Berenika Duda-Uhryn

Vice-President of Management Board
Robert Działak

Vice-President of Management Board
Mariusz Klimczak

Vice-President of Management Board
Wojciech Kwiatkowski

Vice-President of Management Board
Aldona Michalak

Vice-President of Management Board
Adam Skowroński

Vice-President of Management Board
Stefan Świątkowski