



PKO BANK POLSKI
SPÓŁKA AKCYJNA

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

WARSAW, APRIL 2008



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1. INTRODUCTION

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

NET PROFIT	PLN 2 903.6 MLN + 35.1% (y/y)	As a result of increase in income items by 18.8% (y/y), with a 7.1% (y/y) increase in costs
RESULT ON BUSINESS ACTIVITY	PLN 7 744.1 MLN + 18.8% (y/y)	Following increase in interest result by 21.2% (y/y) and in fees and commission result by 25.1% (y/y)
NET INTEREST INCOME	PLN 4 643.7 MLN + 21.2% (y/y)	As a result of a 29.7% (y/y) increase in net loan portfolio volume and higher deposit margins
NET FEES AND COMMISSION INCOME	PLN 2 335.2 MLN + 25.1% (y/y)	Due to a systematic increase in revenue from servicing investment funds, including management fees by 182.7% (y/y), and a 4.8% (y/y) increase in the number of banking cards and transactions made using those cards
COSTS	PLN -4 082.6 MLN - 7.1% (y/y)	As a result of more promotional and advertising activities, implementation of next modules of the ZSI and keeping personnel costs on a stable level (+) 1.5% (y/y)
ROE net	26.2% + 3.5 p.p.	Following a 35.1% (y/y) increase in net profit and an increase in equity by a total of 17.7% (y/y)
ROA net	2.8% + 0.5 p.p.	With a 6.4% (y/y) increase in assets



2. FINANCIAL PERFORMANCE OF THE PKO BP SA GROUP¹

Neither the Bank nor any other company from the PKO BP SA Group published any forecasts relating to the financial results for the year 2007.

2.1 Consolidated income statement

Table 1. Selected financial data of the PKO BP SA Group (in PLN million)

SELECTED FINANCIAL DATA OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP				
	period from 01.01.2007 to 31.12.2007	period from 01.01.2006 to 31.12.2006	Change (PLN million)	Change (%)
Result on business activity*:	7 744.1	6 517.8	1 226.3	18.8%
Net interest income	4 643.7	3 832.2	811.5	21.2%
Net fees and commission income	2 335.2	1 866.3	468.9	25.1%
Net other income	765.1	819.4	- 54.2	-6.6%
General administrative expenses	- 4 082.6	- 3 811.9	- 270.6	-7.1%
Operating result	3 604.9	2 705.2	899.7	33.3%
Result on impairment allowances	- 56.6	- 0.7	- 56.0	-87x
Gross profit (loss)	3 609.2	2 701.5	907.7	33.6%
Net profit (loss) (including minority interest)	2 941.4	2 207.4	733.9	33.2%
Net profit (loss) assigned to the shareholders of the holding company	2 903.6	2 149.1	754.6	35.1%

* taken as a total of income items

Table 2. Main items of income statement of the PKO BP SA Group (in PLN million)

Profit and loss account line	2007	Change 2007/2006	Comment
Net interest income	4 643.7	21.2%	(+) 21.2% (y/y) as a result of: 1) increase in interest margin on deposits related to increase in market rates, 2) dynamic increase in credit volume of 29.7% (y/y).
Net fees and commission income	2 335.2	25.1%	(+) 25.1% (y/y) as a result of: 1) increase in the number of bank cards (of 4.8% y/y) and related transactions, 2) regular income increase from operations related to investment funds servicing (management fee included) of 182.7% (y/y), 3) fourfold income increase from credit insurance.
Net other income	765.1	-6.6%	(-) 6.6% (y/y) as a result of: 1) lower result on securities operations compared to high securities sales results in 2006, 2) lower other operating income achieved by PKO Inwestycje due to lower sale of completed contracts.
General administrative expenses	-4 082.6	-7.1%	Increase of 7.1% (y/y) as a result of: 1) increased scope of promotion and advertising activities, 2) implementation of succeeding modules of Integrated IT System along with employment reduction in PKO BP SA.
Result on impairment allowances	-56.6	-87x	(-) 87x (y/y) as a result of increase in consumer and credit card loans impairment write-offs.

¹ Potential differences in sums, share percentage and dynamics presented in this chapter result from amounts rounding to PLN million and share percentage rounding to one decimal.



Net interest income

Table 3. Interest income and interest expense of the PKO BP SA Group (in PLN million)

NET INTEREST RESULT OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Items	Period from 01.01.2007 to 31.12.2007	Structure 2007	Period from 01.01.2006 to 31.12.2006	Change 2007/2006	Comment
Interest income, of which:	6 582.4	100.0%	5 594.8	17.7%	
From loans and advances granted to customers	5 164.1	78.5%	3 918.9	31.8%	1. 31.8% growth on a year-to-year basis in interest income from loans and advances to customers – mainly due to rising market interest rates and a high growth of the loan portfolio (29.7% y/y).
From securities at fair value through profit and loss	561.3	8.5%	762.1	-26.3%	2. decline in interest income from securities at fair value through profit or loss (-26.3% y/y) – due to the decrease of the portfolio of securities at fair value through profit or loss by 27.8% on a year-to-year basis.
From placements with other banks	517.0	7.9%	570.6	-9.4%	3. decline in interest income from placements with other banks (-9.4% y/y) due to the decrease in the balance of placements with other banks by 62.2% on a year-to-year basis.
From investment securities	242.5	3.7%	259.7	-6.6%	
From trading securities	24.5	0.4%	22.7	8.1%	
Other	72.9	1.1%	60.7	20.1%	4. increase in average interest on Bank's loans up to 7.4%* - about 0.5pp as compared to the year of 2006.
Interest expenses, of which:	- 1 938.7	100.0%	- 1 762.6	-10.0%	
From amounts due to customers	- 1 699.5	87.7%	- 1 557.4	-9.1%	A 10% growth in total interest expense on a year-to-year basis due to the increase of interest expense on the amounts due to customers (9.1% y/y) and the increase in interest expense on the amounts due to banks (44.1% y/y), and average interest rate increase on Bank's deposits up to 2.0%** - about 0.1 pp. as compared to the year of 2006.
From placements of other banks	- 130.2	6.7%	- 90.4	-44.1%	
From own issue of debt securities	- 28.7	1.5%	- 5.2	-5.6x	
From other placements in the money market	-	0.0%	- 5.0	x	
Other	- 80.3	4.1%	- 104.7	23.3%	
Net interest income	4 643.7	x	3 832.2	21.2%	Net interest income in 2007 was PLN 812 million higher compared to the previous year, given a PLN 988 million increase in the value of interest income and a PLN 176 million increase in the value of interest expense.

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

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

Net fees and commission income

Table 4. Fees and commission income and expense of the PKO BP SA Group (in PLN million)

FEES AND COMMISSION INCOME OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Items	Period from 01.01.2007 to 31.12.2007	Structure 2007	Period from 01.01.2006 to 31.12.2006	Change 2007/2006	Comment
Fees and commission income, of which:	3 022.0	100.0%	2 296.1	31.6%	
From accounts servicing	777.7	25.7%	742.1	4.8%	
From payment cards	705.8	23.4%	549.9	28.3%	Growth in fees and commission income by 31.6% y/y, as a result of among others:
From loans and advances granted	257.2	8.5%	224.2	14.7%	1. growth in commission income from the servicing of the PKO TFI investment funds (2.8x y/y).
From loans insurance	202.3	6.7%	46.3	4.4x	2. increase in the number of banking cards (+4.8% y/y) and the number of transactions made using these cards,
From cash transactions	204.0	6.8%	208.6	-2.2%	3. increase in the sales of loan insurance products.
From investment funds servicing	610.4	20.2%	216.0	2.8x	
From operations with securities	87.7	2.9%	71.3	23.1%	
Other*	176.9	5.9%	237.7	-25.6%	
Fees and commission expenses, of which:	- 686.8	100.0%	- 429.8	-59.8%	
Relating to payment cards	- 254.1	37.0%	- 203.5	-24.9%	
Relating to acquisition services	- 125.8	18.3%	- 121.1	-3.9%	The growth in fees and commission expense was caused by insurance-related expenses, which increased due to dynamic growth of the housing loan portfolio (41.8% y/y).
Loan insurance	- 152.2	22.2%	- 6.9	-22.1x	
Asset management	- 105.2	15.3%	- 48.3	-2.2x	
Other	- 49.6	7.2%	- 50.1	1.1%	
Net fees and commission income	2 335.2	x	1 866.3	25.1%	Net fees and commission income in 2007 was PLN 469 million higher than in 2006 due to a regular increase in the value of fees and commission income from the servicing of investment funds by 182.7% (y/y) and an increase of the number of payment cards by 4.8% (y/y), along with an increase in volume of card transactions.

* including distribution of numismatic marks, mass foreign operations, trust services, guarantees, letters of credit, ect.

General administrative expenses

Table 5. General administrative expenses (in PLN million)

GENERAL ADMINISTRATIVE EXPENSES OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Items	Period from 01.01.2007 to 31.12.2007	Structure 2007	Period from 01.01.2006 to 31.12.2006	Change 2007/2006	Comment
Employee costs	- 2 288.7	56.1%	- 2 255.3	-1.5%	Growth of 7.1% mainly as a result of:
Non-personnel costs	- 1 413.3	34.6%	- 1 238.8	-14.1%	1. personnel-related costs remaining at a stable level (1.5% y/y).
Depreciation and amortisation	- 380.6	9.3%	- 317.9	-19.7%	2. increase in depreciation/amortisation expense by 19.7% y/y (implementation of the Integrated Information System).
TOTAL	- 4 082.6	100.0%	- 3 811.9	-7.1%	3. increase in non-personnel costs (increased promotion and advertising expenses)



Key financial ratios

Table 6. Financial ratios

Items	As at 31.12.2007	As at 31.12.2006	Change 2007/2006
ROA gross (gross profit (loss)/ average assets)*	3.4%	2.8%	0.6 pp.
ROA net (net profit (loss)/ average assets)	2.8%	2.2%	0.5 pp.
ROE gross (gross profit (loss)/ average equity)*	32.6%	28.5%	4.1 pp.
ROE net (net profit (loss)/ average equity)	26.2%	22.7%	3.5 pp.
C/I (costs to income ratio)	52.7%	58.5%	-5.8 pp.

*average assets/equity were calculated based on the arithmetical mean of the balances of assets/equity at the beginning and end of the reporting period

2.2 Consolidated balance sheet

The balance sheet of the holding company has the most significant influence on the balance sheet of the PKO BP SA Group. It determines both the value and the structure of the Group's assets and liabilities. As at 31 December 2007, total assets of PKO BP SA accounted for 97.1% of total assets of the Group.

Main balance sheet items

Table 7. Main balance sheet items of the PKO BP SA Group (in PLN million)

THE BALANCE SHEET OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP						
Items	As at 31.12.2007	Structure 2007	Change 2007/2006	As at 31.12.2006	Structure 2006	Comment
Cash and amounts due from the Central Bank	4 682.6	4.3%	1.2%	4 628.1	4.5%	
Amounts due from banks	5 292.3	4.9%	-60.6%	13 430.6	13.2%	
Loans and advances to customers	76 417.1	70.4%	29.7%	58 906.6	57.7%	
Investment securities	15 233.6	14.0%	-21.0%	19 280.5	18.9%	
Other assets	6 943.0	6.4%	20.1%	5 779.8	5.7%	
TOTAL ASSETS	108 568.7	100.0%	6.4%	102 025.7	100.0%	
Amounts due to other banks	4 704.4	4.3%	8.1%	4 353.0	4.3%	
Amounts due to customers	86 610.6	79.8%	3.7%	83 507.2	81.8%	
Securities issued	1 793.7	1.7%	41x	43.7	0.0%	
Other liabilities	3 480.9	3.2%	-11.7%	3 941.2	3.9%	
Total liabilities	96 589.7	89.0%	5.2%	91 845.1	90.0%	Increase in financial assets through increase in amounts due to customers by 3.7% y/y and in issue of Bank's subordinated debt by PLN 1.6 billion.
Total equity	11 979.0	11.0%	17.7%	10 180.6	10.0%	
TOTAL LIABILITIES AND EQUITY	108 568.7	100.0%	6.4%	102 025.7	100.0%	

Table 8. Loans and advances to customers of the PKO BP SA Group by type (PLN million)

LOANS AND ADVANCES GRANTED TO CUSTOMERS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Type	As at 31.12.2007	As at 31.12.2006	Change (PLN million)	Change (%)	Comment
I. Net value of loans and advances	74 806.0	57 964.0	16 842.0	29.1%	
1. Gross value of loans and advances, of which granted to:	77 181.9	60 367.9	16 814.0	27.9%	
- budget entities	3 677.4	6 061.9	- 2 384.5	-39.3%	
- financial entities other than banks	1 185.2	370.0	815.2	3.2x	
- non-financial entities	72 319.2	53 935.9	18 383.3	34.1%	
2. Impairment allowances for exposures with impairment indicators	- 2 375.8	- 2 403.8	28.0	1.2%	
II. Net receivables from finance lease	1 611.1	942.6	668.5	70.9%	
Loans and advances granted to clients (I+II)	76 417.1	58 906.6	17 510.5	29.7%	Dynamics of gross loan portfolio on the level of 27.9% y/y along with its structure by type change - a decrease in share of loans and advances granted to budget entities by 5.2 p.p., along with an increase of loans and advances granted to financial entities by 4.4 p.p.



Table 9. Loans and advances to customers of the PKO BP SA Group by maturity (PLN million)

LOANS AND ADVANCES GRANTED TO CUSTOMERS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Maturity	As at 31.12.2007	Structure 2007	As at 31.12.2006	Structure 2006	Comment
Gross value of loans and advances, of which granted to:	77 181.9	100.0%	60 367.9	100.0%	
up to 1 month	12 338.4	16.0%	10 531.5	17.4%	High growth of Bank's loan portfolio along with an increase in share of loans above 5 years by 10.2% - result of high volume of housing loan sales, and a decrease in loan shares from 3 months to 1 year.
from 1 to 3 months	1 857.2	2.4%	1 658.0	2.7%	
from 3 months to 1 year	7 658.5	9.9%	9 078.0	15.0%	
from 1 year to 5 years	22 495.1	29.1%	19 598.4	32.5%	
over 5 years	32 832.7	42.5%	19 501.9	32.3%	

Detailed information on the maturities of loans and advances granted to customers of the Group has been presented in Note 28 to the consolidated financial statements.

Table 10. Amounts due to customers of the PKO BP SA Group by type (PLN million)

AMOUNTS DUE TO CUSTOMERS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Type	As at 31.12.2007	As at 31.12.2006	Change (PLN million)	Change (%)	Comment
Amounts due to the corporate sector	15 670.6	12 835.1	2 835.5	22.1%	Growth of liabilities to customers by 3.7% y/y as a result of a decrease in liabilities to individuals (-1.9% y/y), along with an increase in liabilities to budget sector (48.3% y/y).
Amounts due to the budget sector	4 691.2	3 162.7	1 528.5	48.3%	
Amounts due to individuals	66 248.8	67 509.4	- 1 260.6	-1.9%	
Total liabilities to customers	86 610.6	83 507.2	3 103.4	3.7%	

Table 11. Amounts due to customers of the PKO BP SA Group by maturity (PLN million)

AMOUNTS DUE TO CUSTOMERS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP					
Term	As at 31.12.2007	Structure 2007	As at 31.12.2006	Structure 2006	Comment
Current accounts and O/N deposits	39 391.6	45.5%	33 065.1	39.6%	Change within the term structure of liabilities to customers, of which long-term liabilities decreased in a favor of short-term liabilities (up to 1 month) that increased from 65.6% to 71.9% - low interest rates in Poland influence customers to choose current deposits over term deposits for purpose of investing cash surplus.
Current liabilities maturity dates:	47 219.0	54.5%	50 442.1	60.4%	
up to 1 month	22 852.0	26.4%	21 717.0	26.0%	
from 1 to 3 months	9 772.5	11.3%	11 267.1	13.5%	
from 3 months to 1 year	13 100.3	15.1%	15 776.4	18.9%	
from 1 year to 5 years	1 249.2	1.4%	1 585.8	1.9%	
over 5 years	245.0	0.3%	95.8	0.1%	
Total	86 610.6	100.0%	83 507.2	100.0%	

2.3 Equity and capital adequacy ratio

Table 12. Equity and capital adequacy ratio of the PKO BP SA Group (PLN million)

EQUITY OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP				
Items	Period from 01.01.2007 to 31.12.2007	Period from 01.01.2006 to 31.12.2006	Change 2007/2006	Comment
Equity, of which:	11 979.0	10 180.6	17.7%	
Share capital	1 000.0	1 000.0	0.0%	
Reserve capital	5 592.3	4 529.9	23.5%	
General risk fund for unrealised banking activity risk	1 070.0	1 070.0	0.0%	+17.7% y/y as a result of:
Other reserves	1 518.0	1 505.9	0.8%	1) retaining a portion of profits – the dividend for the year 2006 accounted for 47.87% of the net profit of the Bank,
Revaluation reserve	- 43.1	3.8	x	2) increase in profit for the current period by 35.1% on a year-to-year basis.
Currency translation differences from foreign operations	- 47.8	- 13.7	-3.5x	
Retained earnings	- 72.2	- 166.8	56.7%	
Result from current year	2 903.6	2 149.1	35.1%	
Minority interest	58.1	102.3	-43.2%	
Own funds	9 983.4	7 076.8	41.1%	Growth resulting from a high level of accumulated capital and subordinated debt issued by the Bank (PLN 1.6 billion).
Capital adequacy ratio (%)*	12.02	11.80**	0.22 pp.	+0.22 pp. as a result of subordinated debt issued by the Bank, given an increase in the total capital requirement by 38.6% on a year-to-year basis.

*capital adequacy 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 resolutions)



3. ORGANISATION OF THE PKO BP SA GROUP AND DIRECTIONS FOR FUTURE DEVELOPMENT

As at 31 December 2007, the PKO BP SA Group was composed of the Bank as the holding company and 19 direct or indirect subsidiaries, including 2 which were not consolidated due to their immateriality.

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

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

3.1 Entities included in the financial statements

The consolidated financial statements includes the Bank – the parent company of the PKO BP SA Group and its subsidiaries as defined in IAS 27 „Consolidated and separate financial statements”.

Table 13. Entities included in the consolidated financial statements of the PKO BP SA Group

No.	Entity name	Value of investment*	% of share capital	Consolidation method
		PLN thousand	%	
Parent company				
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
Direct subsidiaries				
2	KREDOBANK SA	307 365	98.1815	full
3	Powszechne Towarzystwo Emerytalne BANKOWY SA	205 785	100.00	full
4	Centrum Finansowe Puławska Sp. z o.o.	128 288	100.00	full
5	PKO Inwestycje Sp. z o.o.	123 313	100.00	full
6	PKO Towarzystwo Funduszy Inwestycyjnych SA	69 054	75.00	full
7	Inteligo Financial Services SA	59 602	100.00	full
8	Centrum Elektronicznych Usług Płatniczych eService SA	55 500	100.00	full
9	Bankowy Fundusz Leasingowy SA	40 000	100.00	full
10	Bankowe Towarzystwo Kapitałowe SA	18 566	100.00	full
Indirect subsidiaries				
Subsidiaries of PKO Inwestycje Sp. z o.o.				
11	Wilanów Investments Sp. z o.o.	82 981	100.00	full
12	POMERANKA Sp. z o.o.	19 000	100.00	full
13	Fort Mokotów Sp. z o.o.	2 040	51.00	full
14	ARKADIA Inwestycje Sp. z o.o.	2 000	100.00	full
15	UKRPOLINWESTYCJE Sp. z o.o.	519	55.00	full
Subsidiaries of PTE BANKOWY SA				
16	Finanse Agent Transferowy Sp. z o.o.	2 861	100.00	full
Subsidiaries of Bankowy Fundusz Leasingowy SA				
16	Bankowy Leasing Sp. z o.o.	1 309	100.00	full
17	BFL Nieruchomości Sp. z o.o.	1 109	100.00	full

* includes shares valued at cost and specific additional contributions to own funds



Table 14. Other subordinated entities included in the consolidated financial statements

No.	Entity name	Value of investment*	% of share capital	Consolidation method
		PLN thousand	%	
Jointly controlled entities				
1	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43	equity method
2	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	equity method
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.				
3	Sopot Zdrój Sp. z o.o.	58 923	100.00	equity method
4	Promenada Sopotcka Sp. z o.o.	10 058	100.00	equity method
5	Centrum Majkowskiego Sp. z o.o.	6 609	100.00	equity method
6	Kamienica Morska Sp. z o.o.	976	100.00	equity method
Associates				
7	Bank Pocztowy SA	146 500	25.0001	equity method
8	Kolej Gondolowa Jaworzyna Krynicka SA	15 531	37.53	equity method
9	Ekogips SA – w upadłości	5 400	60.26	equity method
10	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	equity method
11	Agencja Inwestycyjna CORP SA	29	22.31	equity method
Associate of Bankowe Towarzystwo Kapitałowe SA				
12	FINDER SA	6 500	46.43	equity method

* includes shares and participations share value at cost and additional contributions to own funds

3.2 Changes in the organization of subsidiaries, associates and jointly controlled entities

In 2007, the following events influenced the structure of the PKO BP SA Group:

- purchase of KREDOBANK SA's shares from EBRD

On 20 April 2007, PKO BP SA signed a conditional agreement with European Bank for Reconstruction and Development ("EBRD") for purchase by PKO BP SA of the shares of KREDOBANK SA. The above transaction covered the shares of KREDOBANK SA which accounted for 28.2486% of the Company's share capital and votes at the General Shareholders' Meeting.

On 26 July 2007, after receiving the permit from the National Bank of Ukraine, the purchase transaction was executed. The price paid for the shares was EUR 17,348,177.00. As a result of the above transaction, PKO BP SA holds shares in KREDOBANK SA accounting for a total of 98.1815% of the Company's share capital and giving right to 98.1815% of votes at the General Shareholders' Meeting.

- acquisition of shares in the increased share capital of KREDOBANK SA

On 5 September 2007 PKO BP SA acquired 17,353,578,610 shares in the increased share capital of KREDOBANK SA, with a nominal value of UAH 173,535,786.10.

As a result of the above acquisition, the percentage of the Company's share capital and votes at the General Shareholders' Meeting held by PKO BP SA remained at the previous level of 98.1815%.

- acquisition of shares in the increased share capital of Bankowy Fundusz Leasingowy SA

On 2 August 2007, an increase in the share capital of Bankowy Fundusz Leasingowy SA was registered in the National Court Register, by a total amount of PLN 10 million.

All of the new shares in the increased share capital were acquired by PKO BP SA. Following the registration of the new shares, PKO BP SA holds shares representing 100% of the share capital of BFL SA and giving right to 100% of votes at the General Shareholders' Meeting of this company.

- incorporation of Bankowy Leasing Sp. z o.o.



On 18 June 2007, a new company, Bankowy Leasing Sp. z o.o. with its registered office in Łódź, was registered in the National Court Register. The Company's share capital amounts to PLN 1,300 thousand and is divided into 2,600 shares with a nominal value of PLN 500 each.

All of the shares were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO BP SA. The total price paid for the acquisition of these shares was PLN 1,309,296.

The principal activity of the Company is the provision of operating and finance lease services.

- incorporation of BFL Nieruchomości Sp. z o.o.

On 16 July 2007, BFL Nieruchomości Sp. z o.o. with its registered office in Łódź was registered in the National Court Register. The Company's share capital amounts to PLN 1,100 thousand and is divided into 2,200 shares with a nominal value of PLN 500 each.

All of the shares were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO BP SA. The total price paid for the acquisition of these shares was PLN 1,109,296.

The principal activity of the Company is the provision of operating and finance lease services with respect to real property.

- additional investment of PKO Inwestycje Sp. z o.o. in UKRPOLINWESTYCJE Sp. z o.o.

On 1 June 2007, the Pechersk Regional State Administration in Kiev, Ukraine, registered an increase in the share capital of UKRPOLINWESTYCJE Sp. z o.o. with its registered office in Kiev, which was effected through an increase in the nominal value of the shares (from UAH 10,200 to UAH 15,250). After the increase, the Company's share capital amounts to UAH 1,525,000 (the equivalent of USD 300,000) and is divided into 100 equal shares.

Following the registration of the above changes, PKO Inwestycje Sp. z o.o., the Bank's subsidiary, holds 55 shares in UKROPOLINWESTYCJE Sp. z o.o. with a total nominal value of UAH 838,750 (the equivalent of USD 165,000), giving right to 55 votes at the shareholders' meeting.

- incorporation of ARKADIA Inwestycje Sp. z o.o.

On 1 October 2007, a new company, ARKADIA Inwestycje Sp. z o.o. with its registered office in Międzyzdroje, was registered in the National Court Register. The Company's share capital amounts to PLN 1 million and is divided into 1,000 shares with a nominal value of PLN 1,000 each.

At the date of the registration, the following subsidiaries of PKO BP SA were the shareholders of this company:

- PKO Inwestycje Sp. z o.o., which acquired 999 shares with a total nominal value of PLN 999,000,
- POMERANKA Sp. z o.o., which acquired 1 share with a nominal value of PLN 1,000.00.

On 8 November 2007 PKO Inwestycje Sp. z o.o. purchased 1 share in ARKADIA Inwestycje Sp. z o.o. from POMERANKA Sp. z o.o. and thus became the owner of 100% shares in the share capital of this Company, giving right to 100% of votes at its shareholders' meeting. On 21 December 2007 PKO Inwestycje Sp. z o.o. made an additional payment to the share capital of ARKADIA Inwestycje Sp. z o.o. in the amount of PLN 1 million. The Company was incorporated for the purpose of carrying out the housing construction project "Osiedle Jantar" in Międzyzdroje.

- completion of liquidation proceedings of Sonet Hungary Kft

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

At the same time, the following changes occurred in 2007 in the organisation of the affiliates of Bankowe Towarzystwo Kapitałowe SA – a subsidiary of PKO BP SA:

- with regard to FINDER Sp. z o.o.

On 2 January 2007, FINDER SA was entered in the National Court Register, and thereby the process of transformation of this company from a limited liability company into a joint stock company has been completed. The level of interest held by BTK SA in the share capital and votes at the company's General Shareholders' Meeting did not change.

- with regard to INTER FINANCE Polska Sp. z o.o.

On 23 April 2007, Bankowe Towarzystwo Kapitałowe SA sold 409 shares in the share capital of INTER FINANCE Polska Sp. z o.o., with a total nominal value of PLN 409 thousand. The selling price amounted to PLN 410 thousand. The shares covered by the transaction accounted for 45% of



the company's share capital and entitled to 45% of votes at the shareholders' meeting of INTER FINANCE Polska Sp. z o.o. Following the disposal, Bankowe Towarzystwo Kapitałowe SA does not hold any shares in INTER FINANCE Polska Sp. z o.o.

– with regard to P.L. ENERGIA SA

On 17 January 2007, Bankowe Towarzystwo Kapitałowe SA acquired 25,500 shares in the increased share capital of P.L. ENERGIA SA, with a nominal value of PLN 100 each. These shares accounted for 33.77% of the Company's share capital and gave right to 32.08% of votes at its General Shareholders' Meeting. The price paid for the acquired shares was PLN 4,999,785.

On 11 September 2007 an increase in the share capital of P.L. ENERGIA SA was registered in the National Court Register, by an amount of PLN 5 million. Bankowe Towarzystwo Kapitałowe SA did not participate in the share capital increase. Accordingly, the share held by Bankowe Towarzystwo Kapitałowe SA in the share capital of P.L. ENERGIA SA has decreased from 33.77% to 20.32%, and its share in the total vote at the General Shareholders' Meeting has decreased from 32.08% to 19.69%.

On 31 December 2007 Bankowe Towarzystwo Kapitałowe SA sold, under the share sale agreement dated 22 November 2007, all of its shares in P.L. ENERGIA SA, for an amount of PLN 5,999,742. The shares were sold to P.L. ENERGIA SA for the purpose of redemption.



4. BUSINESS ACTIVITIES OF THE PKO BP SA GROUP²

The main events that influenced the activities and results of the PKO BP SA Group in 2007 were connected with the business activities carried out by the Group companies and the results achieved by the particular entities of the Group and have been described in the following sections of this *Directors' Report*.

4.1 Activities of PKO BP SA – the holding company of the PKO BP SA Group³

PKO BP SA is a universal bank which deals with both individual persons and legal entities as well as other domestic and foreign entities. PKO BP SA may hold and deal in foreign currencies, as well as enter in foreign currency transactions and open and hold bank accounts with foreign banks, and hold funds denominated in foreign currencies in such accounts.

	Bank's activity
Interest bearing assets	As at 31.12.2007 gross interest bearing assets of PKO BP SA amounted to PLN 96.5 billion, and were by PLN 7.1 billion, which is 5.3% higher than as at 31 December 2006, of which gross loans of PKO BP SA amounted to PLN 76.1 billion and during the year 2007 increased by PLN 16.5 billion, which is 27.8%; loans, accounting for 78.9% interest bearing assets, increased by 13.9 pp. compared to 2006 as a result of high growth.
Interest bearing liabilities	As at 31.12.2007 Bank's interest bearing liabilities amounted to PLN 86.9 billion and from the beginning of the year increased by PLN 1.3 billion (by 1.5%); 61.8% of total value of deposits were retail and private banking deposits and compared to the end of 2006 the share decreased by 3.2 pp.; compared to the year of 2006, retail banking deposits increased by 2.3%, housing deposits by 1.3%, small and medium enterprise deposits by 20.2% and corporate deposits by 39.9%.
Territorial structure of deposit base	The biggest share within territorial structure of the deposit base (excluding inter-bank deposits and online banking accounts' deposits) had regions: Mazowiecki (25.4%), Śląsko – Opolski (11.9%) and Wielkopolski (11.0%). Their total share in Bank's deposits amounted to 48.3% and compared to the end of 2006 decreased by 0.1 pp.
Number of accounts	Number of ROR and Inteligo accounts amounted to 6,207 thousand and increased by 189 thousand, of which: ROR accounts by 125 thousand, while the number of Inteligo current accounts by 64 thousand.
Number of banking cards	Total number of banking cards issued by PKO BP SA at the end of the year amounted to 7,296 thousand of units. Compared to the end of 2006 an increase of the total number of banking cards amounted to 336 thousand of units, including 75 thousand of credit cards.

Retail segment

The Bank's activities aiming at retail segment customers focused on modernizing and increasing the attractiveness of the products offered by the Bank as well as improving service quality and sales effectiveness. The activities taken by the Bank brought about an increase in the volume of loans and deposits in the retail segment.

	Retail segment
Credit volume	As at 31 December 2007 gross credits of retail segment of PKO BP SA amounted to PLN 23.3 billion and since the beginning of the year had increased by PLN 5.1 billion (i.e. by 28.0%).
Deposit volume	As at 31 December 2007, the total clients' savings of the retail segment along with the assets managed by PKO TFI amounted to PLN 77.4 billion and compared to the year of 2006 increased by PLN 7.4 billion (i.e. by 10.6%), of which deposits amounted to PLN 60.7 billion (decreased since the beginning of the year by PLN 0.8 billion (i.e. by 1.2%)).
Online banking	The year of 2007 in the retail banking was characterized by constant, dynamic increase in the number of online banking users of PKO Inteligo. The number of customers utilizing PKO Inteligo increased by about 0.5 million from 1.4 million at the beginning of 2007 to over 1.9 million at the end of December of 2007.

² The financial data of the PKO BP SA Group companies has been presented according to their IAS/IFRS financial statements

³ This chapter contains management reporting data of the Bank; any differences in totals, percentages and dynamics result from the rounding of figures. The term "gross loans" means loans without interest



Housing segment

	Housing segments
Credit volume	As at 31 December 2007 gross credits of housing segment of PKO BP SA amounted to PLN 34.8 billion and since the beginning of the year had increased by PLN 9.5 billion (ie. by 37.5%). Total debt arising from mortgage banking products offered amounted to PLN 31.8 billion at the end of December 2007. In 2007 the value of mortgage banking products increased by PLN 9.3 billion, which means an increase by 41.8%. Mortgages supported by the government amounted to PLN 9.3 billion at the end of December 2007, of which PLN 2.3 billion represents liability to the bank, and PLN 7 billion liability to the government. At the end of 2007 repayment of liability concerned about 112 thousand apartments.
Deposit volume	As at 31 December 2007 total deposits of the housing segment of PKO BP SA amounted to PLN 10.3 billion. Since the beginning of the year their volume had increased by PLN 0.13 billion (i.e. is by 1.3%).
Investment credits	In 2007 Bank became a leader in financing developer ventures, granting over PLN 2 billion of investment credits (in 2006 about PLN 1 billion, growth of 232 % y/y). As a result, a significant portfolio increase up to PLN 1.5 billion was noticed (from PLN 522 million at the end of 2006).
Thermo-modernisation credits	Bank also became a leader in granting thermo-modern credits - among all others PKO BP SA granted the biggest number of 1,338 units representing the amount of PLN 310 million, which resulted in the credit portfolio increase by up to PLN 582 million from PLN 267 million in 2006.

Corporate segment

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

	Corporate segment
Credit volume	As at 31.12.2007 the total of gross corporate credits granted amounted to PLN 18 billion and increased by 12.3% compared to 31.12.2006.
Deposit volume	As at 31.12.2007 the total of corporate deposits granted amounted to PLN 13.5 billion and increased by 39.9% compared to 31.12.2006.

Treasury segment

	Treasury segment
Inter-bank market	<ol style="list-style-type: none"> At the end of November, Bank's participation in transactions proceeded by 13 banks participating in ranking of Treasury Dealer of Securities (further as TDS) reached: for SPOT 9%, IRS 13% and 10% for FRA, amongst other transactions proceeded on MTSCeTO 12% belonged to PKO BP SA. Bank took up 4th position (amongst 22 banks participating) in the TDS ranking.
Sale of products	Bank increased sale of treasury products to corporate clients - 50% increase in the value of SPOT's transactions, fivefold increase in value of FORWARD transactions and fourfold increase in value of derivative instruments. IRS and CIRS transactions have become elements of a standard offering.

Investment activities

At the end of December 2007, the Bank reported a profit on brokerage activities in the amount of PLN 133.7 million, which accounts for a 15.2% increase compared to the profit reported in 2006. This growth is mainly due to the 11.5% increase in net fees and commission income and the 4.5% decrease in non-personnel and personnel-related costs.

Financial results

As at 31 December 2007, the relation of the total assets of PKO BP SA to the total assets of the Group was 97.1%, and the share of net profit of PKO BP SA for the year 2007 in the consolidated net result of the Group amounted to 93.7%. Therefore, the Bank as the holding company has the greatest impact on the balance sheet and the income statement of the PKO BP SA Group. The results of PKO BP SA have been reflected in the consolidated results presented in chapter 2.

A detailed description of the activities of PKO BP SA - the holding company of the Group, including its business activity and financial performance for the year 2007, has been presented in the Directors' Report of PKO BP SA for 2007, which is an integral part of the annual report of PKO BP SA.



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

4.2 Activities of other Group companies ⁴

SUBSIDIARY	SCOPE OF ACTIVITIES	ACTIVITIES OF OTHER GROUP COMPANIES
PKO Towarzystwo Funduszy Inwestycyjnych SA	Setting up and management of investment funds	<ul style="list-style-type: none"> - The value of the Company's equity as at 31 December 2007 amounted to PLN 147,370 thousand. - At the end of 2007 the Company reported a net profit of PLN 122,853 thousand (2006: net profit of PLN 64,315 thousand). - At the end of 2007, the value of assets of the funds managed by the Company amounted to PLN 16.7 billion, which gave the Company a 12.4 % share in the investment funds market and ranked it 3rd among such companies (according to data at the end of 2006: 8.65% share in the investment funds market and ranked 4th on that market). - In 2007, PKO TFI SA included the following 2 new funds in its offer: PKO/CREDIT SUISSSE Strategic Allocation – specialized open-end investment fund and PKO/CREDIT SUISSSE Umbrella – specialized open-end investment fund with the following sub-funds: PKO/CREDIT SUISSSE Akcji Plus (equity fund), PKO/CREDIT SUISSSE Zrównoważony Plus (balanced fund), PKO/CREDIT SUISSSE Stabilnego Wzrostu Plus (stable growth fund) and PKO/CREDIT SUISSSE Papierów Dłużnych Plus (debt securities fund) as well as PKO/CREDIT SUISSSE Rynków Wschodzących (emerging markets fund) (a subfund of PKO/CREDIT SUISSSE Światowy Fundusz Walutowy – Global Currency Fund). In this period the Company also sold the S-Collect FIZ closed-end securitization fund. - In 2007 the Company paid out a dividend for the year 2006 in the total amount of PLN 65 million (on a pre-tax basis), including a dividend to PKO BP SA in the amount of PLN 48,750 thousand.
KREDOBANK SA	KREDOBANK SA in Lvov conducts banking activities in Ukraine	<ul style="list-style-type: none"> - The value of equity of KREDOBANK SA as at 31 December 2007 amounted to PLN 201,863 thousand (an equivalent of UAH 419,326 thousand). - In 2007, KREDOBANK SA reported a net profit of PLN 2,508 thousand (UAH 5,210 thousand). In 2006, KREDOBANK SA reported a net profit of PLN 15,685 thousand (UAH 27,231 thousand). The decrease in the net profit was caused by reduction of the size of the Company's lending activities due to the need to maintain regulatory capital at the level required by the National Bank of Ukraine, as well as higher operating expenses incurred in the course of the Company's development. - The loan portfolio (gross) of KREDOBANK SA had increased by PLN 319 million (UAH 1,050 million) i.e. 23% since the beginning of the year 2007 and amounted to PLN 1,708 million (UAH 3,547 million) at the end of 2007. - The value of term deposits expressed as PLN equivalent had decreased by PLN 9 million i.e. 0.96% since the beginning of 2007 and amounted to PLN 977 million at the end of 2007. The value of term deposits in UAH increased in 2007 by UAH 256 million i.e. 14.43% and amounted to UAH 2,030 million at the year-end. - At 31 December 2007, KREDOBANK SA had 24 branches and 151 local offices in 19 (out of 24) Ukrainian provinces and the Autonomous Republic of Crimea. During the year 2007, the Bank's network increased by additional 4 branches and 45 local offices. - In January 2007, KREDOBANK SA received a subordinated loan from PKO BPSA for an amount of USD 7.5 million, to be repaid by 30 January 2015. - In February 2007, KREDOBANK issued 25,000 bonds with a total nominal value of UAH 25 million and a maturity of 20 February 2012. All bonds were sold to the clients on the Ukrainian market. - In September 2007, an increase of UAH 176,750,000 in the share capital of KREDOBANK SA was entered in the register. The increase was made by way of an additional share issue. Following registration of the increase, the value of the share capital of KREDOBANK SA is UAH 396,049,469.16 (i.e. PLN 190.66 million). - In October 2007, KREDOBANK SA signed a loan agreement with PKO BP SA under which it received a working capital loan in the amount of USD 20 million. <p>All amounts relating to KREDOBANK SA at the end of 2006 were translated using the average NBP rate as at 31 December 2006 (1 UAH = 0.5760 PLN), while those at the end of 2007 were translated using the average NBP rate as at 31 December 2007 (1 UAH = 0.4814 PLN).</p>
Powszechne Towarzystwo Emerytalne BANKOWY SA	Management of an open-end pension fund. Since 2003, the Bank has been in the possession of 100% of PTE's shares	<ul style="list-style-type: none"> - At 31 December 2007, the value of equity of the PTE BANKOWY SA Group (PTE BANKOWY SA and its subsidiary, Finans Agent Transferowy Sp. z o.o.) amounted to PLN 114,232 thousand. - At the end of 2007, the PTE BANKOWY SA Group reported a net profit of PLN 20,287 thousand (2006: net profit of PLN 19,168 thousand). - At the end of 2007, the value of assets held by Bankowy OFE amounted to PLN 4,275 million, which means an increase of 15.4% compared to the end of 2006. - At 31 December 2007, the number of members accounts amounted to 473,883. - At the end of 2007, Bankowy OFE was ranked 8th on the market of pension funds as regards the value of assets and 9th as regards the number of accounts. - In the ranking of rates of return published by the Insurance and Pension Funds Supervisory Commission (KNUiFE), Bankowy OFE was ranked 15th in the period from 30 September 2004 to 28 September 2007 with the result of 43.811%, while the weighted average was 52.497%.
Inteligo Financial Services SA	Provision of e-banking services. The Company provides a platform for the development of electronic services of PKO BP SA in the field of keeping accounts and selling other banking products using interactive distribution channels	<ul style="list-style-type: none"> - The value of the Company's equity at the end of 2007 amounted to PLN 97,258 thousand. - The Company closed the year 2007 with a net profit of PLN 22,148 thousand (2006: net profit of PLN 31,696 thousand). - The value of deposits held by PKO BP SA customers using the Inteligo accounts increased in 2007 by PLN 231 million and amounted to PLN 2,064 million at the end of 2007. Growth in these deposits in 2007 was lower than in 2006 by PLN 79 million. - At the end of 2007, the Company provided access to e-banking systems for approx. 1.9 million customers of PKO BP SA using the PKO Inteligo service line and provided Inteligo account services to over 582 thousand customers. - In January 2007 the Company signed a data transmission services agreement with Bank Poczty SA to enable the bank to provide and maintain electronic access to bank accounts for its customers. - In February 2007 the Company was entered in the register of telecommunication companies kept by the Polish Electronic Communications Office (Urząd Komunikacji Elektronicznej – UKE).
Centrum Elektronicznych Usług Płatniczych eService SA	Acquisition (to the Bank's order) of points of sale (the so-called acceptors) to execute transactions with the use of payment cards, management of POS terminals' network, processing of data relating to card transactions performed at POS terminals and servicing of cash withdrawals at POS terminals installed, among other places, in PKO BP SA agencies and branches	<ul style="list-style-type: none"> - The value of the Company's equity as at 31 December 2007 amounted to PLN 40,689 thousand. - In 2007, the Company reported a net profit of PLN 19,902 thousand (2006: net profit of PLN 15,494 thousand). The increase in the net profit results mainly from continuous improvement of profitability of the acquired points of sale and development of additional functionalities i.e. higher sales of mobile phone recharge units and higher number of cash withdrawals made at PKO BP SA agencies and the post offices of Poczta Polska. - The number of eService terminals at the end of 2007 amounted to 46,092, which means an increase of 27.87% since the end of 2006. The Company's estimated share in the card acceptance market as regards the number of eService terminals was 29.61% at the end of 2007. - In 2007, eService terminals processed 100.6 million transactions with a total value of PLN 15.3 billion, which means a 30.3% increase in the value of processed transactions compared to 2006. As regards the value of generated card transactions, the Company's estimated share in the market at the end of 2007 was 28.82%. - The Company was the first in Poland to introduce in 2007 contactless payment card readers.
Bankowe Towarzystwo Kapitałowe SA	Venture capital activities	<ul style="list-style-type: none"> - The value of the Company's equity at the end of December 2007 amounted to PLN 13,338 thousand. - In 2007 the Company reported a net loss of PLN 968 thousand (2006: net loss of PLN 4,812 thousand). - At the end of 2007, the Company managed an investment portfolio of PLN 6.5 million at acquisition cost (carrying amount of PLN 7.4 million), which included investments in FINDER SA.
Bankowy Fundusz Leasingowy SA	Operating and finance lease services in respect of vehicles, machinery, equipment and real estate as well as other financial agency services. Special services of the Company include: BanCar Leasing - lease of passenger cars and trucks, BanTruck Leasing – lease of construction related machinery and Bankowy Wynajem - long-term lease of vehicles	<ul style="list-style-type: none"> - The value of equity of the BFL SA Group (BFL SA and its subsidiaries) at the end of 2007 amounted to PLN 47,013 thousand. - The BFL SA Group closed the year 2007 with a net profit of PLN 7,024 thousand (in 2006, the Company reported a net profit of PLN 4,523 thousand). - In 2007, the BFL SA Group companies concluded lease agreements for a total amount of PLN 1,371 million, which means an increase of 79.9% compared to 2006. The high rate of growth in the value of realised lease agreements results from the dynamic development of the lease market. As regards the net carrying amount of the leased assets, the Company ranked 8th at the end of 2007 (according to estimates published by the Polish Leasing Companies Association (Związek Przedsiębiorstw Leasingowych). - The total carrying amount of the investments leased out by the BFL SA Group at 31 December 2007 was PLN 1,595 million (end of 2006: PLN 945 million).

⁴ The financial data of the PKO BP SA Group companies for the year 2007 are derived from their unaudited financial statements



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

SUBSIDIARY	SCOPE OF ACTIVITIES	ACTIVITIES OF OTHER GROUP COMPANIES
PKO Inwestycje Sp. z o.o.	Construction and development activities. PKO Inwestycje Sp. z o.o. specializes in management of big development projects. Development projects are carried out either by PKO Inwestycje Sp. z o.o. alone or by its subsidiaries	<ul style="list-style-type: none"> - The value of equity of the PKO Inwestycje Sp. z o.o. Group (PKO Inwestycje Sp. z o.o. and its subsidiaries) at the end of 2007 amounted to PLN 82,593 thousand. The decrease in equity compared to the end of 2006 results mainly from a change in the accounting treatment of the additional capital injections made by PKO Inwestycje Sp. z o.o. to its subsidiaries (reclassification of additional capital injections from equity to liabilities). - The PKO Inwestycje Sp. z o.o. Group closed the year 2007 with a net profit of PLN 13,621 thousand (2006: net profit of PLN 37,068 thousand). Fluctuations in the results are due to the accounting treatment applied to the investment projects carried out by the Group. - In 2007, the Company's activities were focused on the following development projects: <ul style="list-style-type: none"> - "Marina Mokotów" in Warsaw carried out by Fort Mokotów Sp. z o.o., - "Nowy Wilanów" in Warsaw carried out by Wilanów Investments Sp. z o.o., - "Neptun Park" in Gdańsk carried out by POMERANKA Sp. z o.o., - "Kuzmńska" in Kiev, Ukraine, carried out by UKROPOLINWESTYCJE Sp. z o.o. - All construction work relating to the "Marina Mokotów" project carried out by Fort Mokotów Sp. z o.o. was completed in 2007. Currently the Company must ensure warranty services for work performed under this project. - In October 2007, a new project, "Osiedle Jantar" in Międzyzdroje, was commenced by ARKADIA Inwestycje Sp. z o.o. In March 2007 PKO Inwestycje Sp. z o.o. received a dividend for 2006 from Fort Mokotów Sp. z o.o. in the amount of PLN 30.6 million.
Centrum Finansowe Puławska Sp. z o.o.	The Company manages the building "Centrum Finansowe Puławska" located at 15 Puławska Street in Warsaw	<ul style="list-style-type: none"> - The value of the Company's equity at the end of 2007 amounted to PLN 211,410 thousand. - In 2007, the Company reported a net profit of PLN 4,346 thousand. In 2006 it reported a net profit of PLN 8,685 thousand, which was mainly due to the recognition of foreign exchange gains on a foreign currency loan before its conversion to PLN in April 2006. - The percentage of leased out office and commercial space in the CFP building was subject to slight fluctuations in 2007 and amounted to 96.4% at the end of 2007 (end of 2006: 98.5%). - At 31 December 2007, 84.7% of the commercial and office space in the CFP building was leased out to the PKO BP SA Group companies.

4.3 Other subordinated entities ⁵

SUBORDINATED ENTITY	SCOPE OF ACTIVITIES	ACTIVITIES OF OTHER SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES
CENTRUM HAFFNERA Sp. z o.o.	CENTRUM HAFFNERA Sp. z o.o., together with its subsidiaries, carries out an investment project relating to re-vitalisation of Sopot's tourist centre	<ul style="list-style-type: none"> - The value of equity of THE CENTRUM HAFFNERA Sp. z o.o. Group (CENTRUM HAFFNERA Sp. z o.o. and its subsidiaries) at the end of 2007 amounted to PLN 92,560 thousand. - The Group closed the year 2007 with a net profit of PLN 2,098 thousand (2006: net profit of PLN 1,200 thousand).
Centrum Obsługi Biznesu Sp. z o.o.	The Company's activity is construction of offices and hotel complex in Poznań. In January 2007 the Company delivered for use the Sheraton Poznań Hotel	<ul style="list-style-type: none"> - The value of the Company's equity at the end of 2007 amounted to PLN 25,383 thousand. - The Company closed the year 2007 with a net loss of PLN 7,410 thousand (2006: net loss of PLN 8,843 thousand).
Bank Pocztowy SA	Banking activities	<ul style="list-style-type: none"> - The value of the Company's equity at the end of 2007 amounted to PLN 229,432 thousand. - At the end of December 2007, the Company reported a net profit of PLN 29,090 thousand (2006: net profit of PLN 24,367 thousand).
Kolej Gondolowa Jaworzyna Krynicka SA	Set up mainly for the purpose of construction and operation of cable railway from Krynica to Jaworzyna Krynicka and for carrying people on ski lifts	<ul style="list-style-type: none"> - The value of the Company's equity at the end of 2007 amounted to PLN 33,273 thousand. - The Company closed the year 2007 with a net profit of PLN 1,809 thousand (2006: net profit of PLN 2,274 thousand).
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Granting of suretyships and guarantees to secure the repayment of loans and advances granted by financial institutions to small and medium-sized enterprises (SMEs)	<ul style="list-style-type: none"> - The value of the Company's equity at the end of 2007 amounted to PLN 4,820 thousand. - The Company closed the year 2007 with a net profit of PLN 42 thousand (2006: net profit of PLN 140 thousand).
Agencja Inwestycyjna CORP SA	Management of business premises in Warsaw	<ul style="list-style-type: none"> - The value of the Company's equity at the end of 2007 amounted to PLN 1,122 thousand. - The Company closed the year 2007 with a net profit of PLN 315 thousand (2006: net profit of PLN 374 thousand).

4.4 International cooperation

Cooperation with the European Bank for Reconstruction and Development

- PKO BP SA participates in the "Loan Window" programme being part of the "UE/EBRD SME Finance Facility" (on the basis of the Loan Agreement of 21 February 2003 concluded by PKO BP SA and the European Bank for Reconstruction and Development for the financing of small and medium-sized enterprises). Until 31 December 2007, the Bank extended 3,117 loans for a total amount of EUR 62.65 million.
- In 2007, Bankowy Fundusz Leasingowy SA utilised successive tranches of the loan granted to it by the EBRD in 2005 for a total amount of PLN 60 million, amounting to PLN 40 million. As at

⁵ The financial data of the PKO BP SA subordinated companies for the year 2007 are derived from their unaudited financial statements prepared in accordance with Polish Accounting Standards.



31 December 2007, the total amount of the funds utilized by the Company under this loan was PLN 60 million. These funds are to be used for the development of small and medium-sized enterprises.

Co-operation with other foreign institutions

In 2007, the Bank:

- entered into 2 ISDA Master Agreements with foreign banks and 2 Credit Support Annexes to the previous ISDA agreements, 2 TBMA/ISMA Global Repurchase Master Agreements, and participated in 2 syndicated loans organized for foreign banks on the European market, with a total value of PLN 125 million,
- entered into a loan agreement and a working capital loan agreement with an entity from the banking sector directly related to the Bank, for a total amount of PLN 70 million – both of these transactions were made at an arm's length,
- as at 31 December 2007, the Bank holds 29 *nostro* accounts denominated in 14 currencies, and keeps 38 *loro* accounts in 3 currencies,
- as part of cooperation with the UK NatWest, the branches of PKO BP SA in Poland started to accept applications for the opening of NatWest Welcome accounts; in December 2007 PKO BP SA opened its first UK outlet in London.

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

In 2007 Bankowy Fundusz Leasingowy SA utilised PLN 56.9 million of the loan granted to it in 2006 by the European Investment Bank for an amount of EUR 50 million, and used these funds for the financing of small and medium-sized enterprises.

KREDOBANK SA provides its customers a wide range of services in the area of international transactions. KREDOBANK SA participates in the system of international settlements with financial institutions from 25 countries. It holds 40 *nostro* accounts and keeps 19 *loro* accounts.

4.5 Service promotion and image building

In 2007, the Bank's activities in the area of promotion were mainly focused on the following:

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

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

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

Through the following programmes:

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

Promotion activities carried out in 2007 by other Group companies were particularly focused on the following:

- ensuring advertising support for the sales of products, including in particular new products and services, and building positive corporate image (KREDOBANK SA),
- promotion of constructed housing estates: “Neptun Park” in Gdańsk Jelitkowo and “Nowy Wilanów” in Warsaw (PKO Inwestycje Sp. z o.o. and its subsidiaries),



- strengthening the position of PKO Towarzystwo Funduszy Inwestycyjnych SA on the investment funds market, among others, by carrying out an image-building campaign in the press on the occasion of the 10th anniversary of the Company's presence on the investment funds market and the sponsorship of a number of scientific, sports and musical events,
- activities supporting the image and promoting the services of Bankowy Fundusz Leasingowy SA, including the sponsorship of the "Gazeta Biznesu" ranking and the carrying out of advertising campaigns in nationwide economic and business dailies and specialised magazines,
- promotional campaigns and competitions addressed to the customers of Inteligo Financial Services SA, Centrum Elektronicznych Usług Płatniczych eService SA and PTE BANKOWY SA,
- sponsorship of a number of cultural events, health care and charity undertakings, and organisation of a conference devoted to commercial property management (Centrum Finansowe Puławska Sp. z o.o.).

In addition to its activities on the financial market, KREDOBANK SA provided support to cultural and artistic undertakings and participated in the resolving of current social problems. Its activities in this area included providing assistance to children and supporting Ukrainian arts, culture and sports. In April 2007 KREDOBANK SA and the Ukrainian Charity Fund organised an event (the "Heart to Heart" event) whose aim was to collect funds for the purchase of medical equipment for children's hospitals in Ukraine.

Awards and distinctions granted to members of the Group

- the title of the "Primary Market Leader" granted for the 3rd time to Dom Maklerski PKO BP for the introduction of the greatest number of new companies on the stock exchange in 2006,
- 1st place in *Newsweek's* ranking of "100 Most Valuable Companies in Poland",
- Promotional Emblem "Teraz Polska" – award granted for the European Program of PKO BP SA in the 17th "Teraz Polska" contest organised by the Polish Promotional Emblem Foundation under the patronage of the President of Poland,
- "Premium Brand 2006" in the category of financial institutions - title granted to PKO BP SA for the second time in the ranking of most reputable brands organised by MMT Management under the patronage of the monthly *FORBES*,
- Main Award in the ranking of "50 biggest banks in Poland" organised by the monthly *BANK*, and 1st prize in the category of "Internet Banks",
- "Bank of the Year 2007 in Poland" – prestigious award granted to PKO BP SA by the monthly "The Banker" for financial performance, development strategy and market achievements,
- 1st place in the category of "financial brands" in *Rzeczpospolita's* ranking of the strongest Polish brands,
- "Rock Awards 2006" – golden prize granted to Centrum Elektronicznych Usług Płatniczych eService SA for outstanding contribution to the development of payment card acceptance network and silver prize for implementing smart cards acceptance (both awards granted by MasterCard Europe),
- 1st place for Inteligo Financial Services SA and the title of "Newsweek's Friendly Bank" in the ranking of the most user-friendly online bank accounts,
- "Golden Portfolio" – award granted by *Gazeta Giełdy Parkiet* to PKO Towarzystwo Funduszy Inwestycyjnych SA, the company managing the PKO/CREDIT SUISSE Akcji Nowa Europa FIO, for the best investment results in this category,
- "Portfolio of the Year 2007" - award granted by the weekly *WPROST* to PKO Towarzystwo Funduszy Inwestycyjnych SA for the best Polish equities fund – PKO/CREDIT SUISSE Akcji Małych i Średnich Spółek FIO,
- 1st place for KREDOBANK SA in the category of "Company of the Year" in the area of consulting and investment services in the "Rycerz Galicki 2006" contest,
- 1st place for KREDOBANK SA in the category of "Foreign Investment", granted in the "Investor of the Year 2006" contest organised by public administration and the Chamber of Industry and Commerce in Lvov,
- 3rd place for KREDOBANK SA in the category of "the Most Trusted Bank of the Year", granted in the "MasterCard Bank 2007" contest,
- 3rd place for KREDOBANK SA in the ranking of the "Reporting transparency of Ukrainian banks in 2007", organised by Standard & Poor's,
- the title of the "Patron of Business Gazelles" (*Mecenas Gazet Biznesu*) granted to Bankowy Fundusz Leasingowy SA.

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



5. INTERNAL ENVIRONMENT

5.1 Risk management policy

Risk management is one of the most important internal processes both in the Bank and in the other companies of the PKO BP SA Group, particularly in KREDOBANK SA and Bankowy Fundusz Leasingowy SA (BFL SA). The aim of risk management is to ensure an appropriate level of security and profitability of business activities in the changing legal and economic environment. The key risks in the PKO BP SA Group comprise credit risk, market risk and operational risk. Risk management covers credit risk management, market risk management and operational risk management.

5.1.1 Credit risk

The aim of creating an effective credit risk management system is to increase the level of security and profitability of the services offered. In credit risk management, the Bank, KREDOBANK SA and BFL SA are guided by the following rules:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in the internal rating or credit score assigned to this transaction,
- credit risk relating to potential and concluded loan transactions is measured on a regular basis taking into consideration changing external conditions and changes in the financial standing of the borrowers,
- the credit risk assessment performed for a given transaction is additionally verified by credit risk assessment forces which are independent of the business units, if the criteria for engaging such forces are met,
- credit risk is diversified by geographical regions, industry, products and clients,
- loan granting decisions may only be taken by authorized individuals,
- the Bank and the other PKO BP SA Group companies provide for credit risk by recognising impairment allowances (specific provisions) for loan exposures.

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

During the year 2007, KREDOBANK SA revised its credit risk assessment methodologies for the following groups of customers: individual customers, corporate entities and sole traders, prepared for testing a project of automation of the lending process related to individual customers (using credit scoring methodologies) and developed a set of rules and regulations for assessment of the quality of investment projects.

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

5.1.2 Financial risk

The holding company of the Group has a coherent and well-developed financial risk management system, which also accounts for the risks generated by the other Group companies. Furthermore, the risk management policies of the other Group companies giving rise to significant financial risk are to a large extent adjusted to the policies applied by the holding company.

The holding company has implemented a specialized IT system supporting financial risk management, which improves the operating efficiency and IT security of the financial risk management process, increases the level of automation of computations and allows for their centralization. During the year 2007, the Bank continued to adjust this system to its current requirements and to the changes occurring in its macroeconomic environment.

During the year 2007, the Bank finalised its work on including the internal capital assessment process in the management of liquidity risk, interest rate risk and currency risk.



Financial risk profile of the Bank in 2007

Due to the structure of the Group, financial risk is mainly generated by the holding company, PKO BP SA. The Group's parent entity has a stable deposit base and a portfolio of liquid securities which ensure a sufficient financial liquidity, which is monitored and managed on a regular basis. In 2007, the Bank acquired a syndicated loan and issued subordinated debt securities in order to diversify its sources of financing. The Bank used derivative instruments (including credit derivatives) for investment and hedging purposes and held speculative positions in interest rates and foreign currencies. During the year 2007, the Bank performed regular assessments of financial institutions and reviewed the amounts of the assigned credit and settlement limits, and set limits for the new contractors on the interbank market in accordance with the requirements reported by the business departments.

5.1.3 Operational risk

Operational risk is defined as the risk of a loss arising from non-compliance or weakness of internal processes, people and systems or from external events. The objective of operational risk management is to optimise operational efficiency by reducing operating losses, rationalization of costs and increasing the speed and adequacy of the Bank's and other Group companies' response to events that are beyond their control.

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

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

Cooperation between the Group companies in the area of operational risk management is coordinated by the Compliance and Operational Risk Office, which, among others, issues opinions on the internal regulations governing the comprehensive system-based operational risk management, monitors operational events and reports on the Group's operational risks to the Management Board and Supervisory Board of the Bank.

The holding company, i.e. PKO BP SA, has the greatest impact on the Group's operational risk profile. Other Group companies, due to considerably smaller size of their operations, generate only a limited exposure to operational risk. In 2007, the Group companies improved the operational risk management process by implementing new solutions in the area of identification of operational risk, classification of operational events and calculation of the capital requirement for operational risk.

5.1.4 Capital adequacy

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

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

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

The level of the capital adequacy of the Group in 2007 was safe. Due to dynamic development of lending activities and implementation, as of 1 January 2008, of the requirements of the New Capital Accord (Basel II), the Bank took actions in order to maintain the capital adequacy ratio above the level



of 10%. Specifically, in the 4th quarter of 2007 the Bank carried out an issue of subordinated debt securities and obtained approval of the Commission for Banking Supervision for including them in the Bank's own funds.

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

Capital management includes in particular identification of significant risks, assessment of internal capital for the individual types of risk, calculation of aggregated internal capital for all significant risks arising in the operations of the Bank and of the Group companies, as well as stress testing of capital adequacy.

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

5.2 Major equity investments

Major equity investments of PKO BP SA and its subsidiaries relating to purchase and sale of shares in other subsidiaries, associates and jointly controlled entities are presented in point 3.2 of this Report.

5.3 Related party transactions

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

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

All significant transactions of PKO BP SA with its subsidiaries, associates and jointly controlled entities, including the loan exposures of these companies to the Bank as at 31 December 2007, have been presented in the consolidated financial statements of the PKO BP SA Group for the year 2007.

5.4 Governing bodies of PKO BP SA in the reporting period

Members of Management Board in the reporting period:

Table 15. *Members of the Management 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 acting as the President of the Management Board	29.09.2006 resigned from these positions as of 10.01.2007
2.	Rafał Juszcak	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 Juszcak 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)



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

No.	Name	Function	Appointment Date
		President of the Management Board	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 Działał***	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 Michałak****	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
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 16. *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)



No.	Name	Function
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) Member of the IIS Project Committee (since 24.04.2005)
4.	Zdzisław Sokal	Member of the Asset and Liability Committee (since 10.07.2006), Chairman of the Asset and Liability Committee (since 4.01.2007) Chairman of the Bank's Credit Committee (since 4.01.2007) Member of the Integrated Information System Steering Committee (since 10.07.2006), Deputy Chairman of the Integrated Information System Steering Committee (since 14.02.2007) Deputy Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006) Deputy Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (since 17.01.2007)
5.	Wojciech Kwiatkowski	Deputy Chairman of the Asset and Liability Committee (from 4.01.2007 to 19.03.2007 and from 15.05.2007 to 5.08.2007), Chairman of the Asset and Liability Committee (from 20.03.2007 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) Deputy Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (from 10.04.2007 to 30.07.2007)
6.	Adam Skowroński	Deputy Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (from 11.04.2007 to 30.04.2007 and since 30.07.2007) Chairman of the Bank's Credit Committee (from 11.04.2007 to 30.04.2007) Deputy Chairman of the Asset and Liability Committee (since 24.07.2007)
8.	Stefan Świątkowski	Chairman of the Asset and Liability Committee (since 15.05.2007) Chairman of the Bank's Credit Committee (since 1.05.2007) Deputy Chairman of the Integrated Information System Steering Committee (since 1.05.2007) Chairman of the Steering Committee for IAS 39 and directive on capital adequacy adjusting activities (since 30.07.2007)
9.	Mariusz Klimczak	Member of the Asset and Liability Committee (from 6.08.2007 to 26.11.2007) Deputy Chairman of the Asset and Liability Committee (since 16.07.2007)



Members of Supervisory Board

Table 17. The Bank's Supervisory Board during the reporting period

No.	Name	Function	Appointment / dismissal date
1.	Marek Głuchowski	President of the Supervisory Board	appointed on 18.04.2006, from 10.01 to 23.01.2007 and from 27.01.2007 to 10.04.2007 delegated to temporarily act as the President of the Management Board
2.	Urszula Pałaszek	Member of the Supervisory Board	appointed on 19.05.2005
		Vice-President of the Supervisory Board	since 20.05.2005
3.	Tomasz Siemiątkowski	Member of the Supervisory Board	appointed on 18.04.2006
		Secretary of the Supervisory Board	since 26.06.2006.
4.	Jerzy Michałowski	Member of the Supervisory Board	appointed on 18.04.2006
5.	Jerzy Osiałyński	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 were appointed and 4 holders of commercial powers of attorney were dismissed. As at 31 December 2007, there were 12 holders of commercial powers of attorney.

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

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

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

Rules for appointing and dismissing members of the Management Board

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

Authorisations granted to members Management Board

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



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

Contracts concluded between the issuer and persons performing management functions

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

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

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

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

Benefits provided to members of management and supervisory boards

Full information on remunerations and other benefits provided to members of the Bank's Management and Supervisory Boards in the reporting period has been presented in Note 52 of Additional Information to the Consolidated Financial Statements.

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

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

Table 18. Shares held by members of Management and Supervisory Boards of PKO BP SA as at 31 December 2007

No.	Name	Number of shares as at 31.12.2006	Purchase	Disposal	Number of shares as at 31.12.2007
I. Management Board					
1.	Rafał Juszczyk, President of the Management Board of PKO BP SA	----	----	----	----
2.	Berenika Duda-Uhryn, Vice-president of the Management Board of PKO BP SA	----	----	----	----
3.	Robert Działak, Vice-president of the Management Board of PKO BP SA	----	----	----	----
4.	Mariusz Klimczak, Vice-president of the Management Board of PKO BP SA	----	----	----	----
5.	Wojciech Kwiatkowski, Vice-president of the Management Board of PKO BP SA	----	----	----	----
6.	Aldona Michalak, Vice-president of the Management Board of PKO BP SA	----	----	----	----
7.	Adam Skowroński, Vice-president of the Management Board of PKO BP SA	----	----	----	----
8.	Stefan Świątkowski, Vice-president of the Management Board of PKO BP SA	----	----	----	----



No.	Name	Number of shares as at 31.12.2006	Purchase	Disposal	Number of shares as at 31.12.2007
II.	Supervisory Board				
1.	Marek Głuchowski, President of the Supervisory Board of PKO BP SA	----	----	----	----
2.	Urszula Pałaszek, Vice-president of the Supervisory Board of PKO BP SA	----	----	----	----
3.	Maciej Czapiewski, Member of the Supervisory Board of PKO BP SA	----	----	----	----
4.	Jerzy Michałowski, Member of the Supervisory Board of PKO BP SA	----	----	----	----
5.	Tomasz E. Siemiątkowski, Secretary of the Supervisory Board of PKO BP SA	----	----	----	----
6.	Agnieszka Winnik-Kalemba, Member of the Supervisory Board of PKO BP SA	----	----	----	----

5.5 Amendments to the Bank's Articles of Association

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

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

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

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

5.6 Corporate governance

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



6. EXTERNAL ENVIRONMENT

Macroeconomic factors

During the year 2007 economic growth continued to accelerate. The dynamics of GDP in 2007 amounted to 6.5% y/y, compared to 6.2% in 2006. The revival in real economy was stimulated by a high growth in domestic demand – especially in the area of investments, coupled with a strong growth in the dynamics of individual consumption (improvement of the situation on the labour market and growth in the level of household disposable incomes).

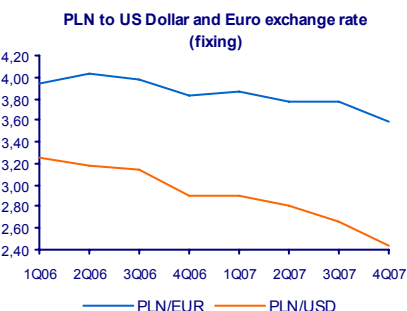
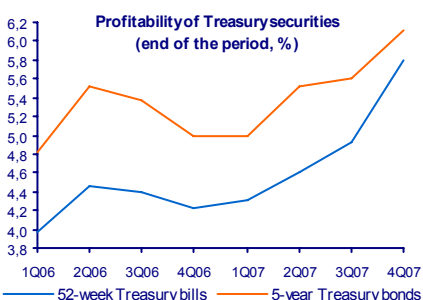
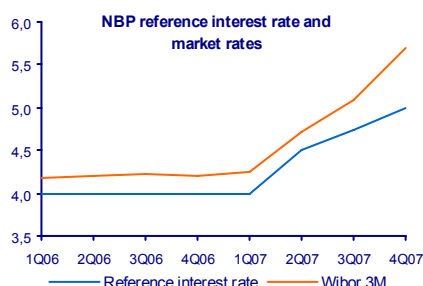
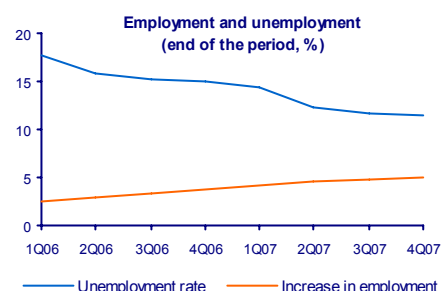
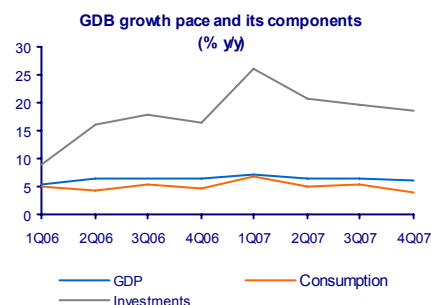
In 2007, official unemployment rate decreased by 3.4 pp (to 11.4% in December 2007), due to the positive influence of the economic revival, the inflow of EU funds to be used for active forms of fighting unemployment and continued economic emigration.

The average inflation rate increased from 1% in 2006 to 2.5% in 2007. In the first three quarters of 2007, the inflation rate was within the range of +/- 1 pp from the NBP's target inflation rate of 2.5%. In the 4th quarter of 2007, the inflation rate rapidly increased to 4% in December, mainly due to high rises in the prices of food.

In 2007, the pressure of demand on the level of prices continued to be relatively small, which helped the "net" core inflation index remain below the CPI, within the corridor of 1.2% - 1.8%. The appreciation of PLN was an additional factor working towards a decrease in the level of inflation over the most of the year.

The Group's performance was also affected by the macroeconomic factors in Ukraine, where PKO BP SA's subsidiary, KREDOBANK SA, operates. The most important factors were as follows:

- continued economic boom with a stabilisation of the GDP dynamics from at 7.3% y/y,
- rapid increase in the inflation rate to the level of 16.6% y/y, compared to 11.6% in December 2006 - this was due to significant increases in the prices of food and continuing high rises of energy prices, as well as due to the continued strong internal consumption demand,
- increase in the growth rate of deposits to over 50% y/y at the end of 2007, compared to approximately 40% y/y at the end of 2006, given high growth rate of wages and salaries,
- increase in the growth rate of granted loans to appx. 75% y/y, compared to appx. 71% y/y at the end of 2006, due to high internal demand (including consumption demand) as well as continued changes in the banking system and high interest of the foreign capital in the banking sector in Ukraine,
- concentration of monetary policy by the National Bank of Ukraine in 2007 on the exchange rate objective in order to maintain the exchange rate at a stable level of 5.00-5.06 UAH/USD given the temporary pressure on depreciation of hryvna, especially during the periods of decline in demand for emerging market currencies,
- the reduction (in June 2007) of the main NBU interest rate by 50 base points to 8.0%.





Monetary policy of the National Bank of Poland

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

Financial market

In 2007, there was an increase in the yields on Polish Treasury securities, from 70 bp in the case of long-term bonds to 170 bp in the case of short-term securities.

This increase was due to the following:

- significant deterioration of inflation prospectives,
- the beginning of the cycle of tightening of monetary policy and increasing expectations of the investors regarding the target level of interest rates in the current cycle,
- rising interest rates in the Euro zone in the first half of the year,
- temporary outflow of funds from emerging markets in the 3rd and 4th quarter of 2007 due to the problems faced by the international financial markets.

The rising yields on Treasury securities, especially long-term Treasury bonds, were mitigated by the following factors:

- strong foundations of Polish economy compared to other developing countries,
- good current condition of the state budget and the resulting limited supply of Treasury securities on the primary market,
- the expected entry of Poland to the Euro zone within the next 5-10 years,
- the end of the tightening of monetary policy in the Euro zone and the beginning of a cycle of cutting interest rates in the US, with increasing expectations for further reductions of interest rates in 2008.

In addition, the deterioration of the situation on the international financial markets at the end of the year resulted in declines in liquidity and rises in market interest rates.

In 2007, the nominal exchange rate of PLN strengthened by more than 6.5% against EUR and by more than 16% against USD (according to year-end data). The strengthening of PLN was due to the sound foundations of the Polish economy and the positive reaction of the financial markets to the results of the early elections held at the end of the year. In the second half of the year, the PLN exchange rate continued to be strongly affected by the developments on the international financial markets. The considerable appreciation of PLN against USD was due to strong depreciation of USD on the global markets in 2007.

Regulatory environment

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

- modified principles for payment of interest on the obligatory reserve
- an increase in the level of transfers to be made to the guaranteed money protection fund,
- granting the banks the right to deduct a portion of their specific provisions for certain exposures for corporate income tax purposes,
- modification of the reporting requirements for banks and additional requirements concerning risk assessment under the revised Banking Law,
- resolutions of the Commission for Banking Supervision providing the basis for implementation of new capital adequacy policies,
- advertising restrictions for investment funds in the resolution of the Commission for Banking Supervision,
- new requirements for prospectuses prepared by investment funds resulting from the Regulation of the Council of Ministers,
- new requirements (including reporting requirements) for banks engaged in the management of portfolios of securities, brokerage houses, Investment Fund Companies [TFI] and Pension Fund Companies [PTE] resulting from the Commission Regulation (EC) accompanying the MiFID directive,



- verdict of the Antimonopoly Court on the basis of which the banks' practice of charging commission on cash withdrawals was disallowed; in April 2007 PKO BP SA discontinued the practice of charging commission on cash withdrawals.

The situation of the PKO BP SA Group was additionally influenced by preparations to the implementation of the SEPA system in Poland as well as the legislation relating to the Ukrainian market, including the new rules relating to regulatory capital, creation of obligatory reserves, providing for non-performing loans, recommendations on corporate governance, and the new requirements for informing customers about lending terms.

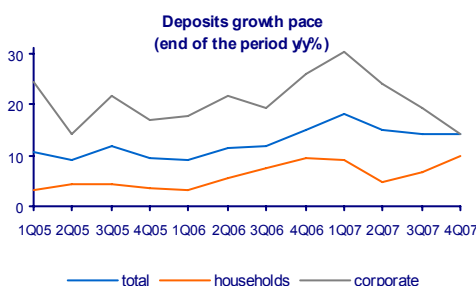
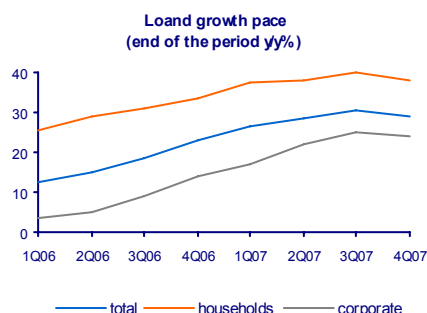
Competitive environment

Banking sector

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

The factors that had the greatest effect on the banks' performance were as follows:

- continued high increase in household loans (by more than 38%). The growth rate of housing loans slightly decreased compared to 2006 (appx. 51% in 2007 compared to appx. 55% in 2006), among others due to the rising interest rates of loans and the appreciation of PLN against CHF (which resulted in a decrease in the total value of such loans in PLN). The growth in housing loans accounted for $\frac{2}{3}$ of the annual growth in household loans. The growth rate of consumer loans increased (by 31% in 2007 compared to 23% in 2006) due to the rising credit capacity of less affluent households and more liberal lending policies applied by the banks;
- significant increase in corporate loans (by appx. 24% in 2007 compared to appx. 14% in 2006) due to the continuing revival in investments. A particularly high growth was noted in loans to small and medium-sized enterprises;
- increase in deposit base, mainly due to acceleration in the growth of household deposits in the second half of 2007 due to smaller inflow of cash to investment funds, resulting from deteriorating situation on the stock market. The increase in households deposits was also driven by good income situation of the households and rises in deposit interest rates. Household deposits increased by appx. 10% on a year-to-year basis, compared to appx. 8.6% in 2006, while term deposits continued to fall (by appx. 4% y/y). Corporate deposits rose by more than 14%, but their growth rate was definitely lower (appx. 26% in 2006);
- rise in banking network development expenses, rises in personnel-related costs and intensification of marketing activities.



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



Non-banking sector

- The investment funds sector was one of the most dynamically developing segments of the financial market in 2007, after the factoring and lease market. Despite the unfavourable conditions on the Warsaw Stock Exchange, which were mainly due to the rising risk aversion on the global financial market caused by the crisis on the mortgage-backed financial instruments market, as well as the outflow of funds from domestic investment funds in December and November, the value of net assets held by fund management companies (TFI) in 2007 increased by more than 35% y/y, to PLN 133.5 billion. The increase in the investment funds' assets was more dynamic than the increase in bank deposits (term deposits showed a decrease).
- Open-end pension funds (OFE) market – in 2007, the value of assets held by open-end pension funds increased by 20.1% to PLN 140.0 billion. This was mainly due to the increased transfers from ZUS [Social Security Office] (PLN 17.7 billion). The result achieved by pension fund managers amounted to appx. PLN 7 billion, which was half the result for the year 2006 (this was mainly due to the lower growth of WSE indices). The number of pension fund members increased to 13.1 million (annual increase of appx. 781 thousand). At the end of 2007, pension funds held 7.5% of the shares in PKO BP SA, i.e. 0.1 pp more than in the previous year.
- Lease market – in 2007, the value of investments financed by lease companies amounted to appx. PLN 33 billion, which means an appx. 52% increase on a year-to-year basis. This was mainly triggered by the growth of investments. Almost 12.9% of domestic capital expenditures were financed by leases, which means an increase of 2.6 pp compared to 2006. Lease of vehicles was the most dynamically developing sector of the lease market, which was related to growth in demand for vehicles. Lease companies closely collaborated with banks, especially within their own capital groups.
- Factoring market was the most dynamically developing segment of the financial market in 2007. Total sales on this market amounted to appx. PLN 30.7 billion, which means an increase of more than 80% y/y. The strong development of this segment was mainly due to the growing awareness of the benefits that can be derived from factoring. Steel distribution companies and food industry had the greatest share in total sales on the factoring market.

Ukrainian banking sector

The macroeconomic situation in Ukraine positively impact the development of the Ukrainian banking sector. The bank's net assets raised by 75.9% reaching UAH 598.37 billion. Total loans increased by 74.1% up to UAH 426.9 billion and loans granted to individuals increased by 97.8% (up to UAH 155.3 billion). Total placements increased by 51.9% (up to UAH 280.1 billion), and individuals deposits by 53.9% (up to UAH 280.2 billion). In order to finance their credit action the Ukrainian banks acquired capital abroad, including their parent entites.



7. OTHER INFORMATION

Cooperation with rating agencies

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

Table 19. PKO BP ratings and cooperation with rating agencies in 2007

Rating category	Rating	Cooperation
Fitch Ratings		
Support rating	2	On 20 December 2007 Fitch Ratings issued a press release in which it retained the support rating for PKO BP SA at the level of 2.
Standard and Poor's		
Long-term domestic currency liabilities rating	BBBpi	-
Moody's Investors Service		
Long-term foreign currency deposit rating	A2 stable outlook	1. On 24 February 2007 Moody's Investors Service assigned two new ratings to the Bank: Aaa – Long-term domestic currency deposit rating with a stable outlook and P-1 – Short-term domestic currency deposit rating with a stable outlook. The new ratings were granted due to the implementation of the new JDA methodology (acquisition of external support) and the amendments to the BFSR methodology (measuring the internal financial strength of the bank). 2. On 11 April 2007 the Reuters agency announced that Moody's Investors Service had reduced PKO BP SA's long-term domestic currency deposit rating from Aaa to Aa2. The change in the rating was justified by changes in the JDA methodology. 3. On 31 October 2007 Moody's Investors Service assigned ratings to PKO BP SA at the request of the Bank. They were in line with the ratings assigned to the Bank by Moody's as part of providing "Public 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-	1. On 8 March 2007 the Bank received a report by Capital Intelligence informing that the rating of PKO BP SA's financial strength was upgraded from BBB- to BBB with a stable outlook. The report was dated February 2007. The change in the rating was justified by a systematic growth of profitability. The Agency additionally underlined the improving quality of the loan portfolio and reporting transparency. 2. On 18 December 2007 the Agency provided the Bank with a report informing that its long-term foreign currency liabilities rating was upgraded from BBB+ to A- and the rating of PKO BP SA's financial strength was upgraded from BBB to BBB+ (both ratings had a stable outlook). The other ratings remained unchanged. The report was dated December 2007. The change in the ratings was justified by a systematic growth of the operating and net profit. The Agency additionally emphasized the improving quality of the loan portfolio, one of the best among the banks rated by the Agency. Large deposit base in the retail segment was quoted as the greatest strength of the Bank.
Short-term foreign currency liabilities rating	A2	
Domestic strength	BBB+	
Support rating	2	
Outlook	Stable	

In June 2007 Standard & Poor's retained the following ratings granted to KREDOBANK SA in 2006:

- International long-term credit rating – "B",
- Outlook – "Stable",
- International short-term credit rating – "B",
- Ukrainian rating - "uaBBB".

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

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

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



Table 20. Shares held by the State Treasury as at 31 December 2007

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

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

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

Off-balance sheet commitments

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

The largest commitments related to the following companies:

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

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

The details of related party transactions are presented in Note 50 to the consolidated financial statements.

Issues of securities

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

The details of the issue were as follows:

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

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

Reacquisition of own shares

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

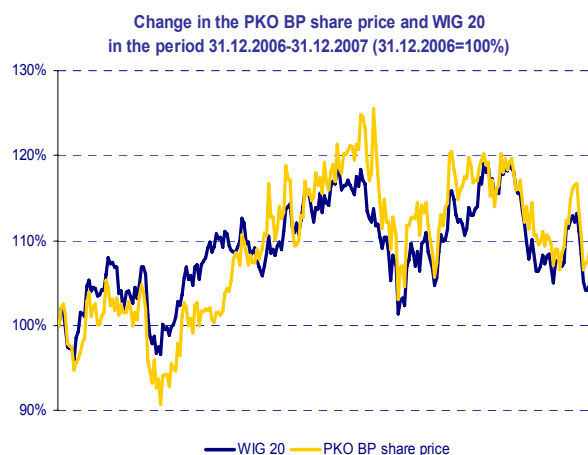
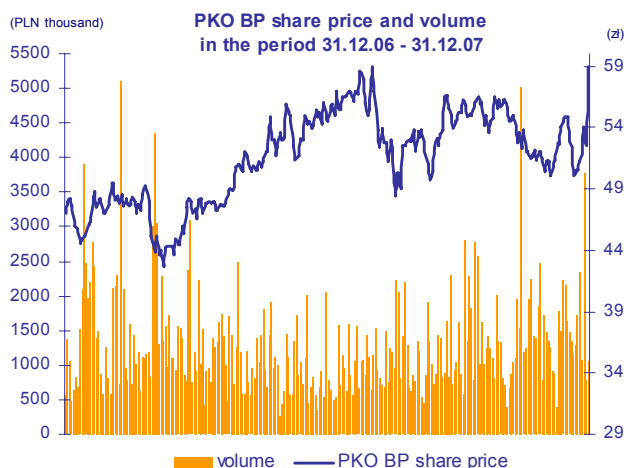
Listed price of the Bank's shares

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

Table 21. Returns for the shareholder of PKO BP SA



Items	2006	2007
PKO BP's share price at the beginning of the year	29.00	47.00
PKO BP's share price at the end of the year	47.00	52.60
Dividend per share (PLN)	0.80	0.98
Total shareholder returns	64.8%	14.0%



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

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

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

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

On 7 December 2007, the Bank 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 on of the PKO BP SA's client ('the Client'). The agreements were concluded within the consortium of 7 banks. The banks consortium will organise the bonds issue program at a total value of PLN 6.2 billion. The bonds interest is based on the market reference interest rates correlated with the bonds maturity, interest coupon payment period or discount interest calculation period. The bonds issued within the program will be unsecured. The Bank is obliged to acquire the securities issued by the Client with a value of up to PLN 500 million within a period of 18 months. The agreements does not provide for contractual fines.

In 2007, the Bank entered into a loan agreement with a consortium of foreign banks under which it received a loan for an amount of CHF 950 million. The Bank will use this loan to finance its lending activities.

In 2007 the Bank carried out an issue of subordinated bonds with a value of PLN 1,600.7 million under an agreement concluded with banks operating in Poland. The means obtained from the issue were used to increase the Bank's supplementary funds.

In 2007, the Bank did not conclude any important agreements with either the Central Bank or the supervisory authorities.



In 2007, the other Group companies did not conclude any significant contracts and did not enter into any important agreements with either the Central Bank or the supervisory authorities.

At the date of this report, the Bank is not aware of any agreements that might result in changes to the proportion of shares held by the current shareholders.

Guarantees and financial commitments granted by the Group

As at 31 December 2007, the total value of granted guarantees and financial commitments amounted to PLN 28,231.9 million, with financial commitments making up 86.2% of this amount. The total value of granted guarantees and financial commitments increased by 13.4% on a year-to-year basis, while the value of guarantees alone increased by 65.5%.

Table 22. Off-balance sheet commitments granted by the Group (PLN million)

OFF-BALANCE SHEET ITEMS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP				
Items	As at 31.12.2007	As at 31.12.2006	Change (PLN million)	Change (%)
Financial liabilities granted	24 346.7	22 552.0	1 794.7	8.0%
of which: irrevocable	8 860.4	10 298.4	- 1 438.1	-14.0%
Guarantee liabilities granted	3 885.3	2 347.7	1 537.6	65.5%
Total	28 231.9	24 899.7	3 332.3	13.4%

Loans taken and loan, guarantee and suretyship agreements

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

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

Underwriting agreements and guarantees granted to subsidiaries

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

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

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

In 2007 PKO BP SA granted the following guarantees:

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



- a guarantee issued in respect of Centrum Elektronicznych Usług Płatniczych eService SA for an amount up to PLN 250 thousand, for the benefit of Polska Telefonia Cyfrowa Sp. z o.o., to secure the Company's trade payables; the guarantee was issued for a period ending on 20 September 2008.

Enforceable titles issued by the Group

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

In the case of KREDOBANK SA, the Ukrainian law does not allow to issue enforceable titles as defined in the Polish Banking Law.

Significant events after the balance sheet date

- On 24 January 2008, WISŁOK Inwestycje Sp. z o.o. with its registered office in Rzeszów was entered in the National Court Register. The share capital of the Company amounts to PLN 500 thousand and is divided into 5,000 shares with a nominal value of PLN 100 each. The Company's shareholders are PKO Inwestycje Sp. z o.o., which acquired 4,000 shares with a total value of PLN 400 thousand and Jedyńka SA, which acquired 1,000 shares with a total value of PLN 100 thousand.
- On 28 January 2008 PKO Inwestycje Sp. z o.o., the Bank's subsidiary, acquired 50 shares in Baltic Dom 2 Sp. z o.o. with a total nominal value of PLN 25 thousand, which represented 50% of share capital of this company and gave right to 50% votes at the shareholders' meeting. The price paid for the shares was PLN 5,940 thousand.
- On 8 February 2008 the Bank signed a loan agreement with one of PKO BP SA's clients ("the Borrower"), under which it committed to grant an investment loan for an amount up to PLN 1,230,000,000, to finance part of the costs of acquisition of financial assets by the Borrower. The investment loan agreement was signed for a period of 10 years. It will be secured by collateral in the form of, among others, registered pledge on the financial assets and amounts held on the Borrower's bank accounts. Interest on this loan is based on WIBOR 6M plus the Bank's margin, and is payable on a 6-month basis. This agreement meets the criteria of a significant agreement, as the value of the services rendered under the agreement meets the criteria set out in § 2 section 1 point 51 of the Decree of the Minister of Finance dated 19 October 2005 on current and periodic reports submitted by the issuers of securities.
- As of 26 February 2008, the following members of the Supervisory Board of PKO BP SA resigned from their positions in the Supervisory Board:
 1. Mr Marek Głuchowski
 2. Mrs Agnieszka Winnik-Kalemba
 3. Mr Tomasz Siemiątkowski
 4. Mr Jerzy Michałowski

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

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

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



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

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

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

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

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

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

Representations of the Management Board

The Management Board of PKO BP SA hereby represents that, according to its best knowledge:

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

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

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



President of Management Board
Rafał Juszczak

Vice-President of Management Board
Berenika Duda-Uhryn

Vice-President of Management Board
Robert Działak

Vice-President of Management Board
Mariusz Klimczak

Vice-President of Management Board
Wojciech Kwiatkowski

Vice-President of Management Board
Aldona Michalak

Vice-President of Management Board
Adam Skowroński

Vice-President of Management Board
Stefan Świątkowski