BANK
POLSKA KASA OPIEKI
SPOLKA AKCYJNA

Annual Consolidated Financial Statements
of Bank Pekao S.A. Group
for the year ended 31 December 2007

Warsaw. March 2008

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(in PLN thousand)

Consolidated Income Statement

	Notes	2007	2006
Continuing operations			
Interest income	11	4 671 639	3 846 525
Interest expense	11	(1 953 537)	(1 467 207)
Net interest income		**2 718 102**	**2 379 318**
Fee and commission income	12	2 471 332	2 072 909
Fee and commission expense	12	(309 924)	(216 999)
Net fee and commission income		**2 161 408**	**1 855 910**
Dividend income	13	237	1 653
Gains (losses) on financial instruments at fair value	14	21 547	36 456
Gains (losses) on investment securities	15	37 958	86 224
Foreign exchange gains (losses)		329 857	255 569
Other operating income	16	180 606	169 933
Other operating expense	16	(91 804)	(127 146)
Net other operating income		**88 802**	**42 787**
Net provision charges for financial assets and contingent liabilities and commitments	18	(192 346)	(222 293)
General and administrative expenses	17	(2 736 513)	(2 347 007)
Operating profit		**2 429 052**	**2 088 617**
Share of profit (loss) of associates and joint venture entities valued at the equity method	20	152 876	90 859
Profit from continuing operations before income tax		**2 581 928**	**2 179 476**
Income tax expense from continuing operations	21	(437 563)	(408 881)
Net profit from continuing operations		**2 144 365**	**1 770 595**
Discontinued operations			
Net profit on discontinued operations		**18 112**	**19 102**
Net profit for the period from continuing and discontinued operations		**2 162 477**	**1 789 697**
1. Attributable to equity holders of the Company		2 155 478	1 787 506
2. Attributable to minority interest		6 999	2 191
Earnings per share from continuing and discontinued operations (in PLN per share)	23		
– basic for the period		12.27	10.72
– diluted for the period		12.26	10.71
Earnings per share from continuing operations (in PLN per share)			
– basic		12.17	10.60
– diluted		12.16	10.60

(in PLN thousand)

Consolidated Balance Sheet

	Notes	31 Dec 2007	31 Dec 2006
Assets			
Cash and due from Central Bank	24	5 121 210	3 577 924
Debt securities eligible for rediscounting at Central Bank		1 108	2 519
Loans and receivables from banks	25	16 960 034	10 512 877
Financial assets held for trading	26	3 165 113	2 391 371
Derivative financial instruments (held for trading)	27	1 922 958	526 642
Other financial instruments at fair value through profit or loss	28	3 777 729	1 613 196
Loans and receivables from customers	29	66 658 037	31 778 127
Net investments in financial leases	30	3 043 768	966 607
Hedging instruments	31	40 672	-
Investment securities	32	17 620 419	13 000 067
1. Available for sale		17 033 529	12 574 657
2. Held to maturity		586 890	425 410
Assets classified as held for sale	33	65 068	8 784
Investments in associate	34	388 169	207 254
Intangible assets	35	688 559	608 884
Property plant and equipment	36	2 021 052	1 445 460
Investment properties	37	58 559	52 670
Income taxes		421 486	305 885
1. Current tax receivable		2 493	1 491
2. Deferred tax assets	21	418 993	304 394
Other assets	38	2 142 210	705 421
Total assets		**124 096 151**	**67 703 688**
Liabilities			
Amounts due to Central Bank	40	1 485 921	2 045 278
Amounts due to other banks	41	8 456 191	2 009 976
Financial liabilities held for trading	42	491 382	211 373
Derivative financial instruments (held for trading)	27	1 661 282	504 200
Amounts due to customers	43	89 944 078	51 793 583
Hedging instruments	31	28 965	-
Debt securities in issue	44	3 716 778	3
Liabilities classified as held for sale	33	55 291	-
Current income tax payable		53 169	202 148
Deferred tax liabilities	21	324	-
Provisions	45	379 828	223 943
Other liabilities	46	3 075 647	1 820 557
Total liabilities		**109 348 856**	**58 811 061**
Equity			
Share capital	50	261 867	166 808
Other capital and reserves	51	12 393 624	7 028 137
Retained earnings and current year profit	51	2 011 297	1 680 938
Total equity attributable to the Company's equity holders		**14 666 788**	**8 875 883**
Minority interest		80 507	16 744
Total equity		**14 747 295**	**8 892 627**
Total equity and liabilities		**124 096 151**	**67 703 688**

(in PLN thousand)

Consolidated Statement of changes in equity

	Equity attributable to the Company's equity holders										Minority interest	**Total equity**
	Share Capital	Other reserve capital							Prior and current profit	**Equity attributable to the Company's equity holders**		
		Total reserves	Share premium	*General banking risk fund*	*Other reserve capital*	*Revaluation reserves from financial instruments*	*Exchange differences from translation of foreign entities*	*other*				
Equity as at 1 January 2007	**166 808**	**7 028 137**	***1 395 885***	***1 137 850***	***4 243 313***	***(15 141)***	***(12 190)***	***278 420***	**1 680 938**	**8 875 883**	**16 744**	**8 892 627**
Management share options	**295**	**35 973**	***31 623***	**-**	**-**	**-**	**-**	***4 350***	**-**	**36 268**	**-**	**36 268**
Options exercised (share issue)	295	31 623	*31 623*	-	-	-	-		-	**31 918**	-	**31 918**
Revaluation of management share options	-	4 350	-	-	-	-	-	*4 350*	-	**4 350**	-	**4 350**
Valuation of financial instrument	**-**	**(263 453)**	**-**	**-**	**-**	***(263 453)***	**-**	**-**	**-**	**(263 453)**	**-**	**(263 453)**
Revaluation of available –for-sale investments net of deferred tax	-	(212 958)	-	-	-	*(212 958)*	-	-	-	**(212 958)**	-	**(212 958)**
Revaluation of hedging financial instruments net of deferred tax	-	(50 495)	-	-	-	*(50 495)*	-	-	-	**(50 495)**	-	**(50 495)**
Appropriation of retained earings and current year profit	**-**	**286 612**	**-**	***100 000***	***158 756***	**-**	**-**	***27 856***	**330 359**	**616 971**	**3 692**	**620 663**
Dividend paid	-	-	-			-	-		(1 503 928)	**(1 503 928)**	(3 307)	**(1 507 235)**
Appropriation of profit	-	286 612	-	*100 000*	*158 756*	-	-	*27 856*	(286 612)	**-**	-	**-**
Consolidation adjustments concerning retained earnings	-	-	-	-	-	-	-	-	(34 579)	**(34 579**	-	**(34 579)**
Current year net profit	-	-	-	-	-	-	-		2 155 478	**2 155 478**	6 999	**2 162 477**
Merger of Pekao 285	**94 764**	**5 487 454**	***7 635 740***	**-**	***(2 148 286)***	**-**	**-**	**-**	**-**	**5 582 218**	**60 475**	**5 642 693**
Share capital issued	94 764	-		-	-	-	-	-	-	**94 764**	-	**94 764**
Share Premium	-	5 388 665	*5 388 665*	-	-	-	-	-	-	**5 388 665**	-	**5 388 665**
Recognition of minority acquisition	-	-	*2 247 075*	-	*(2 247 075)*	-	-	-	-	**-**	-	**-**
First time consolidation of Pekao 285 subsidiaries	-	98 789	-	-	*98 789*	-	**-**	-	-	**98 789**	60 475	**159 264**
Other	**-**	**(181 099)**	**-**	**-**	***(170 198)***	**-**	***(10 901)***	**-**	**-**	**(181 099)**	**(404)**	**(181 503)**
Acquisition of HVB Ukraina and merger of UniCreditBank	-	(173 907)	-	-	*(173 907)*	-		-	-	**(173 907)**	-	**(173 907)**
Foreign exchange differences from translation of foreign entities	-	(10 901)	-	-		-	*(10 901)*	-	-	**(10 901)**	-	**(10 901)**
Other	-	3 709	-	-	*3 709*	-	-	-	-	**3 709**	(404)	**3 305**
Equity as at 31 December 2007	**261 867**	**12 393 624**	***9 063 248***	***1 237 850***	***2 083 585***	***(278 594)***	***(23 091)***	***310 626***	**2 011 297**	**14 666 788**	**80 507**	**14 747 295**

	Equity attributable to the Company's equity holders										Minority interest	Total equity
	Share capital	Other reserve capital							Prior and current	Equity attributable to the Company's equity holders		
		Total reserves	*Share premium*	*General banking risk fund*	*other reserve capital*	*Revaluation reserves from financial instruments*	*Exchange differences from translation of foreign entities*	*other*	Profit			
Equity as at 1st January 2006	**166 482**	**6 686 683**	***1 361 034***	***1 067 850***	***3 887 890***	***96 856***	***(2 110)***	***275 163***	**1 521 895**	**8 375 060**	**15 436**	**8 390 496**
Management share options	**326**	**40 728**	***34 851***	**-**	**-**	**-**	**-**	***5 877***	**-**	**41 054**	**-**	**41 054**
Options exercised (share issue)	326	34 851	*34 851*	-	-	-	-		-	**35 177**	-	**35 177**
Revaluation of management share options	-	5 877	-	-	-	-	-	*5 877*	-	**5 877**	-	**5 877**
Valuation of financial instrument	**-**	**(110 976)**	**-**	**-**	**-**	***(110 976)***	**-**	**-**	**-**	***(110 976)***	**-**	***(110 976)***
Revaluation of available –for-sale investments net of deferred tax	-	(110 976)	-	-	-	*(110 976)*	-	-	-	***(110 976)***	-	***(110 976)***
Revaluation of hedging financial instruments net of deferred tax	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Appropriation of retained earnings and current year profit	**-**	**425 308**	**-**	***70 000***	***346 418***	**-**	**-**	***8 890***	**127 817**	**553 125**	**2 191**	**555 316**
Dividend paid	-	-	-			-	-		(1 234 381)	**(1 234 381)**	-	**(1 234 381)**
Appropriation of profit	-	425 308	-	*70 000*	*346 418*	-	-	*8 890*	(425 308)	**-**	-	**-**
Consolidation adjustments concerning retained earnings	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Current year net profit	-	-	-	-	-	-	-		1 787 506	**1 787 506**	2 191	**1 789 697**
Other	**-**	**(13 606)**	**-**	**-**	***9 006***	***(1 021)***	***(10 080)***	***(11 511)***	***31 226***	**17 620**	**(883)**	**16 737**
Foreign exchange differences from translation of foreign entities	-	(10 080)	-	-		-	*(10 080)*	-	-	**(10 080)**	-	**(10 080)**
Other	-	(3 526)	-	-	*9 006*	*(1 021)*	-	*(11 511)*	31 226	**27 700**	(883)	**26 817**
Equity as at 31 December 2006	**166 808**	**7 028 137**	***1 395 885***	***1 137 850***	***4 243 314***	***(15 141)***	***(12 190)***	***278 419***	**1 680 938**	**8 875 883**	**16 744**	**8 892 627**

(in PLN thousand)

Consolidated Statement of Cash Flow

	2007	2006
Cash flow from operating activities - indirect method		
Net profit (loss)	**2 155 478**	**1 787 506**
Adjustments:	**6 444 463**	**536 204**
Depreciation expense	338 750	318 905
Share of profit of associates	(152 876)	(90 859)
Gains (losses) on foreign exchange differences	306 767	255 663
Gains (losses) on investing activities	(64 280)	(99 486)
Impairment provisions	(18 211)	(12 708)
Interest and dividend	(835 297)	(781 114)
Change in loans and advances from banks	2 204 613	(583 868)
Change in financial assets as held for trading and other financial instruments at fair value through profit or loss	10 034 807	279 116
Change in derivative financial instruments	(1 396 316)	(27 352)
Change in loans and advances from customers and debt securities eligible for rediscounting at Central Bank	(2 240 973)	(3 594 096)
Change in net investment in the finance lease	(2 077 161)	(220 716)
Change in investment securities available for sale	(1 071 198)	45
Change in deferred tax assets	345 078	(97 702)
Change in other assets	(402 332)	(71 643)
Change in amounts due to banks	672 622	107 501
Change in liabilities as held for trading	(618 698)	(347 600)
Change in derivative financial instruments and other financial liabilities at fair value through profit or loss	1 157 082	(103 489)
Change in amounts due to customers	1 249 445	4 945 706
Change in debt securities in issue	(150 633)	-
Change in provisions	51 393	115 216
Change in other liabilities	(325 947)	317 867
Income tax paid	(973 277)	(283 083)
Current tax	442 780	509 901
Net cash flows from operating activities	**8 631 616**	**2 323 710**
Cash flows from investing activities		
Investing activity inflows	**42 121 088**	**44 000 412**
Sale of subsidiaries and associates	22 598	133 566
Sale of investment securities	40 399 084	43 153 895
Proceeds from sale of intangible assets and property. plant and equipment	2 203	9 045
Other investing inflows	671 163	703 906
Merger of "Pekao 285"	1 026 040	-
Investing activity outflows	**(44 032 328)**	**(42 156 177)**
Purchase of investment securities	(43 528 315)	(41 842 058)
Purchase of intangible assets and property. plant and equipment	(416 162)	(314 119)
Other investing outflows	(87 851)	-
Net cash flows used in investing activities	**(1 911 240)**	**1 844 235**
Cash flows from financing activities		
Financing activity inflows	**3 152 126**	**32 556**
Issue of debt securities	3 116 153	-
Issue of shares	35 973	32 556
Financing activity outflows	**(4 247 524)**	**(1 234 385)**
Redemption of debt securities	(2 743 596)	(4)
Dividends and other payments to shareholders	(1 503 928)	(1 234 381)
Net cash flows from financing activities	**(1 095 398)**	**(1 201 829)**
Total net cash flows	**5 624 978**	**2 966 116**
Net change in cash and cash equivalents	**5 624 978**	**2 966 116**
Cash and cash equivalents at the beginning of the period	**10 633 337**	**7 667 221**
Cash and cash equivalents at the end of the period	**16 258 315**	**10 633 337**

Notes to the consolidated financial statements

1. General information

These consolidated financial statements of the Capital Group of Bank Pekao S.A.("the Group") cover the period from 1 January 2007 to 31 December 2007 and include the comparatives data:

- for the balance sheet as at 31 December 2006.
- for the profit and loss account for the period from 1 January 2006 to 31 December 2006.

Bank Pekao S.A. („the Bank") head quartered in Warsaw, 00-950 Grzybowska Street 53/57 was initially recorded in the Commercial Register on 29 October 1929 maintained by the District Court in Warsaw and has been continuously in operation since that time.

Bank Pekao S.A. is registered in the National Court Registry – Enterprise Registry managed by the Warsaw District Court. XII Economic Division of the National Court Registry in Warsaw under the reference number KRS 0000014843.

The Bank's identification number is REGON 000010205.

The Bank and entities within the Group were established for and unlimited timeframe.

The Bank Pekao Group is a part of the Bank UniCredito Italiano S.p.A Group with its seat in Genoa, Italy.

Shares of the Bank are quoted on the Warsaw Stock Exchange Securities of the Bank traded on a regulated market are classified in banking sector.

Bank Pekao S.A. is a universal commercial bank offering a wide range of banking services to both individual and corporate clients. Its operations are denominated in both PLN and foreign currencies and it actively participates in both domestic and foreign financial markets. Moreover the Group through its subsidiaries provides financial service, leasing, factoring and undertakes other investment activities.

2. Business combinations

The following business combinations were completed by the Group in 2007:

a) merger of the organized part of Bank BPH S.A. into the operations of Bank Pekao S.A.

b) merger of UniCredit Bank Ltd. with Commercial Bank HVB Ukraina.

Since the combining entities are members of UniCredit Group both of the above transactions have been classified as business combinations of entities under common control and as such have been accounted for using the book value accounting method, which is the accounting policy adopted for these types of transactions within the UniCredit Group. For description of this accounting policy please see note 7.2 Consolidation policies.

Merger of the organized part of Bank BPH S.A. into Bank Pekao S.A.

Background of the Transaction

On 12 November 2006 the Management Board of Bank Pekao passed a resolution on the intention to integrate Bank Pekao with an organized part of Bank BPH, to be completed through a division of Bank BPH, and the simultaneous transfer of selected assets and liabilities in the form of an organized part of the enterprise, hereafter referred to as "Pekao 285", in exchange for shares in Bank Pekao S.A., which will be taken up by the shareholders of Bank BPH S.A.

On 15th November 2006 the Management Boards of Bank Pekao and Bank BPH signed the Division Plan of Bank BPH S.A., in accordance with art. 533 § 1 and art. 534 of the Commercial Code ("KSH"), which resolved that the division of Bank BPH will be carried out under art. 529 § 1 item 4 of the KSH. and will

result in a transfer of an organized part of the enterprise to Bank Pekao S.A., hereafter referred to as "Bank BPH Spin-off".

On 31st January 2007 Bank Pekao and Bank BPH filed a joint application with the Banking Supervision Commission "the BSC". The BSC's consent to the Bank BPH Spin-off was granted on 3 October 2007.

Effective date of the Transaction

The Bank BPH Spin-off transaction became effective on 29 November 2007 when the appropriate District Court registered the issue of 94 763 559 of Bank Pekao ordinary bearer shares of I series.

Accounting for the Transaction

In applying the book value accounting method Bank Pekao recognized the assets and liabilities of Pekao 285 at their carrying values at the transfer date, adjusted only to unify the accounting policy applied by Bank BPH. The carrying value of Pekao 285 total assets at 29 November 2007 amounted to PLN 54 332 601 thousand. As both Bank Pekao and Bank BPH prepare their financial statements under IFRS as adopted by the EU, minor adjustments to unify the accounting policies were recognized ordered at the transfer date.

In applying the book value accounting method to this transaction neither goodwill nor any excess of the fair value of the net assets over the cost of the business combination.

The difference between the carrying amount of Pekao 285's net assets transferred, being PLN 5 626 136 thousand, and the nominal value of the shares issued by Bank Pekao, being PLN 94 764 thousand, was recognized in equity by the Group as described below.

The transaction resulted in a 6.63% acquisition of minority interests by UniCredit Group; the acquisition of this minority interest is accounted for separately in equity by Bank Pekao as described below.

The results of operations of Pekao 285 have been consolidated with effect from 29 November 2007. The comparative figures of the Group for the comparative periods presented has not been restated.

The above accounting policy is consistent with the policy of UniCredit Group applicable to intragroup transactions and, in the opinion of the Management Board of the Bank, results in the most appropriate reflection of the economic substance of the Bank BPH Spin-off transaction, which was carried out as a consequence of an internal reorganization of the Polish banks within the UniCredit Group.

Shareholders' equity instruments issued for the transaction

The merger transaction was completed by issuing ordinary shares of Bank Pekao to the shareholders of Bank BPH in exchange for their contribution of the Pekao 285 assets and liabilities to Bank Pekao.

As a result of this transaction Bank Pekao share capital was increased by PLN 94 764 thousand, through an issue 94 763 559 ordinary bearer shares of I series of nominal value of PLN 1,0 per each share. The amount of PLN 5 388 665 thousand, representing the difference between the carrying amount of Pekao 285 net assets transferred and the nominal value of I series shares was recognized in the Group's equity.

The share exchange ratio was determined at 1:3.3, being 1 ordinary share of Bank Pekao issued for every 3.3 shares of Bank BPH held by its shareholders registered as of the reference date of 7 December 2007. A fractional number of shares held was rounded down to the nearest whole number and a supplementary cash payment corresponding to the market value of the fraction being rounded down was paid by Bank Pekao.

The fair value of series I ordinary share for the purposes of the supplementary cash payments was set at PLN 256.69 per share. This fair value was established based on the average market price quotation for Bank Pekao's shares for the 30 day trading sessions, for which quotations were held, preceding the

reference date of 7 December 2007. The average market price was an arithmetic average calculated from average daily prices weighted by traded volumes.

As a result of the fractional ratio payments, Bank Pekao acquired 5,010 series I shares representing 0.0019 % of Bank's share capital. The Bank may not exercise voting rights on these shares. These shares may be sold to an investor selected by the Bank at its discretion.

Costs directly related to the issue of series I shares incurred by the Bank amounted to PLN 336 thousand and were recorded as a decrease in the Group's equity.

Acquisition of minority interest by UCI

As a result of the Pekao 285 transfer to Bank Pekao, UniCredit Group's ownership share in the equity of Bank Pekao increased from 52,73% before the transfer to 59,36% after the transfer, thus representing a 6,63% minority interest acquisition by UniCredit Group. This minority interest acquisition was accounted for at the UCI consolidated level at fair value with the excess of fair value over the carrying value of the 6,63% of Bank Pekao recorded through the equity of UCI Group.

As a consequence, Bank Pekao recorded a corresponding transfer reflecting the minority interest acquisition by decreasing "Other reserves" in the amount of PLN 2,247,1 million, representing the difference between the book value of the 6,63% net assets and the market value of the 6,63% Bank Pekao shares on 29 November 2007, and a corresponding increase in "Supplementary capital" of the Bank.

Assets and Liabilities recognized at acquisition date

The following assets and liabilities were transferred from Bank BPH to Bank Pekao on 29 November 2007:

Net assets acquired as a result of the transaction are the following (in PLN thousand):

Item name	Amount as at 29.11.2007
Assets	
Cash and amounts due from Central Bank	600 578
Financial assets as held for trading	1 325 239
Receivables due from banks	4 570 078
Receivables due from customers	32 624 062
Other financial assets	12 894 447
Property. plant and equipment	557 794
Intangible assets	55 798
Other assets	1 704 605
Total assets	**54 332 601**
Liabilities	
Amounts due to banks	5 214 236
Amounts due to customers	36 901 050
Debt securities in issue	3 539 124
Provisions	467 189
Financial liabilities as held for trading	898 707
Other liabilities	1 686 159
Total equity	5 626 136
Total equity and liabilities	**54 332 601**

Combined Profit for the period through the acquisition dated

The following table presents 2007 profit information for the combined Bank Pekao. This combined financial information was prepared by combining the financial results generated by Pekao Group for the twelve months ended 31 December 2007 and the results of operations generated by Pekao 285 for

the 12 month of 2007, adjusted only by an elimination of the mutual transactions between Bank Pekao and BPH 285 conducted during the period.

Item	2007
Net interest income	4 323 002
Net fee and commissions income	2 931 873
Other income	1 059 366
Total income	**8 314 241**
Administrative costs	(3 804 687)
Net operating income	**4 509 554**
Net provision charges for financial assets and contingent liabilities and commitments	(320 057)
Share of profit (loss) of associates and joint venture entities valued at the equity method	152 876
Profit from continuing operations before income tax	**4 342 373**
Income tax expense from continuing operations	(800 245)
Net profit from continuing operations	**3 542 128**
Net profit from discontinued operations	**18 112**
Net profit from continuing and discontinued operations	**3 560 240**
Attributable to equity holders of the Company	3 547 226
Attributable to minority interest	13 014

The combined 2007 financial information has been prepared for illustrative information only as it includes results of operations of Pekao 285 that were generated as part of Bank BPH operations for the period from 1 January 2007 to 29 November 2007. Accordingly it does not purport to be indicative of what the operating results or financial position would have been if Pekao 285 operations had been integrated with Bank Pekao as of 1 January 2007. The combined 2007 financial information does not reflect the strategies and organizational structure under which Pekao 285 is operating since the acquisition date as part of Bank Pekao.

Acquiree's profit since the acquisition dated

In the period from 30 November 2007 to the year end, Bank Pekao completed several phases of data migration of Pekao 285 from Bank BPH's IT systems to Pekao. Upon migration the data is integrated in the overall banks financial reporting process. At 31 December 2007 the remaining part of Pekao 285 financial data continued to be processed by Bank BPH 's IT systems which will be the case until the completion of the roll-out migration.

Due to the partial migration of data in 2007, no separate financial information is available for the profit generated by Pekao 285 for the period from 29 November to 31 December 2007.

Merger of UniCredit Bank Ltd. with the Commercial Bank HVB Ukraina S.A

Background of the Transaction

On 30 March 2007 Bank Pekao S.A. acquired 100% shares in Commercial Bank HVB Ukraine. The purchase price amounted to PLN 326,108 thousand and value of acquired net assets PLN 152,450 thousand. (equivalent of UAH 264,303 thousand using average NBP exchange rate).

On 3 September 2007 UniCredit Bank Ltd. and Commercial Bank HVB Ukraina S.A. were merged. Both entities are wholly owned subsidiaries of Bank Pekao.

All formal requirements of the merger process were fulfilled on 4 February 2008 following the registration of the changes to the Statute of UniCredit Bank Ltd. embracing the increase of the share capital by an amount of hryvna 109 834 200 by the National Bank of Ukraine

The new shares of UniCredit Bank Ltd. with the nominal value of 1 hryvna each and the total nominal value of hryvna 109 834 200 have been acquired by Bank Pekao in exchange for 1 098 342 shares of Commercial Bank HVB Ukraina S.A of nominal value of 100 hryvna each, with total nominal value of hryvna 109 834 200.

Assets recognized at acquisition date

Commercial Bank HVB Ukraina S.A assets transferred to UniCredit Bank Ltd. as an effect of the transaction are as follows (PLN '000) as of 3 September 2007:

No..	Item	Amount
1.	Cash and due from banks	497 158
2.	Due from customers	1 179 545
3.	Financial assets held for trading	17 940
4.	Financial assets available for sale	3 557
5.	Intangible fixed assets	734
6.	Tangible fixed assets	3 252
7.	Other assets	1 750
8.	Due to banks	(808 453)
9.	Due to customers	(669 955)
10.	Liabilities due to debt securities issued	(43 557)
11.	Other liabilities	(14 801)
12.	Total net assets	167 169

(*) The PLN/UAH rate of 0.5574 per table no. 170/A/NBP/2007 from September 3rd 2007 of National Bank of Poland.

Combined Profit for the period through the acquisition dated

Should the transaction have occurred on 1 January 2007 the combined gross profit of the merged entity merged entity would have amounted to PLN 1 735 thousand (rofit) and the net income would have amounted to -3 875 thousand (Loss).

Acquiree's profit since the acquisition dated

For practical reasons it is not possible to disclose the profit or losses of the acquired entity, which is included in the financial results of the UniCredit Bank Ltd. for the period from the merger date to 31st December 2007.

3. Group structure

The Group consists of Bank Pekao S.A. and the following subordinated entities:

Name of company	Location	Core activity	% of Shareholder's share capital/ voting power 31.12.2007	31.12.2006
Entities fully consolidated				
UniCredit Bank Ltd.	Luck, Ukraine	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Financial	100.00	100.00
Pekao Leasing Sp. z o.o.	Warsaw	Leasing	100.00	100.00
Pekao Faktoring Sp. Z o.o.	Lublin	Financial	100.00	100.00
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Financial	65.00	65.00
Drukbank Sp. z o.o.	Warsaw	Not operating	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Financial services	100.00	100.00
BPH Bank Hipoteczny S.A. (*)	Warsaw	Banking	100.00	-
BPH PBK Leasing S.A.	Warsaw	Leasing	80.10	-
Finanse plc (*)	London	Financial brokerage	100.00	-
Pekao Access Sp. z o. o.	Warsaw	Economic advisory services	-	55.26
Indirect subsidiary - subsidiary of UniCredit Bank Ltd				
BDK Consulting Sp. z o.o.	Luck, Ukraine	Consulting. hotel and transport services	99.99	99.99
Indirect subsidiaries - subsidiaries of BPH PBK Leasing				
BPH Leasing S.A.	Warsaw	Leasing	80.10	-
BPH Auto Finanse	Warsaw	Car lease and fleet management	80.10	-
Subsidiary entities not consolidated full method				
Indirect subsidiaries - subsidiaries of Bank Pekao S.A.				
SARL Pekao Immobilier	Paris. France	Real estate	-	100.00
Final Holding Sp. z o. o.	Warsaw	Holding management	100.00	-
BPH Real Estate S. A.	Warsaw	Real estate	100.00	-
Centrum Usług Księgowych Sp. z o. o.	Cracow	Accountant services	100.00	-
PBK Property Sp. z o. o.	Warsaw	Real estate	100.00	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call centre	98.00	-
Indirect subsidiaries - subsidiaries of Final Holding Sp. z o. o.				
PBKL S.A. (In liquidation)	n.a.	Not operating	84.51/84.79	-
Final S.A.	Górnicza Dąbrowa	Metal industry	99.82/99.84	-

Indirect subsidiary - subsidiary of PBK Property Spolka z o.o.				
FBP Media Sp. z o. o.	Warsaw	Real estate	100.00	-
Indirect subsidiaries - subsidiaries of BPH Real Estate S.A.				
Metropolis Sp. z o. o.	Warsaw	Real estate - venture capita	100.00	-
Jana Kazimierza Development Sp. z o. o.	Warsaw	Real estate - venture capita	100.00	-

The Group of the Bank Pekao S.A. owns the following associated entities:

Name of company	Location	Core activity	% of Shareholder's share capital/ voting power	
			31.12.2007	31.12.2006
Central Poland Fund LLC	Wilmington. Delaware. USA	Financial brokerage	53.19	53.19
Xelion. Doradcy Finansowi Sp. z o.o.	Warsaw	Supporting. financial and insurance	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Financial brokerage	49.00	49.00
Pirelli Pekao Real Estate Sp. z o.o.)	Warsaw	Real estate management	25.00	25.00
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing house	34.44	22.96
Biuro Informacji Kredytowej S.A.	Warsaw	Credit information services	30.70	14.95
CPF Management	Tortola. British Virgin Islands	Financial brokerage	40.00	40.00
Bankowe Doradztwo Podatkowe Sp. Z o. o.	Cracow	Tax advisory	74.00/48.68	-
Polish Banking System S.A.	b.d.	In liquidation	48.90	-
PPP Budpress Sp. z o. o.	b.d.	In liquidation	36.20	-
Anica System S.A.	Lublin	Information Technology	-	33.84 / 13.49

(*) Percentage shares in entities which make up the Pekao S.A. Capital Group at the General Shareholder Meeting/General Partner Meeting are the following:

- Final Holding Sp. z o. o. – a subsidiary of Bank Pekao S.A. - holds 0.04 % share in BPH Bank Hipoteczny S.A. Total share of the Group in BPH Bank Hipoteczny S.A. equity is 100%.
- Final Holding Sp. z o. o. – a subsidiary of Bank Pekao S.A. - holds 0.02 % share in equity of Finanse plc. Total share of the Group in Finanse plc equity is 100%.

As at 31st December 2007:

The Group has over 50% of votes/potential voting rights in the Central Poland Fund LLC. Group does not control the entity due to the provisions in this company's articles of association.

The Group has 50% of votes in Xelion. Doradcy Finansowi Sp. z o.o. entity. Due to the provisions in this company's articles of association this entity is classified by the Group as an associated entity.

The Group has 74 of votes/potential voting rights in the Doradztwo Podatkowe. Due to the share possessed by the Group in the voting rights (48.68%) and the provisions in the company's articles of association the entity has been classified by the Group as an associated entity.

In comparison to information disclosed as at 31st December 2006 composition of the Group has been changed as follows:

a) As at 30 March 2007. the Bank acquired 100% of Commercial Bank HVB Ukraine and thereafter on 3 September 2007 following organisational changes. UniCredit Bank Ltd (acquirer) merged with the Commercial Bank HVB Ukraine S.A. Bank Pekao S.A. held 100% of shares in both entites.

The merger was classified as a business combination of the entities under the common-control and was accounted for using book values in accordance with the accounting policy adopted in UniCredit Group.

The acquirer has disclosed the assets and liabilities of the combined entity under it's book values adjusted for the unification of the accounting principles of the merged entity. No goodwill and negative goodwill was recognized as a consequence of this transaction. The comparative data regarding the historical periods under the method applied based on book values were presented without restatements.

b) On November 29 2007 the integration of Bank Pekao S.A. with Bank BPH S.A. was realized by transfer of a part of BPH S.A. property in the form of an organized part of the enterprise to Bank Pekao S.A. As a result the following equity investments in subsidiary and associated entities were transferred to the Bank:

Subsidiary entities:

BPH Bank Hipoteczny S.A. BPH PBK Leasing S.A. Final Holding Sp. z o. o. BPH Real Estate S.A. Centrum Usług Księgowych Sp. z o.o. PBK Property Sp. z o. o. Centrum Bankowości Bezpośredniej Sp. z o. o. Finanse plc. BPH Leasing S.A.. BPH Auto Finanse S.A.. PBKL S.A.. Final S.A.. FBP Media Sp. z o. o. Metropolis Sp. z o. o. Jana Kazimierza Development. Sp. z o. o. Asset S.A. (liquidated in fourth quarter 2007).

Affiliated entities:

Bankowe Doradztwo Podatkowe Sp. z o. o. Polish Banking System S.A. PPP Budpress Sp. z o.o.

Moreover resulting from the same transaction the share in Krajowa Izba Rozliczeniowa S.A. (KIR S.A. – National Clearing House) increased by 11.48 pp and the share in Biuro Informacji Kredytowej S.A. (BIK S.A. – Credit Bureau) increased by 15.75 pp. The additional 15,75% shares in Biuro Informacji Kredytowej S.A. resulted in reclassification of this company as an affiliated entity valued following the equity method.

During 2007 all shares held by the Group in Pekao Access Sp. z o. o. (subsidiary)) Anica System S.A. (associated entity) were disposed of. Moreover the liquidation procedures of the Bank's subsidiary SARL Pekao Immobilier of which the Bank held 100% shares and of Asset S.A. – 100 % owned by the Bank's subsidiary Final Holding Sp. z. o. o. were completed in 2007.

As at 31st December 2007 Group did not have any shares in joint-ventures entities.

4. Information about the members of the Management Board and the Supervisory Board

Members of the Management Board of Bank Pekao S.A.

	31.12.2007		31.12.2006
1.	Jan Krzysztof Bielecki President of the Management Board. CEO	1.	Jan Krzysztof Bielecki President of the Management Board. CEO
2.	Luigi Lovaglio First Vice President of the Management Board. GM	2.	Luigi Lovaglio Vice President of the Management Board. COO
3.	Przemysław Gdański Vice President of the Management Board	3.	Sabina Olton Vice President of the Management Board Chief Accountant
4.	Paolo Iannone Vice President of the Management Board	4.	Przemyslaw Figarski Member of the Management Board
5.	Christopher Kosmider Vice President of the Management Board	5.	Irene Grzybowski Member of the Management Board
6.	Katarzyna Niezgoda Vice President of the Management Board	6.	Paolo Iannone Member of the Management Board
7.	Grzegorz Piwowar Vice President of the Management Board	7.	Christopher Kosmider Member of the Management Board
8.	Marian Ważyński Vice President of the Management Board	8.	Marian Wazynski Member of the Management Board

During the year there were some changes in the composition of the Management Board.

On 26 April 2007. the Supervisory Board appointed the following Members of the Management Board for the three years commencing 27 April 2007:

1. Jan Krzysztof Bielecki as President. CEO
2. Luigi Lovaglio as Vice President. General Manager.
3. Paolo Iannone as Member of the Management Board.
4. Christopher Kosmider as Member of the Management Board
5. Marian Ważyński as Member of the Management Board

During the meeting on 14 November 2007 the Supervisory Board of the Bank Pekao S.A. appointed Przemysław Gdański. Katarzyna Niezgoda and Grzegorz Piwowar to the positions of Vice Presidents of the Management Board as of the Spin-off Date. At the same time the Supervisory Board appointed Luigi Lovaglio. Vice President of the Management Board. General Manager to the position of First Vice President of he Management Board. General Manager and Members of the Management Board - Paolo Iannone, Christopher Kosmider and Marian Ważyński to the positions of Vice Presidents of the Management Board.

Members of the Supervisory Board of Bank Pekao S.A.

31.12.2007		31.12.2006	
1.	Jerzy Woznicki Chairman	1.	Jerzy Woznicki Chairman
2.	Paolo Fiorentino Deputy Chairman. Secretary	2.	Paolo Fiorentino Deputy Chairman. Secretary
3.	Federico Ghizzoni Deputy Chairman	3.	Andrea Moneta Deputy Chairman
4.	Pawel Dangel	4.	Pawel Dangel
5.	Fausto Galmarini	5.	Fausto Galmarini
6.	Oliver Greene	6.	Oliver Greene
7.	Enrico Pavoni	7.	Enrico Pavoni
8.	Leszek Pawlowicz	8.	Leszek Pawlowicz
9.	Krzysztof Pawlowski	9.	Jerzy Starak

During the year there were the following changes in the Supervisory Board of the Bank.

In June 2007 Mr. Andrea Moneta. Deputy Chairman of the Supervisory Board and Mr. Jerzy Starak. Member of the Supervisory Board submitted resignations from their positions in the Supervisory Board of the Bank effective from 24 July 2007.

The Extraordinary General Meeting of Bank Pekao S.A. held on 25 July 2007 appointed Mr. Frederico Ghizzoni and Mr. Krzysztof Pawlowski as members of the Supervisory Board of the Bank for the current common term of office of the Supervisory Board.

The Supervisory Board of the Bank appointed Mr. Frederico Ghizzoni to the position of Deputy Chairman of the Supervisory Board.

5. Going concern

The financial statements have been prepared on a going concern basis on the assumption that the Group will continue its business operations substantially unchanged in scope. during a period not shorter than one year from the balance sheet date. As at the date of signing the financial statements. the Management Board of the Bank is not aware of any facts or circumstances that would indicate this basis of preparation to be inappropriate.

6. Approval of the financial report

These consolidated financial statements were approved by the Supervisory Board of the Bank for issue on 20 March 2008.

7. Accounting Policies

7.1. Statement of Compliance

The annual consolidated financial statements of the Group. have been prepared and present fairly. in all material respects. the financial position of the Group as at 31 December 2007 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. and are in compliance with the respective regulations that apply to the consolidated financial statements applicable to the Group.

7.2. Basis of preparation of consolidated financial statements

The consolidated financial statements include the requirements of all the International Accounting Standards, International Financial Reporting Standards and related Interpretations, except for the Standards and Interpretations mentioned below, which are subject to the approval of the European Union, or have been approved by the European Union but have been or will become effective subsequent to the balance sheet date.

The Group has not elected to early adopt any new Standards and Interpretations that have been approved by the European Union and which will become effective after the balance sheet date. Moreover, as of the balance sheet date the Group has not completed the assessment of the possible impact of the Standards and Interpretations that will become effective after the balance sheet date, on the Group consolidated financial statements for the period of initial application.

Standards. Interpretations and amendments to published Standards that are not yet effective
The following new Standards and Interpretations are not yet effective and have not been applied in preparing these financial statements:

Standard/Interpretation	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Date becomes effective for periods from and after**
IFRIC 11 – Group and Treasury Share Transactions	The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction. regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent. should be accounted for as cash-settled or equity-settled in the entity's financial statements.	The Group has not yet completed its analysis of the impact of the new Interpretation.	1 March 2007
IFRS 8 *Operating Segments*	The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.	The Group expects the new Standard to significantly alter the presentation and disclosure of its operating segments in the consolidated financial statements.	1 January 2009
Revised IAS 23 *Borrowing Costs*	The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.	The Group has not yet completed its analysis of the impact of the revised Standard.	1 January 2009

Standard/Interpretation	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Date becomes effective for periods from and after**
Revised IAS 1 *Presentation of Financial Statements*	The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals. or in two separate statements (a separate income statement followed by a statement of comprehensive income).	The Group is currently evaluating whether to present a single statement of comprehensive income. or two separate statements.	1 January 2009
IFRIC 12 *Service Concession Arrangements*	The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.	IFRIC 12 is not relevant to the Group's operations as none of the Group entities have entered into any service concession arrangements.	1 January 2008
IFRIC 13 *Customer Loyalty Programmes*	The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognize these proceeds as revenue only when they have fulfilled their obligations.	The Group does not expect the Interpretation to have any impact on the consolidated financial statements.	1 July 2008
IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset. Minimum Funding Requirements and their interactions*	The interpretation addresses 1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; 2) how a MFR might affect the availability of reductions in future contributions; and 3) when a MFR might give rise to a liability. No additional liability need be recognized by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company.	The Group has not yet completed its analysis of the impact of the new Interpretation.	1 January 2008
IFRS 3 (Revised) *Business Combinations*	The scope of the revised standard has been broadened (some business combinations excluded from the previous version of the standard have not been excluded from the scope of the revised IFRS 3). A definition of a business has been altered in order to be more precise. The	The Group has not yet completed its analysis of the impact of the revised standard.	1 July 2009

	definition of contingent liabilities capable of being recognised in the business combination has been narrowed. Transaction costs are no longer included in the cost of the combination. Rules of recognition of contingent consideration have been modified (to fair value measurement). Non-controlling (minority) interest may be measured at fair value.		
Amendments to IAS 27 *Consolidated and Separate Financial Statements*	In relation with the revised IFRS 3 (above). the changes introduced to IAS 27 include the following: - changed definition of non-controlling (minority) interest; - regulation of recognition and measurement of transactions with non-controlling interest while retaining control; - changed recognition and measurement of loss of control; - new disclosure requirements.	The Group has not yet completed its analysis of the impact of the amendments.	1 July 2009
Amendments to IFRS 2 *Share based payments*	The amendments introduce guidance on accounting for non-vesting conditions.	The Group has not yet completed its analysis of the impact of the amendments. .	1 January 2009
Amendments to IAS 32: *Financial Instruments - Presentation* and IAS 1: *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation	The amendments provide an exemption to the principle otherwise applied in IAS 32 for the classification of some puttable financial instruments as equity. The amendments require certain financial instruments that represent a residual interest in the net assets of an entity. which would otherwise be classified as financial liabilities. to be classified as equity. if both the financial instrument and the capital structure of the issuing entity meet certain conditions.	The Group has not yet completed its analysis of the impact of the amendments.	1 January 2009

Amendments to existing IFRS did not have a significant impact on the valuation of assets and liabilities of the Group. The extent of disclosures required increased by implementation of the requirements of IFRS 7 (Financial Instruments Disclosures).

The consolidated financial statements are prepared based on the principle of historical cost with the exception of derivative financial instruments, financial assets available for sale and financial assets at fair value through profit or loss which have been recognized at fair value.

Apart from implementation of cash flow hedge accounting during the 4th quarter 2007, which impacted the recognition of the changes in fair value of derivative instruments as described in note 7.7 "Derivative financial instruments and Hedge Accounting", during the reporting period the Group did not introduce any other significant changes in the accounting principles as compared to the accounting principles adopted in prior periods.

The Group adopted the accounting principles, presented below to all reporting periods presented except for the cash flow hedge accounting introduced during the 4th quarter of 2007 and the effects of the transactions representing business combinations under common control.

The principles have been applied consistently by all the Group entities.

The consolidated financial statements have been prepared in Polish Zloty, and all amounts. unless indicated otherwise are stated in PLN thousand.

7.3. Consolidation policies

The consolidated financial statements include the financial statements of the Bank and the financial statements of its subsidiaries, prepared as at 31 December 2007. Financial statements of subsidiaries are prepared for the same reporting date as the statements of the parent company.

All balances and transactions between entities in the Group, including unrealized profits resulting from transactions within the Group, have been fully eliminated. Unrealized losses are also eliminated, unless there is permanent impairment, which is adjusted in the consolidated financial statements.

Subsidiaries in liquidation and subsidiaries immaterial to the financial and economic presentation of the Group results have been excluded from the consolidation.

Subsidiaries

Subsidiaries are entities controlled - directly and indirectly by the Bank. Control is the ability to manage financial and operating policies in order to gain economic profits. Control is usually connected with the possession of a majority of votes in the governing bodies. The subsidiaries are consolidated in the period from the date of the Group's taking control until the date that control ceases.

On the date of taking control the subsidiaries. assets and liabilities are measured in fair value. Any surplus over the cost is recognized as goodwill. If the cost is lower than the fair value of net assets of subsidiaries the difference is recognized in the profit and loss account .

These principles do not apply to business combinations of entities under the common control. In these cases assets and liabilities are disclosed at their book value.

Recognizing business combinations of entities under common control using book values

The accounting for business combinations among entities under common control is excluded specifically from the scope of IFRS. As such, following the applicable guidance in IAS 8 "Accounting Policies". Changes in Accounting Estimates and Errors", in the absence of any specific guidance within IFRS. the Bank made an accounting policy election to be applied consistently to all business combinations of entities under common control, to recognize such transactions using the book values to account for transfers of businesses occurring between entities within the UCI group, of which the Bank is a member. The elected accounting policy of the Bank is as follows:

The combined entity recognizes the assets. liabilities and equity of the combining enterprises at their

existing carrying value adjusted only as a result of aligning the combining enterprises' accounting policies. There is no recognition of any new goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost.
The difference between the book value amount of the net assets received and the consideration paid. if any are recognized in the Bank's equity.
In applying the book values method of accounting comparative periods are not restated.
If the transaction results in the acquisition of minority interests, the acquisition of any minority interest is accounted for separately.
There is no guidance in IFRS as to how to determine the percentage of minority interests acquired from the perspective of a subsidiary. As such the Bank uses the same basis as the ultimate parent for determining the minority interests acquired.

Associated entities

Associated entities are entities in which the Group has significant influence but are not subsidiaries or joint venture entities. The Group usually determines significant influence by possession of 20% to 50 % of the total number of the voting rights in governing bodies. The financial statements of an associated entity are the basis for the valuation of shares held by the group using the equity method. Balance sheet dates of the associates and of the Group are the same. and both entities apply coherent accounting policies.

An investment in an associate entity is presented in the balance sheet at cost plus subsequent changes in the Group's share in the net assets of the entity. minus any impairment write-offs. The profit and loss account reflects the share in the results of activities of the associate entity. In case of a change recognized directly in the equity of the associate entity. the Group recognizes its share in each change and discloses it. if appropriate. in the statement of changes in equity. Any distributions by an associate are deducted from the carrying value of the investment in associate.

When the share of the Group in the losses of the associate becomes equal to or larger than the share of the Group in such associate entity. the Group discontinues recognition of further losses. unless it incurred an obligation or made a payment on behalf of the associate.

Unrealized profits and losses on transactions between the Group and its associate entities are eliminated in proportion with the Group's shares in associates.

Participation in joint ventures

The Group's participation in joint ventures is recognized using the equity method. in accordance with the principles described for investments in associated entities.

7.4. Accounting estimates and judgments applying accounting polices

Preparing financial statements in accordance with IFRS requires the Management Board of the Bank to make certain estimates and to adopt certain assumptions. which affect the amounts presented in the financial statements and in explanatory notes.

The estimates which were made as for each balance sheet date reflect the conditions which existed at those dates (e.g. market prices interest rates foreign exchange rates). While the estimates are based on the best knowledge regarding current conditions and activities which the Group will undertake the actual results may differ from such estimates.

Principal assumptions/subjective judgments adopted in making estimates by the Group pertain. primarily to:

Impairment of financial assets

The assumptions presented herein. regarding measurement of impairment of credit and loans are described in this note 7.7. in the part titled "Impairment of financial assets".

Impairment of other non-current assets

At each balance sheet date the Group reviews its assets for indications of impairment. Where such indications exist the Group makes a formal estimation of the recoverable value. In the event of the carrying value of a given asset being in excess of its recoverable value, its impairment is stated and a write-off is made to adjust its value to the level of recoverable value. Recoverable value is the lower of the following two values: fair value of the given asset or cash generating unit less costs of disposal or the value in use. determined for each asset separately.

If there are indications of impairment of common property i.e. assets which do not generate cash independently from other assets or groups of assets and the recoverable value of the individual asset included among common property cannot be determined the Group determines the recoverable value at the level of the cash generating unit. to which the given asset belongs.

Estimation of value-in-use of a non-current asset (or cash generating unit) requires assumptions to be adopted regarding. among others. future cash flows which the Group may obtain from the given non-current asset (or cash generating unit) any changes of amounts or times of occurrence of these cash flows and other factors such as lack of liquidity. Adoption of a different measurement assumption could affect the carrying value of some of the investments.

Measurement of derivatives and debentures available for sale that do not have a quoted market price

The fair value of non-optional derivatives and debentures available for sale that do not have a quoted market price on an active market are measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for the valuation include where possible data from observable markets. The Group also adopts assumptions regarding the contracting party credit risk. affect the valuation of instruments. Adoption of a different measurement assumption could affect the carrying value of financial instruments.

Measurement of management options

The assumptions adopted regarding measurement of management options are described in the section entitled "Employees benefits" in the Note 47.

Calculation of retirement and sick pension severance payments provision

The severance payments provision is determined on an individual basis separately for each employee. The provision is valued on the basis of the current value of future. long-term liabilities of the Bank for retirement and sick pension severance payments.

The basis for the calculation of a provision for an employee is the expected amount of retirement or pension severance pay which the Group undertakes to pay under the Group Bargaining Agreement (GBA). The expected severance pay amount is calculated as the product of the following factors:

expected amount of the basis of calculation of severance pay in accordance with provisions of the GBA.

expected increase of the calculation basis until the retirement age.

percentage factor depending on the amount of years of employment. in accordance with the GBA.

The amount calculated as above is discounted using an actuarial technique. The discounted amount is reduced by amounts of annual provision write-offs actuarially discounted for the same date which the Group effects in order to increase the employee's provision.

Amounts of annual write-offs are calculated using the projected unit credit method.

Actuarial discount is the product of the financial discount and of the probability of the given person's reaching retirement age as an employee of the Group.

The probability mentioned above has been determined using the competing risks method with the following risks taken into account:

possibility of ceasing employment.

risk of complete disability for work.

risk of death.

7.5. Valuation of foreign currency

Functional and presentation currency

The financial statements of individual Group entities including the Bank's Branch in Paris are presented in their functional currency i.e. in the currency of the primary economic environment in which a given entity operates.

The consolidated financial report is presented in Polish Zloty. The Zloty is the functional currency and the presentation currency of the parent business entity.

The average NBP exchange rate is applied as at the balance sheet date.

Transactions and balances

Transactions expressed in foreign currency are translated into the functional currency by applying the exchange rate at the date of the transaction. Exchange rate profits and losses due to settlements of these transactions and to the balance sheet valuation of monetary assets and liabilities expressed in foreign currency are accounted for in the profit and loss account.

Exchange rate differences due to non-monetary items such as equity instruments classified to financial assets designated for fair value valuation through the profit and loss account are accounted for together with changes in the fair value of the profit and loss account.

Exchange rate differences due to non-monetary items such as equity instruments classified to financial assets available for sale are included in the revaluation reserve.

Companies of the Group

On consolidation assets and liabilities of foreign business entities are translated into the Polish currency i.e. to the presentation currency as per the closing exchange rate for the balance sheet date. Revenues and costs in the profit and loss account are recalculated as per average exchange rates calculated on the basis of the exchange rates of the reporting period except for the situations when exchange rates fluctuate significantly at the average exchange rate is not an acceptable approximation of the exchange rate from the transaction date. In such a situation income and costs are translated on the basis of the exchange rate from the date of transaction.

Financial statements of: the Bank's Paris Branch. and the Group foreign subsidiaries have been converted from the functional currencies of these entities into PLN using the following exchange rates:

for conversion of the balance sheet items as at 31 December 2007 and 31 December 2006 the following exchange rates published by the National Bank of Poland respectively 31 December 2007 and 31 December 2006 have been applied:

	31.12.2007	31.12.2006
PLN for 1 UAH	0.4814	0.5760
PLN for 1 EUR	3.5820	3.8312

for conversion of profit and loss account items for the period from 1 January 2007 to 31 December 2007 and the period from 1 January 2006 to 31 December 2006 the following arithmetic means of exchange rates published by the National Bank of Poland as at the end of each month of respectively the period from 1 January 2007 to 31 December 2007 and the period from 1 January 2006 to 31 December 2006 have been applied:

	2007	2006
PLN for 1 UAH	0.5456	0.6129
PLN for 1 EUR	3.7768	3.8991

The foreign exchange differences from the valuation of foreign entities are accounted for as a separate component of equity.

The goodwill arising on acquisition of the entity operating abroad as well as any adjustments of the balance sheet value of assets and liabilities to fair value arising on acquisition of the entity operating abroad. are treated as assets and liabilities of an overseas entity i.e. they are expressed in the functional currency of the overseas entity and translated at the closing exchange rate as described above.

7.6. Profit and loss account

Interest income and expense

The Group recognizes interest income and expense related to financial instruments measured at amortized cost using the effective interest rate method. Also interest income on financial assets available for sale is recognized using the effective interest method.

The effective interest rate is the rate which exactly discounts the estimated future cash inflows and payments made in the expected period until expiry of the financial instrument and in a shorter period where justified to the net carrying value of the financial asset or liability. The calculation of the effective interest rate includes all commissions paid and received by parties to the agreement points which are an integral part of the effective interest rate transaction costs and all other premiums and discounts.

The interest income contains interest itself. as well as commissions received or receivables in respect of loans inter-bank deposits and securities held-to-maturity and available for sale recorded in calculation of the effective interest rate.

On discovery of an impaired financial asset measured at amortized cost and financial assets available for sale. interest income continues to be recognized in the profit and loss account but is calculated on the basis of a revised value net of any provision for impairment. For the calculation of interest income on the newly determined fair value that interest rate is used according to which future cash flows were discounted for the purpose of impairment measurement.

Costs of the reporting period applicable to payables due to interest on customer accounts and to commitments for issuing the Group's securities are accounted for in the profit and loss account using the effective interest rate.

Fee and commissions income and expense

Commissions received or paid in relation to banking operations carried out on customer accounts operations on payment cards as well as brokerage factoring and selling activities are recognized in the profit and loss account at the time the service is rendered while other fees and commissions are recognized on an accrual basis.

The Group distinguishes between two basic types of fees and commissions related to credit operations:

- origination fees and commissions;

- commitment fees and commissions.

Origination fees and commissions are included in the effective interest rate calculation and constitute interest income.

Commitment fees and commissions are recognized on a straight line basis throughout the life of the facility they relate to and constitute fee and commission income.

In case of loans and advances without a defined repayment schedule and without a defined interest rate schedule (e.g. overdraft facilities and credit cards) fees and commissions are recognized on an accrual basis throughout the life of the facility using the straight line method and constitute fee and commission income.

Foreign exchange gains(losses)

The Foreign exchange gains(losses) is calculated taking into account foreign exchange gains and losses. both realized and unrealized. arising from the daily valuation of assets and liabilities denominated in foreign currencies and recorded under foreign exchange income and cost. The exchange rate used for valuation of a given foreign currency used for valuation is the average exchange rate set by the President of the National Bank of Poland on the balance sheet date. Moreover the trade margins realized on foreign exchange transactions with the Group's clients are reported under Foreign exchange gains (losses).

The Foreign exchange gains (losses) also includes the exchange differences resulting from valuation of net investments in foreign entities on the date of sale of the given investment. Until the date of sale foreign exchange differences arising from valuation of net assets in a foreign entity are recognized under other equity.

Other operating income and expenses

Other operating income include mainly gains realized on sale/liquidation of items of fixed assets and assets repossessed for debt amounts of uncollectible debts recovered amounts of received damages, penalties and fines, income on rental of real estate write backs of provisions for court litigations and repossessed assets. Other operating costs comprise primarily: the costs of sold or liquidated property. plant and equipment and assets seized for debts; debt collection costs; provisions for receivables under dispute and assets seized for debts and donations.

7.7. Valuation of the assets and liabilities. derivatives financial instruments

Financial assets

Financial assets are classified in the following categories:

financial assets valued at fair value through the profit and loss

This category comprises two sub-categories: financial assets held for trading and financial assets designated at initial recognition for fair value valuation through the profit and loss.

Financial assets held for trading include in particular: debt and equity securities loans and receivables purchased or classified here with the aim of selling in the short term. The classification also includes derivative instruments that are not hedged instruments.

To the financial assets at the moment of initial disclosure as financial assets at fair value through profit or loss the debt securities are classified. which were appointed by the Group in the aim of elimination or significant decrease of incoherent valuation and the disclosure between the securities and derivatives economically secured against the interest rate risk of these securities. Otherwise these securities would be classified to the "held for sale" portfolio the valuation effect disclosed at the equity and the derivatives valuation economically secured these securities would be disclosed at profit and loss account. These inconsistency of the general ledger elimination is caused by the disclosure of the debt securities at the financial assets portfolio held for valuation of fair value through profit and loss account.

held-to-maturity.

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than:

a) those that the entity upon initial recognition designates as at fair value through profit or loss;

b) those that the entity designates as available for sale; and

c) those that meet the definition of loans and receivables

The financial assets of that category are valued at amortized cost using the effective interest rate. Recognition of amortized cost. taking into account the effective interest rate. is recorded in interest income.

loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. other than:

a) those that the entity intends to sell immediately or in the near term. which shall be classified as held for trading. and those that the entity upon initial recognition designates as at fair value through profit or loss;

b) those that the entity upon initial recognition designates as available for sale; or

c) those for which the holder may not recover substantially all of its initial investment. other than because of credit deterioration. which shall be classified as available for sale.

This category contains debt securities bought from the issuer. for which there is no active market credits, loans receivables, resulting from reverse repo transactions and other receivables received and granted. Loans and receivables are measured at amortized cost. using the effective interest rate and taking into account any impairment.

available for sale

These are the financial assets with a non-defined holding period. The portfolio is composed of debt and equity securities. as well as loans and receivables not accounted for in other categories. Interest on assets available for sale is calculated using the effective interest rate method and accounted for in the profit and loss account.

Financial assets available for sale are measured at fair value. and profits and losses resulting from a change of fair value in relation to amortized cost are charged to the revaluation reserve. The revaluation reserve item is carried to the profit and loss account upon sale of an asset or its impairment. In the event of impairment of the asset. previously recognized surpluses from fair value measurement decrease the "Revaluation reserve". If the amount of previously recognized increases is insufficient to cover permanent impairment. the difference is charged to the profit and loss account. under the heading “Provision write-off’s and revaluation”.

Dividends due from equity instruments are accounted for in the profit and loss account at the moment of establishing the entity’s right to receive payments.

Standardized purchase and sale transactions of financial assets valued at fair value through the profit and loss statement. held for trading (with the exclusion of derivative instruments). held to maturity and available for sale are recognized and excluded from the books by the Group on the day of the transaction settlement. i.e. the day of the receipt or delivery of the asset.

Changes in the fair value of the asset to be received between the date of the transaction and the date of the settlement are recognized in the same way as assets available for sale.

Loans are recognized at the time of disbursement to the debtor.

Derivative instruments are recognized or excluded from the books on the date of the transaction.

Impairment of financial assets

For each balance sheet date. the Group assesses. whether there is objective evidence of impairment of a given financial asset or of a group of such assets. Impairment of a financial asset or of a group of financial assets was incurred only if there is objective evidence for the impairment due to events that followed the initial recording of the specific asset ("the loss event") and when the events affect the expected cash flows regarding these assets. and the flows may be estimated in a reliable way.

Objective evidence for impairment of financial assets includes – as per the Group's principles – information on the following loss events:

substantial financial problems of the issuer or debtor;

failure to keep to the contract terms. e.g. failing to repay or delay in repayment interest or part of capital;

the Group's granting concessions or privileges to the debtor for economic and legal reasons following financial problems of the debtor. which in other circumstances would not be taken into account;

high probability of bankruptcy or of another financial reorganization of the debtor;

disappearance of the active market for the particular financial assets due to financial difficulties.

observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets. although the decrease cannot yet be identified with the individual financial assets in the group including:

- adverse changes in the payment status of borrowers in the group or
- national or local economic conditions that correlate with defaults on the assets in the group.

The Group classifies credit receivables by size into the individual and group portfolios.

In the individual portfolio. each credit exposure is subjected to an impairment test. If there is objective evidence of impairment the carrying amount of the receivable is reduced. If for a given exposure no objective evidence of impairment exists the exposure is included in the credit portfolio subject to group assessment.

In a group portfolio groups of similar credit risk characteristics are identified which are then assessed collectively for impairment.

If there is any objective evidence of impairment of financial assets classified as loans and receivables or as investments held-to-maturity then the amount of the impairment is the difference between the carrying amount of an asset and the current value of estimated future cash flows (excluding future credit losses that were not incurred) discounted using an original effective interest rate established with the initial recognition of a given financial asset. The carrying amount of the asset is then reduced through use of the allowance account. and the amount of loss is recognized in the profit and loss account.

Calculation of the present value of estimated cash flows related to the impaired collateralized financial asset also takes into consideration the cash flows resulting from the liquidation of the collateral reduced by the costs of repossession and disposal.

Expected future cash flows related to the group of financial assets for impairment on a group basis are estimated on the basis of the historical cash recoveries recorded for assets of similar risk characteristics.

Historical parameters of recoveries are adjusted on the basis of the data coming from current observations. so as to take into consideration the influence of current conditions and to exclude factors in the historical period. that are not presently valid.

If in the next period the amount of impairment is lower due to an event taking place after the impairment (e.g. an improvement in the debtor's credit rating) then the reduction of impairment is reversed through an appropriate adjustment of an amount on the allowance account. The amount of the reversal is recognized in the profit and loss account.

Sale and re-purchase agreements

Repo and reverse-repo transactions as well as sell-buy back and buy-sell back transactions are security sale or purchase operations with promise of repurchase or resale at an agreed date and price.

Sales transactions with the repurchase promise granted (repo and sell-buy back) are recorded. at the transaction date. in payables to other banks or in payables to customers due to deposits. The purchased securities with the resale promise granted (reverse-repo and buy-sell back) are recorded as receivables from banks or as credits and loans granted to customers.

The difference between the selling and buying price is treated as interest expense/income. respectively. and accounted for over the duration of the contract. using the effective interest rate.

Derivative financial instruments and hedge accounting

The Group conducts operations in derivative financial instruments: currency transactions (spot. forward. currency swap. and currency options. CIRS). exchange rate transactions (FRA. IRS. CAP). derivative transactions based on securities prices exchange rates and stocks indices. Companies of the Group do not apply hedge accounting therefore all the above mentioned instruments are classified to the trading portfolio. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently valued to fair value. The fair value is established on the basis of quotations of the instruments in active markets as well as on the basis of valuation techniques including the models based on discounted cash flows and options valuation models depending on which of the valuation models is appropriate. Positive valuation of derivative financial instruments is presented in the balance sheet in the item of “Derivative financial instruments” on assets side and on the liabilities side if the fair value is negative. Changes in the financial instruments valuation to fair value are reflected in the profit and loss account.

In case of purchasing a financial instrument which has embedded derivative component. the whole or part of cash flows related to such a financial instrument changes in the way similar to what would be the case with the embedded derivative instrument on its own. The embedded derivative instrument is reported separately from the basic contract. This happens when the following conditions are met jointly:

- the financial instrument is not included in assets for trading or in assets designated for fair value valuation through the profit and loss account. whose revaluation results are reflected in financial income or cost of the reporting period.
- the nature of the embedded instrument and the related risks are not closely tied to the nature of the basic contract and to the risks resulting from it.
- a separate instrument. whose characteristics correspond to the features of the embedded derivative instrument. would meet the definition of the derivative instrument.
- it is possible to reliably establish the fair value of the embedded derivative instrument.

In case of contracts that are not financial instruments with a component of an instrument meeting the above conditions. the built-in derivative instrument is classified in accordance with assets or liabilities of derivatives financial instruments with respect to profit and loss account in harmony of derivative financial instruments valuation.

The method of recognition of the changes in the fair value of an instrument depends on whether a derivative instrument is classified as held for trading or is designated as a hedging item under hedge accounting.

The changes of fair value of the derivative financial instruments held for trading are recognized directly in the profit and loss statement.

The Group designates under the condition of meeting the IAS 39 criteria some of the derivative instruments as hedging items for the future highly probable cash flows concerning the hedged item.

At the moment the hedge relationship is established the Group formally designates and documents the hedge relationship as well as the objective of the risk management and strategy of the established hedge relationship. The documentation contains the identification of the hedging instrument the hedged item. the character of the risk being hedged and the way of measurement of the hedge effectiveness.

The changes in the fair value of the derivative financial instruments classified as cash flow hedging instruments are recognized:

- directly in the item „revaluation reserve". in the part constituting the effective hedge relationship. \

- in the profit and loss account in the part representing in-effective hedge relationship.

The amounts cumulated in the revaluation reserve are transferred to the profit and loss account in the period. in which the hedged item is reflected in the profit and loss.

The Group ceases to apply hedge accounting when the hedging instrument matures or is disposed of. In such a case the cumulated profits or losses related to that hedging item. reflected in the revaluation reserve provided the hedge relationship was effective would remain intact until the forecasted hedged transaction occurs and is reflected in the profit and loss account. If the forecasted hedged transaction is no longer deemed highly probable. the cumulative profits or losses relating to changes in valuation of the hedging instruments. recognized in the revaluation reserve. are transferred to the profit and loss account of the given period.

Financial Liabilities

The Group's financial liabilities are classified to the followings categories:

financial liabilities at fair value through profit and loss carried at fair value.

financial liabilities not at fair value through profit and loss are carried at amortized cost using the effective interest rate.

Financial liabilities not at fair value through profit and loss consist of amounts due to banks and customers. loans from other banks own debts securities issued.

Derecognition of financial instruments

A financial instrument is derecognized when the contractual rights to the cash flows expires or the Group transfers all the risk and rewards of a financial instrument.

Most often. the Group derecognizes loans in the event of:

- discontinuation of execution proceedings.
- death of the borrower.
- conclusion of bankruptcy procedures.
- unconditional cancellation of a part of the loan.

7.8. Valuation of other consolidated balance sheet items

Intangible assets

Intangible assets are deemed to include assets which fulfill the following requirements:

- they can be separated from an economic entity and sold. transferred. licensed or granted for use for a fee to third parties. both separately. and together with their accompanying contracts. assets or liabilities. or
- arise from contractual titles or other legal titles. irrespective of whether those are transferable or separable from the business entity or other rights and obligations.

Goodwill

Goodwill on acquisition of a business entity is initially recognized at cost. which is the surplus of the costs of business combination of business entities over the share of the acquiring entity in the net fair

value of identifiable assets. liabilities. and contingent liabilities. After the initial recognition. goodwill is presented at cost less any accumulated impairment losses.

As at the date of acquisition. the acquired goodwill is allocated to each of the cash generating units. which may benefit from the synergies of business combination. Impairment is determined by estimating the recoverable value of the cash generating unit to which the given goodwill pertains. In the event of the recoverable value of the cash generating unit being less than the carrying value. an impairment write-off is made. If the goodwill is a part of the cash generating unit. and a part of activity of that unit is sold. then in measuring the profit or loss on selling such activity. goodwill related to the activity sold is included in the carrying value of the sold part of activity. In such circumstances goodwill is measured on the basis of the relative value of the activity sold. and the value of the remaining part of the cash generating unit. Impairment test is made once a year. Ascertained impairment during the test is not subjected for the future adjustments. Goodwill on acquisition of subsidiaries is presented among intangible assets. and goodwill on acquisition of associates is presented under the heading "Investments in associates".

Other intangible assets

Intangible assets are assets controlled by the Group. which do not have a physical form. which are identifiable and represent future economic benefits for the Group. directly attributable to such assets.

These are mainly:

- computer software licenses.
- copyrights.
- costs of completed development work.

Intangibles acquired in a separate transaction are recognized at cost. Intangibles acquired in transactions of acquisition of a business entity are recognized at fair value as at the date of acquisition. After initial recognition. this category of intangibles is treated using the historic cost model. The useful life of intangible assets is assessed and considered to be limited or indefinite. In the case of amortization being calculated from assets with limited useful life. such costs are indicated in the profit and loss account under the heading "General and administrative expenses". An intangible asset with an indefinite useful life is not be amortized.

With the exception of development costs. intangible assets generated by the Group on its own resources are not recognized in assets. and outlays incurred for their generation are recognized in the profit and loss account for the year in which they were incurred.

As regards intangible assets with limited useful life. the Group makes a judgment as to whether there are indications of their impairment. Where it is found that such indications exist. the Group estimates the recoverable value of such intangible assets and impairment is recognized. Useful lives are also subject to review annually. and where necessary. adjusted starting from the next financial year.

In the case of intangible assets of an indefinite useful life and investments on tangible assets. the Group performs. on an annual basis. a test for impairment. irrespective of whether there are indications of impairment.

Research costs are charged to the profit and loss account at the time when they are incurred. Outlays for development work performed within the given project are carried forward to the next period. whether they will generate probable future economic benefits. After the initial recognition of outlays for development work. the historic cost model is applied. which requires that assets be recognized at cost less accumulated amortization and accumulated impairment write-offs. All outlays carried forward to the next period are amortized throughout the expected period of obtaining profits from selling the given project.

Costs of development work are reviewed for any impairment on an annual basis – if an asset has not yet been commissioned. or more often – when during a reporting period indications of impairment appear. indicating that their carrying value may not be recoverable.

Loss or profit due to derecognition of intangible assets are measured as the difference between the net sales income and carrying value of the given asset and are recognized in the profit and loss account upon derecognition of the asset.

Property. plant and equipment

Fixed assets are the controlled fixed assets and include outlays to construct assets. Fixed assets include fixed assets with an expected period of use above one year maintained to be used to serve the Group's needs or to be transferred to other entities. based on the lease contract or for administrative purposes.

Fixed assets are recorded at historical costs reduced by depreciation/amortization and impairment write-downs. The historical costs are made up of the purchase price/cost of creation. and costs directly related to the purchase of assets.

Each component part of property plant and equipment items whose purchase price or generation cost is material in comparison with the purchase price or generation cost of the entire item is depreciated separately The Group separates the initial value of property plant and equipment items into its significant parts.

Costs of modernization of property plant and equipment increase their carrying value or are recognized as a separate item of property plant and equipment only when it is probable that such expenditures will ensue with an inflow of economic benefits to the Group and the cost of such expenses can be reliably measured.

Service and maintenance costs of tangible assets charged to profit and loss account in reporting period in which they were incurred.

The cost of external financing for the purchase or construction of fixed assets is recognized as a cost in the period in which it is incurred.

Depreciation and amortization charge

The depreciation charge for fixed assets and the amortization charge for intangible assets are applied using the straight line method using defined depreciation rates throughout the period of their useful lives Depreciable amount is the cost of an asset or other amount substituted for cost less its residual value Depreciation rates defined for balance sheet purposes are periodically verified with results of verification effective starting from the year following the year of verification.

Balance sheet amortization depreciation and amortization rates applied to the basic groups of fixed tangible assets. investment properties and intangible assets. are as follows:

a/ depreciation rates used for fixed assets

ngs; cooperative ownership right to an apartment. cooperative right to non-residential property	1.5% - 10.0%
ıical equipment and machines	2.5% - 30.0%
s of transport	12.5% - 30.0%

b/ amortization rates for intangible assets

Software licenses. Copyrights	10.0% - 50.0%
Costs of completed development works	33.3%
Other intangible assets	33.0%

c/ depreciation rates for investment properties

Buildings	1.5% - 10%

Land. fixed assets under construction and intangible assets in progress are not subject to amortization or depreciation.

Amortization and depreciation charges are recognized as Group General and administrative expenses while any impairment write-off's are included in other operating expense.

Investment property

Initially. investment property assets are recognized at cost. including the transaction costs. After the initial entry. investment property assets are measured in accordance with requirements of the purchasing price model.

Investment property assets are derecognized when disposed of or in the case of permanent decommissioning of a property. when no further benefits from its sale are expected. Any profits or losses due to derecognition of an investment property are charged to the profit and loss account in the period in which such derecognition occurred.

Non-current assets held for sale

Non-current assets held for sale include assets whose carrying value is to be recovered by way of their resale. and not in their continued use. Only those assets are classified as held for sale that are available for immediate sale in their present condition. whose sale is highly probable i.e. the decision has been made to fulfill the plan of selling the given asset. an active programme has been launched to find a buyer and to complete the selling plan. Also such an asset is offered for sale at a price which is rational in reference to its present fair value. and it is expected that the sale will be treated as sale completed within one year from the date of the asset's classification in this category.

Non-current assets held for sale are recognized at the lower of carrying value and fair value less the costs of selling such assets. For assets classified in this category. depreciation is not applied.

Leases

The Group is a party to lease contracts. on the basis of which it grants non-current assets or intangible assets to third parties in exchange for payment over an agreed period of time.

The Group is also a party to lease contracts. under which it takes benefits from a third party's non-current assets or intangible assets in exchange of payment over an agreed period of time.

Operating lease

In the case of lease contracts. contracted by the Group as a lessor. the subject of the lease is presented in the balance sheet due to the fact that there was no transfer of all the risks and rewards incidents deriving from the ownership on lease.

In the case of lease contracts. contracted by the Group as a lessee. the subject of the lease is not recognized in the balance sheet.

The whole amount of operating lease payments is recognized as an income or costs in the profit and loss account using the straight-line method. throughout the period of the lease.

Financial lease

Group as a lessor

In the case of lease contracts. under which there is a transfer of all risks and rewards incident to ownership of assets under a lease. the item that is the subject of the lease is not recognized in the balance sheet. Recognized in the balance sheet a receivable in amount being equal to the minimum payments. Lease payments are allocated between financial income and a reduction in the amount of the balance sheet receivables in a way serving the possibility of fix interest return rate obtaining out of the rest part of the receivables to be paid off.

Lease payments agreements. which do not fulfill the criteria for financial lease agreements are recognized as revenues on profit on loss accounts with the use of line by line method through the lease duration period.

Group as a lessee

In the case of lease contracts. under which essentially all risks and rewards incident to ownership of the lease are transferred. the subject of lease is recognized in assets as a non-current asset. and a liability is recognized in the amount equal to the present value of minimum lease payments as at the date of commencement of the lease. Lease payments are allocated between the financial costs obligation

and a reduction in the balance of the liability in such way as to enable obtaining a fixed rate of interest on the outstanding liability. Financial costs are recognized directly in the profit and loss account.

Fixed assets under finance lease contract are depreciated in the manner defined for the Group's non-current assets. However. if it is uncertain whether the ownership of the subject of the contract has been transferred. then non-current assets leased under the finance lease contracts are depreciated over the shorter of the expected useful life or the initial period of lease.

Lease payments for contracts which do not fulfill qualifications of a finance lease agreement are recognized as costs in the profit and loss account in a straight-line method throughout the period of the lease.

Prepayments

Prepayments refer to particular expenditure types that will be recognized in the profit and loss proportionally to time elapsed in the future reporting periods. Prepayments are presented in the balance sheet as "Other assets".

Provisions

Provisions are established when the Group has an obligation (legal or constructive) resulting from past events. and where it is probable that the fulfilment of such obligation will cause a necessity of transfer of assets representing economic benefits. and it is possible to reliably estimate the amount of such liability. In the event that the time value of the money-over-time is significant. the amount of provisions is established by discounting forecasted future cash flows to the present value. using a rate of discount reflecting current market evaluations of money-over-time. and any risk related to the given obligation.

Provisions also includes provisions related to actuarial long-term employee benefits. All provisions are charged to the profit and loss account.

Employee benefits provisions

The amount of provision for retirement payment is established on the basis of an actuarial valuation performed by an independent actuary at least every two years.

The provision for restructuring costs is established when general criteria for recognition of provisions are met. as well as detailed criteria for the obligation to establish restructuring provisions as per IAS 37.

The amount of employment restructuring provision is established by the Group on the basis of the best available estimates of direct outlays. which necessarily result from restructuring and are not connected with the Group's current activities.

Provisions established are recognized on the liabilities side under the "Provisions" heading. and accordingly in the profit and loss account. as remuneration costs.

Deferred income and accrued costs

This item mainly covers commission income settled using the straight line method. and other income charged in advance; that will be recognized in profit and loss in the future reporting periods.

Accrued costs include accrued costs resulting from the services provided for the Group by contractors. which will be settled in the following periods. and accrued payroll and employee benefits (including annual and Christmas bonuses and other bonuses and awards and utilized holiday leave).

Deferred income and accrued costs are presented in the balance sheet in the item of "other liabilities".

Equity of the Capital Group

Equity is comprised of the capital and funds generated by the companies of the Capital Group in accordance with the binding legal regulations i.e. the appropriate laws. Articles of Association. Equity also includes retained profit (loss). The items comprising the equity of subordinated entities. other than statutory capital. are added to the appropriate positions of the parent entity's equity to the extent in which the Parent entity owns the subsidiaries.

The equity of the Capital Group includes only those parts of the subsidiaries' equity which were created after the date of purchase of shares or stocks by the parent entity.

In particular this applies to the change in equity resulting from profit or loss or from revaluation.

a) Statutory capital relates only to the capital of the Bank as the Parent entity and is presented at nominal value specified in the Statute and in the entry in the Enterprises Registry.

b) Reserve capital is created from appropriations of profits and premiums arising on the issue of shares. in accordance with the Statutes of the companies. Moreover the change of the value of the minorities shareholding. caused by the increase of the share of the parent company in the share capital of the Bank was reflected as an increase of this item. according to the accounting principles applied by Unicredit Group;

.c) Revaluation reserve includes: the effects of revaluation of financial assets available for sale. the effect of the valuation of the cash flow hedging derivatives and the value of deferred tax for items that comprise temporary differences. Revaluation reserve is presented net in the balance sheet.

d) Other reserve capital utilized in accordance with the purposes defined in the Statute is created from appropriations of profits. Moreover the Other reserve capital was reduced by the value of the minority acquisition with the opposite (increase) entry in the Reserve capital;

e) Exchange rate differences include differences arising from recalculation of the result of a foreign branch at the weighted average exchange rate for the balance sheet date. in relation to the average NBP exchange rate. and from valuation of net assets in foreign entities.

f) Bonds convertible into equity includes the equity fair value of financial instruments issued as part of transactions settled in equity instruments in accordance with IFRS 2.

g) General banking risk provision created in the Bank represents accumulated appropriations of net profit after tax in accordance with the terms of the Banking Law of 29 August 1997.

h) Retained earnings comprises the total retained profits and uncovered losses of the companies consolidated under the full method.

i) Net profit/loss which constitutes profit/loss presented in the profit and loss statement for the relevant . Net profit is after accounting for income tax.

Minority interest

Minority interest equity is the share in the equity of the subsidiary entity consolidated under the full method. and belonging to entities other than those comprising the Capital Group.

Share-based Payments

Employee participation programs are running at the Bank. under which senior and lower management staff crucial to realization of the Capital Group Banks' strategy are granted pre-emptive rights to buy shares of the Bank and shares of a dominant entity of UniCredito Italiano S. p. A.. (see Note 47).

Transactions settled in equity instruments of the Bank Pekao S.A.

The cost of transactions settled with employees in equity instruments is measured by reference to the fair value as at the granting date. The fair value is established on the basis of the Black-Scholes model for appraisal of dividend-yielding stock options. according to expectations of the Management Board concerning the number of rights to be exercised. The amount of the employee share program is adjusted as at every balance sheet date if expectations of the Management Board change concerning the number of rights to be exercised. No efficiency/results data except those related to the price of shares ("market conditions") are taken into account in the assessment of transactions settled in capital instruments.

The cost of share-based payments is recognized together with the accompanying increase of the value of equity in the period in which effectiveness/performance conditions were fulfilled. ending on the date when certain employees acquire full rights to the benefits ("vesting date"). The accumulated cost recognized for transactions settled in equity instruments for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares. the rights to which –

in the opinion of the Bank's Management Board for that date. based on best available estimates of the number of equity instruments – will be eventually vested.

In the event of modifications of conditions for granting remuneration settled in equities. as part of fulfilment of the minimum requirement. costs are recognized if such conditions have not changed. Also. costs are recognized resulting from each increase in the value of the transaction. resulting from modifications. measured for the date of change.

In the event a right is cancelled. it is treated in such way as if the rights were acquired on the date of cancellation. and any unrecognized costs resulting from such rights are immediately recognized. In the case. however. where the cancelled share right is replaced by a new share right. the cancelled right and the new right are treated as if they are a modification of the original right.

The diluting effect of options issued is taken into account when establishing the amount of earnings per share. as additional dilution of shares (see Note 22).

Transactions settled in equity instruments of UniCredito Italiano S. p. A.. .

The Pekao Group entities joined the UniCredit-wide long term incentive program. The aim of the program is to offer the selected key employees of the Group the share options and performance shares of UniCredito Italiano S.p.A.

The fair value of the instruments granted to the Pekao Group employees was established following the Group-wide applied Hull and White model.

The expense related to the transactions settled in the equity instruments of UniCredito Italiano is being recognized following the rules which pertain to the transactions settled in the equity instruments of Pekao. with the only difference relating to the actual cash settlement in the moment of the rights realization..

The expenses related to the services granted by the employees in return for the granted rights are recognized in "Wages and salaries" costs.

In the moment of realization of the instruments the Group will be obliged to pay to UniCredito Italiano the amount equal to the initial fair value of those instruments that actually vested.

7.9. Income tax and other taxes

Income tax

For purposes of financial reporting, deferred income tax is established using the balance-sheet liabilities method in reference to all temporary differences as at the balance sheet date between the taxable amount of assets and liabilities, and their carrying value as presented in the financial statements.

The deferred tax provision is recognized in reference to all positive temporary differences:

- except for situations where the deferred income tax provision arises from depreciation of goodwill or from the initial recognition of an asset or liability in a transaction other than merger of entities, and at the point of the transaction it has no influence on the gross financial result, nor for the taxable income or deductible loss, and
- in the case of positive temporary differences resulting from investments in subsidiaries or associates and participation in joint ventures – except for situations where the dates of reversal of temporary differences are subject to control and where it is probable that in the foreseeable future the temporary differences will not be reversed.

The deferred tax asset is recognised on all negative temporary differences and carry forward of unused tax losses and tax credits in an amount that is probable that the taxable income will be available against which above mentioned differences can be utilised:

- except for situations where deferred tax assets concerning negative temporary differences originate from initial recognition of an asset or liability in a transaction other than merger, and at the point the transaction it has no influence on the gross financial result, nor for the taxable income or deductible loss, and

- in the case of negative temporary differences resulting from investments in subsidiaries or associates and participation in joint ventures, the deferred tax asset is recognized in the balance sheet only in such amount, in which it is probable that the above temporary differences will be reversed and taxable income will be available against which the negative temporary differences can be utilized.

The carrying value of a deferred tax asset is verified for each balance sheet date, and is reduced accordingly to the extent that it is no longer probable that the taxable income will be achieved sufficient for partial or full realization of a deferred income tax asset.

Deferred tax assets and deferred tax provisions are measured at tax rates which are predicted to be in force in the period in which an asset is realized or a provision is dissolved, assuming as the basis the tax rates (and tax regulations) which are legally or actually in place as of the balance sheet date.

The income tax regarding items directly recognized in equity is recognized in equity.

The entities composing the Group offset deferred tax assets and deferred tax provisions, where they have legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

Current income tax is assessed at the tax rate in force and is calculated on the basis of the gross profit determined on the basis of relevant accounting regulations, adjusted by non-taxable income and non-deductible expenses.

Other taxes

Income, costs, and assets are recognized and reduced by the amount of VAT, tax on civil law acts, and other taxes on sales, except where:

- the tax on sale, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the sales tax is recognized accordingly as a part of the cost of acquisition of an asset, or as part of a cost item, and

- receivables and payables are presented with the amount of sales tax taken into account.

The net amount of sales tax recoverable from or payable to the tax authorities is recognized on the face of the balance sheet as a part of receivables or liabilities.

7.10. Other positions

Contingent liabilities and commitments

The Group enters into transactions which are not recognized in the balance sheet as assets or liabilities upon signing. but they cause contingent liabilities and promises. Contingent liabilities are characterized as being:

- a potential obligation. whose existence will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond control of the Group (e.g. disputes in progress);
- a current obligation. which arises as a result of past events. but is not recognized in the balance sheet. as it is improbable that it will be necessary to incur expenses to fulfill the obligation. or the obligation amount cannot be reliably measured (eg: unused credit lines. guarantees and letters of credit issued).

Cash and cash equivalents

Cash and cash equivalents in the Cash Flow Statement include “Cash. due from Central Bank” (except for the NBP bonds) and amounts current amounts due from banks with maturity up to three moths.

8. Purposes and rules of financial risk management.

The policy risk management of the Group has a goal of optimizing the structure of the balance sheet and off-balance sheet positions under the consideration of all risks in relation to income and other risks interest rate. liquidity risk. foreign exchange rate risks). that the Group encounters in conducting its daily activity. Risks are monitored and controlled with reference to profitability and equity coverage and are regularly reported in accordance with rules briefly presented below.
The Bank's Management Board is responsible for achieving the strategic goals set within the risk management policy.

The Asset and Liability Management Committee controls the capital adequacy of the Group as well as the liquidity risk and the market risk (interest rate and foreign exchange rate risks) related to the external banking supervision limits and to the internal limits of the Group.
The accounting policy for derivative instruments was presented at Note 7.

Credit risk

Credit risk is one of the basic risks associated with the activities of the Group. The percentage share of loans in the Group's balance sheet makes it necessary to maintain this risk at a safe level.

The process of credit risk management is centralized and then managed mainly by units belonging to Risk Management Division located either in the Bank Head Office or in its local structures. Integration of various risks in the Risk Management Division. in which apart from credit risk. market and operational risk. allows the effective management of all credit-related risks. The process covers all credit functions – credit analysis. underwriting. monitoring and loan administration. restructuring and vindication. Each function contains with the credit policy of the Bank and its guidelines that are reviewed and endorsed annually by the Management Board and the Supervisory Board of the Bank. The integrity and efficiency of the credit functions is achieved through standardized use of various credit methods and methodologies supported by advanced IT tools. These tools are integrated into ledger system of the Bank. Group Procedures allow for credit risk mitigation. In particular the ones related into transaction risk evaluation. establishing collateral. setting authorization limits for granting loans. and limiting of exposure to some areas of business activity in line with current client's segmentation scheme in the Bank.

The Group's lending activity is limited by the restrictions of the Banking Law as well as internal limits. These refer. in particular to concentration limits for specific sectors of the economy. share of large exposures in the loan portfolio of the Group. and exposure limits for particular foreign countries. banks. and domestic financial institutions. Entitlement to make credit decisions. to limitation of some business fields and internal or external caution standards includes not only credit but also loans and guarantees and derivatives transactions and debt securities as well. Protection of the quality of the Group's loan portfolio is also enhanced by periodic reviews and continuous monitoring of loan repayments and the financial condition of the borrowers.

Concentration of credit risk

The Banking Law establishes maximum limits for the banks. According to article 71.1 of the Law the total balance sheet and off-balance sheet exposure of a bank to the risks associated with a single borrower or a group of related borrowers may not exceed 20% of a bank's equity when at least one of those entities is related to the bank or 25% when no relation between those entities and the bank exists. Moreover. article 71.2 of the Law specifies a maximum total exposure limit with entities whose individual exposure exceeds 10% of a bank's equity. at a level of 800% of this equity.

As at 31 December 2007 no exposures exceeded the limit set forth by article 71.2. whereas one exposure of the Group exceeded the limits specified in article 71.1 in the case of one group of related entities. This exposure resulted mainly from the financing of a central State investment. Loans granted for the central State investment are guaranteed by the State Treasury. According to the resolution 3/2007 of the Commission for Banking Supervision article such exposure is excluded from calculations of exposure

limits and as a consequence the maximum exposure limits set forth in the Banking Law were not exceeded.

a) Concentration by entity:

Exposure to 10 largest clients of the Group	as at 31.12.2007 % of portfolio
Client 1	1.4%
Client 2	1.3%
Client 3	1.1%
Client 4	1.0%
Client 5	1.0%
Client 6	0.9%
Client 7	0.8%
Client 8	0.7%
Client 9	0.7%
Client 10	0.6%
Total	**9.5%**

In the table above 37% is a credit exposure. with the risk of the State Treasury. Other exposures are due to transactions with large corporate clients (63%). None of the exposures mentioned above were classified as non-performing.

b) Concentration by capital group:

Exposure to 5 largest capital groups which are the Group's clients	as at 31.12.2007 % of portfolio
Group 1	3.0%
Group 2	1.7%
Group 3	1.6%
Group 4	1.3%
Group 5	1.2%
Total	**8.8%**

c) Concentration by industrial sector:

In order to mitigate credit risk associated with industrial sector concentration the Group employs a system for monitoring the sector structure of its credit exposure. The system involves setting concentration limits for particular sectors. monitoring the loan portfolio and gathering appropriate information. The system is based on the lending exposure in particular types of business activity according to the classification applied by the Polish Classification of Economic Activities (Polska Klasyfikacja Dzialalnosci - PKD). Concentration limits are determined on the basis of investment risk quality of the Group's lending exposure. current economic trends in particular sectors. the Group's equity and the total exposure to particular sectors. A monthly comparison of the Group's exposure to particular sectors with the current limits allows timely identification of the sectors in which the concentration of sector risk may become excessive. If such a situation arises. an analysis of the economic situation of that sector is performed considering the current and predicted trends and the quality of the current exposure to that sector. These measures enable the Group to develop policies that reduce sector risk and allow for a timely reaction to a changing environment.

The table below presents the structure of the Group's exposure by industrial sectors.

Sector description	31.12.2007	31.12.2006
Financial services	16.9%	9.9%
Construction and real estate management	15.4%	8.8%
Wholesale and retail trade. repair of motor vehicles and motorbikes. articles for personal use and household goods	15.3%	15.9%
Production and supply of utilities (electricity. gas. water)	7.2%	12.6%
Other manufacturing activities and waste management	6.6%	7.8%
Transport. storage and communication	6.1%	6.8%
Rental and other business. IT services. Education	5.7%	3.5%
Production of food. Beverages and tobacco products	5.0%	5.4%
Production of metals and processed metal products	4.2%	3.9%
Public administration and national defence. guaranteed social insurance	3.3%	8.3%
Production of transport equipment	2.5%	2.9%
Production of celluloid pulp. paper and paper products. publishing and printing	2.1%	3.1%
Production of chemicals	2.1%	2.3%
Other sectors	7.6%	8.8%
Total	**100.0%**	**100.0%**

Exposure to credit risk

The table below presents the Group's exposure to credit risk by terms of past due:

	Loans and advances from banks		Loans and advances from customers	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Gross carrying amount exposure individually impaired				
Past due:				
- not past due	848	-	821 544	406 187
- up to 1 month	-	-	105 997	203 774
- between 1 month and 3 months	-	-	63 999	609
- between 3 months and 1year	-	-	218 603	180 648
- between 1 year and 5 years	-	-	1 101 054	793 686
- above 5 years	6 553	52 267	930 272	479 633
Total gross amount	**7 401**	**52 267**	**3 241 469**	**2 064 537**
Allowance for impairment				
- not past due	(841)	-	(335 496)	(198 800)
- up to 1 month	-	-	(40 223)	(96 168)
- between 1 month and 3 months	-	-	(49 387)	(508)
- between 3 months and 1year	-	-	(164 584)	(174 933)
- between 1 year and 5 years	-	-	(897 380)	(699 776)
- above 5 years	6 553	(52 233)	(806 596)	(456 052)
Total allowance	**(7 394)**	**(52 233)**	**(2 293 666)**	**(1 626 237)**
Net carrying amount individually impaired	**7**	**34**	**947 803**	**438 300**
Gross carrying amount exposure collectively impaired				
- not past due	2 024	11 003	146 038	99 943
- up to 1 month	-		33 000	11 063
- between 1 month and 3 months	9 800	-	34 062	22 487
- between 3 months and 1year	-	-	284 642	189 366
- between 1 year and 5 years	-	-	1 019 154	1 146 595
- above 5 years	8 098	9 347	1 002 155	757 123
Total gross amount	**19 922**	**20 350**	**2 519 051**	**2 226 577**
Allowance for impairment				
- not past due	-	(10 914)	(67 829)	(48 022)
- up to 1 month	-	-	(15 512)	(6 737)
- between 1 month and 3 months	(9 800)	-	(15 583)	(13 831)
- between 3 months and 1year	-	-	(180 123)	(128 628)
- between 1 year and 5 years	-	-	(876 401)	(1 014 288)
- above 5 years	(7 716)	(9 238)	(983 751)	(730 896)
Total allowance	**(17 516)**	**(20 152)**	**(2 139 199)**	**(1 942 402)**
Net carrying amount collectively impaired	**2 406**	**198**	**379 852**	**284 175**
Gross carrying amount but not impaired				
- not past due	16 966 446	10 515 705	66 888 922	31 493 564
- up to 30 days	-	759	1 474 384	612 907
- 30 – 60 days	-	24	271 938	138 464
- 60 – 89 days	-	2	157 081	38 873
Total gross amount	**16 966 446**	**10 516 490**	**68 792 325**	**32 283 808**

	Loans and advances from banks		Loans and advances from customers	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
IBNR:				
- not past due	(4 385)	(3 845)	(335 032)	(196 510)
- up to 30 days	-	-	(39 102)	(36 001)
- 30 – 60 days	-	-	(21 523)	(16 550)
- 60 – 89 days	-	-	(26 958)	(12 488)
Total IBNR	**(4 385)**	**(3 845)**	**(422 615)**	**(261 549)**
Net carrying amount exposure with no impairment	**16 962 061**	**10 512 645**	**68 369 710**	**32 022 259**
Total loans and advances	**16 964 474**	**10 512 877**	**69 697 365**	**32 744 734**

Collateral

Pekao Group has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations in the Bank. The Group emphasises the importance of this in relation to the effective implementation of Basel II therein. The most commonly accepted collateral underlying loans and guarantees in Pekao Group is as follows:

Collaterals	**Principles of the assessment of collateral value**
Mortgage: - Commercial - Residential	Collateral value defined as the fair market value as endorsed by a real estate expert. Other. evidenced sources of evaluation are acceptable e.g. binding purchase offer. bidding process documentation etc.
Registered Pledge / Transfer of ownership:	
- Inventories	Value is defined as well evidenced sources e.g. amount derived from pledge agreement. amount disclosed in last financial statement. insurance policy value. commodities' indexes. value disclosed through foreclosure procedure supported with evidence files e.g. bailiffs'/receiver estimations.
- Machines and Appliances	Value is defined as expert assessment or current value based upon other sound sources e.g. binding purchase offer. list of debtor's fixed assets. value evidenced by bailiff or court receiver etc.
- Cars	Value is defined under tables and indexes that are provided by e.g. insurance companies proving the car value referred to its producer. age. initial price etc. or other sound assessment sources e.g. insurance policy value.
- Other	Value is defined individually for each collateral given. Its assessment shall be derived from sound source that follows above listed guidelines.
- Securities and Cash	Value is defined upon individually estimated fair market value. Recovery rate shall be assessed prudently reflecting the securities price volatility.

Collaterals	Principles of the assessment of collateral value
Transfer of Receivables:	
- Clients with investment grade (rating) assigned by ECAI or internal rating system of the Bank	Value is defined upon individually assessed claims' amount.
- Other Clients	Value is defined upon individually assessed claims' amount.
Guarantees / Surities (incl. drafts) / Accession to debt:	
- Banks and Sovereigns	Up to guaranteed amount.
- Providers with investment grade (rating) assigned by ECAI or internal rating system of the Bank	Up to guaranteed amount.
- Others	Individually assessed fair market value.

Maximum credit exposure

The Group's maximum credit exposure with no collateral and other factors limitating the credit risk:

	31.12.2007	31.12.2006
Cash and due from Central Bank	5 121 210	3 577 924
Loans and receivables from banks and from customers	83 619 179	42 293 523
Financial assets held for trading	3 165 113	2 391 371
Derivative financial instruments (held for trading)	1 922 958	526 642
Other financial instruments at fair value through profit or loss	3 777 729	1 613 196
Net investments in financial leases	3 043 768	966 607
Hedging instruments	40 672	-
Investment securities	17 620 419	13 000 067
Total	**118 311 048**	**64 369 330**
Liabilities due for credits	32 358 650	13 531 679
Other contingent liabilities	6 380 879	5 585 372
Total	**38 739 529**	**19 117 051**
Total credit exposure	**157 050 577**	**83 486 381**

Overall characteristics of internal models used within the rating system

The Group uses internally developed rating models for large/middle corporate and dedicated rating model for SME clients. The rating model for large/middle corporate bases on the quantitative (financial statement) and qualitative (environment/relationships managers information) parts. which are combined in statistical model. and predicts the probability of default in one-year horizon. The rating model for SME bases on same principles. extended with information from its behavioural models. The model for SME comprises of three separate models dedicated for:

a) full accountancy SME

b) simplified accountancy SME

c) private entrepreneurs

The final rating is obtained after applying several rules warning signals and classifications from Group internal monitoring tools. The master scale for both models consists from seventeen rating grades. The performance of rating models is monitored continuously and fine tuned if necessary . The back testing of

the models is carried out annually. The rating model classifies customers based on their creditworthiness independently from the nature of the transaction. Hence. the model can be characterized as one-dimensional at a point-in-time. For credit risk purposes. and those especially related to Group commitments arising on implementation of Basel II rules. the Group applies Standard & Poor as the eligible external credit agency. The mapping of internal rating to Standard & Poor master scale is as follows:

S & P Rating	PD Min	PD Max	PD Mid	PEKAO Min	PEKAO Max	PEKAO Rating
AAA	0.0001%	0.002%	0.001%	0.0001%	0.04%	Pk1
AA+	0.002%	0.006%	0.003%	0.0001%	0.04%	Pk1
AA	0.006%	0.013%	0.010%	0.0001%	0.04%	Pk1
AA-	0.013%	0.024%	0.018%	0.0001%	0.04%	Pk1
A+	0.024%	0.045%	0.033%	0.0001%	0.04%	Pk1
A	0.045%	0.076%	0.060%	(0.04%	0.08%]	Pk2
A-	0.076%	0.120%	0.095%	(0.08%	0.12%]	Pk3
BBB+	0.120%	0.190%	0.151%	(0.12%	0.19%]	Pk4
BBB	0.190%	0.308%	0.240%	(0.19%	0.28%]	Pk5+
BBB-	0.308%	0.507%	0.395%	(0.28%	0.63%]	Pk5/Pk5-
BB+	0.507%	0.834%	0.650%	(0.63%	0.94%]	Pk6+
BB	0.834%	1.383%	1.070%	(0.94%	1.25%]	Pk6
BB-	1.383%	2.311%	1.788%	(1.25%	2.00%]	Pk6-
B+	2.311%	3.861%	2.987%	(2.00%	4.25%]	Pk7+/Pk7
B	3.861%	7.560%	4.990%	(4.25%	7.50%]	Pk7-/Pk8+
B-	7.560%	17.353%	11.454%	(7.50%	11.50%]	Pk8
CCC	17.353%	26.290%	26.290%	(11.50%	20.00%]	Pk8-
D	26.290%	100.000%	100.000%	(20.00%	99.00%]	Pk9

Overall characteristics of monitoring process

Loans for large corporates are continually monitored constantly by business units and designated risk units of the Group. The monitoring process for mid-corporates and SME's is based on an internally developed systemic tool. which is a combination of a statistical model and qualitative information from internal and external sources. Business units are extensively involved in this process. The Group applies also a monitoring tool for its retail customers used for monitoring and soft collection purposes.

Overall characteristics of provisioning model

The Group establishes loss allowances in line with International Accountancy Standards. Impairment of loans is recognized under an individual and collective approach with reference to a certain credit threshold of either customer. separately on balance sheet and off balance sheet exposure. The Group establishes allowances for incurred but not reported losses. applying a statistical model of expected loss.

Loan Agreements with renegotiated terms

Under the individual approach (applied under IFRS 39 and IFRS 37). renegotiation of terms of the Credit Agreement caused by other than common commercial purposes is perceived as an impairment trigger at which point such a credit agreement is considered impaired. As of December 2007 the Group identified no such agreements. for which this trigger would necessitate a reclassification.

Credit portfolio neither impaired nor past-due

as at 31 December 2007

Gross carrying amount but not impaired	Corporate/SME		Retail	
- not past due	45 142 489		21 746 433	
- up to 30 days	565 287		909 097	
- 30 – 60 days	143 541		128 397	
- 60 – 89 days	91 346		65 735	
Total gross Mount	**45 942 663**		**22 849 662**	
IBNR:		**coverage ratio**		**coverage ratio**
- not past due	(266 061)	0.59	(68 971)	0.32
- up to 30 days	(6 684)	1.18	(32 418)	3.57
- 30 – 60 days	(5 163)	3.60	(16 360)	12.74
- 60 – 89 days	(6 245)	6.84	(20 713)	31.51
Total IBNR	**(284 153)**	0.62	**(138 462)**	0.61
Net carrying amount exposure with no impairment	**45 658 510**		**22 711 200**	

as at 31 December 2006

Gross carrying amount but not impaired	Corporate/SME		Retail	
- not past due	22 484 940		9 008 624	
- up to 30 days	366 210		246 697	
- 30 – 60 days	85 286		53 178	
- 60 – 89 days	12 295		26 578	
Total gross Mount	**22 948 731**		**9 335 077**	
IBNR:		**coverage ratio**		**coverage ratio**
- not past due	(146 202)	0.65	(50 308)	0.56
- up to 30 days	(19 595)	5.35	(16 406)	6.65
- 30 – 60 days	(3 330)	3.90	(13 220)	24.86
- 60 – 89 days	(1 468)	11.94	(11 020)	41.46
Total IBNR	**(170 595)**	**0.74**	**(90 954)**	**0.97**
Net carrying amount exposure with no impairment	**22 778 136**		**9 244 123**	

Market risk

In its activities the Group is exposed to market risk i.e. interest rate And foreign exchange movements and equity price risks of securities held by the Group. as well as other risks resulting from changes in market conditions.

The main tool applied for market risk measurement is Value at Risk (VaR). As of 31 December 2007 the trading portfolio VaR was PLN 4.30 mln (of which FX risk PLN 0.02 mln and the remainder interest rate risk). This represents the loss the Group could incur assuming 99% confidence level one-year historical series and one-day holding period.

This value reflects a level of losses to which the Group is potentially exposed in normal market conditions. In a financial market crisis the potential loss level may exceed the VaR level.

The table below presents the trading portfolio market risk exposure of the Group measured as Value at Risk in the year 2007 and 2006.

VaR in ths PLN	2007-12-31	Min Y	Avg Y	Max Y
Foreign exchange risk	20	5	153	1 916
Interest rate risk	4 301	1 016	2 408	9 888
Trading portfolio	4 301	1 027	2 424	9 888

VaR in ths PLN	2006-12-31	Min Y	Avg Y	Max Y
Foreign exchange risk	16	6	79	1 863
Interest rate risk	2 602	860	2 171	5 530
Trading portfolio	2 602	861	2 183	5530

Interest rate risk

The table below presents the classification of assets and liabilities according to their exposure to interest rate risk:

1. Assets and financial liabilities exposed to fair value risk related to interest rate

- Debt securities with fixed interest rate.
- Loans with fixed interest rate.
- Client deposits with fixed interest rate.
- Liabilities due to the issue of securities.

2. Assets and liabilities exposed to Cash flow risk related to interest rate

- Debt securities with variable interest rate.
- Loans with variable interest rate.
- Client deposits with variable interest rate.

3. Assets and financial liabilities not directly exposed to the interest rate risk

- Equity securities

The Group is exposed to interest rate risk due to transactions in which notional amounts are recognized off-balance and which fair values are recognized as assets or liabilities off the balance sheet. These transactions include derivative transactions. Forward Rate Agreements (FRA) Interest Rate Swaps (IRS). interest rate options (Cap/Floor) currency swaps and foreign currency forward contracts.

In managing the interest rate risk of the banking book. the Group aims to maximize the economic value of capital employed and achieving the planned interest result. within the accepted limits. The financial position of the Group in relation to changing interest rates is monitored through the interest rate gap (revaluation gap) duration analysis simulation analysis. and stress testing. As at 31 December 2007 interest rate increased by 100 bp. assuming perfect elasticity of the Group's administered rates to the market rates changes. would result in a change of the net interest income by 2.39% and change of the economic value of equity by 6.25% (As at 31 December 2006 adequately 2.85% and 6.32%).

(in PLN thousand)

The table below presents the assets. liabilities and off-balance sheet exposures of the Group classified as at 31 December 2007 by interest rate risk criterion:

	up to1 month inclusive		from 1 month to 3 months inclusive		from 3 months to 1 year inclusive		from 1 year to 5 years inclusive		above 5 years		Non interest bearings assets/liabilities	Total	
Balance sheet items	Book value	%	Book value	%	Book value	%	Book value	%	Book value	%	Book value	Book value	%
Assets:	**63 872 210**	**6,74**	**21 848 536**	**6,26**	**8 723 445**	**7,68**	**13 161 558**	**7,35**	**3 872 969**	**5,45**	**12 617 434**	**124 096 151**	**6,06**
Cash due from Central Bank	771 602	4,73	1 688 709	4,28	-	0,00	-	0,00	-	0,00	2 660 899	5 121 210	2,12
Debt securities eligible for rediscounting in the Central Bank	347	5,25	761	5,25	-	0,00	-	0,00	-	0,00	-	1 108	5,25
Amounts due from banks	12 601 436	5,27	1 339 308	5,15	830 174	4,84	-	0,00	-	0,00	2 189 116	16 960 034	4,56
Financial assets held for trading	755 141	5,71	754 362	5,54	297 695	6,19	978 611	5,80	361 874	5,41	17 431	3 165 113	5,67
Other financial instruments at fair value through profit or loss	-	0,00	2 571 746	5,23	13 809	7,70	652 877	6,99	539 297	4,45	-	3 777 729	5,43
Loans and advances from customers	46 401 259	7,24	13 969 028	6,89	4 307 320	9,36	1 781 130	14,06	199 299	6,71	-	66 658 037	7,48
Net investments in financial leases	1 255 346	8,52	133 457	9,22	600 073	8,39	1 051 504	8,04	3 388	8,15	-	3 043 768	8,36
Securities available for sale	1 677 607	4,65	1 391 165	5,39	2 659 198	5,86	8 535 193	6,12	2 769 111	5,55	1 255	17 033 529	5,78
Securities held to maturity	409 472	4,91	-	0,00	15 177	4,35	162 241	4,91	-	0,00	-	586 890	4,90
Other	-	0,00	-	0,00	-	0,00	-	0,00	-	0,00	7 748 733	7 748 733	0,00
Liabilities:	**85 063 710**	**2,28**	**7 651 571**	**4,24**	**7 065 869**	**4,37**	**2 606 408**	**9,40**	**314 853**	**5,70**	**21 393 739**	**124 096 151**	**2,29**
Amounts due to banks	4 788 531	5,14	1 288 435	5,68	1 930 201	4,06	1 878 947	11,98	55 998	5,75	-	9 942 112	6,30
Amounts due to customers	79 871 496	2,10	5 937 028	3,80	3 627 791	3,45	477 483	2,23	30 280	5,07	-	89 944 078	2,27
Liabilities arising from debt securities issued	361 000	5,97	382 620	5,90	1 460 915	7,02	116 182	0,88	0	0,00	1 396 060	3 716 778	3,97
Other	42 683	2,64	43 488	6,14	46 962	5,17	133 796	6,10	228 575	5,77	19 997 679	20 493 183	0,13
Gap	**-21 191 500**		**14 196 963**		**1 657 576**		**10 555 150**		**3 558 116**		**(8 776 305)**	**-**	
Off-balance sheet exposures													
Assets	57 148 565		42 565 524		80 496 962		43 374 249		8 505 427		-	232 090 728	
Liabilities	58 776 664		44 584 223		80 427 976		40 463 109		7 518 194		-	231 770 166	
Gap	**(1 628 098)**		**(2 018 699)**		**68 986**		**2 911 140**		**987 232**		**-**	**320 562**	
Total Gap	**(22 819 598)**		**12 178 265**		**1 726 562**		**13 466 289**		**4 545 348**		**(8 776 305)**	**320 562**	

(in PLN thousand)

The table below presents the assets. liabilities and off-balance sheet exposures of the Group classified as at 31 December 2006 by interest rate risk criterion:

	up to1 month inclusive		from 1 month to 3 months inclusive		from 3 months to 1 year inclusive		from 1 year to 5 years inclusive		above 5 years		Non interest bearings assets/liabilities	Total	
Balance sheet items	Book value	%	Book value	%	Book value	%	Book value	%	Book value	%	Book value	Book value	%
Assets:	**32 545 332**	**5.72**	**8 923 692**	**5.52**	**6 970 582**	**6.08**	**9 080 869**	**6.40**	**4 485 892**	**5.99**	**5 697 321**	**67 703 688**	**5.36**
Cash due from Central Bank	1 085 017	1.53	1 313 002	4.29	-	-	-	-	-	-	1 179 905	3 577 924	2.04
Debt securities eligible for rediscounting in the Central Bank	903	-	1 616	-	-	-	-	-	-	-	-	2 519	-
Amounts due from banks	7 935 073	4.29	1 052 109	4.24	1 525 695	4.71	-	-	-	-	-	10 512 877	4.35
Financial assets held for trading	108 185	2.61	108 667	3.99	1 312 573	4.27	234 366	4.68	627 580	5.29	-	2 391 371	4.49
Other financial instruments at fair value through profit or loss	-	-	-	-	-	-	648 274	4.64	964 922	5.18	-	1 613 196	4.96
Loans and advances from customers	21 997 271	6.49	5 899 645	6.14	1 745 375	9.70	1 205 047	17.38	304 076	17.51	626 713	31 778 127	6.99
Net investments in financial leases	780 134	8.88	28 243	9.53	52 231	10.99	66 499	10.91	9 797	10.45	29 703	966 607	8.89
Securities available for sale	405 148	1.05	520 410	4.35	2 319 460	5.16	6 750 122	4.66	2 579 517	5.09	-	12 574 657	4.71
Securities held to maturity	233 601	0.71	-	-	15 248	5.61	176 561	4.85	-	-	-	425 410	2.60
Other	-	-	-	-	-	-	-	-	-	-	3 861 000	3 861 000	-
Liabilities:	**43 501 580**	**1.58**	**6 624 281**	**3.37**	**3 769 126**	**3.46**	**1 797 721**	**11.54**	**367 192**	**13.38**	**11 643 788**	**67 703 688**	**1.92**
Amounts due to banks	1 461 618	4.27	743 085	4.59	278 772	11.19	1 257 423	15.56	314 356	15.56	-	4 055 254	9.18
Amounts due to customers	42 039 962	1.49	5 881 196	3.22	3 490 351	2.84	329 238	0.70	52 836	0.41	-	51 793 583	1.77
Liabilities arising from debt securities issued	-	-	-	-	3	-	-	-	-	-	-	3	-
Other	-	-	-	-	-	-	211 060	4.48	-	-	11 643 788	11 854 848	0.08
Gap	**(10 956 248)**		**2 299 411**		**3 201 456**		**7 283 148**		**4 118 700**		**(5 946 467)**	**-**	
Off-balance sheet exposures													
Assets	14 646 331		8 958 713		23 285 566		8 896 365		2 378 679		-	58 165 654	
Liabilities	13 753 254		9 492 371		21 362 387		9 908 065		3 598 462		-	58 114 539	
Gap	**893 077**		**(533 658)**		**1 923 179**		**(1 011 700)**		**(1 219 783)**		**-**	**51 115**	
Total Gap	**(10 063 171)**		**1 765 753**		**5 124 635**		**6 271 448**		**2 898 917**		**(5 946 467)**	**51 115**	

Currency risk

The objective of currency risk management is to create a currency profile of the balance sheet and off-balance items which will remain within external and internal limits. During 2007 the Bank maintained a relatively small open FX position. therefore its exposure to FX risk was minor.

The Group's exposure to currency risk is measured for internal purposes on a daily basis by means of the Value at Risk (VaR) model. as well as the extreme conditions testing analysis that is supplementary to the VaR method.

The table below presents foreign currency exposure by the separate asset. liabilities and off balance-sheet by foreign currency transactions.

					as at 31 December 2007	
	PLN	EUR	USD	CHF	Other	**Total**
Assets:						
Cash. due from Central Bank	4 429 788	373 976	115 576	7 827	194 043	**5 121 210**
Debt securities eligible for rediscounting in The Central Bank	1 108	-	-	-	-	**1 108**
Loans and advances from banks	11 271 697	3 490 828	1 941 091	15 907	240 511	**16 960 034**
Financial assets held for trading	2 883 239	41 639	106 671		133 564	**3 165 113**
Derivative financial instruments	1 726 865	80 506	108 410	550	6 627	**1 922 958**
Other financial instruments at fair value through profit or loss	2 394 567	392 457	990 705	-	-	**3 777 729**
Loans and advances from customers	48 914 541	8 429 442	2 418 835	6 275 799	619 420	**66 658 037**
Net investments in financial lease	2 500 763	358 209	3 896	161 393	19 507	**3 043 768**
Securities available for sale	14 613 002	805 427	1 200 615	-	414 485	**17 033 529**
Securities held to maturity	413 102	156 511	17 277	-	-	**586 890**
Investments in associates	388 169	-	-	-	-	**388 169**
Other	3 946 850	404 661	553 938	110 351	421 806	**5 437 606**
Total	**93 483 691**	**14 533 656**	**7 457 014**	**6 571 827**	**2 049 963**	**124 096 151**
Liabilities:						
Amount due to Central Bank	1 485 921					**1 485 921**
Amounts due to banks	4 329 822	2 438 725	1 438 175	72 554	176 915	**8 456 191**
Amounts due to customers	72 512 908	9 989 785	6 177 908	143 979	1 119 498	**89 944 078**
Derivative financial instruments	1 443 043	87 430	124 326	396	6 087	**1 661 282**
Liabilities arising from debt securities issued	2 982 983	98 667	332 562	-	302 566	**3 716 778**
Provisions	366 015	9 608	4 169	8	28	**379 828**
Other	17 365 640	545 887	98 476	26 668	415 402	**18 452 073**
Total	**100 486 332**	**13 170 102**	**8 175 616**	**243 605**	**2 020 496**	**124 096 151**
Net exposure	**(7 002 641)**	**1 363 554**	**(718 602)**	**6 328 222**	**29 467**	**-**
Off-balance sheet assets	22 636 495	11 488 888	8 966 203	913 064	669 839	**44 674 489**
Off-balance sheet liabilities	15 592 986	12 581 777	7 952 637	7 283 224	646 314	**44 056 938**

(in PLN thousand)

					as at 31 December 2006
	PLN	EUR	USD	Other	**Total**
Assets:					
Cash. due from Central Bank	3 256 189	120 014	94 926	106 795	**3 577 924**
Debt securities eligible for rediscounting in The Central Bank	2 519	-	-	-	**2 519**
Loans and advances from banks	3 892 635	3 558 625	2 878 704	182 913	**10 512 877**
Financial assets held for trading	2 246 488	20 753	124 130	-	**2 391 371**
Derivative financial instruments	489 193	18 488	18 257	704	**526 642**
Other financial instruments at fair value through profit or loss	-	437 023	1 176 173	-	**1 613 196**
Loans and advances from customers	25 936 444	4 530 955	909 667	401 061	**31 778 127**
Net investments in financial lease	766 973	130 147	3 090	66 397	**966 607**
Securities available for sale	9 816 174	336 288	2 088 592	333 603	**12 574 657**
Securities held to maturity	237 570	167 151	20 689	-	**425 410**
Investments in associates	207 204	50	-	-	**207 254**
Other	2 836 031	210 067	25 966	55 040	**3 127 104**
Total	**49 687 420**	**9 529 561**	**7 340 194**	**1 146 513**	**67 703 688**
Liabilities					
Amounts due to the Central Bank	2 045 278	-	-	-	**2 045 278**
Amounts due to banks	589 721	985 492	400 758	34 005	**2 009 976**
Amounts due to customers	38 687 063	5 403 553	6 798 073	904 894	**51 793 583**
Derivative financial instruments	458 298	14 834	31 068	-	**504 200**
Liabilities arising from debt securities issued	3	-	-	-	**3**
Provisions	215 978	5 288	2 533	144	**223 943**
Other	10 857 196	215 073	41 901	12 535	**11 126 705**
Total	**52 853 537**	**6 624 240**	**7 274 333**	**951 578**	**67 703 688**
Net exposure	**(3 166 117)**	**2 905 321**	**65 861**	**194 935**	**-**
Off-balance sheet assets	5 727 709	2 193 533	2 717 330	721 661	**11 360 233**
Off-balance sheet liabilities	2 706 339	5 084 793	2 773 743	744 150	**11 309 025**

Liquidity risk

The objective of managing liquidity risk is:

- to ensure and maintain the Group's solvency with respect to current and future planned payables. taking into account the cost of acquiring liquidity and return on the Group's equity.
- to avoid any crisis situations.
- to outline solutions that would allow the Group to overcome such a situation in case of a crisis.

The Group invests primarily in treasury securities of the Polish government. financial instruments of countries and financial institutions with the highest ratings. and those with high levels of liquidity. Due to their liquidity characteristics. regularly monitored these financial instruments would assist the Group to overcome crisis situations.

In accordance with to the Banking Supervisory Board recommendations. the Group introduced internal liquidity indices that reflect the ratios of total adjusted maturing assets to total adjusted maturing liabilities.

In addition. the Group employs procedures to protect against a liquidity risk increase and against any substantial deterioration of the Group's financial liquidity.

The emergency plan in case of deterioration of financial liquidity of the Group takes into consideration four levels of liquidity risk. depending on the amount and duration of cash outflow from the non-banking client accounts. The plan also determines the sources from which the expected cash outflows will be covered and states to what extent the Group's Management is responsible for making necessary decisions in order to restore the required liquidity level. Both the emergency plan and the possibility of obtaining cash from sources specified in this plan are subject to periodic verification.

The liquidity gaps presented below include. among others. adjustments of core deposits and their maturities. which is the main element distinguishing the adjusted from the unadjusted gap. Changes in 2007 in the liquidity gap in comparison with previous years result from changes in the methodology of assessing core deposits and deposit base maturities. These changes arose unification of the risk assessment methodology in UniCredit Group.

Both gap versions take into account off-balance cash flows. including those of credit lines. Off-balance cash flows are generated by derivatives. granted credit lines. guarantees. etc. Granted credit lines are treated as potential cash outflows. However. potential cash inflows resulting from maturing loans utilised as part of credit lines are not included. which implies a negative liquidity gap character and it is a conservative approach to liquidity risk assessment in the Group.

Moreover. these gaps are static. i.e. they do not show an impact of changes in balance (e.g. new deposits). off-balance volumes or non-capital cash flows on the Bank's liquidity profile.

(in PLN thousand)

The table presents assets and liabilities of the Group as at 31December 2007 by observed maturity:

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**33 135 287**	**10 158 844**	**21 141 265**	**35 894 079**	**23 766 676**	**124 096 151**
Cash , due from Central Bank	3 434 039	-	-	1 687 171	-	5 121 210
Debt securities eligible for rediscounting in the Central Bank	347	761	-	-	-	1 108
Amounts due from banks	14 314 138	1 338 048	1 010 306	256 312	41 230	16 960 034
Financial assets held for trading	3 165 113	-	-	-	-	3 165 113
Other financial instruments valued at fair value through profit or loss	-	-	12 526	3 272 742	492 461	3 777 729
Loans and advances from customers	11 306 421	7 501 704	13 967 276	17 174 645	16 707 991	66 658 037
Net investments in financial leases	97 351	171 392	747 938	2 027 087	-	3 043 768
Securities held for sale	8 450	316 845	1 667 797	11 283 613	3 756 824	17 033 529
Securities held to maturity	394 381	-	-	192 509	-	586 890
Other	415 047	830 094	3 735 422	-	2 768 170	7 748 733
Liabilities	**21 892 452**	**4 688 392**	**14 298 586**	**8 259 848**	**74 956 873**	**124 096 151**
Amounts due to banks	6 227 786	738 025	2 659 701	92 398	224 202	9 942 112
Amounts due to customers	14 910 038	2 827 514	4 441 340	5 768 513	61 996 673	89 944 078
Liabilities arising from debt securities issued	275 804	165 205	876 832	2 398 937	-	3 716 778
Other	478 824	957 648	6 320 713	-	12 735 998	20 493 183
Gap	**11 242 835**	**5 470 452**	**6 842 679**	**27 634 231**	**(51 190 197)**	**-**
Off-balance sheet items						
Assets	28 706 150	10 335 427	7 431 133	825 551	389 390	47 687 651
Liabilities	26 349 583	9 690 961	9 273 788	8 396 159	18 859 440	72 569 931
Gap	**2 356 567**	**644 466**	**(1 842 655)**	**(7 570 608)**	**(18 470 050)**	**(24 882 280)**
Gap total	**13 599 402**	**6 114 918**	**5 000 024**	**20 063 623**	**(69 660 247)**	**(24 882 280)**

(in PLN thousand)

The table presents assets and liabilities of the Group as at 31 December 2006 by maturity:

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**17 806 046**	**4 813 540**	**10 001 808**	**18 463 994**	**16 618 300**	**67 703 688**
Cash , due from Central Bank	2 264 825	-	-	-	1 313 099	3 577 924
Debt securities eligible for rediscounting in the Central Bank	903	1 616	-	-	-	2 519
Amounts due from banks	7 941 920	853 725	1 058 068	625 406	33 758	10 512 877
Financial assets held for trading	2 391 371	-	-	-	-	2 391 371
Other financial instruments valued at fair value through profit or loss	-	-	-	650 323	962 873	1 613 196
Loans and advances from customers	4 480 539	3 609 316	6 818 084	7 270 564	9 599 624	31 778 127
Net investments in financial leases	20 929	54 532	246 779	621 603	22 764	966 607
Securities held for sale	340 215	2 020	563 387	9 089 866	2 579 169	12 574 657
Securities held to maturity	219 178	-	-	206 232	-	425 410
Other	146 166	292 331	1 315 490	-	2 107 013	3 861 000
Liabilities						
	11 489 593	**4 030 586**	**8 131 119**	**5 291 837**	**38 760 554**	**67 703 688**
Amounts due to banks	2 265 250	1 058 448	336 561	394 995	-	4 055 254
Amounts due to customers	8 977 491	2 478 434	3 891 954	4 896 839	31 548 865	51 793 583
Liabilities arising from debt securities issued	-	-	-	3	-	3
Other	246 852	493 704	3 902 604	-	7 211 689	11 854 848
Gap	**6 316 453**	**782 954**	**1 870 689**	**13 172 157**	**(22 142 254)**	**-**
Off-balance sheet items						
Assets	16 115 310	1 734 190	3 214 045	743 228	4 636	21 811 409
Liabilities	14 721 706	1 361 316	3 619 500	4 947 908	7 959 699	32 610 129
Gap	**1 393 604**	**372 874**	**(405 455)**	**(4 204 680)**	**(7 955 063)**	**(10 798 720)**
Gap total	**7 710 057**	**1 155 828**	**1 465 234**	**8 967 477**	**(30 097 317)**	**(10 798 720)**

(in PLN thousand)

The table presents assets and liabilities of the Group as at 31 December 2007 by contractual maturity:

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**36 818 105**	**8 215 100**	**17 198 537**	**37 310 991**	**24 553 418**	**124 096 151**
Cash , due from Central Bank	3 434 039	-	-	1 687 171	-	5 121 210
Debt securities eligible for rediscounting in the Central Bank	347	761	-	-	-	1 108
Amounts due from banks	14 314 138	1 338 048	1 242 814	23 804	41 230	16 960 034
Financial assets held for trading	602 452	394 846	321 578	1 324 213	522 024	3 165 113
Other financial instruments valued at fair value through profit or loss	-	-	12 526	3 272 742	492 461	3 777 729
Loans and advances from customers	17 551 900	5 163 114	9 470 462	17 499 852	16 972 709	66 658 037
Net investments in financial leases	97 351	171 392	747 938	2 027 087	-	3 043 768
Securities held for sale	8 450	316 845	1 667 797	11 283 613	3 756 824	17 033 529
Securities held to maturity	394 381	-	-	192 509	-	586 890
Other	415 047	830 094	3 735 422	-	2 768 170	7 748 733
Liabilities	**83 103 844**	**8 505 783**	**12 393 785**	**4 706 864**	**15 385 875**	**124 096 151**
Amounts due to banks	6 227 786	738 025	2 659 701	92 398	224 202	9 942 112
Amounts due to customers	76 121 430	6 644 905	4 547 836	2 215 529	414 378	89 944 078
Liabilities arising from debt securities issued	275 804	165 205	876 832	2 398 937	-	3 716 778
Other	478 824	957 648	4 309 416	-	14 747 295	20 493 183
Gap	**(46 285 739)**	**(290 683)**	**4 804 752**	**32 604 127**	**9 167 543**	**-**
Off-balance sheet items						
Assets	28 607 490	9 535 027	6 037 541	809 727	389 389	45 379 174
Liabilities	26 831 199	10 032 788	12 019 718	15 580 786	7 515 784	71 980 275
Gap	**1 776 291**	**(497 761)**	**(5 982 177)**	**(14 771 059)**	**(7 126 395)**	**(26 601 101)**
Gap total	**(44 509 448)**	**(788 444)**	**(1 177 425)**	**17 833 068**	**2 041 148**	**(26 601 101)**

(in PLN thousand)

The table presents assets and liabilities of the Group as at 31 December 2006 by contractual maturity:

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**18 241 540**	**3 769 084**	**9 221 354**	**18 894 029**	**17 577 681**	**67 703 688**
Cash , due from Central Bank	2 264 825	-	-	-	1 313 099	3 577 924
Debt securities eligible for rediscounting in the Central Bank	903	1 616	-	-	-	2 519
Amounts due from banks	8 146 350	853 725	1 262 320	216 723	33 758	10 512 876
Financial assets held for trading	92 827	94 400	1 162 295	493 789	548 060	2 391 371
Other financial instruments valued at fair value through profit or loss	-	-	-	650 323	962 873	1 613 196
Loans and advances from customers	7 010 147	2 470 460	4 671 083	7 615 493	10 010 944	31 778 127
Net investments in financial leases	20 929	54 532	246 779	621 603	22 764	966 607
Securities held for sale	340 215	2 020	563 387	9 089 866	2 579 169	12 574 657
Securities held to maturity	219 178	-	-	206 232	-	425 410
Other	146 166	292 331	1 315 490	-	2 107 014	3 861 001
Liabilities	**41 013 471**	**8 022 243**	**7 061 774**	**2 370 906**	**9 235 294**	**67 703 688**
Amounts due to banks	2 265 250	1 058 448	336 561	394 995	-	4 055 254
Amounts due to customers	38 501 369	6 470 091	4 503 547	1 975 908	342 668	51 793 583
Liabilities arising from debt securities issued	-	-	-	3	-	3
Other	246 852	493 704	2 221 666	-	8 892 626	11 854 848
Gap	**(22 771 931)**	**(4 253 159)**	**2 159 580**	**16 523 123**	**8 342 387**	**-**
Off-balance sheet items						
Assets	17 338 428	1 686 825	2 561 328	743 228	4 636	22 334 445
Liabilities	12 086 058	1 811 475	3 730 364	8 705 650	4 003 582	30 337 129
Gap	**5 252 370**	**(124 650)**	**(1 169 036)**	**(7 962 422)**	**(3 998 946)**	**(8 002 684)**
Gap total	**(17 519 561)**	**(4 377 809)**	**990 544**	**8 560 701**	**4 343 441**	**(8 002 684)**

Capital management

Banks are required to possess equity adequate to the scale of their business activities and adequate to the level of risk taken in the course of their business. The appropriate capital structure should take into consideration the regulatory standards of supervisory authorities. and the economic safety of the bank must be assured. taking into account the true exposure to the risk. The structure of the Bank equity and manner of creating. maintaining and using of its respective components is described in the Statutes of the Bank.

In Bank Pekao there is a formalized process of the capital management and monitoring. which was created within the ICAAP procedures. Finance Division under Chief Financial Officer is responsible for designing and implementing capital management process in the Bank. Management Board supported by Asset & Liability and Risk Committee is ultimately responsible for capital management and approves capital management process.

Capital management strategy defines objectives and general rules of the Bank in relation to capital adequacy management and monitoring such as guidelines on risk coverage sources. preferred structure of risk coverage capital. long-term capital targets. capital limit system. sources of additional capital in contingency situations and governance of capital management.

Capital management process is established to meet – among others – the following objectives:

•To provide enough capital and similar resources to cover risk taken in order to protect depositors.

•To maintain risk capital above minimum levels in order to provide further business expansion. offset changes to capital requirements and secure interests of shareholders.

•To maintain the preferred capital structure in order to keep desirable quality of risk coverage capital.

•Using of the capital absorption for risk-return analysis. risk-adjusted performance measurement. optimization of capital usage by different business activities and in result shareholders' value creation.

A basic measure of capital adequacy is the capital adequacy ratio (CAR). Capital requirements for individual risk types are calculated according to rules defined in Resolution 1/2007 of the Commission for Banking Supervision of 13 March 2007 and cover credit risk. market risk and the delivery and contractor settlement risk.

The minimum capital adequacy ratio required by law equals to 8%. both for the Bank and the Group. Capital management policy at the Bank assumes maintaining of capital adequacy ratio at the level higher than 8 % (in December 2007 CAR amounted to 12.12 % which is by 4.12 p.p. higher than minimum value). Group's capital adequacy is controlled by the Management Board and the Asset-Liability Committee.

Periodic reports on the scale and directions of changes of the capital adequacy ratio together with indication of potential threats are prepared for the Management Board and for the Asset-Liability Committee. The level of basic types of risks is monitored according to the external limits of the banking supervision and the internal limits of the Group. Analyses and evaluation of directions of business development activities are performed from the point of view of accordance with capital requirements.

The capital adequacy is analyzed in the profile of :

- domestic units of the Bank
- domestic and foreign units of the Bank
- consolidated.

Forecasting and monitoring of capital adequacy ratio is the integral part of the planning and budgeting process.

The table below presents the basic data concerning Group capital adequacy as of 31 December 2007 and 31 December 2006.

Capital requirement	**31.12.2007**	**31.12.2006**
Credit risk	6 737 089	2 963 426
Exceeding large exposure limit	-	-
Market risk	465 777	81 558
Delivery and contractor settlement risk	66 931	16 250
Exceeding exposure concentration limit	-	-
Other	-	-
Total capital requirement	**7 269 797**	**3 061 234**

Capital (*)	**31.12.2007**	**31.12.2006**
Tier 1 capital	11 015 037	6 319 104
Tier II capital	-	-
including deductions from Tier 1 and Tier 2 capital:		
- *due from capital engagement*	300 464	177 133
- *due from intangible assets*	688 559	608 884
Capital	**11 015 037**	**6 319 104**
Capital adequacy ratio (%) (**)	**12,12%**	**16.51%**

* To assure the comparability. December 2006 capital is presented in accordance with Resolution 2/2007 of the Commission for Banking Supervision.

** In accordance to the transitory rules as set forth by the Resolution KNB 1/2007. the capital adequacy ratio was calculated following the rules of Basel I.

The capital adequacy ratio as of the end of December 2007 is lower than in December 2006. Decrease of CAR is the consequence of the loan volumes growth in the old Pekao Group and the assets volume growth due to the integration of Bank Pekao S.A. and Bank BPH S.A.. Additionally. the increase of the capital requirement was influenced by the higher share of assets weighted at 100% among other due to the FX currency mortgages transferred from Bank BPH S.A.

The total capital requirement for the new Pekao Group in December 2007 amounted to PLN 7 269 797 ths. from which the capital requirement for credit risk constitutes 93%. for market risk 6% and for delivery and contractor settlement risk 1%.

Fair value of balance sheet financial instruments

For certain financial instruments. for which the market value is available. the fair value is established following the market value.

Market values quoted on active markets are available for all the instruments classified by the Group as instruments at fair value through profit and loss.

For certain of financial instruments. the market values are not available; therefore the presented fair values have been estimated on the basis of various valuation methods. including estimation of the present value of future cash flows.

There are certain financial instruments. which are not recognized at fair value in the financial statements of the Group. Fair value represents the amount for which an asset could be exchanged or a liability settled between knowledgeable. willing parties in an arm's length transaction.

In the case of certain groups of financial assets. held on the basis of the amount of the payment due including impairment. it has been assumed that fair value is equal to book value. This applies in particular to cash and cash equivalents. current receivables and liabilities as well as other assets and liabilities.

As no quoted market price is readily available for the customer loans. the presented fair value of loans has been estimated using valuation techniques assuming that at moment of initial recognition loan fair value is equal to book value. Fair value of non impaired loans is equal to the sum of future expected cash flows discounted to the balance sheet date. The discount rate is the sum of the appropriate market risk free rate. credit spread and sales margin (including fees income) adequate for loan product group. Fair value of impaired loans is equal to the sum of expected recoveries discounted to the balance sheet date using the market risk free rate as the credit risk is incorporated into the average expected recoveries.

Fair value of central investment loan is presented on a net basis with the fair value financing and refinancing with the loan from NBP. On a gross basis the fair value adjustment amounts to PLN 385 million for the loan and PLN 365 million for the refinancing., (at 31 December 2007 the fair value adjustment amounts to PLN 593 million for the loan and PLN 569 million for the refinancing).

For investment in equity investments that do not have a quoted market price in an active market. the fair value cannot be measured reliably. For those investments the carrying book value has been presented as the fair value in the table below. These investments consist of shares in financial sector companies. companies taken over by the Bank through bad debt restructuring/conversion and miscellaneous other.

Equity shares in financial sector companies are associated with the performance of various banking and financial services and credit card payment settlements. these include BIK S.A.. MTS-CeTO S.A.. GPW S.A.. Mastercard. These equity investments are long-term investments. and at present the Bank is not planning to divest thereof.

Companies taken over by the Bank through bad debt restructuring projects or unsaleable packages. Some of these companies are pending bankruptcy/winding-up. Due to the above there is no liquid market for such companies and as such the Bank does not currently have a plan in place to divest thereof

As at 31.12.2007	Book value	Fair value	Increase/decrease of fair value over the book value
Assets			
Cash. due from Central Bank	5 121 210	5 121 210	-
Loans and advances from banks	16 960 034	16 962 904	2 870
Financial assets held for trading	3 165 113	3 165 113	-
Derivative financial instruments	1 922 958	1 922 958	-
Other financial instruments at fair value through profit or loss	3 777 729	3 777 729	-
Loans and advances from customers	66 659 145	66 675 431	16 286
Net investments in financial leases	3 043 768	3 043 768	-
Hedging instruments	40 672	40 672	-
Securities available for sale	17 033 529	17 033 529	-
Securities held to maturity	586 890	592 117	5 227
Investments in associates	388 169	388 169	-
Total	**118 699 217**	**118 723 600**	**24 383**

(in PLN thousand)

As at 31.12.2006	Book value	Fair value	Increase/decrease of fair value over the book value
Assets			
Cash. due from Central Bank	3 577 924	3 577 924	-
Loans and advances from banks	10 512 877	10 520 886	8 009
Financial assets held for trading	2 391 371	2 391 371	-
Derivative financial instruments	526 642	526 642	-
Other financial instruments at fair value through profit or loss	1 613 196	1 613 196	-
Loans and advances from customers	31 780 646	31 897 866	117 220
Net investments in financial leases	966 607	966 607	-
Hedging instruments	-	-	-
Securities available for sale	12 574 657	12 574 657	-
Securities held to maturity	425 410	428 235	2 825
Investments in associates	207 254	207 254	-
Total	**64 576 584**	**64 704 638**	**128 054**

As no quoted market price is readily available for customer deposits. the presented fair value of deposits has been estimated using valuation techniques assuming that at moment of initial recognition fair value is equal to book value. The fair value of term deposits is equal to the sum of future expected cash flows discounted to the balance sheet date. The discounting rate is the sum of appropriate market risk free rate and sales margin. In case that the term deposit can be withdrawn before maturity and the fair value is below the notional value it is assumed that the fair value is equal to the notional value. For the current deposits it is assumed that the fair value is equal to the notional value.
In the amount of customers' deposits the adjustment for the fair value as at 31 December 2007 amounted for PLN 66 397 thousand (as at 31 December 2006 amounted for PLN 42 501 thousand) and PLN (2 496) thousand (as at 31 December 2006 amounted for PLN (778) thousand) for the banks' deposits. Core deposits were not considered in the fair value of of deposits.
For the other financial liabilities Bank treat the carrying amount that is similar to fair value

9. Custodial activities

The Bank offers custodial services on the basis of the decision of the Polish Financial Supervision Authority. The Bank's clients include domestic and foreign financial institutions. banks offering depository and investment services. insurance companies. investment and pension funds. as well as non-financial institutions. The Bank offers services involving settlement of transactions on domestic and foreign markets. client's custody assets. maintaining securities and cash accounts. assets valuation and servicing dividend and interest payments.

Following incorporation of part of Bank BPH including custody activities. Bank Pekao SA substantially increased its custodial services market share in 2007. As a result of the merger the Bank became one of the largest custody service providers within UniCredit Group members in CEE. The range of custodial services has been expanded by Warsaw Stock Exchange remote members clearing and derivatives clearing.

As of 31 December 2007 the Bank maintained 5179 securities accounts (944 securities accounts as of 31 December 2006).

The value of domestic assets was higher by 117% in comparison to the end of 2006. The Bank concluded custody contracts with 7 newly created investment funds/sub-funds in 2007.

The Bank continues agreements with foreign financial institutions for the provision of custodial services by the Bank within the territory of Poland and lending of securities in order to ensure the liquidity of settlements. The Bank maintained a leading position in the area of servicing depositary notes programs. servicing more than 50% of these programs.

10. Segment reporting

Segmentation by industry is the primary segmentation basis in the Group while segmentation of assets by location is supplementary.
The Group settles transactions between segments as if they were unrelated entities – using current market prices. Funds transfers between Bank's business divisions, providing services to retail and corporate customers, and the treasury unit are based on market prices with reference to the funds currency and maturity.

Industrial sectors

Segment reporting of the Group covers the following areas:

- Retail banking area – the full-range of banking activity related to retail clients and small and micro companies with annual turnover not exceeding PLN 10 million, and also the income of Group companies consolidated under the full method and assigned to retail activity,
- Corporate banking area – full-range of banking activity related to medium and large companies, and also the income of Group companies consolidated under the full method, assigned to corporate activity,
- Treasury and Investment activities area – Bank's involvement on inter-bank market, in debt securities and capital investments in companies, which are not a part of other segments, and also income of Group companies consolidated under the full method, assigned to this activity.

Information on main segments' results presented below include data covering continuing and discontinued operations. The result and the balance sheet data information covering discontinued operations are ascribed to corporate banking activity.

Information on main segments' results for 2007*:

(PLN thousand)

	Retail activity	Corporate activity		Treasury and Investment activity	Total Group (Continuing operations)	Total Group (Continuing and discontinued operations)
		Continuing operations	Discontinued operations			
External interest income	1 384 221	1 744 763	-	1542 655	4 671 639	4 671 639
External interest expense	410 729	1158 076	2 916	384 732	1 953 537	1 956 453
Net external interest income	**973 492**	**586 687**	**(2 916)**	**1 157 923**	**2 718 102**	**2 715 186**
Internal interest income	1 402 121	1 322 424	-	(2 724 545)	-	-
Internal interest expense	670 393	1 204 026	-	(1 874 419)	-	-
Net internal interest income	**731 728**	**118 398**	**-**	**(850 126)**	**-**	**-**
Net interest income	**1 705 220**	**705 085**	**(2 916)**	**307 797**	**2 718 102**	**2 715 186**
Non interest income	**2 032 366**	**517 142**	**43 246**	**90 301**	**2 639 809**	**2 683 055**
Total income	**3 737 586**	**1 222 227**	**40 330**	**398 098**	**5 357 911**	**5 398 241**
Allocated assets	32 867 988	39 676 183	57 932	42 931 628	115 475 799	115 533 731
Unallocated assets					8 562 420	8 562 420

(in PLN thousand)

Total assets					124 038 219	124 096 151
Allocated liabilities	51 237 668	41 696 245	55 291	10 486 099	103 420 012	103 475 303
Unallocated liabilities					20 620 848	20 620 848
Total liabilities					124 040 860	124 096 151

* Including results of the part of Bank BPH S.A. transferred in a form of an organized part of enterprise to Bank Pekao S.A.

Information on main segments' results for the 2006.*

(PLN thousand)

	Retail activity	Corporate activity		Treasury and Investment activity	Total Group (Continuing operations)	Total Group (Continuing and discontinued operations)
		Continuing operations	Discontinued operations			
External interest income	1 027 481	1 372 519	-	1 446 525	3 846 525	3 846 525
External interest expense	342 606	865 195	2 280	259 406	1 467 207	1 469 487
Net external interest income	684 875	507 324	(2 280)	1 187 119	2 379 318	2 377 038
Internal interest income	1 228 110	956 111	-	(2 184 221)	-	-
Internal interest expense	445 097	958 209	-	(1 403 306)	-	-
Net internal interest income	783 013	(2 098)	-	(780 915)	-	-
Net interest income	1 467 888	505 226	(2 280)	406 204	2 379 318	2 377 038
Non interest income	1 747 595	418 336	43 590	112 668	2 278 599	2 322 189
Total income	3 215 483	923 562	41 310	518 872	4 657 917	4 699 227
Allocated assets	12 854 385	21 853 843		28 284 097	62 992 325	
Unallocated assets					4 711 363	
Total assets					67 703 688	
Allocated liabilities	31 768 390	19 637 770		4 828 896	56 235 056	
Unallocated liabilities					11 468 632	
Total liabilities					67 703 688	

* Methodology comparable with methodology of 2007, data different than published for 2006 due to changes in allocation of revenues by segment. The methodology applied by the Bank in allocation of interest income/expense between segments is based on the application of market interest rates to segment product volumes, pricing for liquidity, term to maturity and currency structure.
The internal model used for budgeting and monitoring of performance of business lines is focused on total income. Costs are managed centrally through dedicated units and allocation to business lines is not performed.

Segmentation by geographical region

The operating activity of the Group is concentrated in Poland through the network of the Bank's branches and the Group's companies.

In addition to Poland. the Group performs its activities also in the following countries:

- France – through the branch of Bank Pekao S.A. in Paris.
- Ukraine – through the subsidiary companies of Bank Pekao S.A.

Results generated by activities of the Group performed outside Poland are insignificant in comparison to the result of the whole Group.

11. Interest income and expense

Interest income

	2007	2006
Income on placements in other banks	482 429	344 418
Income on other placements on money market	62 194	36 320
Income on loans and advances from customers	3 166 699	2 470 843
Income on hedging derivatives	3 112	-
Income on investment securities	781 259	843 381
Income on financial assets held for trading	73 048	51 284
Income on financial assets designated at fair value through profit and loss	102 898	100 279
Total	**4 671 639**	**3 846 525**

Interest expense

	2007	2006
Expense on other banks' deposits	(126 788)	(56 635)
Expense on other deposits on the money market	(153 601)	(114 781)
Expense on customers' deposits	(1 296 420)	(936 276)
Expense on obtained loans	(299 811)	(297 229)
Expense due to the amortization of premium on securities	(58 618)	(62 286)
Expense on debt securities	(18 181)	-
Expense on hedging derivatives	(118)	-
Total	**(1 953 537)**	**(1 467 207)**

Interest income for 2007 includes income from impaired financial assets in the amount of PLN 145 658 thousand (in 2006: PLN: 123 394 thousand).

Total amount of interest income for the 2007. measured at amortized cost using the effective interest rate method. with reference to financial assets which are not valued at fair value through profit and loss. amounted to PLN 3 374 071 thousand (in 2006: PLN 2 732 175 thousand).
Interest expense for 2007. calculated at amortized cost using the effective interest rate method. with reference to financial liabilities which are not valued at fair value through profit and loss. amounted to PLN 1 699 097 thousand (in 2006 PLN: 1 294 037 thousand).

12. Fee and commission income and expense

Fee and commission income

	2007	2006
Accounts maintenance and payment orders	672 660	625 473
Acquisition services	769 394	553 330
Payment cards	487 075	400 770
Credits and loans granted	211 787	218 049
Securities operations	148 800	135 754
Custody activity	33 647	30 944
Servicing of pension and investment funds	70 918	58 469
Guarantees. letters of credit and similar operations	33 821	19 038
Other	43 230	31 082
Total	**2 471 332**	**2 072 909**

Fee and commission expense

	2007	2006
Payment cards	(231 721)	(155 306)
Securities operations	(22 978)	(22 546)
Acquisition services	(16 030)	(14 969)
Custody activity	(4 897)	(2 066)
Accounts maintenance	(5 092)	(3 870)
Management of pension funds	(3 041)	(2 556)
Other	(26 165)	(15 686)
Total	**(309 924)**	**(216 999)**

13. Dividend income

	2007	2006
Dividend income from the issuers:		
Securities classified as held for trading	236	1 653
Securities classified as valued at fair value through profit and loss	1	-
Total	**237**	**1 653**

14. Gains (losses) on financial instruments at fair value

a/ Gains (losses) on assets and liabilities held for trading

	2007	2006
Derivative instruments	10 209	66 222
Debt instruments	24 904	25 980
Total	**35 113**	**92 202**

b/ Gains (losses) on financial assets and financial liabilities at fair value through profit and loss

	2007	2006
Debt instruments	(13 568)	(55 746)
Equity instruments	2	-
Total	**(13 566)**	**(55 746)**

Total gains (losses) on financial instruments valued at fair value (a+b)	**21 547**	**36 456**

Total change in the fair value of financial instruments valued at fair value through profit and loss established using valuation techniques (where no established quotations were published on the active market) in 2007 was PLN 13 981 thousand (in 2006: PLN 62 636thousand respectively).

15. Gains (losses) on investment securities

Realized result on financial assets and liabilities other than these valued at fair value through profit and loss

	2007	2006
Realized profit		
Financial assets available for sale	40 771	86 320
Investments held to maturity	-	106
Debt securities in issue	80	-
Total	**40 851**	**86 426**
Realized losses		
Financial assets available for sale	(2 694)	(202)
Debt securities in issue	(199)	-
Total	**(2 893)**	**(202)**
Net realized profit	**37 958**	**(86 224)**

The change in the fair value of financial assets available for sale recognized in the 2007 directly in equity amounted to PLN 224 800 thousand (decrease of equity) (in 2006 PLN 50 862 thousand (decrease of equity)).

Profits and losses from financial assets moved in the 2007 from equity to profit and loss account amounted to PLN 38 077 thousand (profit) (in 2006. PLN 86 118 thousand profit).

16. Other operating income and expense

	2007	2006
Other operating income		
Rent and other revenue	22 932	27 054
Revenue from development activity	-	18 968
Gains on sale of equity investments	17 365	14 948
Gains on sale of properties and other assets	29 746	20 161
Recovery of prescribed. written-off against provisions and bad debts	15 245	15 917
Credit insurance	17 002	12 042
Revenue from advisory services	1 646	4 154
Compensation. fees and penalties	4 712	3 808
Recovery of debt collection costs	5 884	5 032
Releases of provisions for litigation and claims	13 323	1 602
Releases of provisions for other assets	20 369	5 888
Other	32 382	40 359
Total	**180 606**	**169 933**
Other operating expense		
Provision charges for litigation and claims	(24 267)	(24 994)
Cost of sale of products and services	-	(11 073)
Debt recovery costs	(13 928)	(12 751)
Amortization of acquisition costs related to pension funds	-	(4 377)
Impairment of intangible and tangible fixed assets and other assets	(3 843)	(20 897)
Credit insurance	(14 544)	(9 521)
Donations	(3 059)	(3 053)
Losses on disposal and liquidation of properties and other assets	(5 787)	(6 303)
Customer complaints	(2 646)	(2 858)
Debts written off's	(1 012)	(2 757)
Loss on sale of equity investments	-	(2 639)

(in PLN thousand)

Amortization of start-up costs	-	(1 142)
Compensations, fees and penalties	(713)	(396)
Other	(22 005)	(24 385)
Total	**(91 804)**	**(127 146)**

17. General and administrative expenses

	2007	2006
Payroll and employee benefits	(1 397 498)	(1 208 672)
including:		
Wages and salaries	(1 172 102)	(1 031 864)
Insurance and other charges related to employees	(219 390)	(169 407)
Pension programs costs due to defined contributions programs	(1 655)	(1 524)
Cost of share-based payments	(4 351)	(5 877)
Other general and administrative expenses	(964 476)	(785 267)
Amortization and depreciation	(338 750)	(318 353)
Taxes and charges	(27 386)	(27 810)
Annual Bank Guarantee Fund fee	(8 403)	(6 905)
Total	**(2 736 513)**	**(2 347 007)**

18. Net provision charges for financial assets and contingent liabilities and commitments

	2007	2006
Provision charges		
Loans to clients and receivables from banks	(1 787 220)	(912 815)
Financial lease receivables	(29 772)	(31 462)
Financial assets available for sale	(12 079)	(22)
Investments held to maturity	(28)	(78)
Investments in associates	(4)	(378)
Contingent liabilities and commitments	(240 058)	(189 374)
Total	**(2 069 161)**	**(1 134 129)**
Provision releases		
Loans to clients and receivables from banks	1 631 713	797 067
Financial lease receivables	24 113	18 695
Financial assets available for sale	80	55
Investments held to maturity	118	39
Contingent liabilities and commitments	220 791	95 980
Total	**1 876 815**	**911 836**
Net provision changes	**(192 346)**	**(222 293)**

(in PLN thousand)

19. Impairment

Year 2007	Impairment at the end of previous period	Increase					Decrease				Impairment charges balance at the end of the period	Influence on the profit and loss statement
		Disposal due from the full method consolidation	Merger of "Pekao 285"	Impairment charges during period	Foreign exchange differences	Other	Write off of assets from the balance sheet	Release of the provisions	Foreign exchange differences	Other		
Impairment of the financial assets not valued at the fair value through the profit and loss:												
Financial assets available for sale	**7 591**		2 788	12 079	-	-	-427	-80	-99	-	**21 852**	11 999
Loans to clients and receivables from banks valued at amortized cost	**3 694 842**	58 515	1 050 961	1 787 220	32 320	-	(216 672)	(1 631 713)	(99 852)	(253)	**4 675 368**	155 507
Financial lease receivables	**211 576**	39 769	-	29 772	-	-	(47 596)	(24 113)	-	-	**209 408**	5 659
Investments held to maturity valued at amortized cost	**202**	**-**	**-**	28	-	-	-	(118)	(8)	-	**104**	(90)
Impairment of:												
Fixed assets	**3 372**	**865**	**12 884**	475	-	57	-	-	(153)	(851)	**16 649**	475
Investment real estate property	**8 654**		**-**	-	-	350	-	-	-	(231)	**8 773**	
Intangible assets	**11 212**		**-**	143	-	-	-	-	-	(24)	**11 331**	143
Goodwill	**-**		**-**	-	-		-	-	-			
Other intangible assets	**11 212**		**-**	143	-	-	-	-	-	(24)	**11 331**	143
Impairment of the investments in associates	**2 234**		3 066	4	-	-	-	-	(364)	(30)	**4 910**	4
Other	**136 458**	119	16 755	3 617	445	1 916	(1 203)	(20 369)	-	(774)	**136 964**	(16 752)
Total	**4 076 141**	**99 268**	**1 086 454**	**1 833 338**	**32 765**	**2 323**	**(265 898)**	**(1 676 393)**	**(100 476)**	**(2 163)**	**5 085 359**	**156 945**

(in PLN thousand)

Year 2006	**Impairment at the end of previous period**	**Increase**			**Decrease**				**Impairment charges balance at the end of the period**	Influence on the profit and loss statement
		Impairment charges during period	Foreign exchange differences	Other	Write off of assets from the balance sheet	Release of the provisions	Foreign exchange differences	Other		
Impairment of the financial assets not valued at the fair value through the profit and loss:										
Financial assets available for sale	**7 624**	22	-	-	-	(55)	-	-	**7 591**	(33)
Loans to clients and receivables from banks valued at amortized cost	**4 239 620**	912 815	47 664	7 797	(617 699)	(797 067)	(90 482)	(7 806)	**3 694 842**	115 748
Financial lease receivables	**239 413**	31 462	-	-	(40 604)	(18 695)	-	-	**211 576**	12 767
Investments held to maturity valued at amortized cost	**164**	78	-	-	-	(39)	(1)	-	**202**	39
Impairment of:										
Fixed assets	**8 368**	2 807		6	-	(1)	(17)	(7 791)	**3 372**	2 806
Investment real estate property	**3 588**	-	-	5 092	-	-	(26)		**8 654**	-
Intangible assets	**251**	13 665	-	-	-	-	-	(2 704)	**11 212**	13 665
Goodwill	**-**	-	-	-	-	-	-	-	**-**	-
Other intangible assets	**251**	13 665	-	-	-	-	-	(2 704)	**11 212**	13 665
Impairment of the investments in associates	**2 499**	378	-	-	-	-	(265)	(378)	**2 234**	378
Other	**143 178**	2 851	-	1 650	-	(5 868)	(374)	(4 979)	**136 458**	(3 017)
Total	**4 644 705**	**964 078**	**47 664**	**14 545**	**(658 303)**	**(821 725)**	**(91 165)**	**(23 658)**	**4 076 141**	**142 353**

Write-downs and write-backs related to impairment of loans. advances and other financial assets and impairment reverse are presented in the profit and loss account under "Net provision charges for financial assets and contingent liabilities and commitments". Write-downs for depreciation of other assets are presented under other operating expenses. reversals of write-downs for depreciation of other assets are presented under other operating income.

20. Share of profit (loss) of associates and joint venture entities valued at the equity method

Entity name	2007	2006
Xelion. Doradcy Finansowi Sp. z o. o	(6 570)	(10 467)
Pioneer Pekao Investment Management S.A.	139 449	89 819
Krajowa Izba Rozliczeniowa S.A.	5 369	4 936
Pirelli Pekao Real Estate Sp. z o.o.	13 211	4 425
Central Poland Fund LLC	(263)	(59)
"Anica" System S.A.	1 113	2 093
Biuro Informacji Kredytowej S.A.	567	-
Other entities	-	112
Total	**152 876**	**90 859**

21. Income tax

The influence of the merger on the income tax of Bank Pekao S.A.

According to article 93c of the Tax Code, at the day of Bank BPH demerger, Bank Pekao S.A. came into all, determined in the tax law, rights and obligations relating to those elements of Bank BPH S.A. assets which were assigned to Bank Pekao S.A. in the demerger plan.

In connection with the above, the Bank has included tax revenues and tax costs relating to the incorporated organized part of the enterprise of Bank BPH S.A. and incurred by Bank BPH S.A. in the period from the beginning of the year 2007 to the day of demerger in the amount PLN 70 431 527 thousand and PLN 68 480 185 thousand respectively in its tax settlement for the year 2007.

Additionally, the Bank has taken over the right to include the tax advances amounting to PLN 352 038 thousand paid by Bank BPH S.A. in the period from the beginning of the year 2007 until the day of demerger, in the part relating to the organized part of the enterprise of Bank BPH S.A. in its annual tax settlement.

The current and deferred tax charge recognized by incorporated organized part of the enterprise of Bank BPH S.A. for the period from 1 January 2007 to the day of demerger, has been recognized by Bank Pekao S.A. in the equity in the amount of PLN 352 291 thousand.

The table below presents basic components of Bank Pekao S.A. tax charge recognized in the profit and loss account of the current year, recognized in Bank Pekao S.A. equity as accounting settlement of demerger of Bank BPH S.A. and Bank Pekao S.A. tax obligation, presented in the tax declaration for the year 2007.

The table presents the tax charge for Bank Pekao S.A. only.

	Bank Pekao tax charge recognized in profit and loss account	Tax charge for the period from 01.01.2007 to 29.11.2007 relating to incorporated part of Bank BPH – recognized in merger balance sheet in equity of Bank Pekao	Bank Pekao tax obligation revealed in the tax declaration for the year 2007
Tax for the current period to be paid to the Tax Office	402 342	370 142	772 484
Withholding tax	2 729	489	
Tax of the foreign subsidiaries	71		
Tax due for the prior years	(14 579)		
Deferred tax	384	(18 340)	
Total	**390 947**	**352 291**	

The Capital Group's tax charge for the year 2007 amounting to PLN 442 674 thousand consists of the tax charge amounting to PLN 437 563 thousand relating to continuing operations and of the tax charge amounting to PLN 5 111 thousand relating to discontinued operations. The amount of the tax charge relating to the profit from discontinued operations has not been separately disclosed in the consolidated profit and loss account. The additional information notes placed below present the breakdown of the elements of gross profit's tax charge both for continuing operations as well as for discontinued activity.

Reconciliation between tax calculated by applying the current tax rate to accounting profit and the actual tax charge presented in the consolidated profit and loss account.

	2007	2006
Accounting gross profit	**2 605 151**	**2 203 812**
Tax at applicable tax rate at 19%	**494 979**	**418 724**
Tax effect of the permanent differences	**(52 305)**	**(4 609)**
Non taxable income	(54 049)	(32 527)
Non tax deductible costs	21 236	22 995
Impact of other tax rates applied under a different tax jurisdiction	2 686	1 277
Impact of utilised tax losses	(7 560)	(11 238)
Tax relieves not included in the profit and loss account	(4 282)	2 223
Other	(10 336)	12 661
The effective tax charge of the accounting profit	**442 674**	**414 115**

The applicable tax rate at 19% is the binding in Poland corporate income tax rate.

The basic components of income tax charge presented in the profit and loss account and in the net equity.

	2007	2006
Consolidated profit and loss account		
Current income tax	**(447 890)**	**(509 901)**
Current tax charge disclosed in the profit and loss account	(460 064)	(482 350)
Adjustments related to the tax from previous years	14 996	7 008
Other taxes (for example: withholding tax, income tax relating to foreign branches)	(2 822)	(34 559)
Deferred income tax	**5 216**	**95 786**
Due to the occurrence and reversal of timing differences	2 286	95 786
The tax charge resulting from partial or entire write off or reversal of prior write-offs of the deferred tax assets connected with the probability of taxable income realisation	2 930	-
Tax charge disclosed in the consolidated profit and loss account	**(442 674)**	**(414 115)**
Equity		
Deferred income tax	**60 998**	**26 003**
Due to the occurrence and reversal of timing differences	60 998	26 003
Tax charge disclosed in the consolidated equity	**60 998**	**26 003**
Total	**(381 676)**	**(388 112)**

(in PLN thousand)

Deferred assets and liabilities

				Change in temporary differences in the year 2006						
	As at 31 December 2005			Changes recognized in		Change being the result of change in scope of consolidation and other changes		As at 31 December 2006		
	Total deferred tax	profit and loss account	equity	profit and loss account	equity	in profit and loss account	equity	Total deferred tax	profit and loss account	equity
Deferred tax liability										
Income receivable from the securities	118 568	118 568	-	(118 268)	-	-	-	300	300	-
Income receivable from loans given	266 724	266 724	-	(25 990)	-	-	-	240 734	240 734	-
Upward revaluation of the financial assets	101 243	78 344	22 899	38 724	(22 899)	-	-	117 068	117 068	-
Accelerated depreciation	109 135	109 135	-	9 401	-	-	-	118 535	118 535	-
Investment relief	9 037	9 037	-	(917)	-	-	-	8 120	8 120	-
Other	14 178	14 178	-	1 500	-	(7 293)	-	8 385	8 385	-
Gross deferred tax liability	**618 885**	**595 986**	**22 899**	**(95 550)**	**(22 899)**	**(7 293)**	**-**	**493 142**	**493 142**	**-**
Deferred tax asset										
Future costs related to securities	-	-	-	24 619	-	-	-	24 619	24 619	-
Future costs related to deposits and loans received	229 669	229 669	-	(21 940)	-	-	-	207 730	207 730	-
Unrealized losses on financial instruments	102 683	102 876	(194)	14 645	3 104	-	-	120 431	117 521	2 910
Income received to be accounted for over time from the loans and current accounts	61 390	61 390	-	(462)	-	-	-	60 928	60 928	-

(in PLN thousand)

Costs due to the loan provisions charges	286 513	286 513	-	(15 133)	-	-	-	271 380	271 380	-
Personnel costs provisions	57 448	57 448	-	3 280	-	-	-	60 728	60 728	-
Accruals	7 862	7 862	-	3 691	-	-	-	11 553	11 553	-
Uncovered losses from previous years	26 205	26 205	-	(9 155)	-	-	-	17 050	17 050	-
Other	22 426	22 426	-	691	-	-	-	23 117	23 117	-
Gross deferred tax assets	**794 196**	**794 390**	**(194)**	**236**	**3 104**	**-**	**-**	**797 536**	**794 626**	**2 910**
Deferred tax charge	X	X	X	95 786	26 003	7 293	-	X	X	X
Net deferred tax assets	181 294	198 405	-	X	X	X	X	304 394	301 484	2 910
Net provision for the deferred tax	5 983	-	23 093	X	X	X	X	-	-	-

(in PLN thousand)

	Change in temporary differences in the year 2007								
	Changes recognized in		Increase being the result of merger with Bank BPH (including the consolidation of entities form Bank BPH Capital Group) recognized in		Change being the rsult of change in scope of consolidation and Rother changes		As at 31 December 2007		
	profit and loss account	equity	profit and loss account	equity	in profit and loss account	equity	Total deferred tax	profit and loss account	Equity
Deferred tax liability									
Income receivable from the securities	41 359	(3 720)	51 438	3 720	-	-	93 097	93 097	-
Income receivable from loans given	(52 188)	-	47 585	-	-	-	236 131	236 131	-
Upward revaluation of the financial assets	87 400	(4 264)	192 551	4 264	15	-	397 034	397 034	-
Accelerated depreciation	(25 611)	-	26 705	-	138	-	119 767	119 767	-
Investment relief	16 895	-	-	-	-	-	25 015	25 015	-
Other	(29 422)	-	44 363	-	202	-	23 528	23 528	-
Gross deferred tax liability	**38 433**	**(7 984)**	**362 642**	**7 984**	**355**	**-**	**894 572**	**894 572**	**-**
Deferred tax asset									
Future costs related to securities	(26 735)	(1 829)	2 817	1 829	-	-	701	701	-
Future costs related to deposits and loans received	(43 761)	1 453	50 995	-	247	-	216 664	215 211	1 453
Unrealized losses on financial instruments	132 828	49 220	185 382	12 537	15	-	500 413	435 746	64 667

(in PLN thousand)

Income received to be accounted for over time from the loans and current accounts	(3 902)	-	40 846	-	187	-	98 059	98 059	-
Costs due to the loan provisions charges	(8 902)	3 904	87 432	-	(1)	-	353 813	349 909	3 904
Personnel costs provisions	21 651	266	1 697	-	(44)	-	84 298	84 032	266
Accruals	(16 697)	-	26 849	-	(169)	-	21 536	21 536	-
Uncovered losses from previous years	(1 851)	-	-	-	-	-	15 199	15 199	-
Rother	(8 982)	-	8 556	-	(133)	-	22 558	22 558	-
Gross deferred tax assets	**43 649**	**53 014**	**404 574**	**14 366**	**102**	**-**	**1 313 241**	**1 242 951**	**70 290**
Deferred tax charge	5 216	60 998	41 932	6 382	(253)	-	X	X	X
Net deferred tax assets	X	X					418 993	348 703	70 290
Net provision for the deferred tax	X	X					324	324	-

As at 31 December 2007 and 31 December 2006 there were no temporary differences related to investments in subsidiaries, branches, affiliates, and joint ventures, for which no deferred tax liability was created due to meeting the condition to control the timing of reversal of the differences and existence of high probability that the differences will not reverse in a foreseeable future.

The amount of negative temporary differences, unsettled tax losses, unused tax relieves, in relation to which no deferred tax asset was recognized in the balance sheet, along with the date those differences will elapse is presented in the below table.

Year when timing differences elapse	The amount of differences as at 31.12.2007	The amount of differences as at 31.12.2006
2007	-	3 407
2008	3 410	8 058
2009	4 330	24 865
2010	-	38 810
2011	4 876	2 383
2012	2 520	-
Without time limit	58 570	46 774
Total	**73 706**	**124 297**

22. Earnings per share from continuing and discontinued operations

Basic earnings per share

Basic earnings per share are calculated by dividing net profit attributable to ordinary shareholders of the holding company by the weighted average number of ordinary shares issued during the given period.

Earnings per share

	2007	2006
Net profit attributed to ordinary shareholders	2 155 478	1 787 506
Weighted average number of ordinary shares in the period	175 645 529	166 764 059
Earnings per each share (PLN per share)	12.27	10.72

Diluted earnings per share

Diluted earnings per share are calculated based on the respective profit of ordinary shareholders of the holding company by dividing the profit of such shareholders by the average weighted number of ordinary shares listed during a given period. adjusted for all potentially diluting ordinary shares.

There are diluting instruments in the Group in the form of convertible bonds. For calculation purposes it is assumed that these will be converted into shares.

	2007	2006
Net profit attributed to ordinary shareholders	2 155 478	1 787 506
Weighted average number of ordinary shares in the period	175 645 529	166 764 059
Adjustments to the number of shares for the purpose of calculating the diluted earnings per share	194 360	133 182
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	175 839 889	166 897 241
Diluted earnings per each share (PLN per share)	12.26	10.71

23. Dividend proposal

Dividends and other distribution to shareholders are recognised directly in equity. A liability for dividends payment is not recognized until the entity has an obligation to pay dividends, which is not until they are approved.

The Management Board of the Bank will propose to the next Shareholder's General Meeting a dividends payment in the amount of PLN 9.6 per share, compared to PLN 9 per share in prior year. In determining the 2007 dividend amount, the Spin-off share issue was considered. This new share issue is eligible for dividends distribution effective 1 January 2008. As such, the amount of dividend payment to be proposed was assessed in consideration of the combined results generated in 2007 by both Bank Pekao S.A. and Pekao 285 operating under the structure of Bank BPH S.A. until the spin off.

The final dividend distribution is subject to approval of the Shareholder's General Meeting.

24. Cash due from Central Bank

	31.12.2007	31.12.2006
Cash	2 570 892	1 093 449
Current account in the Central Bank	802 474	1 120 462
NBP bonds *	1 687 171	1 313 099
Interest	59 105	49 160
Other funds	1 568	1 754
Total	**5 121 210**	**3 577 924**

(*) The NBP bond is a non-quoted debt security with maturity on 1st March 2012. issued in relation to reduction of the obligatory reserve rate. The bond is not included under "cash" in the cash flows statement.

In the course of the day the Bank may use funds in the mandatory reserve account for ongoing payments pursuant to an instruction submitted to the National Bank of Poland. It must. however. ensure that the average monthly balance in such accounts comply with the requirements described in the mandatory reserve declaration.

Funds on the mandatory reserve account bear interest in the amount of 0.9 of the rediscount rate for bills of exchange amounts as at 31 December 2007 5.25 as at 31 December 2007 this interest amounted to 4.72%.

25. Loans and receivables from banks

	31.12.2007	31.12.2006
Current accounts	4 623 105	5 784 568
Deposits and advances from other banks	7 876 793	3 524 160
Loans and advances	484 388	613 774
Unquoted securities	13 684	1 006
Repo transactions	2 564 669	517 135
Funds in transit	1 345 259	76 189
Interest	81 431	72 275
Total gross	**16 989 329**	**10 589 107**
Provision for the impairment of receivables	(29 295)	(76 230)
Total net	**16 960 034**	**10 512 877**

The floating interest rate due from banks amounts to PLN 762 526 thousand (as at 31 December 2006: PLN 770 131 thousand). fixed interest rate due from banks amounts to PLN 13 461 461 thousand (as at 31December 2006: PLN 9 670 512 thousand).

(in PLN thousand)

As at 31 December 2007	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value
Current account	4 623 105				4 623 105
Deposits in other banks	7 876 793				7 876 793
Loans given	403 805	80 583		(28 454)	455 934
Unlisted securities	12 843	841	(841)		12 843
Repo transactions	2 564 669				2 564 669
Funds in transit	1 345 259				1 345 259
Interest	81 424	7			81 431
Total	**16 907 898**	**81 431**	**(841)**	**(28 454)**	**16 960 034**

* Includes the estimated impairment for losses incurred but not reported (IBNR)

As at 31 December 2006	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value
Current account	5 784 568	-	-	-	5 784 568
Deposits in other banks	3 524 160	-	-	-	3 524 160
Loans given	542 163	71 611	(52 233)	(22 991)	538 550
Unlisted securities	-	1 006	-	(1 006)	-
Repo transactions	517 135	-	-	-	517 135
Funds in transit	76 189	-	-	-	76 189
Interest	72 275	-	-	-	72 275
Total	**10 516 490**	**72 617**	**(52 233)**	**(23 997)**	**10 512 877**

*Includes the estimated impairment for losses incurred but not reported (IBNR)

Fair value of receivables from banks as at 31 December 2007 was equal to PLN 10 300 554 thousand (as at 31 December 2006: PLN 10 509 215 thousand).

26. Financial assets held for trading

	31.12.2007	31.12.2006
Debt securities	3 165 113	2 388 916
- issued by the State Treasury	2 385 068	2 259 926
- issued by local governments	4 503	
- issued by non-financial entities	504 538	86 762
- issued by non bank financial entities	153 061	42 228
- issued by other banks	117 943	-
Stock and shares in other entities	-	2 455
Other financial instruments	-	-
Total financial assets held for trading	**3 165 113**	**2 391 371**

Financial assets held for trading - breakdown

	31.12.2007	31.12.2006
1. Debt securities		
a) with embedded instrument		
- quoted	4 459	12 240
- unquoted	-	-
b) other		
- quoted	2 263 553	2 247 686
- unquoted	897 101	128 990

(in PLN thousand)

2. Stock and shares		
- quoted	-	2 455
- unquoted		-
3. Other financial instruments		
- quoted	-	-
- unquoted	-	-
Total financial assets held for trading	**3 165 113**	**2 391 371**

(in PLN thousand)

Financial assets held for trading according to residual maturities:

	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		undefined maturity	Total	
As at 31 December 2007	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by the State Treasury	111 402	10.99	151 808	5.40	275 621	5.80	1 324 213	5.73	522 024	5.20	-	**2 385 068**	5.85
- issued by local governments	-		-		4 503	15.00	-		-		-	**4 503**	15.00
- issued by non-financial entities	286 392	5.26	188 351	5.75	29 795	9.77	-		-		-	**504 538**	5.71
- issued by non bank financial entities	119 864	5.34	33 197	5.63	-		-		-		-	**153 061**	5.40
- issued by other banks	84 794	5.11	21 490	7.27	11 659	13.00	-		-		-	**117 943**	6.28
Shares and stock in other entities													
- listed on the stock exchanges	-		-		-		-		-		-	-	
- not listed	-		-		-		-		-		-	-	
Total	**602 452**	**6.32**	**394 846**	**5.69**	**321 578**	**6.56**	**1 324 213**	**5.73**	**522 024**	**5.20**	**-**	**3 165 113**	**5.83**
Including interest	2 718		818		1 241		18 468		8 716			**31 961**	

(in PLN thousand)

Financial assets held for trading according to residual maturities:

	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		undefined maturity	Total	
As at 31December 2006	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by the State Treasury	72 642	3.90	18 895	4.01	1 128 995	4.18	493 789	4.68	545 605	5.23	-	**2 259 926**	4.53
- issued by non-financial entities	3 183	4.46	50 279	4.06	33 300	4.16	-	-	-	-	-	**86 762**	4.11
- issued by non bank financial entities	17 002	3.97	25 226	3.99	-	-	-	-	-	-	-	**42 228**	3.98
Shares and stock in other entities													
- listed on the stock exchanges	-	-	-	-	-	-	-	-	-	-	2 455	**2 455**	-
- not listed	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Total	**92 827**	**3.94**	**94 400**	**4.03**	**1 162 295**	**4.18**	**493 789**	**4.68**	**545 605**	**5.23**	**2 455**	**2 391 371**	**4.50**
Including interest	2	-	45	-	22 347	-	8 161	-	6 284	-	-	**36 839**	-

27. Derivative financial instruments held for trading

Derivatives used by the Group

In its operations the Group uses different financial derivatives for managing the risk involved in the Group's business. The majority of derivatives used by the Group include over-the-counter contracts. Regulated stock exchange contracts (mainly futures) represent a small part of those derivatives.

Derivative foreign exchange transactions include either the obligation or right to purchase or sell foreign and domestic currency assets. Forward operations are based on the exchange rate specified during the transaction for a predefined date in the future. The Group concludes forward transactions to manage its foreign exchange position and to satisfy its customers' demand for hedging future foreign currency payments. These transactions are measured using the discounted cash flow models.

Foreign exchange swaps combine the exchange of specific currencies as of the spot date and a reverse transaction as of the forward date. with the exchange rates specified in advance during the conclusion of the contract. In these transactions an exchange of principals takes place. Foreign exchange swap transactions are mostly concluded in the process of managing the Group's currency liquidity. These transactions are measured using the discounted cash flow models.

Foreign exchange options are contracts where one of the parties. the option buyer. purchases from the other party the option issuer. at a so-called premium price. the right without the obligation to buy or sell at a specified point in the future. or during a specified time range. a foreign currency amount specified in the contract at the exchange rate set during the conclusion of the option. Foreign exchange options concluded by the Group are over-the-counter contracts. concluded with the Group's customers in order to hedge the risk involved in future foreign currency payments. The Group acts both as option issuer and buyer. These transactions are measured using the Garman-Kohlhagen option measurement models.

Derivatives relating to interest rates enable the Group and its customers to transfer. modify or limit the interest rate risk.

Interest rate swaps are contracts where parties swap between themselves interest cash flows calculated on a specified nominal value of the base instrument. In a typical swap contract. fixed rate interest flow will be swapped for a floating rate interest flow. Both flows will be calculated on the basis of the same nominal value of the base instrument. with no actual funds being transferred during the swap of the base instrument. These transactions are measured using the discounted cash flow models.

Forward rate agreements involve both parties undertaking to pay interest on a predefined nominal amount. for a specified period starting in the future and charged according to the interest rate determined on the day of the agreement. As the basis for settlements. the Parties will use the interest rate difference. which will be in proportion to the nominal amount of the agreement and difference between the FRA rate (term rate as of the date of the transaction) and the reference rate applicable two business days before the settlement date. These transactions are measured using the discounted cash flow models.

Cross currency IRS involves both parties swapping capital and interest flows in different currencies in a specified period. Such transactions are used for interest rate and foreign exchange risk management. These transactions are measured using the discounted cash flow models.

Forward transactions on securities are based on prices of securities defined at the conclusion of the transaction for a specified date in the future. The Group uses securities forward transactions to manage its investment portfolio and to satisfy customer demand. These transactions type are measured using the discounted cash flow models.

Interest rate options (cap/floor) are contracts where one of the parties. the option buyer. purchases from the other party. the option issuer. at a so-called premium price. the right without the obligation to borrow (cap) or lend (floor) at specified points in the future (independently) amounts specified in the contract at the interest rate set during the conclusion of the option. Interest rate options concluded by the Group are over-

the-counter contracts used to manage interest rate risk and to satisfy customer demand. These transactions are measured using the Black model.

Stock options. stock market indexes and prices of investment fund units are contracts where one of the Parties. the option buyer. purchases from the other party. the option issuer. at a so-called premium price. the right without the obligation to buy or sell a specific base instrument (shares. share market indices investment fund units or their baskets) at a price specified during the conclusion of the option. The Group uses such transactions to manage securities risk and to satisfy customer demand. These transactions are measured using the either extended Black-Scholes model or are based on the available price from a dealer quoted on active market. to which Bank has immediate access.

Interest rate futures transactions refer to standardized forward contracts purchased on stock markets in order to ensure protection against the interest rate risk involved in the securities portfolio owned.

Futures for stock market indices and shares are contracts listed on the Warsaw Stock Exchange. Contracts for indices refer to transactions based on MIDWIG indices. These contracts are valued at direct quotations from Stock Exchange.

Derivatives embedded in other instruments

The group uses derivatives embedded in complex financial instruments. i.e. such as including both a derivative and base agreement. which results in part of the cash flows of the combined instrument changing similarly to cash flows of an independent derivative. Derivatives embedded in other instruments cause part or all cash flows resulting from the base agreement to be modified as per a specific interest rate. price of a security. foreign exchange rate. price index or interest rate index.

Brady bond options are derivatives embedded in balance sheet financial instruments. In this case. embedded financial instruments are closely related to the base contract and thus the embedded derivative does not need to be isolated or recognized and measured separately.

Derivatives are also embedded in deposit agreements.

The Bank has deposits on offer which include embedded derivatives. Such derivatives are not by their nature closely related to their respective deposit agreements. The instrument is isolated and classified in the portfolio to be traded and it is subject to measurement. The measurement of that instrument is recognized in the profit and loss account. Embedded derivatives are also option for shares. markets shares index. unit price of investment funds and currency options.

Options for shares. markets shares indices and unit price of investment funds are measured on the basis of the Black-Scholes model or on the basis of an basis available price from a dealer. quoted on active market to which the Bank has immediate access.

Currency options are measured in based on the Garman-Kohlhagen model.

The Group analyzed the loan agreement portfolio and the ordinary agreement portfolio in order to isolate embedded derivatives and decided that such agreements do not require isolation and separate treatment of embedded instruments.

Risk involved in financial derivatives

Market risk and credit risk are two main categories of derivatives-related risk.

At the beginning. financial derivatives usually have a small market value or no market value at all. This is due to the fact that derivatives require no initial net investment or require only minor net investments as compared with other agreements which react to changes in market conditions in a similar way.

Derivatives gain positive or negative value as a result of change in specific interest rates. prices of securities prices of commodities currency exchange rates price index credit standing or credit index or another market parameter. This results in derivatives becoming more or less advantageous than instruments with similar residual maturity available on the market at the same time.

Credit risk related to derivative contracts is a potential cost of concluding a new contract on the original terms and conditions if the other party to the original contract fails to meet its obligations. In order to assess the potential cost of replacement the Group uses the same method as for credit risk assessment. In order to control its credit risk levels the Group performs assessments of other contract parties using the same methods as for of credit decisions.

Credit risk involved in derivatives is presented in Note 8.

The following tables present nominal amounts of financial derivatives and fair values of such derivatives. Nominal amounts of certain financial instruments are used for comparison with balance sheet instruments. but need not necessarily indicate what future cash flow amounts will be or what the current fair value of such instruments is. and therefore do not reflect the Group's credit or price risk level.

Derivatives become advantageous (assets) or disadvantageous (liabilities) due to fluctuations of market interest rates. indices. or foreign exchange rates as compared with their terms.

(in PLN thousand)

Financial derivatives held for trading as at 31 December 2007

Nominal values of base instruments and fair value of financial derivatives held for trading:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
Currency swaps	21 405 604	11 786 400	3 160 393	55 998	-	36 408 395	(144 755)	240 532
Purchase	10 745 733	5 874 718	1 607 452	27 999	-	18 255 902		
Sale	10 659 871	5 911 682	1 552 941	27 999	-	18 152 493		
Currency forward contracts	6 857 757	24 354 884	7 542 742	868 847	-	39 624 230	(273 726)	365 217
Purchase	3 444 370	12 236 031	3 757 401	426 127	-	19 863 929		
Sale	3 413 387	12 118 853	3 785 341	442 720	-	19 760 301		
Currency options	379 067	7 051 703	12 872 460	2 640 048	-	22 943 278	(120 492)	116 990
Purchase	189 544	3 519 186	6 439 298	1 318 350	-	11 466 378		
Sale	189 523	3 532 517	6 433 162	1 321 698	-	11 476 900		
Cross Currency IRS	-	135 151	2 310 954	5 043 011	1 757 626	9 246 742	(113 670)	213 862
Purchase	-	67 544	1 236 418	2 489 773	861 021	4 654 756		
Sale	-	67 607	1 074 536	2 553 238	896 605	4 591 986		
Interest rate transactions								
Interest rate swaps (IRS)	4 478 666	14 682 340	33 599 862	55 605 512	14 971 615	123 337 995	(702 025)	676 347
Purchase	2 240 203	8 916 709	15 543 246	26 359 521	7 388 194	60 447 873		
Sale	2 238 463	5 765 631	18 056 616	29 245 991	7 583 421	62 890 122		
Forward Rate Agreement (FRA)	-	4 500 000	40 571 680	17 702 500	-	62 774 180	(52 657)	61 368
Purchase	-	2 500 000	22 867 620	9 740 000	-	35 107 620		
Sale	-	2 000 000	17 704 060	7 962 500	-	27 666 560		

(in PLN thousand)

Nominal values of base instruments and fair value of financial derivatives held for trading:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Futures for debt securities	-	650 772	-	-	-	650 772	-	-
Purchase	-	401 184	-	-	-	401 184		
Sale	-	249 588	-	-	-	249 588		
Other	4 000	173 342	158 575	998 480	223 286	1 557 683	(17 309)	13 714
Purchase	-	51 882	47 400	509 463	111 643	720 388		
Sale	4 000	121 460	111 175	489 017	111 643	837 295		
Other transactions								
Securities forward contracts	487 092	-	-	-	-	487 092	(1 752)	103
Purchase	292 876	-	-	-	-	292 876		
Sale	194 216	-	-	-	-	194 216		
Stock options	-	144 074	660 739	2 815 740	-	3 620 553	(234 896)	234 825
Purchase	-	72 037	331 518	1 413 161	-	1 816 716		
Sale	-	72 037	329 221	1 402 579	-	1 803 837		
Total	**33 612 186**	**63 478 666**	**100 877 405**	**85 730 136**	**16 952 527**	**300 650 920**	**(1 661 282)**	**1 922 958**

(in PLN thousand)

Financial derivatives held for trading as at 31 December 2006

Nominal values of base instruments and fair value of financial derivatives held for trading:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
Currency swaps	10 117 863	141 950	1 273 327	-	-	11 533 140	(18 526)	60 189
Purchase	5 066 921	70 209	651 838	-	-	5 788 968		
Sale	5 050 942	71 741	621 489	-	-	5 744 172		
Currency forward contracts	3 666 296	2 709 542	2 157 125	223 928	-	8 756 891	(30 783)	37 134
Purchase	1 843 896	1 360 504	1 075 041	109 961	-	4 389 402		
Sale	1 822 400	1 349 038	1 082 084	113 967	-	4 367 489		
Currency options	929 250	1 915 514	4 157 608	91 792	-	7 094 164	(37 930)	37 930
Purchase	464 625	957 757	2 078 804	45 896	-	3 547 082		
Sale	464 625	957 757	2 078 804	45 896	-	3 547 082		
Cross Currency IRS	-	157 359	-	1 019 526	-	1 176 885	(27 337)	27 482
Purchase	-	78 682	-	509 763	-	588 445		
Sale	-	78 677	-	509 763	-	588 440		
Interest rate transactions								
Interest rate swaps (IRS)	2 901 022	1 117 000	5 608 324	17 276 649	5 644 304	32 547 299	(344 498)	320 355
Purchase	1 751 011	590 000	2 795 740	9 105 852	3 328 126	17 570 729		
Sale	1 150 011	527 000	2 812 584	8 170 797	2 316 178	14 976 570		
Forward Rate Agreement (FRA)	-	-	13 500 000	-	-	13 500 000	(6 484)	4 822
Purchase	-	-	7 900 000	-	-	7 900 000		
Sale	-	-	5 600 000	-	-	5 600 000		

(in PLN thousand)

Nominal values of base instruments and fair value of financial derivatives held for trading:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Futures for debt securities	-	234 066	-	-	-	234 066	-	-
Purchase	-	27 987	-	-	-	27 987		
Sale	-	206 079	-	-	-	206 079		
Other					242 376	242 376	(1 843)	1 843
Purchase					121 188	121 188		
Sale					121 188	121 188		
Other transactions								
Securities forward contracts	438 554	-	-	-	-	438 554	(185)	268
Purchase	222 060	-	-	-	-	222 060		
Sale	216 494	-	-	-	-	216 494		
Stock futures	-	1 246	600	-	-	1 846	-	-
Purchase	-	70	67	-	-	137		
Sale	-	1 176	533	-	-	1 709		
Share options	-	-	443 444	424 628	-	868 072	(36 614)	36 619
Purchase	-	-	221 796	212 314	-	434 110		
Sale	-	-	221 648	212 314	-	433 962		
Total	**18 052 985**	**6 276 677**	**27 140 428**	**19 036 523**	**5 886 680**	**76 393 293**	**(504 200)**	**526 642**

28. Other financial instruments at fair value through profit and loss

	31.12.2007	31.12.2006
Debt securities		
- issued by non bank financial entities	538 986	650 323
- issued by the State Treasury	3 238 693	962 873
Stock and shares in other entities	50	
Total	**3 777 729**	**1 613 196**

Other financial instruments at fair value through profit and loss - breakdown

	31.12.2007	31.12.2006
1. Debt securities		
a) with embedded instrument		
- quoted	-	-
- unquoted	-	-
b) other		
- quoted	3 238 693	1 613 196
- unquoted	538 986	-
2. Stock and shares		
- quoted	50	-
- unquoted	-	-
3. Other financial instruments		
- quoted	-	-
- unquoted	-	-
Total	**3 777 729**	**1 613 196**

Debt securities have been designated by the Group as at fair value through profit and loss among other in order to eliminate or significantly reduce a measurement or recognition inconsistency between debt securities and derivatives economically hedging interest rate risk attributable to debt securities.

(in PLN thousand)

Other financial instruments at fair value through profit and loss according to residual maturities:

As at 31 December 2007	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by non bank financial entities	-		-		12 526	4.75	526 460	4.28	-		-	**538 986**	4.29
- issued by the State Treasury	-		-		-		2 746 282	5.12	492 411	4.83	-	**3 238 693**	5.07
Shares and stock in other entities													
- listed on the stock exchanges	-		-		-						50	**50**	
- not listed	-		-		-								
Total	**-**		**-**		**12 526**	**4.75**	**3 272 742**	**4.98**	**492 411**	**4.83**	**50**	**3 777 729**	**4.96**
Including interest	-		-		22		49 218		14 459			**63 699**	

Other financial instruments at fair value through profit and loss according to residual maturities:

As at 31 December 2006	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by other financial entities	-	-	-	-	-	-	650 323	5.26	-	-	-	**650 323**	5.26
- issued by the State Treasury	-	-	-	-	-	-	-	-	962 873	4.80	-	**962 873**	4.80
Total	**-**		**-**		**-**		**650 323**	**5.26**	**962 873**	**4.80**	**-**	**1 613 196**	**4.98**
Including interest	-		-		-		7 250		27 211		-	**34 461**	-

29. Loans and receivables from customers

	31.12.2007	31.12.2006
Loans	68 603 963	34 393 214
Payment cards receivables	604 290	183 348
Purchased receivables	980 324	557 848
Realized guarantees and commitments	40 366	43 742
Unquoted securities	60 993	82 965
Repo transactions	732 997	-
Receivables in transit	62 097	2 472
Interest	219 080	133 150
Total gross	**71 304 110**	**35 396 739**
Impairment provisions	(4 646 073)	(3 618 612)
Total net	**66 658 037**	**31 778 127**

31.12.2007	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value	Fair value
Loans given to						
State budget entities	1 793 135	1 801	-	(6 834)	1 788 102	1 787 683
non-banking financial entities	3 381 203	56 313	(42 016)	(29 819)	3 365 681	3 365 717
non-financial entities	37 707 746	4 102 593	(2 030 930)	(1 360 895)	38 418 514	38 454 791
general public	22 746 937	1 295 302	(91 232)	(1 084 347)	22 866 660	22 847 052
Interest	219 080	-	-	-	219 080	219 080
Total	**65 848 101**	**5 456 009**	**(2 164 178)**	**(2 481 895)**	**66 658 037**	66 674 323

* Includes the estimated impairment for losses incurred but not reported (IBNR)

Fixed interest rate loans and lending facilities extended to customers as at 31 December 2007 represented 10.62 % of the total loans and advances portfolio or PLN 7 546 862 thousand.

31.12.2006	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value	Fair value
Loans given to						
state budget entities	1 956 260	1 830	-	(12 273)	1 945 817	1 945 303
non-banking financial entities	1 128 609	56 606	(37 353)	(46 869)	1 100 993	1 101 158
non-financial entities	18 862 851	3 068 273	(1 434 146)	(1 228 234)	19 268 744	19 323 409
general public	9 295 911	893 249	(36 143)	(823 594)	9 329 423	9 392 327
Interest	133 150	-	-	-	133 150	133 150
Total	**31 376 781**	**4 019 958**	**(1 507 642)**	**(2 110 970)**	**31 778 127**	**31 895 347**

* Includes the estimated impairment for losses incurred but not reported (IBNR)

Fixed interest rate loans and lending facilities extended to customers as at 31 December 2006 represented 10.92 % of the total loans and advances portfolio or PLN 3 851 190 thousand.

Changes in impairment balances in the reporting periods ended 31 December 2007 and 31 December 2006 are presented in the Note 19.

30. Net investments in financial leases

The Group conducts lease operations through its subsidiaries. Pekao Leasing Sp. z o.o.. BPH PBK Leasing S.A. and Bank UniCredit Ltd. The value of gross lease investments and minimum lease payments were. respectively:

31.12.2007	Gross leasing investment	Present value of minimum lease payments
Up to 1 year	1 525 563	1 298 708
Between 1 and 5 years	2 129 049	1 887 210
Above 5 years	96 097	67 257
Total	**3 750 709**	**3 253 175**
Unrealized financial revenue	(497 534)	
Net leasing investment	3 253 175	
Non-guaranteed end value to the lessor	-	
Present value of minimum lease payments	3 253 175	
Provisions value	(209 407)	
Balance sheet value	**3 043 768**	

31.12.2006	Gross leasing investment	Present value of minimum lease payments
Up to 1 year	691 507	565 173
Between 1 and 5 years	838 168	587 357
Above 5 years	41 074	25 652
Total	**1 570 749**	**1 178 182**
Unrealized financial revenue	(392 566)	
Net leasing investment	1 178 183	
Non-guaranteed end value to the lessor	-	
Present value of minimum lease payments	1 178 183	
Provisions value	(211 576)	
Balance sheet value	**966 607**	

The Group is acting as a lessor in the financial leases embracing mainly means of transport. machines and equipment.

31. Cash flow hedge (macro hedge)

The hedge relationship description
The Bank. through the derivative interest rate swap (IRS) transacions hedges a part of it's interest rate risk exposure arising from the volatitilty of the cash flows related to the variable interest Polish zloty assets (with the exception of the debt securities classified as held to maturity).

Hedged items

Cash flows arising from variable rate assets

Hedging instruments

A portfolio of IRS transactions (a short position – the Bank receives fixed flow of payments and pays a variable flow).

As at 31 December 2007 the net fair value of the hedging instruments amounted to PLN 11 707 ths.

Balance sheet disclosure

The effective part of the hedging instruments valuation is recognized in revaluation equity.
Interest on hedged items and hedging instruments is recognized as interest income.

No.	31.12.2007	31.12.2006
Gross revaluation equity (deferral of the p&l recognition of th changes in the fair value of hedging instrument of the effective hedge)	(62 340)	-
Period in which the cash flows related to the hedged items are expected to occur.	01.01.2008 - 20.11.2017	n/c

32. Investment securities

	31.12.2007	31.12.2006
Securities available for sale	**17 055 381**	**12 582 248**
Debt securities	17 035 714	12 568 441
- issued by central banks	554 092	334 975
- issued by other banks	1 273 447	45 479
- issued by other financial entities	230 452	35 224
- issued by non financial entities	620 804	420 265
- issued by the State Treasury	13 948 142	11 286 508
- issued by local governments	408 777	445 990
Stock and shares in other entities	19 667	13 673
Other financial instruments	-	134
Securities held to maturity	**586 994**	**425 612**
- issued by central banks	394 381	219 178
- issued by other financial entities	17 277	20 689
- issued by the State Treasury	175 336	185 745
Total Gross	**17 642 375**	**13 007 860**
Impairment of securities available for sale	(21 852)	(7 591)
Impairment of securities held to maturity	(104)	(202)
Total net	**17 620 419**	**13 000 067**

Securities available for sale - breakdown

	31.12.2007	31.12.2006
1. Debt securities		
a) with embedded instrument		
- quoted	175 706	389 717
- unquoted	-	-
b) other		
- quoted	12 905 329	11 409 876
- unquoted	3 950 038	768 848
2. Stock and shares		
- quoted	383	-
- unquoted	2 073	6 082
3. Other financial instruments		
- quoted	-	-
- unquoted	-	134
Total	**17 033 529**	**12 574 657**

(in PLN thousand)

Securities held to maturity - breakdown

	31.12.2007	31.12.2006
a) with embedded instrument		
- book value	-	-
- fair value	-	-
b) other		
- book value	586 890	425 410
- fair value	592 117	428 235
Total	**586 890**	**425 410**

Changes in investment securities

	31.12.2007	31.12.2006
Securities available for sale		
Balance at the beginning of the period	**12 574 657**	**11 902 898**
Decreases due from the full method consolidation	131 859	**-**
Merger of "Pekao 285"	863 736	**-**
Increase (purchase)	31 962 094	33 242 530
Decrease (sale and redemption)	(28 687 404)	(32 615 451)
Impairment charges during period	(12 079)	-
Changes in the fair value	(261 077)	(136 985)
Exchange rate differences	(351 123)	(263 957)
Other	812 866	445 622
Balance at the end of the period	**17 033 529**	**12 574 657**
Securities held to maturity		
Balance at the beginning of the period	**425 410**	**2 587 874**
Increase(purchase)	12 426 059	8 599 527
Decrease (sale and redemption)	(12 273 171)	(10 855 754)
Impairment charges during period	28	(40)
Exchange rate differences	(13 673)	(2 669)
Other	22 237	96 472
Balance at the end of the period	**586 890**	**425 410**
Total investment securities net	**17 620 419**	**13 000 067**

(in PLN thousand)

Securities available for sale according to maturities:

As at 31 December 2007	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by central banks	5 397	5.61	-	-	-	-	548 695	4.19	-	-	-	**554 092**	4.20
- issued by other banks	-	-	1 178	13.75	80 109	5.56	1 192 160	5.61	-	-	-	**1 273 447**	5.62
- issued by other financial entities	-	-	-	-	85 651	5.60	144 801	5.24	-	-	-	**230 452**	5.37
- issued by non financial entities	-	-	-	-	7 653	6.70	427 485	5.45	181 026	5.50	-	**616 164**	5.48
- issued by the State Treasury	3 053	4.31	315 667	5.00	1 345 773	5.75	8 710 837	5.98	3 572 811	5.72	-	**13 948 141**	5.87
- issued by local governments	-		-		148 611	4.92	259 635	5.32	531	4.82	-	**408 777**	5.17
Shares in other entities													
- listed	-	-	-	-	-	-	-	-	-	-	383	**383**	
- not listed	-	-	-	-	-	-	-	-	-	-	2 073	**2 073**	
Other financial instruments	-	-	-	-	-	-	-	-	-				
Total	**8 450**	**5.14**	**316 845**	**5.04**	**1 667 797**	**5.67**	**11 283 613**	**5.81**	**3 754 368**	**5.71**	**2 456**	**17 033 529**	**5.76**
Including interest	147		12 358		22 259		249 444		73 641			**357 849**	

(in PLN thousand)

Securities available for sale according to maturities:

As at 31 December 2006	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by central banks	334 975	3.92	-	-	-	-	-	-	-	-	-	**334 975**	3.92
- issued by other banks	-	-	-	-	-	-	45 479	4.45	-	-	-	**45 479**	4.45
- issued by other financial entities	-	-	-	-	28 964	3.50	6 260	4.51	-	-	-	**35 224**	3.68
- issued by non financial entities	-	-	-	-	122 693	4.35	297 572	4.74	-	-	-	**420 265**	4.63
- issued by the State Treasury	-	-	-	-	317 793	5.24	8 396 803	4.79	2 571 912	5.13	-	**11 286 508**	4.88
- issued by local governments	5 240	4.95	2 020	4.62	93 937	4.93	343 752	4.85	1 041	5.48	-	**445 990**	4.87
Shares in other entities													
- listed	-	-	-	-	-	-	-	-	-	-	-	**-**	-
- not listed	-	-	-	-	-	-	-	-	-	-	6 082	**6 082**	-
Other financial instruments	-	-	-	-	-	-	-	-	-	-	134	**134**	-
Total	**340 215**	**3.93**	**2 020**	**4.62**	**563 387**	**4.91**	**9 089 866**	**4.79**	**2 572 953**	**5.13**	**6 216**	**12 574 657**	**4.84**
Including interest	239		70		8 504		190 140		37 424		-	**236 377**	

(in PLN thousand)

Securities held to maturity according to maturities:

As at 31December 2007	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by central banks	394 381	5.61	-	-	-	-	-	-	-	-	-	**394 381**	5.61
- issued by non bank financial entities	-	-	-	-	-	-	17 277	4.28	-	-	-	**17 277**	4.28
- issued by the State Treasury	-	-	-	-	-	-	175 232	4.58	-	-	-	**175 232**	4.58
Total	**394 381**	**5.61**	**-**		**-**		**192 509**	**4.55**	**-**		**-**	**586 890**	**5.26**
Including interest	-		-		-		7 438		-			**7 438**	

Securities held to maturity according to maturities:

As at 31 December 2006	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by central banks	219 178	3.92	-	-	-	-	-	-	-	-	-	**219 178**	3.92
- issued by non bank financial entities	-	-	-	-	-	-	20 689	5.25	-	-	-	**20 689**	5.25
- issued by the State Treasury	-	-	-	-	-	-	185 543	4.17	-	-	-	**185 543**	4.17
Total	**219 178**	**3.92**	**-**		**-**		**206 232**	**4.28**	**-**		**-**	**425 410**	**4.09**
Including interest	-		-		-		8 212		-		-	**8 212**	

33. Assets held for sale and discontinued operations

According to IFRS 5 "Fixed assets held for sale and discontinued operations". the Group segregated within the balance sheet item called "Fixed assets held for sale" the fixed assets and fixed assets included in the group held for sale connected with discontinued operations which as at 31 December 2007 met the relevant requirements of IFRS 5 related to classification of fixed assets held for sale.

Moreover in liabilities item „Liabilities due to assets held for sale" there were disclosed the liabilities amounts related to the assets held for sale.

As at 31 December 2007 an organized part of Pekao S.A. Central Brokerage House enterprise operations connected with investment banking (CDM MIB) was classified as discontinued operations and fixed assets held for sale. The organised part of the enterprise was purchased on behalf of and for UniCredit CAIB Polska S.A.

Moreover real estate means of transport and other fixed assets identified as held for sale have been reclassified in this item.

During 2007 the Group reclassified into this item and subsequently disposed of the assets and liabilities related with the sale of shares in Pekao Access Sp. z o.o and Anica System S. A.

Non-current assets and corresponding liabilities held for sale (in PLN thousand) - 2007:

Item name	Assets and liabilities CDM MIB	Other fixed assets
Financial assets held for trading	7 199	-
Loans and receivables from customers	373	-
Investment securities available for sale	723	-
Intangible assets	-	-
Fixed assets	463	7 136
Other assets	49 174	-
Total assets	**57 932**	**7 136**
Financial liabilities held for trading	19	-
Amounts due to customers	31 120	-
Other liabilities	24 067	-
Provisions	85	-
Total liabilities	**55 291**	**-**

	2007	2006
Income statement of the part of discontinued operations CDM MIB		
Interest expense	(2 916)	(2 280)
Fee and commission income	47 332	54 453
Fee and commission expense	(4 432)	(11 128)
Dividend income	120	97
Gains (losses) on financial instruments at fair value	265	168
Other operating income	11	-
Other operating expense	(49)	-
General and administrative expenses	(17 108)	(16 974)
Operating profit	**23 223**	**24 336**
Gross profit on discontinued operations	**23 223**	**24 336**
Income tax	(5 111)	(5 234)
Net profit on discontinued operations	**18 112**	**19 102**

Changes during 2007

	Property	Shares
Opening balance	8 784	-
Increases. including:	11 219	7 373
Transfer from own real estate	3 100	-
Transfer from other balance sheet items	-	1 819
Transfer from associated entities investments	-	5 554
Foreign exchange	11	-
Other	8 108	-
Decreases. including:	(12 404)	(7 373)
Transfer from fixed assets	(58)	-
Disposals	(12 194)	(7 373)
Other	(152)	-
Closing balance	7 599	-

Liabilities pertaining to assets held for sale and discontinued operations

Opening balance	-	-
Increases. including:	55 291	916
Transfers from other liabilities items	55 291	916
Disposals	-	(916)
Closing balance	55 291	-

The disposals during 2007 were settled as follows:

	Property	Shares	Total
Income from sale	39 453	23 418	62 871
Book value of sold net assets (including costs of sales)	12 195	6 053	18 248
Profit / Loss on sale	27 258	17 365	44 623

Non-current assets and corresponding liabilities held for sale - 2006:

	31.12.2006
Investment properties	8 784
Total non-current assets held for sale	8 784

Changes in value of the assets classified as held for sale for the 2006 year are presented as follow:

	Property	Shares
Opening balance	**2 220**	**165 147**
Increase:	10 523	59 148
Transfer from Investment properties	2 145	-
Transfer from Tangible assets	8 378	-
Transfer from Investments in associates	-	54 393
Foreign exchange differences	-	4 755
Decrease:	(3 959)	(224 295)
Disposals	(3 936)	(183 008)
Transfer to Investments in associates	-	(41 287)
Other changes	(23)	-
Closing balance	**8 784**	**-**

In 2006 shares of the following subordinated undertakings were classified and thereafter divested to the mentioned position:

- 49.40% shares of Hotel Jan III Sobieski Spółka z o.o. in the aid of Europa Hawk S.a.r.l..
- 86.68% shares of Fabryka Maszyn Sp. z o.o. in the aid Komas OY.
- 23.81% shares of Fabryka Sprzętu Okrętowego "Meblomor" S.A. in the aid of "Meblomor " S.A.

The disposals of 2006 were settled as follows:

	Property	Shares	Total
Income from sale	7 586	133 566	141 152
Book value of sold net assets (including costs of sales)	3 936	121 258	125 194
Profit / Loss on sale	3 650	12 308	15 958

34. Investments in associates

Summary information about associated entities valued using equity method:

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
31 December 2007						
Pirelli Pekao Real Estate Sp. z o.o. (preliminary date)	133 776	44 451	92 135	52 672	25.00	22 331
Krajowa Izba Rozliczeniowa S.A.	106 021	17 842	92 026	23 629	34.44	30 713
Pioneer Pekao Investment Management S.A.	269 585	22 688	138 252	207 315	49.00	229 959
Xelion. Doradcy Finansowi Sp. z o.o.	10 945	4 565	36 258	(13 140)	50.00	3 190
Central Poland Fund LLC*	1 746	-	-	(25)	53.19	418
Biuro Informacji Kredytowej	90 781	46 133	69 398	17 339	30.70	13 707

S.A.						
Total						**300 318**
31 December 2006						
Pirelli Pekao Real Estate Sp. z o.o.	226 447	125 968	337 891	49 563	25.00	25 120
Krajowa Izba Rozliczeniowa S.A.	106 951	18 651	86 696	21 985	22.96	20 274
Pioneer Pekao Investment Management S.A.	400 423	102 009	785 522	182 111	49.00	146 223
Xelion, Doradcy Finansowi Sp. z o.o.	24 746	5 227	17 730	(20 905)	50.00	9 760
Anica System S.A.	24 082	9 155	41 839	6 181	33.84	5 051
Central Poland Fund LLC*	1 926	-	1	(35)	53.19	776
Total						**207 204**

* data are in USD thousand. book value of shares in PLN thousand

The Group has no shares at joint venture entities classified as equity method as at 31 December 2007 and 31 December 2006.

Summary information about associated entities not recognized using equity method:

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
31 December 2007						
CPF Management (not operating)	-	-	-	-	40.00	-
Bankowe Doradztwo Podatkowe Sp. z o.o.	632	197	910	162	74.00/48.68	37
Polish Banking System S.A. /in liquidation/	n/d	n/d	n/d	n/d	48.90	**-**
PPP Budpress Sp. z o.o. / in liquidation /	n/d	n/d	n/d	n/d	36.20	**-**
Total						**37**
31 December 2006						
CPF Management (not operating)	-	-	-	-	40.00	-
Total						**-**

Summary information about the non-consolidated subsidiaries

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
31 December 2007						
Final Holding Sp. z o.o.	51 533	16	3	200	100.00	55 900
BPH Real Estate S.A.	28 906	469	3 845	2 530	100.00	24 376
Centrum Usług Księgowych Sp. z o.o.	190	70	488	16	100.00	50
PBK Property Sp. z o.o. /in liquidation/	13 859	144	0	488	100.00	6 998
Centrum Bankowości Bezpośredniej Sp. z o.o.	9 375	2 899	29 066	147	98.00	490
PBKL S.A. /in liquidation/	n/d	n/d	n/d	n/d	84.51/84.79	-
Final S.A.	87 284	34 410	127 358	10 660	99.82/99.84	-
FBP Media Sp. z o. o	22 211	18 054	(727)	341	100.00	-
Metropolis Sp. z o. o.	18 818	13 292	193	348	100.00	-
Jana Kazimierza	100 124	100 053	26 087	31	100.00	-

Development Sp. z o. o.						
Total						**87 814**
31 December 2006						
SARL Pekao Immobilier*	44	-	-	(5)	100.00	50
Total						**50**

* - data are in EUR thousand. book value of shares in PLN thousand

Changes in book value of investments in associated and joint-venture entities:

	31.12.2007	31.12.2006
Book value of subsidiaries at the beginning of the reporting period	**50**	**11 989**
Merger of "Pekao 285"	87 814	
Sale	-	(11 939)
Other	(50)	-
Book value of subsidiaries at the reporting date	**87 814**	**50**
Book value of associated entities at the beginning of the reporting period	207 204	**151 643**
Share in profit / (loss)	152 876	90 859
Other profit adjustments	-	1 626
Dividends declared	(76 713)	(58 315)
Sale	(22 598)	(1 665)
Merger of "Pekao 285"	37	-
Share in changes directly recognized in entities equity	23 211	10 211
Reclassification from „Investment in associates entities"	-	4 182
Reclassification form „ Assets classified as held for sale"	-	8 858
Other	16 338	(195)
Book value of associated entities at the reporting date	**300 335**	**207 204**
Book value of joint-venture entities at the beginning of the reporting period	**-**	**4 182**
Reclassification to „Investment in joint-venture entities"	-	(4 182)
Book value of joint-venture entities at the reporting date	**-**	**-**

35. Intangible assets

Intangible assets	31.12.2007	31.12.2006
a)intangible assets. including:	**633 999**	**608 884**
- development costs	14 575	27 625
- licenses	432 304	460 415
- other	4 763	4 721
- intangible assets under construction and advances for intangible assets	182 357	116 123
b) goodwill	**54 560**	**-**
Total	**688 559**	**608 884**

Goodwill - has been transferred to Pekao in effect of the integration with Bank BPH S.A. in a way of transfer of part of property of Bank BPH S.A in a form of an organized part of an enterprise.

The goodwill transferred to the Bank represents a part of the goodwill that was created in effect of the purchase by Bank BPH S.A. of Pierwszy Komercyjny Bank S.A. (PKBL) w Lublinie and

it referres just to those branches of the former PKBL. which have been transferred to the Bank in effect of the Integration of the Banks. The recognized goodwill related to PKBL amounts to 51 675 ths.

Moreover this item includes the goodwill that arose in effect of purchase of BPH Leasing by BPH PBK Leasing SA.. amounting to PLN 2.885 ths.

31 December 2007	Development cost	Licenses	Other(*)	Total
Gross book value				
Opening balance	**82 578**	**1 037 844**	**146 565**	**1 266 987**
Additions. including:	1 661	145 436	91 435	238 532
Increase due to first-time consolidation	676	12 924	29	13 629
Merger of "Pekao 285"	-	13 644	2 319	15 963
Acquisition	-	7 105	185 865	192 970
Other additions	-	-	15 970	15 970
Transfers from investments	985	111 763	(112 748)	-
Disposals. including:	(10 333)	(28 078)	(20 727)	(59 138)
Liquidation	(10 333)	(26 941)	(624)	(37 898)
Other disposals	-	(1 137)	(20 103)	(21 240)
Closing balance	**73 906**	**1 155 202**	**217 273**	**1 446 381**
Accumulated depreciation				
Opening balance	**54 953**	**577 178**	**14 760**	**646 891**
Decreases due from full method consolidation	518	11 344	-	11 862
Merger of "Pekao 285"	-	13 353	2 319	15 672
Amortization	14 193	147 915	2 660	164 768
Liquidation	(10 333)	(26 826)	(571)	(37 730)
Other changes in value	-	(436)	24	(412)
Closing balance	**59 331**	**722 528**	**19 192**	**801 051**
Impairment write-offs				
Opening balance	**-**	**251**	**10 961**	**11 212**
Write-down	-	119	24	143
Other changes	-	-	(24)	(24)
Closing balance	**-**	**370**	**10 961**	**11 331**
Net book value				
Opening balance	**27 625**	**460 415**	**120 844**	**608 884**
Closing balance	**14 575**	**432 304**	**187 120**	**633 999**

* Other movements include in particular investments

The Group has no amounts of intangible assets whose deed title is restricted.

2006	Development cost	Licenses	Other(*)	Total
Gross book value				
Opening balance	**70 696**	**945 817**	**121 645**	**1 138 158**
Additions. including:	-	2 656	135 342	137 998
Acquisition	-	2 382	134 715	137 097
Other additions	-	274	627	901
Transfers from investments	11 882	94 204	(106 086)	-
Disposals. including:	-	(4 833)	(4 336)	(9 169)
Liquidation	-	(1 971)	(32)	(2 003)
Other disposals	-	(2 862)	(4 304)	(7 166)
Closing balance	**82 578**	**1 037 844**	**146 565**	**1 266 987**
Accumulated depreciation				
Opening balance	**37 925**	**444 878**	**9 647**	**492 450**
Amortization	17 028	136 561	5 241	158 830
Liquidation	-	(1 489)	(17)	(1 506)
Other changes in value	-	(2 772)	(111)	(2 883)
Closing balance	**54 953**	**577 178**	**14 760**	**646 891**
Impairment write-offs				
Opening balance	**-**	**251**	**-**	**251**
Other changes in value	-	-	10 961	10 961
Closing balance	**-**	**251**	**10 961**	**11 212**
Net book value				
Opening balance	**32 771**	**500 688**	**111 998**	**645 457**
Closing balance	**27 625**	**460 415**	**120 844**	**608 884**

* Other movements include in particular investments

The Group has no amounts of intangible assets whose deed title is restricted.

36. Fixed assets

	31.12.2007	31.12.2006
Fixed assets:		
a) fixed assets. including:	**1 955 943**	**1 381 714**
Land and buildings	1 487 117	1 086 880
Machinery and equipment	374 262	251 933
Means of transport	60 045	23 088
Other fixed assets	34 519	19 813
b) Capital work in progress and prepayments for capital work in progress	**65 109**	**63 746**
Total	**2 021 052**	**1 445 460**

(in PLN thousand)

31 December 2007	Land and buildings	Machinery and equipment	Means of transport	Other tangible fixed assets	Total tangible fixed assets
Opening balance as at 1 January 2007	**1 627 216**	**1 041 738**	**43 780**	**301 159**	**3 013 893**
Increases. including:	735 385	486 692	78 094	114 844	1 415 015
Increase due to first-time consolidation	1 323	15 713	41 152	6 064	64 252
Merger of "Pekao 285"	671 498	276 717	25 558	99 684	1 073 457
Acquisitions	15 548	13 662	2 455	1 192	32 857
Transfer from tangibles assets under construction	40 766	136 903	414	6 299	184 382
Other	6 250	43 697	8 515	1 605	60 067
Decreases. including:	(30 344)	(133 766)	(10 046)	(16 764)	(190 920)
Liquidation and sale	(3 381)	(84 274)	(8 448)	(13 801)	(109 904)
Transfer to „Assets classified as held for sale"	(4 846)	(2 480)	(1 141)	(442)	(8 909)
Other	(22 117)	(47 012)	(457)	(2 521)	(72 107)
Closing balance	**2 332 257**	**1 394 664**	**111 828**	**399 239**	**4 237 988**
Depreciation					
Opening balance as at 1 January 2007	**537 421**	**789 455**	**20 692**	**281 346**	**1 628 914**
Increases. including:	315 809	338 047	33 539	97 934	785 329
Increase due to first-time consolidation	669	10 990	12 151	4 741	28 551
Merger of "Pekao 285"	240 855	208 271	12 426	85 085	546 637
Depreciation of the period	66 279	90 280	8 386	7 958	172 903
Other	8 006	28 506	576	150	37 238
Decreases. including:	(10 437)	(115 757)	(7 373)	(15 172)	(148 739)
Liquidation and sale	(1 961)	(83 530)	(6 649)	(13 566)	(105 706)
Transfer to „Assets classified as held for sale"	(2 182)	(2 143)	(641)	(424)	(5 390)
Other	(6 294)	(30 084)	(83)	(1 182)	(37 643)
Closing balance	**842 793**	**1 011 745**	**46 858**	**364 108**	**2 265 504**
Impairment write-downs					
Opening balance	**2 915**	**350**	**-**	**-**	**3 265**
Increases. including	30	8 713	4 925	612	14 280
Merger of "Pekao 285"	30	8 574	3 668	612	12 884
Decreases:	(598)	(406)	-	-	(1 004)
Closing balance	**2 347**	**8 657**	**4 925**	**612**	**16 541**
Net value					
Opening balance	**1 086 880**	**251 933**	**23 088**	**19 813**	**1 381 714**
Closing balance	**1 487 117**	**374 262**	**60 045**	**34 519**	**1 955 943**

(in PLN thousand)

2006	Land and buildings	Machinery and equipment	Means of transport	Other tangible fixed assets	Total tangible fixed assets
Opening balance as at 1 January 2006	**1 620 564**	**1 015 977**	**44 901**	**301 512**	**2 982 954**
Increases. including:	38 246	91 351	10 366	14 824	154 787
Acquisitions	919	12 784	772	4 144	18 619
Transfer from fixed assets under construction	35 100	78 422	1 547	9 433	124 502
Other	2 227	145	8 047	1 247	11 666
Decreases. including:	(31 594)	(65 590)	(11 487)	(15 177)	(123 848)
Liquidation and sale	(16 565)	(63 066)	(11 415)	(12 196)	(103 242)
Transfer to „Assets classified as held for sale"	(10 074)	(602)	-	(170)	(10 846)
Transfer to investments property	(1 723)	(140)	-	-	(1 863)
Other	(3 232)	(1 782)	(72)	(2 811)	(7 897)
Closing balance	**1 627 216**	**1 041 738**	**43 780**	**301 159**	**3 013 893**
Depreciation					
Opening balance as at 1 January 2006	**487 331**	**770 331**	**23 685**	**284 881**	**1 566 228**
Increases. including:	60 902	82 125	7 643	9 483	160 153
Depreciation of the period	59 481	82 040	7 140	8 333	156 994
Other	1 421	85	503	1 150	3 159
Decreases. including:	(10 812)	(63 001)	(10 636)	(13 018)	(97 467)
Liquidation and sale	(7 246)	(61 319)	(10 620)	(12 063)	(91 248)
Transfer to „Assets classified as held for sale"	(1 953)	(346)	-	(169)	(2 468)
Transfer to investments property	(689)	(100)	-	-	(789)
Other	(924)	(1 236)	(16)	(786)	(2 962)
Closing balance	**537 421**	**789 455**	**20 692**	**281 346**	**1 628 914**
Impairment write-downs					
Opening balance	**7 765**	**414**	**-**	**-**	**8 179**
Increases	553	-	-	-	553
Decreases	(5 403)	(64)	-	-	(5 467)
Closing balance	**2 915**	**350**	**-**	**-**	**3 265**
Net value					
Opening balance	**1 125 468**	**245 232**	**21 216**	**16 631**	**1 408 547**
Closing balance	**1 086 880**	**251 933**	**23 088**	**19 813**	**1 381 714**

As at 31 December 2007 assets under construction amounted to PLN 60 148 thousand (as at 31 December 2006 PLN 63 741 thousand).

The amount received and recognized in the profit and loss. in relation to fixed assets lost in the 2007 was PLN 1 154 thousand (in 2006 PLN 1 456 thousand).

In 2007 and in 2006 there were no pledges or restrictions on legal titles to fixed assets.

Agreement Liabilities

As at 31 December 2007 the Group had agreements with its contractors for the future purchase of intangible assets in amount of PLN 66 209 thousand. including PLN 66 209 thousand in the 2008. and of property. plant and equipment in amount of PLN 12 055 thousand. including PLN 12 055 thousand in the 2008 (till the 31 December 2006 the Group had agreements with its contractors for the future purchase of intangible assets in amount of PLN 59 929 thousand. including PLN 59 929 thousand in the 2007. and of property. plant and equipment in amount of PLN 15 662 thousand. including PLN 15 662 thousand in the 2007).

37. Investment property

The Group measures investment property using the historical cost model.

There are no restrictions related to the right to sell and to transfer the profit attributable to investment property owned by the Group.

Changes in value of the investment property:

	31.12.2007	31.12.2006
Gross value		
Opening balance	**94 126**	**95 367**
Increase of balance	10 467	2 992
Acquisitions of real estate	145	-
Activation of subsequent outlays	-	-
Transfer from own real estate	9 690	1 863
Other changes	632	1 129
Decrease of balance	(4 967)	(4 233)
Transfer to „Assets of disposal group classified as held for sale”	-	(3 152)
Buy-out	-	-
Other changes	(4 967)	(1 081)
Closing balance	**99 626**	**94 126**
Depreciation write-offs		
Opening balance	**32 802**	**30 520**
Increase of balance	6 934	3 625
Activation of subsequent outlays	-	-
Transfer from own real estate	3 898	789
Other changes	546	295
Depreciation	2 490	2 541
Decrease of balance	(7 442)	(1 343)
Transfer to „Assets of disposal group classified as held for sale”; including	-	(1 007)
including: depreciation	-	(12)
Buy-out	-	-
Other changes	(7 442)	(336)
Closing balance	**32 294**	**32 802**
Depreciation write-offs due to loss of value		
Opening balance	**8 654**	**3 588**
Increase of balance	350	5 092
Transfer from own real estate	-	-
Other changes	350	5 092
Decrease of balance	(231)	(26)
Differences in exchange rates	(231)	(26)
Closing balance	**8 773**	**8 654**
Net balance value		
Opening balance	**52 670**	**61 259**
Closing balance	**58 559**	**52 670**

The fair value of investment property as at 31 December 2007 amounted to PLN 73 624 thousand (as at 31 December 2006 amounted to PLN 68 095 thousand). Fair value was made on the assessment off a property surveyor holding a recognized and relevant professional qualification.

The following amounts of income and expenses were recognized in profit and loss in relation to investment property:

	2007	2006
Income on rental of investment property	4 320	4 510
Direct operational expenses (including repair and maintenance) related to investment property bringing rental income	(904)	(1 061)
Direct operational expenses (including repair and maintenance) related to investment property not bringing rental income	(22)	(129)

38. Other assets

	31.12.2007	31.12.2006
Prepaid expenses	147 957	20 669
Perpetual usufruct rights	17 620	8 301
Accrued income	33 154	24 936
Assets held to sale	6 845	7 069
Interbank and interbranch settlements	556 895	9 673
Other debtors	1 379 739	634 773
Total	**2 142 210**	**705 421**

Prepaid expenses represent expenditures. which will be amortized against profit and loss account in the future reporting periods.

Assets held for sale are repossessed assets that are presented at the amount of the debt in relation to which they were acquired. less specific provisions of these assets at the amount of differences between the amount of debt lower than the fair value of acquired assets. If the selling price of the asset acquired exceeds the amount of the debt. the surplus is the liability towards the debtor.

The Bank endeavours to sell repossessed real estate properties within 5 years and within 3 years for other repossessed assets. After the expiration of this time the Bank transfer the amount not disposed of assets to the appropriate items under fixed assets usufructed by the Bank.

The table below presents items of assets held for sale.

Item	31.12.2007	31.12.2006
Buildings	-	29
Means of transport	135	244
Other assets	6710	6796
Total	**6 845**	**7 069**

39. Assets used to pledge liabilities

As at 31 December 2007 and 31 December 2006 the Group held financial assets used to pledge liabilities.

31.12.2007

Type of transaction	Pledge instrument	Book value of the pledge instrument	Nominal value of the pledge instrument	Value of the liabilities pledged with the pledge instrument
Repo	bonds	1 207 152	1 180 533	1 208 252
Sell-buy-back	bonds	2 582 140	2 587 015	2 583 122
Loan from the Bank Guarantee Fund	bonds	149 606	155 000	-
Lombard loan	bonds	1 487 013	1 500 000	-

31.12.2006

Type of transaction	Pledge instrument	Book value of the pledge instrument	Nominal value of the pledge instrument	Value of the liabilities pledged with the pledge instrument
Repo	bonds	723 789	687 912	723 785
Sell-buy-back	bonds	1 677 866	1 609 081	1 680 046
Loan from the Bank Guarantee Fund	bonds	132 356	140 000	-
Lombard loan	bonds	1 545 547	1 500 000	-

40. Amounts due to Central Bank

	31.12.2007	31.12.2006
Received credits	1 485 921	2 045 278
Interest charged	-	-
Total	**1 485 921**	**2 045 278**

41. Amounts due to other banks

	31.12.2007	31.12.2006
Current accounts	1 013 931	633 307
Bank deposits and other liabilities	3 371 445	1 100 565
Loans and advances	2 455 779	58 253
Due in transit	495 952	43 643
Repo transactions	1 083 127	169 626
Interest accrued	35 957	4 582
Total	**8 456 191**	**2 009 976**

As at 31 December 2007 the variable interest rate due to other banks amounts to PLN 715 526 thousand (as at 31 December 2006: PLN 219 241 thousand). fixed interest rate due to banks amounts to PLN 7 208 757 thousand (as at 31 December 2006: PLN 1 742 510 thousand).

42. Financial liabilities held for trading

	31.12.2007	31.12.2006
Short position in securities	491 382	211 373
Total	**491 382**	**211 373**

43. Amounts due to customers

	31.12.2007	31.12.2006
Amounts due to corporate customers	**42 256 666**	**19 152 256**
Current accounts and overnight deposits	21 429 021	9 263 285
Time deposits and other liabilities	20 130 001	9 842 868
Due in transit	636 414	21 915
Interest accrued	61 230	24 188
Amounts due to budget entities	**8 465 213**	**4 030 820**
Current accounts and overnight deposits	6 260 405	2 374 040
Time deposits and other liabilities	2 187 383	1 651 664
Due in transit	6 713	1 165
Interest accrued	10 712	3 951
Amounts due to individuals	**36 515 030**	**26 376 357**
Current accounts and overnight deposits	18 830 213	12 702 455
Time deposits and other liabilities	17 603 673	13 612 067
Due in transit	2	5 516
Interest accrued	81 142	56 319
Repo transactions	**2 707 169**	**2 234 150**
Time transactions	2 703 862	2 230 255
Interest accrued	3 307	3 895
Total	**89 944 078**	**51 793 583**

As at 31 December 2007 the variable interest rate amounts due to customers amounts to PLN 50 077 363 thousand (as at 31 December 2006 amounted to PLN 27 849 507 thousand). fixed rate amounts due to customers amounts to PLN 39 067 195 thousand (as at 31 December 2006 PLN 23 827 127 thousand).

44. Debt securities in issue

	31.12.2007	31.12.2006
Liabilities due to issue of bonds	911 367	3
Liabilities due to issue of certificates of deposit	2 049 588	-
Liabilities due to issue of mortgage-backed-securities	727 590	-
Interest accrued	28 233	-
Total	**3 716 778**	**3**

The Group never has defaulted on repayment of principal or interest or redemption of its own securities.

Type of secutity	Issue currencyi	Nominal value in PLN ths	Maturity date	Interest terms
certificates of deposit	EUR	5 215	2009-06-30	Synthetic structure dependent on DJ EuroStoxx 50
certificates of deposit	EUR	34 799	2008-12-16	dependent on a basket of 3 crude materials (metals)

certificates of deposit	EUR	28 663	2011-03-08	dependent on FTSE, EPRA and FTSE EPRA Euro indices Zero, DJ EuroSTOXX, Nikkei225, S&P500, HSCE
certificates of deposit	EUR	2 421	2011-03-08	Guaranteed interest (2%) + premium interest dependent on indices– FTSE EPRA and FTSE EPRA Euro Zero, DJ EuroSTOXX, Nikkei225, S&P500, HSCE
certificates of deposit	EUR	3 396	2010-09-27	Interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	EUR	23 022	2010-09-27	interest dependent on indices: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	EUR	6 842	2010-11-22	interest dependent on indices S&P 500, FTSE 100, Nikkei 225
certificates of deposit	PLN	10 000	2008-03-31	interest dependent on: WIBOR 6M
certificates of deposit	PLN	158 841	2009-01-16	dependent on: equities. basket of 3 asian indicies
certificates of deposit	PLN	83 001	2009-06-18	dependent on: equities. basket of 3 asian indicies
certificates of deposit	PLN	35 579	2009-01-16	dependent on: equities. basket of 3 asian indicies
certificates of deposit	PLN	19 678	2009-06-18	dependent on: equities. basket of 3 asian indicies
certificates of deposit	PLN	4 510	2009-06-30	structure dependent on DJ EuroStoxx 50 index
certificates of deposit	PLN	184 972	2009-05-18	structure dependent on DJ EuroStoxx
certificates of deposit	PLN	144 497	2009-08-03	interest dependent on indices: Dow Jones Euro Stoxx Select Dividend 30 Index and Dow Jones Euro Stoxx 50 Price Index
certificates of deposit	PLN	3 000	2009-05-18	structure dependent on DJ EuroStoxx
certificates of deposit	PLN	197 561	2008-12-16	dependent on a basket of 3 crude materials (metals)
certificates of deposit	PLN	12 000	2008-03-04	interest dependent on: EPEU
certificates of deposit	PLN	158 447	2011-03-08	interest dependent on FTSE EPRA and FTSE EPRA Euro Zero, DJ EuroSTOXX, Nikkei225, S&P500, HSCE
certificates of deposit	PLN	13 491	2011-03-08	guaranteed interest (4%) + bonus interest dependent on indices – FTSE EPRA oraz FTSE EPRA Euro Zero, DJ EuroSTOXX, Nikkei225, S&P500, HSCE
certificates of deposit	PLN	7 900	2008-07-18	Wibor 3M
certificates of deposit	PLN	13 300	2008-01-28	Wibor 6M
certificates of deposit	PLN	30 000	2008-10-24	Wibor 3M
certificates of deposit	PLN	20 000	2008-03-27	Wibor 3M
certificates of deposit	PLN	9 500	2008-08-22	Wibor 6M
certificates of deposit	PLN	47 244	2010-09-27	interest dependent on: DXAEP. SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	PLN	178 321	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT

Type of secutity	Issue currency	Nominal value in PLN ths	Maturity date	Interest terms
certificates of deposit	PLN	82 401	2010-11-22	interest dependent on: S&P 500, FTSE 100, Nikkei 225 indices
certificates of deposit	PLN	5 000	2008-01-31	Bonus interest dependent on: WIBOR 6M
certificates of deposit	PLN	182 151	2008-11-10	interest dependent on DJ EuroStoxx 50
certificates of deposit	PLN	83 051	2008-12-15	interest dependent on DJ EuroStoxx 50

certificates of deposit	USD	60 802	2009-01-16	interest dependent on: equities. a basket of 3 asian indices
certificates of deposit	USD	22 731	2009-06-18	interest dependent on: equities. a basket of 3 asian indices
certificates of deposit	USD	27 316	2009-01-16	interest dependent on: equities. a basket of 3 asian indices
certificates of deposit	USD	7 595	2009-06-18	interest dependent on: equities. a basket of 3 asian indices
certificates of deposit	USD	825	2009-06-30	interest dependent on DJ EuroStoxx 50
certificates of deposit	USD	56 278	2009-05-18	interest dependent on DJ EuroStoxx
certificates of deposit	USD	29 980	2009-08-03	interest dependent on: Dow Jones Euro Stoxx Select Dividend 30 Index i Dow Jones Euro Stoxx 50 Price Index
certificates of deposit	USD	56 611	2008-12-16	dependent on a basket of 3 crude materials (metals)
certificates of deposit	USD	26 595	2011-03-08	Dependent on: FTSE EPRA and FTSE EPRA Euro Zero. DJ EuroSTOXX, Nikkei225, S&P500, HSCE
certificates of deposit	USD	4 807	2011-03-08	Interest (guaranteed 4%) + bonus interest dewpendent on – FTSE EPRA and FTSE EPRA Euro Zero, DJ EuroSTOXX, Nikkei225, S&P500, HSCE
certificates of deposit	USD	7 549	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	USD	26 683	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	USD	17 379	2010-11-22	interest dependent on: S&P 500, FTSE 100, Nikkei 225
bonds	PLN	31 846	2008-11-03	Fixed 5.3 %
bonds convertible into shares	PLN	3	2008-12-30	
bonds	PLN	28 540	2008-01-07	interpolation WIBOR1M/3M + 25bps
bonds	PLN	35 860	2008-01-14	interpolation WIBOR1M/3M + 25bps
bonds	PLN	32 980	2008-01-21	interpolation WIBOR1M/3M + 25bps
bonds	PLN	33 000	2008-01-28	interpolation WIBOR1M/3M + 25bps
bonds	PLN	23 070	2008-02-04	interpolation WIBOR1M/3M + 25bps
bonds	PLN	11 740	2008-01-10	WIBOR 1M + 25 bps
bonds	PLN	6 150	2008-01-23	WIBOR 1M + 25 bps
bonds	PLN	100 000	2008-03-31	WIBOR 3M + 40 bps
bonds	PLN	100 000	2008-06-30	WIBOR 3M + 35 bps
bonds	PLN	100 000	2008-09-30	WIBOR 3M + 30 bps
bonds	PLN	16 880	2008-01-08	interpolation WIBOR1M/3M + 25bps
bonds	PLN	20 000	2008-01-15	interpolation WIBOR1M/3M + 25bps
bonds	PLN	30 000	2008-01-22	interpolation WIBOR1M/3M + 25bps
bonds	PLN	32 630	2008-01-29	interpolation WIBOR1M/3M + 25bps
bonds	PLN	10 450	2008-01-31	interpolation WIBOR1M/3M + 25bps
bonds	PLN	600	2008-02-08	interpolation WIBOR1M/3M + 25bps
bonds	UAH	298 457	2010-01-18	For first 2 years –fixed 8.8 %
Type of secutity	**Issue currencyi**	**Nominal value in PLN ths**	**Maturity date**	**Interest terms**
mortgage-backed securities	PLN	135 000	2012-06-02	Wibor + 0.30%
mortgage-backed securities	PLN	254 250	2010-11-21	Wibor + 0.25%

mortgage-backed securities	PLN	200 000	2011-03-28	Wibor + 0.25%
mortgage-backed securities	PLN	100 000	2012-01-12	Wibor + 0.25%
mortgage-backed securities	PLN	22 000	2008-04-30	Wibor + 0.60%
mortgage-backed securities	PLN	8 000	2008-05-19	Wibor + 0.50%
mortgage-backed securities	PLN	10 000	2008-05-19	Wibor + 0.60%

(in PLN thousand)

Debt securities in issue to maturities:

	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		undefined maturity	Total	
31 December 2007	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
- certificates of deposit	18 363	5.20	41 707	5.45	604 361	3.92	1 400 511	5.67	-			**2 064 942**	5.15
- mortgage-backed securities	-		-		40 348	5.33	695 860	5.76	-			**736 208**	5.74
-bonds	257 441	5.27	123 498	5.66	232 123	5.89	302 566	10.51	-			**915 628**	7.21
Total	**275 804**	**5.27**	**165 205**	**5.61**	**876 832**	**4.51**	**2 398 937**	**6.31**	**-**			**3 716 778**	**5.78**
Including interest	107		-		13 562		14 564		-			**28 233**	

Debt securities in issue to maturities:

	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		undefined maturity	Total	
31 December 2006	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
- certificates of deposit	-		-		-		-		-	-	-	**-**	-
- mortgage-backed securities	-		-		-		-		-		-	**-**	
-bonds	-		-		-		3	-	-		-	**3**	-
Total	**-**		**-**		**-**		**3**		**-**		**-**	**3**	**-**
Including interest	**-**		**-**		**-**		-		-		-	**-**	

45. Provisions

2007	Provisions for litigation and claims	Provisions for retirement benefits	Provisions for undrawn credit facilities and guarantees issued	Other provisions	Total
Balance as at 1 January 2007	41 947	65 370	112 668	3 958	223 943
First-time fully consolidated entities opening balance	-	106	-	-	106
Merger of "Pekao 285"	20 287	25 983	52 419	-	98 689
Provision charges	4 951	23 969	240 472	17 544	286 936
Provision utilization	(3 290)	(61)	-	-	(3 351)
Provision releases	(8 310)	(15)	(221 467)	-	(229 792)
Foreign exchange differences	1 733	-	2 069	-	3 802
Other changes	(272)	(86)	-	(147)	(505)
Balance as at 31 December 2007	**57 046**	**115 266**	**186 161**	**21 355**	**379 828**

2006	Restructuring provision	Provisions for litigation and claims	Provisions for retirement benefits	Provisions for undrawn credit facilities and guarantees issued	Other provisions	Total
Balance as at 1January 2006	4 590	20 608	61 445	20 349	1 735	108 727
Provision charges	-	24 841	3 980	189 374	3 959	222 154
Provision utilization	-	(4 848)	(25)	-	(1)	(4 874)
Provision releases	-	(890)	(30)	(95 980)	-	(96 900)
Foreign exchange differences	-	(55)	-	(1 075)	-	(1 130)
Other changes	(4 590)	2 291	-	-	(1 735)	(4 034)
Balance as at 31 December 2006	**-**	**41 947**	**65 370**	**112 668**	**3 958**	**223 943**

46. Other liabilities

	31.12.2007	31.12.2006
Deferred income	174 233	135 407
Holiday pay accrual	55 750	35 900
Other accruals	259 338	211 779
Provision for General and administrative expenses	109 385	55 905
Other costs to be paid	36 544	9 735
Other creditors	1 318 711	750 552
Liabilities due to settlement of merger with Pekao 285	594 765	-
Interbank and interbranch settlements	526 921	621 279
Total	**3 075 647**	**1 820 557**

47. Employee benefits

Employee share programs

Options to purchase the Bank's shares are granted as a part of the incentive program for senior management essential to the success of the Bank's Capital Group strategy. These were established by resolution of Extraordinary General Meeting of Bank Polska Kasa Opieki S.A on 25 July 2003.

The program involves a contingent increase of the Bank's share capital by issuing the following shares received in exchange for bonds with pre-emptive rights to take up the Bank's shares.

Type of shares	Number of options	Nominal value of 1 share	The issue price of one share	Establish basis of share issue price
Bearer common shares. F-share	830 000	1 PLN	108.37 PLN	the average of closing prices of the Bank's shares quoted at the Warsaw Stock Exchange in July and August 2003
Bearer common shares. G-share	830 000	1 PLN	123.06 PLN	the average of closing prices of the Bank's shares quoted at the Warsaw Stock Exchange in February and March 2004

After realization of the pre-emptive rights to take up the Bank's shares. the shares are recognized in the Bank's equity.

The incentive program will be implemented within the confines of sub program (each divided into two instalments) within the following parameters :

	Program based on F-share issue		**Program based on G-share issue**	
Expiry date	31 December 2010		31 December 2012	
Realization price (in PLN)	108.37		123.06	
Number of options	415 000	415 000	415 000	415 000
Criteria to rights purchase	1. Executive of individual purposes in confines of the MBO program during the 2003 year. 2. Remaining under contract of employment within Bank's capital group employee as at the date of option rights exercised.		1. Executive of individual purposes in confines of the MBO program during the 2004 year. 2. Remaining under contract of employment within Bank's capital group employee as at the date of option rights exercised.	
	3. Realization of assumed ROE for 2004	3. Realization of assumed ROE for 2005	3. Realization of assumed ROE for 2006	3. Realization of assumed ROE for 2007
Fair Value as at 31December 2007 (in PLN thousand)	6 462	6 775	7 849	6 077
Assumptions of the fair value model adopted on the day of granted rights:				
Dividend rate (%)	4.27		5.12	
Volatility index (%)	31.75		31.75	
Risk-free interest rate (%)	5.33	5.41	6.66	6.70
Foreseen option validity period (in years)	4.76	5.26	6.18	6.68
Weighted average of stock price (in PLN)	112.50		125.00	

The fair value of the pre-emptive rights to take up the Bank's shares granted in period to 31 December 2007. as at 31 December 2007 amounted to 27 163 ths PLN and it is settled over time during the estimated period in which rights to acquire the Bank's shares are granted to participating individuals.

Costs of payroll in the 2007 year was increased by PLN 3 798 thousand (in 2006 – PLN 5 877 thousand).

The fair value of the pre-emptive rights to take up the Bank's shares was recognized as at the day of granting the options (pre-emptive rights to take up the Bank's shares) based on the Black-Scholes model for appraisal of dividend-yielding stock options. according to expectations of the Management Board concerning the number of rights to be exercised. The amount of the employee share program is adjusted as at every balance sheet date if expectations of the Management Board concerning the number of rights to be exercised change. No efficiency/results data except those related to the price of shares ("market conditions") are taken into account in the assessment of transactions settled in capital instruments.

The expected effective term of the pre-emptive rights to take up the Bank's shares is determined on the basis of historic data and does not need to specifically define all possible exercise scenarios.

The expected volatility index reflects the assumption according to historic volatility index.

No other parameters related to the granting of pre-emptive rights to take up the Bank's shares were taken into account in the assessment of the fair value.

The table below presents the number and weighted average exercise prices of shares options for each of the following Group options:

	2007		2006	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at the beginning of the period	986 762	118.67	1 370 788	116.06
Granted during the period	-	-	-	-
Forfeited during the period	-		54 456	114.95
Exercised during the period	294 841	108.37	326 570	108.37
Expired during the period	-	-	-	-
Outstanding at the end of the period	691 921	123.06	986 762	118.67
Exercisable at the end of the period*			-	-

*The right to execute the options is subject to fulfilment of specific conditions in the future.

The UniCredit Group incentive program

The Long Term Incentive Program (2007 LTIP) constitutes a key element of the payroll policy of the UniCredit Group. according to which the salaries depend on market conditions and performance.

Following the best international practice. under the LTIP equity options and performance shares are granted to a selected group of high and top level managers and the most promising employees. in order to:

- Create incentives for realization of the strategic targets of the Group;
- Retain the key employees;

- Effectively compete in the international employment market.

The actual choice of the participants of the program and the benefits granted is performed upon the following criteria:

- Adherence to the corporate system of values. broad perspectives. strong corporate identity and consequence.
- Significance of the position: strategic importance to the business performance and corporate governance of the Group;
- The need with respect of employee retention: retention within the Group of the best employees. particularly searched by the competition;
- Evaluation of the performance and potential – realization of targets.

The fair value of share options and performance shares of UniCredito Italiano S.p.A. were established following the Hull and White model.

The fair value of the pre-emptive rights to embrace the shares of the Bank's parent entity granted until 31 December 2007 amounted to PLN 9 998 thousand as at 31 December 2007. It is amortized over the estimated vesting period.

The 2007 H/R expense was charged with the amount of PLN 553 thousand with respect to that.

The table below presents the changes of the number of share options and performance shares of UniCredito Italiano and the average execution prices.

	Share options		**Performance shares**	
2007	**Number**	**Avg execution price**	**Number**	**Avg execution price**
Opening balance	-	-	-	-
Granted during the year	1 223 217	26.79	390 981	-
Redemeed during the year	123 106	26.79	39 349	-
Vested during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at closing balance	1 100 111	26.79	351 632	-
Executable at closing balance (*)	-	-	-	-

(*) The right to performance shares is subject to fulfillment of future conditions

48. Operational lease

Group as a lessor

The Group is an operating lease lessor of buildings being classified as investment properties as well as means of transport. medical equipment. machines and other equipment.

The amount of future minimum lease payments expected to be received under non-cancelable operating lease can be summarized as follows:

	31.12.2007	31.12.2006
Below 1 year	18 254	5 908
Over 1 to 5 years	71 800	6 214
Over 5 years	4 027	2 213
Total	**94 081**	**14 335**

Amount of the minimum operating lease payments classified as income of the first half of 2007 amounted to PLN 17 425 thousand (income of the 2006 was PLN 16 449 thousand).

Group as a lessee

The Group is an operating lease lessee of buildings.

The amount of future minimum lease payments expected to be paid under non-cancelable operating lease can be summarized as follows:

	31.12.2007	31.12.2006
Below 1 year	401 810	67 969
Over 1 to 5 years	223 998	122 163
Over 5 years	113 583	56 347
Total	**739 391**	**246 479**

Operating lease payments recognized as expense in the 2007 amounted to PLN 133 427 thousand (in 2006 amounted to PLN 99 903 thousand).

The leases typically run for an indefinite period. For agreements concluded for an indefinite period. future minimum lease payments were calculated on the basis of the agreed termination period. The termination period is normally fixed for 3 or 6 months. The leases are denominated in both PLN and foreign currencies. Payments are made in PLN regardless of the currency of the contract.

49. Contingent liabilities

Litigation

As at 31December 2007 the number of the legal proceedings against the Group amounted to 755 with a total value of PLN 783 783 thousand (as at 31 December 2006 there were 521 court proceedings amounting to PLN 976 392 thousand).

As at 31 December 2007 the reserve for contingent liabilities. which in the opinion of the bank's internal legal counsel are at risk of funds outflow amount to PLN 57 046 thousand (as at 31 December 2006 PLN 41 947 thousand).

As at 31 December 2007 with regards to all other significant proceedings in progress against the Group. the risk of cash outflow is believed to be.

Financial obligations granted

	31.12.2007	31.12.2006
Financial liabilities granted:	34 264 570	16 801 746
- towards financial entities	1 623 785	3 030 121
- towards non-financial entities	30 369 028	12 985 194
- towards the budget	2 271 757	786 431
Including: granted irrevocable contingent liabilities and commitments	33 294 127	16 580 888

As at 31 December 2007 the Group granted fixed-rate financial commitments in the nominal amount of PLN 4 440 578 thousand (as at 31 December 2006 amounts to PLN 3 476 440 thousand.).

	31.12.2007	31.12.2006
Granted fixed-rate financial liabilities in total:	4 440 578	3 476 440
- with maturity date within a year of the balance day	907 364	819 852
- with maturity date within more than a year of the balance day	3 533 214	2 656 588
including: granted irrevocable liabilities	4 440 578	3 476 440

Guarantees liabilities granted

	31.12.2007	31.12.2006
1) Liabilities granted towards financial entities:	292 325	55 002
- guarantees	240 207	25 154
- sureties	29 830	18 631
- confirmed export letters of credit	22 288	11 217
2) Liabilities granted towards non-financial entities:	3 966 028	2 218 660
- guarantees	3 965 981	2 218 660
- confirmed export letters of credit	47	-
3) Liabilities granted towards the budget:	193 884	41 639
- guarantees	193 884	38 489
- endorsements	-	3 150
Total	**4 452 237**	**2 315 301**

Sub issue program

As at 31 December 2007 the following securities programs were subject to sub issue:

Issuer name	Type of securities	Remaining amount of submission to which the Group undertook to engage	Contract validity period	Type of submission
Starostwo Powiatowe Zdunska Wola	municipality's bonds	8 610	22.03.06 – 31.12.15	unconditional
Polska Grupa Energetyczna S.A.	bonds	750 000	30.03.06 - 31.03.08	conditional
Południowy Koncern Energetyczny S.A.	bonds	126 500	25.09.06 - 25.09.19	conditional
Raiffeisen Leasing S.A.	bonds	100 000	20.02.06 - 20.02.10	conditional

As at 31 December 2006 the following securities programs were subject to sub issue:

Issuer name	Type of securities	Remaining amount of submission to which the Group undertook to engage	Contract validity period	Type of submission
Starostwo Powiatowe Zdunska Wola	municipality's bonds	11 470	22.03.06 – 31.12.15	unconditional
PKN Orlen S.A.	bonds	50 000	27.11.06 – 27.11.07	unconditional
PKN Orlen S.A.	bonds	50 000	27.11.06 – 27.02.07	unconditional

Securities issued by the County of Zdunska Wola. Polska Grupa Energetyczna S.A. Poludniowy Koncern Energetyczny S.A. Raiffeisen Leasing S.A. and PKN Orlen S.A. underwritten by the Group. are securities with unlimited transferability. not listed on stock exchanges and not traded on regulated over-the-counter markets.

50. Share capital

SHARE CAPITAL (STRUCTURE)						
Series/ Issue	Type of shares	Number of shares	Value of series / issue according to nominal value	Manner of capital coverage	Date of registration	Right to dividend (as at)
A	bearer common shares	137 650 000	137 650	paid in full	21.12.1997	1.01.1998
B	bearer common shares	7 690 000	7 690	paid in full	6.10.1998	1.01.1998
C	bearer common shares	10 630 632	10 631	paid in full	12.12.2000	1.01.2000
D	bearer common shares	9 777 571	9 777	paid in full	12.12.2000	1.01.2000
E	bearer common shares	373 644	374	paid in full	29.08.2003	1.01.2003
F	bearer common shares	621 411	621	paid in full	29.08.2003	19.05.2006 & 16.05.2007
H	bearer common shares	359 840	360	paid in full	12.08.2004	1.01.2004
I	Bearer common shares	94 763 559	94 764	paid in full	29.11.2007	1.01.2008
Total number of shares		**261 866 657**				
Total share capital in thousand PLN			**261 867**			
Nominal value of one share = 1.00 PLN						

2007 in shares	Shares issued and paid in full	Total
Balance as at the beginning of the period	166 808 257	166 808 257
Emission of F shares	294 841	294 841
Emission of I shares	94 763 559	94 763 559
Balance as at the end of the period	**261 866 657**	**261 866 657**

2006 in shares	Shares issued and paid in full	Total
Balance as at the beginning of the period	166 481 687	166 481 687
Emission of F shares	326 570	326 570
Balance as at the end of the period	**166 808 257**	**166 808 257**

Bank Pekao S.A. has purchased 5 010 of treasury shares series I (The Spin-off Issue Shares) of nominal value of PLN 1 each share. which were not allocated to the shareholders of BPH following the BPH S.A. spin-off. The reference price of the I series shares amounted to PLN 256.69. The total value of treasury shares purchased by the Bank at the reference price amounted to PLN 1 286 ths. Those treasury shares represent 0.0019% of the share capital of Bank Pekao S.A. The Bank is not eligible to execute the voting rights on those shares.

51. Reserves. prior and current year profit

	31.12.2007	31.12.2006
Reserves:		
Supplementary capital	9 331 159	1 650 939
Share premium	9 063 248	1 395 885
Other	267 911	255 054
Revaluation reserve	(278 594)	(15 141)
Revaluation of the portfolio of financial assets available for sale	(280 929)	(18 051)
Deferred tax	52 830	2 910
Revaluation of the portfolio of financial hedging instruments	(62 340)	-
Deferred tax	11 845	-
General banking risk fund	1 237 850	1 137 850
Other reserve capital	2 098 584	4 243 314
Differences in the rate of exchange	(23 091)	(12 190)
Bonds convertible into shares – equity instrument	27 715	23 365
Total reserves	**12 393 624**	**7 028 137**
Prior year profit (loss) attributable to equity holders of the Bank	(144 181)	(106 568)
Profit for the year attributable to equity holders of the Bank	2 155 478	1 787 506
Total other capital. reserves and profit for the period and for the year ended	**14 404 921**	**8 709 075**

From 1982 to 1984 and from 1988 to 1996. the Group operated in a hyperinflationary economic environment. IAS 29 (Financial Reporting in Hyperinflationary Economies) requires the adjustment of each component of shareholders equity (except retained earnings and any revaluation reserve) by the index price of commodities and services for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital and other reserves and a decrease in retained earnings in equivalent amounts. This adjustment would not have any effect on the total amount of the Group's equity.

52. Additional information for the cash flow statement

Cash and cash equivalents

Balance items	31.12.2007	30.06.2006
Cash. due from Central Bank*	3 374 934	2 218 476
Receivables from banks up to 3 month	12 883 381	8 414 861
Financial resources and equivalents of financial resources presented in the cash flow statements	**16 258 315**	**10 633 337**

*The item „Cash. due from Central Bank" does not include the NBP Bond in amount of PLN 1 746 276 thousand (as at 31 December 2006 PLN 1 359 448 thousand)

Limited availability cash and cash equivalents as at 31 December 2007 amounted to PLN 3 107 274 thousand (as at 31 December 2006 PLN 1 676 718 thousand).

53. Transactions with related parties

The consolidated financial statements include the financial statements of the Bank and financial statements of subsidiaries listed in the following table:

Entity name	Registering body	Percentage participation in the capital	
		31.12.2007	31.12.2006
UniCredit Bank Ltd.	National Bank of Ukraine. National Bank Register. No. 265	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100.00	100.00
Pekao Fundusz Kapitałowy Sp.z o.o.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	100.00
Pekao Leasing Sp. z o.o.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100.00	100.00
Pekao Faktoring Sp. z o.o.	District Court for the city of Lublin. XI Commercial Department of the National Court Registry	100.00	100.00
Pekao Pionier Powszechne Towarzystwo Emerytalne S.A.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	65.00	65.00
Drukbank Sp. z o.o.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	100.00
Centrum Kart S.A.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	100.00
Pekao Financial Services Sp. z o.o.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100.00	100.00
Pekao Access Sp. z o.o.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	-	55.26
BPH Bank Hipoteczny S.A.	District Court for the capital city of Warsaw. XIX Commercial Department of the National Court Registry	100.00	-
BPH PBK Leasing S.A.	District Court for the capital city of Warsaw. XIX Commercial Department of the National Court Registry	80.10	-
BPH Leasing S.A.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	80.10	-
BPH Auto Finanse SA	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	80.10	-
Finanse plc	Companies Register for England and Wales	100.00	-
BDK Consulting Sp. z o.o.	Executive Committee of the City Council of Luck. no. 04051327IO0060469	99.99	99.99

Bank Pekao S.A. is the holding company of the Bank Pekao S.A Capital Group. UniCredito Italiano S.p.A is the superior holding company.

Information on subsidiaries and related and associated entities is provided in Note 34.

The credit procedure applicable to the Bank's Management and entities related to the Bank

Under the Banking Law. credit transactions with members of the Bank's Management Board and Supervisory Board as well as with the Bank's senior management and entities related thereto are subject to the Bylaws adopted by the Bank's Supervisory Board.

The Bylaws lay down detailed decision-making procedures applicable to transactions with such individuals and entities. including authority levels on which different decisions are allowed and competencies assigned thereto. In particular. concluding a transaction with a member of the Bank's Management Board or Supervisory Board or with an entity capitally and organize related thereto. in amounts specified in the Bylaws. requires authorization of the Bank's Management Board and Supervisory Board.

Members of the Bank's Management and entities capitally and organizationally related thereto may use lending facilities offered by the Bank on standard terms and conditions applied by the lities.

Credit risk assessment follows methodologies used by the Bank with regard to the customer's segment and type of transaction.

Standard credit procedures are applied to entities as for Bank. In particular. the Bank may not offer such individuals or entities better interest rates for lending facilitated with the Bank. and transaction decisions are made exclusively on the Bank's Head Office level.

(in PLN thousand)

Transactions with related entities as at 31.12.2007:

Entity name	Dues from loans and advances	Securities	Financial derivatives contracts	Other dues from	Dues to loans and advances	Financial derivatives contracts	Other dues to
Group parent company							
UniCredito Italiano S.p.A.	1 589 380	-	23 985	-	592 901	18 541	13 754
Entities of UniCredito Italiano Group's excluding entities of Pekao S.A. Group	2 360 425	-	397 440	283 162	2 081 909	86 316	637 161
Subsidiaries							
PBK Property Sp. z o.o.	-	-	-	-	3 112	-	-
Final Holding Sp. z o.o.	-	-	-	-	189	-	-
BPH Real Estate S.A.	-	-	-	-	38	-	-
Centrum Usług Księgowych Sp. z o.o.	-	-	-	-	32	-	-
Associates							
Pirelli Pekao Real Estate Sp. z o.o. (d. Pekao Development Sp. z o.o.)	-	-	-	-	89 157	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	-	3 047	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	214 999	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	26 162	-	-
Bankowe Doradztwo Podatkowe Sp. z o.o.	-	-	-	-	53	-	-
Key managing Staff of the Bank or it's Parent Company	**12 376**	**-**	**-**	**-**	**10 415**	**-**	**-**
Total	**3 962 181**	**-**	**421 425**	**283 162**	**3 022 014**	**101 857**	**650 915**

(in PLN thousand)

Transactions with related entities as at 31.12.2006

Entity name	Dues from loans and advances	Securities	Financial derivatives contracts	Other dues from	Dues to loans and advances	Financial derivatives contracts	Other dues to
Group parent company							
UniCredito Italiano S.p.A.	2 311 422	-	14 179	83	2 330	18 074	29 068
Entities of UniCredito Italiano Group's excluding entities of Pekao S.A. Group	931 397	-	12 252	45 666	163 592	29 070	573
Subsidiaries				**-**			**-**
Associates				**-**			**-**
Pirelli Pekao Real Estate Sp. z o.o. (d. Pekao Development Sp. z o.o.)	-			-	121 908		-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	-	16 576	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	83	107 414	-	-
Krajowa Izba Rozliczeniowa S.A.	-			-	9		-
Key managing Staff of the Bank or it's Parent Company	**4 504**	**-**	**-**	**-**	**6 743**	**-**	**-**
Rother	-			-	41		-
Total	**3 247 323**		**26 431**	**45 832**	**418 613**	**47 157**	**29 641**

(in PLN thousand)

Income and expenses from transactions with related entities as at 31 December 2007:

	Income from interest	Interest expense	Fee and commission income	Fee and commission expense	Other income	Other expense
Group parent company	**12 105**	**(155)**	**384**	**(1 466)**	**414**	**(11 864)**
Entities of UniCredit Group's excluding entities of Pekao S.A. Group's	**42 149**	**(61 602)**	**692 895**	**(10 219)**	**59 071**	**(30 355)**
Entities of Pekao S.A. Group's						
Subsidiaries						
Centrum Bankowości Bezpośredniej Sp. z o.o./*	-	-	-	-	67	-
Metropolis Sp. z o.o./*	-	-	-	-	4	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(6 950)	1 177	-	86	(6)
Xelion Doradcy Finansowi Sp. z o. o.	-	(355)	34	(302)	116	-
Krajowa Izba Rozliczeniowa S.A.	-	(455)	6	-	-	(4 949)
Pirelli Pekao Real Estate Sp. z o.o.	-	(3 442)	50	(5)	5	(1 325)
Bankowe Doradztwo Podatkowe Sp. z o.o./*	-	-	-	-	3	-
Total entities of Pekao S.A. Group's	**-**	**(11 202)**	**1 267**	**(307)**	**281**	**(6 280)**
Key managing Staff of the Bank or it's parent Company	591	(203)	7	-	-	(24)
Total	**54 845**	**(73 162)**	**694 553**	**(11 992)**	**59 766**	**(48 523)**

***/ data since the spin-off day till 31.12.2007**

(in PLN thousand)

Income and expenses from transactions with related entities as at 31 December 2006:

	Income interest	Interest expense	Fee and commission income	Fee and commission expense	Other income	Other expense
Group parent company	**4 372**	**(900)**	**1 077**	**(1 475)**	**981**	**(11 987)**
Entities of UniCredit Group's excluding entities of Pekao S.A. Group's	**35 501**	**(7 985)**	**478 012**	**(4 541)**	**34 973**	**(31 544)**
Entities of Pekao S.A. Group's						
Subsidiaries						
Fabryka Maszyn w Janowie Lubelskim Sp. z o.o.	106	-	19	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(2 599)	687	-	66	(26)
Xelion Doradcy Finansowi Sp. z o. o.	-	(1 054)	29	(229)	176	-
Hotel Jan III Sobieski Sp. z o. o.	6 395	(80)	46	-	6	(4 125)
Krajowa Izba Rozliczeniowa S.A.	-	(144)	4	-	-	(4 733)
Pirelli Pekao Real Estate Sp. z o.o. (ex Pekao Development Sp.z o.o). *	3 354	(1 080)	3 178	-	24	(1 127)
Fabryka Sprzętu Okrętowego MEBLOMOR S.A.	-	-	2	-	-	-
PTE "Nowy Świat" SA	-	-	52	-	-	-
Total entities of Pekao S.A. Group's	**9 855**	**(4 957)**	**4 017**	**(229)**	**272**	**(10 011)**
Key managing Staff of the Bank or it's parent Company	261	(63)	3	-	-	-
Total	**49 989**	**(13 905)**	**483 109**	**(6 245)**	**36 226**	**(53 542)**

* data for II. III. IV Quarter 2006

The off-balance sheet exposure related to: financing of related entities as at 31 December 2007 amounted to PLN 1 114 090 thousand (as at 31 December 2006 PLN 765 132 thousand); related to guarantees as at 31 December 2007 amounted to PLN 156 691 thousand (as at 31 December 2006 PLN 12 087 thousand); credit cards limits towards related entities as at 31 December 2007 amounted to PLN 72 thousand (as at 31 December 2006 PLN 157 thousand).

At consolidated balance sheet and profit and loss account the following consolidated adjustments on intercompanies transactions of entities covered by full consolidated method were made.

	31.12.2007	31.12.2006
Assets	4 048 464	2 755 020
Amounts due from banks	1 974 516	1 531 467
Financial assets held for trading	107 734	-
Derivative financial instruments	45	14
Loans and advances from customers	1 637 776	1 172 281
Net Investment in financial leases	24 388	12 996
Hedging instruments	23 463	-
Investment securities	211 669	10
Assets of disposal group classified as held for sale	31 927	-
Other assets	36 946	38 252
Liabilities	4 048 464	2 755 020
Amounts due to other banks	2 699 290	1 289 293
Derivative financial instruments	45	14
Amounts due to customers	929 174	1 414 668
Hedging instruments	23 463	-
Debt securities in issue	332 706	10
Liabilities directly associated with assets classified as held for sale	26 804	-
Other liabilities	36 982	51 035
	2007	2006
Interest income (including discontinued operations)	122 062	92 157
Interest expense	(124 268)	(92 157)
Fee and commission income	13 711	12 144
Fee and commission expense	(11 013)	(12 144)
Other income	48 797	45 902
Other expense	(49 289)	(45 902)

Management Board and Supervisory Board Remuneration

	2007	2006
Management Board of the Bank		
Short-term employee benefits*	15 865	13 154
Other long- term benefits	1 212	879
Termination benefits	2 898	-
Share-based payments**	1 458	3 087
Total	**21 433**	**17 120**
Supervisory Board of the Bank		
Short-term employee benefits*	533	484
Total	**533**	**484**
Grand total	**21 966**	**17 604**

(*) Short term employee benefits comprise of: base salaries. bonuses and other benefits. in particular cost of life insurance polices. health insurance and healthcare. children education costs.
A decision on bonuses for 2007 for management Board Members has not been taken yet by the Supervisory board. however a provision in amount of PLN 3 967 ths has been created for that purpose.

(**) The value of Share-based payments was established as part of Payroll/Employee Expenses recognized by the Group. according to IFRS 2 during the reporting period. representing the amortization of initial fair value of

options (pre-emptive rights to take up the Bank's shares) pertaining to options granted to members of the Management Board of the Bank. Detailed information about the employee share program. including the method of the options fair value estimation are presented in the note 47 "Employee benefits".

compensation - in any form. and they do not have any receivables arising from that title from subsidiaries. jointly controlled companies. and In 2007 and 2006. Management Board and Supervisory Board Members did not receive any associated entities.

Remuneration of members of the Management Boards and Supervisory Boards of the subsidiary companies

	2007	2006
Management Board of the Bank		
Short-term employee benefits	11 538	8 765
Benefits regarding termination of job agreement	64	692
Total	**11 602**	**9 457**
Supervisory Board of the Bank		
Short-term employee benefits	28	115
Total	**28**	**115**

54. Repo and reverse repo transactions

The Group increases it's funds by sales transactions with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities treated as repo and sell-buy back transactions are not excluded from the balance sheet due to the fact that the Group holds all the benefits and the risk deriving from these assets.

	31.12.2007		31.12.2006	
	Assets fair value	Balance value liabilities	Assets fair value	Balance value liabilities
Financial assets held for trading				
- up to 1 month	1 533 099	1 533 148	104 487	104 682
- between 3 months and 1 year	-	-	7 144	7 092
Total financial assets held for trading	**1 533 099**	**1 533 148**	**111 631**	**111 774**
Financial assets at fair value through profit or loss	633 869	632 553		
- up to 1 month	**633 869**	**632 553**		
Total financial assets at fair value through profit or loss				
Financial assets available for sale				
- up to 1 month	1 616 501	1 619 852	1 974 907	1 977 545
- between 1and 3 months	5 823	5 821	315 117	314 512
Total financial assets available for sale	**1 622 324**	**1 625 673**	**2 290 024**	**2 292 057**
Total	**3 789 292**	**3 791 374**	**2 401 655**	**2 403 831**

The Group purchase securities with the resale in the future promise granted (reverse-repo and buy-sell back) at the same price increased by interest.
Securities treated as reverse repo and buy-sell back transactions are not disclosed at the balance sheet due to the fact that the Group do not holds all the advantages of risks and awareness deriving from these assets.

	31.12.2007		31.12.2006	
	Net value assets	Fair value of assets used as collateral	Net value assets	Fair value of assets used as collateral
Amounts due from banks				
- up to 1 month	2 567 132	2 556 340	517 296	538 070
Loans and receivables from customers				
- up to 1 month	733 467	732 053		
Total	**3 300 599**	**3 288 393**	**517 296**	**538 070**

Financial assets treated as reverse repo and buy-sell back are collaterals for the Group which can be sold or put them into collateral by the Group.

55. Company's Social Benefits Fund („ZFSS")

The Social Benefits Fund Act of 4 March 1994. with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank and Group companies employing at least 20 staff have created the ZFSS Funds and are making periodic charges to the ZFSS Funds in amounts prescribed by the Act. Apart that. the Company contributed to the Fund in kind of fixed assets. The aim of the ZFSS Funds is to finance of social activity in benefit of the employees and subsidize the social premises.

The liabilities of the ZFSS Funds represent the cumulated value of charges made by the Company towards the ZFSS Funds decreased by the amount of non-returnable expenditures of the ZFSS Funds.

In the consolidated balance sheet. the Group netted the ZFSS Funds assets against the ZFSS Funds value. due to the fact that the assets of the ZFSS Funds do not represent the assets of the Group. For this reason the amount pertaining to the ZFSS Funds in the consolidated balance sheet as at 31 December 2007 and 31 December 2006 was nil.

The below table sets forth the categories and book values of assets. fund value and costs related to Social Benefits Funds:

	31.12.2007	31.12.2006
Advances to employees	43 935	40 906
Cash in the current account	8 395	2 461
Assets of ZFSS	**52 330**	**43 367**
Value of ZFSS	**52 330**	**43 367**

	2007	2006
Charges made towards the ZFSS	17 450	16 348

56. Subsequent events after balance sheet date

Increase of the share capital of the Bank

In January 2008. the share capital of the Bank was increased by the amount of PLN 237 993. through issue of 237 993 G series bearer shares. The share capital increase is an effect of embracing of the G series shares by the individuals entitled to that in the framework of the motivation program as described in the note 47.

With respect to the financial statements as of 31 December 2007. the above was a non-changing subsequent event.

The agreement for disposal of the corporate part of the business of CDM Pekao S.A.

On 28 January 2008 Centralny Dom Maklerski Pekao S.A. („CDM Pekao S.A.") a fully owned subsidiary of the Bank and UniCredit CA IB Polska S.A. signed an agreement on disposal of a part of the CDM Pekao S.A. enterprise offering broking services and investment banking services to corporate clients. for the price of PLN 450 million. The sale price may be adjusted based on the audited economic performance for 2007. The organized part of enterprise. being subject to sale generates approximately 12% of the net income of CDM Pekao S.A.

With respect to the financial statements as of 31 December 2007 the above was a non-changing subsequent event.

Increase of share capital of UniCredit Bank Ltd.

On 4 February 2008 the National Bank of Ukraine registered the changes to the Statute of UniCredit Bank Ltd. including the increase of share capital of the Company by the amount o hryvna 109 834 ths. The share capital increase was an effect of the merger of UniCredit Bank Ltd. and JSCB HVB Bank Ukraina. entities fully owned by the Bank. the organizational merger of the companies took place on 3 September 2007.

With respect to the financial statements as of 31 December 2007. the above was a non-changing subsequent event.

Signatures of all members of the Management Board

Date	First Name/Family Name	Position/Function	Signature
20.03.2008	Jan Krzysztof Bielecki	President of the Management Board. CEO	
20.03.2008	Luigi Lovaglio	First Vice President of the Management Board. GM	
20.03.2008	Przemysław Gdański	Vice President of the Management Board	
20.03.2008	Paolo Iannone	Vice President of the Management Board	
20.03.2008	Christopher Kosmider	Vice President of the Management Board	
20.03.2008	Katarzyna Niezgoda	Vice President of the Management Board	
20.03.2008	Grzegorz Piwowar	Vice President of the Management Board	
20.03.2008	Marian Ważyński	Vice President of the Management Board	