Report on the activities of Bank Pekao S.A. for the year 2007

Warsaw, March 2008

1 Financial highlights and selected financial ratios

(PLN million)

	2007	2006	2005	2004*
Income statement				
Total income	4,995.3	4,464.3	4,141.7	3,799.5
Costs	(2,469.0)	(2,157.1)	(2,165.3)	(2,152.1)
Operating income before provisions	2,526.3	2,307.2	1,976.4	1,647.4
Pre-tax profit	2,397.5	2,099.6	1,742.1	1,345.7
Net profit	2,006.6	1,728.5	1,439.4	1,171.4
Balance sheet				
Total assets	119,568.6	66,976.8	61,445.2	59,091.5
Loans and advances to customers**	63,956.4	32,354.8	28,733.2	26,072.0
Amounts due to customers	89,160.1	51,811.3	46,849.8	45,883.6
Shareholders' equity	14,378.4	8,620.2	8,196.3	7,703.6
Employment and network				
Total number of employees	20,636	14,362	14,818	15,291
Total number of outlets	1,058	782	778	782
Total number of ATMs	1,885	1,262	1,244	1,211
2007 financial credibility ratings		Short-term rating	Long-term rating	Outlook
Fitch Ratings		F1	A	Positive
Standard and Poor's		A-1	A	Stable
Moody's Investors Service Ltd.		Prime-1	A2	Stable

* Data restated according to IFRS included in the Report on the activities for the year 2005
** Including debt securities eligible for rediscounting at the Central Bank

	2007	2006	2005	2004*
Profitability ratios				
Return on average equity (ROE)	22.4%	21.0%	18.2%	16.3%
Net interest margin**	3.9%	4.1%	4.3%	3.6%
Non-interest income / total income	49.7%	48.7%	45.8%	46.6%
Costs / income	49.4%	48.3%	52.3%	56.6%
Balance sheet structure ratios				
Net loans / balance sheet total	53.5%	48.3%	46.8%	44.1%
Debt securities / balance sheet total	20.3%	24.9%	30.1%	32.7%
Deposits / balance sheet total	74.6%	77.4%	76.2%	77.6%
Loans / deposits	71.6%	62.4%	61.3%	56.8%
Equity / balance sheet total	12.0%	12.9%	13.3%	13.0%
Capital adequacy ratio	**11.1%**	**14.7%**	**18.0%**	**20.7%**

* Data restated according to IFRS included in the Report on the activities for the year 2005
** Excluding buy sell back and sell buy back transactions

2 Summary

Legal integration completed

On 29th November 2007 the legal integration of Bank Pekao S.A. with the part of Bank BPH S.A. transferred as an organized part of enterprise was completed. The newly merged Bank Pekao S.A. has become the leading bank in Poland and the biggest bank in Central and Eastern Europe in terms of market capitalization.

Bank Pekao S.A. now provides services for around 5 million clients, including over 250 thousand small and medium enterprises and over 15 thousand corporate clients, with a network of over 1,000 outlets and 3,000 ATMs in Poland and with further free access to 13,000 ATMs Europe wide belonging to the UniCredit Group.

Results for the 2007 year

Bank Pekao S.A. is reporting a net profit of PLN 2,000.6 million for the year ended 31st December 2007, 16.7% higher on a comparative basis* than in 2006. By including net profit generated up to the spin-off date by the organized part of the enterprise transferred to Bank Pekao S.A. (recognised through equity) the total net profit of Bank Pekao S.A. would have amounted to PLN 3,382 million.

The increase in net profit was due to an increase in commercial activity which translated into higher revenue, particularly fee and commission income and interest income, with operating costs remaining under control and the realisation of a lower cost of risk.

- In 2007, the Bank's total income amounted to PLN 4,995.3 million, 6.3% higher on a comparative basis* than in the previous year. The main growth driver in this period was fee and commission income, which amounted PLN 1,796.6 million and increased primarily due to commissions on investment products. The estimated growth on a comparative basis* would have amounted to 9.5%. Another important factor influencing the total growth in income was net interest income. The estimated growth on a comparative basis* would have amounted to 3.9% mainly as a result of increasing volumes offsetting the impact of a lower yield on the portfolio of debt securities.
- In 2007, the Bank noted a continued positive trend in the results of its business activity, with the successful sale of key products: mutual funds, PLN mortgage loans and consumer loans "Express Loan". The value of mutual funds increased by 23.4% compared with the end of 2006. The stock of PLN mortgage loans in the network of former Bank Pekao S.A. increased by 52.0% in 2007. The Bank continued its policy of offering PLN mortgage loans. The stock of "Express Loans" in 2007 in the former Bank Pekao S.A. network increased by 16.8% in 2007.
- Total overhead costs (including depreciation) in 2007 amounted to PLN 2,469.0 million, with an estimated growth on a comparative basis* amounting to 2.5%. Overhead costs were kept under control, the increase was mainly due to the costs of the integration (estimated costs of PLN 202.3 million). In 2007, the Bank's cost / income ratio, estimated excluding costs of integration, amounted to 45.4% and on a comparative basis* was an estimated 1.7 p.p. lower than in 2006.
- In 2007, impairment losses on loans and advances amounted to PLN 128.8 million and estimated on a comparative basis* were 42.5% lower than in the previous year, benefiting from effective credit risk management and a positive macroeconomic situation. At the end of 2007, the ratio of impaired receivables to total receivables amounted to 7.7%, compared to 8.8% (estimated on a comparative basis*) at the end of 2006.
- At the end of 2007, savings of the Bank's clients (customer deposits, structured certificates of deposits and mutual funds) amounted to PLN 111,862.3 million, of which savings of individual clients amounted to PLN 61,835.1 million and corporate deposits amounted to PLN 50,027.2 million. Estimated growth in savings of the Bank's clients (customer deposits and mutual funds) on a comparative basis* would have amounted to 5.4%. The growth was driven by increase in retail savings and corporate deposits.
- The volumes of Bank's loans as at the end of 2007 amounted to PLN 67,701.6 million, of which corporate loans amounted to PLN 44,357.6 million and retail loans amounted to PLN 23,344.0 million. Estimated growth on a comparative basis* would have amounted to 6.3%. The growth was driven by increase in mortgage loans, consumer loans and corporate loans.

* Growth on a comparative basis estimated as described in paragraph 6.1 and 6.2

3 Business Environment in 2007

Key Economic Trends

Poland's macroeconomic landscape in 2007 was marked by extremely favourable climate for day-to-day business, accompanied by a gradual increase in mid-term risk and an improvement in long-term outlook. The favourable current situation was attributable to a strong rise in domestic demand, which caused the economic growth – already quite brisk in 2006 – to gather even greater momentum.

The increase in mid-term risk resulted from growing inflationary pressures, the widening current-account deficit, the fact that productivity growth lagged a rise in salaries and wages, and a higher cost of foreign financing in the wake of the US sub-prime mortgage crisis. The improvement in the long-term outlook stemmed from a very strong growth in investments, boosting potential economic growth, as well as a significant reduction in the public finance deficit.

Economic Growth

According to preliminary estimates by the Central Statistics Office, in 2007 the Gross Domestic Product (GDP) rose by 6.5%. Its growth was chiefly stimulated by investments, with a still high – albeit lower than in the previous year – contribution from consumption. At the same time falling net exports took away even more of GDP growth. There was an improvement in long-term growth prospects, as strong investment dynamics brought the investment rate up from 19.2% in 2005 to 23.5% in 2007.

In parallel with the fast-paced economic growth, household incomes and corporate earnings were also rising strongly, while the budget situation was improving. Poland was running a budget deficit of PLN 17 billion, which is over PLN 13 billion less than the amount assumed in the Budget Act.

A steady increase in employment combined with a strong upswing in average remuneration expanded the absorptive capacity of the market for consumer goods and made companies more inclined to step up investment activity. Nevertheless, the supply side failed to keep pace with a strong growth in domestic demand (exceeding 7%).

Starting from the second quarter of 2007, the GDP growth has been slackening. In first quarter, it stood at 7.2%, while in fourth quarter it fell down to approximately 6.1%. One of the consequences of the demand-supply imbalance was a rapid growth in salaries and wages observed since mid-2007, which outstripped labour productivity increase. As the years 2003-2006 saw a marked reduction in labour costs, that trend has not affected production profitability yet, although it has significantly compounded the risk of earnings decline in the mid term.

Inflation and Interest Rates

One of the main knock-on effects of the growing supply-side deficit was a steady build-up of inflationary pressures. In the first half of the year it was largely offset by gradual appreciation of the Polish currency and so the inflation stayed more or less in line with the target. Although the inflation rate shot up as early as in the second half of 2006, the Monetary Policy Council waited until April 2007 to implement a series of rate rises. By the year's end, rates were raised four times, up to 5% in December. However, the belated tightening cycle did not prevent price rises.

At the end of the year, a rise in food and fuel prices translated into accelerated inflation, which in December touched 4% – an overshoot of the inflation target set by the National Bank of Poland by a half percentage point. The interest rate rises implemented in 2007 and expectations of further policy tightening in 2008 led to a large hike in interbank rates, which contributed to some decline in stock prices, while on the other hand it strengthened the polish currency.

An increase in mid-term risk, fuelled by the launch of the rates-raising cycle by the Monetary Policy Council and strong expectations of further rates increases in 2008, combined with the souring global market sentiment triggered an upward trend in government bond yields.

Foreign Sector

The supply-demand imbalance led also to a stronger growth in imports and a further deterioration of net exports. Additionally, domestic savings were becoming increasingly insufficient to finance a huge surge in investment, which was only partially funded with a rise in direct foreign investment. As a consequence, foreign debt of the corporate and banking sectors was growing at a rate faster than GDP growth, driving up the costs of foreign debt service. Owing to these factors as well as the rising foreign trade deficit, the current-account deficit of the balance of payments widened from EUR 8.8 billion in 2006 to EUR 11.3 billion.

The existing deficit to GDP ratio, as well as the relation between the deficit and the size of foreign investment, can still be considered safe, however the fact that it continues on its upward trajectory increases the mid-term risk, related in this instance to higher costs of foreign credit. The risk was aggravated by liquidity crunches on international financial markets brought about by the US sub-prime mortgage crisis. Despite sound macroeconomic data and the fact that the Polish financial sector had no exposure to American mortgage loans, Poland's economy has already felt the impact of higher costs of foreign credit, which was reflected in the 11 bp increase of the country risk premium in 2007.

The risk of a significant global economic slowdown, which could hurt Polish exports, has also increased materially. With strong domestic demand, this may further deepen the current-account deficit. However, the crisis took the heaviest toll on the Polish capital market, where it contributed to a steep fall in share prices and the flight of capital from the stock market.

Capital Market

In 2007, the Warsaw Stock Exchange (WSE) indices had been rising until mid-2007 however in the second half of the year they plummeted Consequently, for the year as a whole, the market indices did record a moderate growth, but the outlook regarding future behaviour of the stock exchange has become considerably bleaker.

In the previous year, the WIG index gained only 10.4% and WIG 20, the blue-chip index, climbed by 5.2%.

The performance of industry indices was sluggish compared with the previous year. Construction industry stocks were the best performers. The WIG-Construction index rose by 13% during the year, but compared to its 144% surge in 2006, this was a modest result. The WIG-Banks index also outperformed the overall market, gaining 12.2% for the year as a whole. IT stocks continued to underperform the market, although they closed in the positive territory. The WIG-IT index moved up by a paltry 0.5%, against a 34% growth in 2006. Food and telecom stocks posted negative returns (down by 13.3% and 5.2%, respectively).

The value of trades executed on the WSE rose from the record-breaking 2006 level by 41.6%, up to PLN 479 billion. A survey conducted by the WSE shows that 2007 saw a decrease in the share of trades executed by retail investors in total stock-market turnover (30% against 35% in 2006). They lost their predominant position on the Warsaw floor to institutional investors, whose share of total turnover grew from 34% in 2006 to 37%. The share of foreign investors equalled 33% (up by 2 pp).

A rise in equity turnover on the spot market invigorated the futures market. The trading volume of all derivative instruments amounted to 9.88 million – an impressive 47% jump year on year. In terms of value, the turnover was up by 64% over 2006.

2007 also witnessed an unprecedented number of first listings on the WSE. In total 81 companies floated their shares (including 12 foreign issuers) on the Warsaw floor, which was the highest-ever number. As a result, the WSE listing expanded from 284 to 351 companies.

The improved performance of market indices and a higher number of listed companies contributed to an increase in the WSE capitalisation by 70%; as at the end of 2007, the market capitalisation exceeded PLN 1 billion. The buoyant market attracted more substantial investments from both mutual and pension funds. In 2007, the value of mutual funds' equity portfolios grew by 36.5% – from PLN 99 billion at the end of 2006 to PLN 135 billion at the end of 2007. Over the same time, the value of equity portfolios held by pension funds increased by 20% – from PLN 117 billion to PLN 140 billion.

Banking sector

Amid favourable macroeconomic trends, the banking sector was growing faster than GDP, while the level of credit risk was diminishing. Despite the rapid increase in the cost of salaries and wages, in 2007 the banking sector's profits continued their upward trend mainly due to a strong rise in business volumes. According to preliminary data, the pre-tax profit posted by banks amounted to PLN 16.8 billion, a 29.2% increase over 2006. The banking sector earned 17.4% more in interest income and 20.5% more in fees and commissions income, generating a net profit of PLN 13.8 billion (a 28.6% improvement).

The growth in loans accelerated to 29.4% year on year. Household lending remained its main driver, having recorded a 38.6% increase, and housing loans showed a particularly strong 50.6% growth. The rate of growth in PLN-denominated loans was nearly twice that of foreign-currency loans. Commercial lending picked up momentum on the back of a strong increase in corporate investment. The rate of growth in corporate loans accelerated from 14.1% in 2006 to 24.1% in 2007. Concurrently, the loan portfolio quality improved. The proportion of non-performing loans to total loans fell from 7.4% at the end of 2006 to 5.2% at the end of 2007.

The growth in deposits did not change appreciably from 2006, although growth rate in corporate was by 10 p.p. lower than last year, with a little faster rise in the value of funds deposited by households. Nevertheless, the growth in household deposits continued to lag the growth in corporate deposits. As in 2006, the major area of growth was in demand deposits, whereas term deposits had been declining until mid-2007. Only after corporate and household term deposits had risen in the second half of the year and in December, respectively (as savings were being withdrawn from mutual funds in response to precipitous falls in share prices), did banks achieve positive growth dynamics in term deposits relative to December 2006. Languishing corporate deposits were offset by a 23.5% increase in non-monetary deposits of the financial sector. However, the value of funds deposited by financial institutions began to shrink towards the year's end as the stock market saw a rebound.

Loans, which growth exceeded the growth in deposits, were being increasingly financed with foreign money. Foreign liabilities of the banking sector went up from PLN 63.3 billion in December 2006 to PLN 104.1 billion in December 2007. As rises in foreign interest rates and a subsequent increase in the cost of risk caused by the turmoil on international financial markets were driving up the cost of foreign financing, those banks which did not have sufficiently strong deposit bases faced more severe liquidity risk. The above factors, coupled with a growing maturity mismatch of loans and deposits, forced banks to embark on aggressive campaigns aimed at attracting new term deposits. However, for the time being, this has had no material negative impact on interest margins across the banking sector.

Until the end of the third quarter, a majority of household savings had been funnelled into mutual funds. Hence in September, the value of mutual funds' assets was higher by 47% compared to December 2006. In the last months of the year, due to share price erosion and an outflow of cash from mutual funds, the value of their asset portfolios dropped by more than PLN 10 billion and so in December it was up on the previous year's figure by only 36.5%.

4 Important events and internal circumstances

4.1 Integration of Bank Pekao S.A. and Part of Bank BPH S.A.

Finalisation of the Integration Process

At the end of 2005, Bank Pekao S.A. and Bank BPH S.A. became members of the same banking group, UniCredit, following the acquisition by UniCredito Italiano S.p.A. ("UCI") of a majority stake in Bayerische Hypo- und Vereinsbank ("HVB"), the majority shareholder in Bank BPH S.A., through its ownership of Bank Austria Creditanstalt Aktiengesellschaft ("BACA").

On 5th April 2006, the Banking Supervision Commission issued its approval for UCI to exercise voting rights at the General Shareholders Meetings of Bank BPH S.A. On 19th April 2006, the Ministry of State Treasury and UCI executed an agreement intended to ensure that Bank BPH S.A. would continue to operate on the Polish market as an independent entity. Under the agreement, UCI was to divest a network of 200 outlets operating under the BPH brand, together with services provided by those outlets, to a third-party buyer. The agreement also provided for the incorporation of the remaining assets into Bank Pekao S.A.

The 22nd May 2006 witnessed the launch of the Integration Plan for Bank Pekao S.A. and BPH S.A. The integration was supervised by a Steering Committee composed of representatives of UCI, Bank BPH S.A. and Bank Pekao S.A.

On 19th October 2006, the amended Banking Law came into force, allowing for the division of banks operating as joint-stock companies. On 12th November 2006, the Management Board of Bank Pekao S.A. passed a resolution on the intended integration of Bank Pekao S.A. and Bank BPH S.A. by way of spin-off and transfer to Bank Pekao S.A. of a part of Bank BPH S.A.'s assets, in exchange for shares in Bank Pekao S.A. to be acquired by the shareholders of Bank BPH S.A. (Spin-off).

The Management Board of Bank Pekao S.A. defined the share allocation ratio for the purpose of the planned division of Bank BPH S.A., i.e. the proportion according to which shares in Bank Pekao S.A. would be allotted to the shareholders of Bank BPH S.A. in connection with the latter's division. Each shareholder of Bank BPH S.A. would receive 3.3 shares in Bank Pekao S.A. per each share in Bank BPH S.A., while maintaining their existing holding in Bank BPH S.A. On 15th November 2006, the Supervisory Boards of the two banks approved the Spin-off Plan of Bank BPH S.A., whereupon the document was signed by their respective Management Boards.

On 31st January 2007, Bank Pekao S.A. and Bank BPH S.A. applied jointly to the Banking Supervision Commission for Spin-off approval of Bank BPH S.A.

On 27th April 2007, the General Shareholders Meetings of the two banks adopted resolutions on the integration of Bank Pekao S.A. and Bank BPH S.A. by way of Spin-off and transfer of a part of Bank BPH S.A.'s assets forming an organised part of its enterprise to Bank Pekao S.A. By virtue of a decision issued by the Management Board of Bank BPH S.A., on 1st September 2007 two units were established within its organisational structure, forming organised parts of the bank's enterprise.

On 3rd October 2007, the Banking Supervision Commission approved the Spin-off of Bank BPH S.A. in accordance with the procedure set forth in Art. 529.1.4 of the Commercial Companies Code. The Banking Supervision Commission's approval was one of the key prerequisites for the completion of the spin-off.

The prospectus prepared in connection with the public offering of 94,763,559 Series I ordinary bearer shares ("Spin-off Issue Shares"), issued for the purpose of the integration of Bank Pekao S.A. and Bank BPH S.A., was approved by the Financial Supervision Authority on 10th October 2007.

On 29th November 2007 the relevant registry court made the following entries into the National Bank Registry:

- information regarding Spin-off of Bank BPH S.A. by transferring part of its property to Bank Pekao S.A.,
- registration of Bank Pekao S.A. share capital increase by the issuance of 94,763,559 series I ordinary bearer shares with the nominal value of PLN 1 each, taken up by Bank BPH S.A. shareholders in exchange for the transferred part of Bank BPH S.A.,
- relevant amendments to the Statute of Bank Pekao S.A.

Those entries into the National Court Registry finalised the legal integration of Bank Pekao S.A. and the spun-off part of Bank BPH S.A.'s enterprise. By that day of entries Bank Pekao S.A. ex lege entered into the rights and obligations of Bank BPH S.A. described in the Spin-Off Plan of Bank BPH S.A.

Amendments to the Bank's Statute

The amendments to Bank Pekao S.A.'s Statute, relating to its integration with the spun-off part of Bank BPH S.A.' business, included in particular:

- the extension of the Bank's scope of business to include brokerage activities and the performance for other banks and credit institutions, on a contractual basis, of specific services falling within their scope of operations,
- the requirement for the relevant qualifications and experience to be possessed by at least half of the members of the Management and Supervisory Boards,
- the requirement for extended criteria to be met by independent members of the Supervisory Board,
- the creation of a fund designated for conducting brokerage activities within the Bank's reserve capital.

All of the aforementioned amendments took effect on the date of the legal merger consummation.

Offering of Spin-off Issue Shares

On 30th November 2007, the Bank was notified by the respective registry court about entries made on 29th of November in the National Court Register regarding integration.

The offering of Spin-off Issue Shares was carried out within the following time frame, announced by the Bank's Management Board on 30th November 2007:

30th November 2007	Submission by Bank Pekao S.A. of documents evidencing registration of an increase in its share capital by way of an issue of Spin-off Shares, along with a request to set the Reference Date at 7th December 2007, with the Polish National Depository for Securities (NDS).
4th December 2007	Last day of trading in Bank BPH S.A. shares designated as conferring the right to acquire Spin-off Issue Shares.
5th December 2007	Determination of the reference price for Bank BPH S.A. shares; it was determined that the reference price would correspond to the closing price of the shares on 4th December 2007, decreased by the value of 3.3 Bank Pekao S.A. shares, calculated on the basis of the closing price on 4th December 2007.
7th December 2007	Reference Date
18th December 2007	Allotment of Spin-off Issue Shares through the intermediation of the NDS and their registration in the accounts of the NDS participants

18th December 2007	First trading day of Spin-off Issue Shares
21st December 2007	Delivery of additional cash payments to the NDS participants to be transferred to the accounts of the entitled shareholders of Bank BPH S.A.

Operational Integration

In order to ensure continuous and undisrupted customer service during the transition phase, Bank Pekao S.A. and Bank BPH S.A. concluded relevant outsourcing agreements. According to these agreements Bank BPH S.A. will outsource to Bank Pekao S.A. a part of its IT Platform until the completion of the migration process of customers data from BPH S.A.

In order to efficiently manage the risks inherent in the operational integration, in-depth analyses were performed in order to identify individual risk areas and develop methods best suited to managing operational risk. The key objective behind the adopted strategy for operational risk management, which includes necessary monitoring and support plans and procedures, is to ensure high security of the process, as well as continuous and undisrupted service to all customers, while mitigating identified operational risks.

In the first instance, migration has been successfully completed in the following areas:

- provision of brokerage services to customers of Pekao285 who before the Spin-Off Date obtained such services from Bank BPH S.A. (in this instance the service provider is Dom Maklerski Pekao – an operational unit of the Bank's Head Office),
- custodial services,
- treasury transactions,
- human resources management,
- capital expenditures and cost management (unified ERP system).

During the transition phase, i.e. until full operational integration, the accounts handled by the acquired outlets (Pekao285) are being migrated from Bank BPH's IT platform to Bank Pekao's IT platform. Migration in the first outlets began in January 2008. It is being carried out on a roll-out basis, which means that customers are being migrated and their account numbers are being changed gradually – one group of outlets at a time. The migration is preceded by procedures unification, installation of new terminals and set-up of applications comprising the operational and IT system, as well as intensive training of employees manning the acquired outlets (Pekao285).
In order to minimize inconveniences for customers, both previous and new account numbers will be active for additional one year.

4.2 Directions of the development of the Bank and the Group

4.2.1 The Strategy of the Bank Pekao S.A.

General overview

Bank Pekao S.A. is the largest bank in Poland by assets and one of the leading financial institutions in the CEE banking sector in terms of scale of activity.

The bank offers a superior client service platform for Polish and international clients supported by best practice management systems.

Segment-based service model

Bank Pekao S.A. offers a segment based service model. Specifically, this involves:

- For individual customers, providing Mass, Affluent, and Private Banking customers with dedicated business models and segment-specific service levels and product offers, including dedicated Relationship Managers for Affluent and Private Banking customers.
- For small and micro enterprises (SME), providing professional product and service offer by dedicated SME Relationship Managers.
- For corporate customers, segmenting corporate customers into Mid Corporates and Large Corporates (based on turnover, sector, public/private ownership, domestic/international ownership, and other criteria) to ensure presence in all attractive client segments, and servicing these segments through Relationship Managers dedicated to each segment to optimize service levels and servicing costs. These Relationship Managers focus on providing high quality and efficient customer service supported by top sales management practices and integrated sales tools.

Distribution network (outlets)

Bank Pekao S.A. offers to its customers superior outlets and ATM's network, with the convenient access countrywide.

The branch network is the primary location for sales and service of retail customers, as well as Affluent and SME customers (with dedicated Relationship Managers).

Private banking customers are served through a network of Private Banking Offices, located in the largest cities in Poland.

Corporate customers are served by dedicated Relationship Managers. Large Corporate customers are served through a centralized team located in Warsaw while Mid Corporate customers are served through Relationship managers located in network of regional Corporate Centers. Transactional capabilities for corporate customers (cash transactions, night vaults, automatic cash withdrawals, etc) are provided by the branches.

Expected synergies

Due to the integration, Bank Pekao S.A. will be in a position to capture synergies and strengthen its position as one of the leading financial institutions in the Polish market with a strong, well structured and stable balance sheet and high growth potential.

As a result if the integration of the experience and relative strengths of both organisations, there are a number of areas where synergies can be realised, in particular:

- high quality and efficient sales network and sales force,
- well known credit products: mortgages, consumer loans, credit cards,
- a wide offer of saving products including deposits, mutual funds and structured products,
- a modern internet banking platform,
- professional service offer for SME,
- strong market position with large and mid-caps,
- leading position in complex corporate finance transactions,
- strong presence in electronic and cash management services,
- wide customer base.

Financially, sustainable benefits are expected in many areas of business activity of Bank Pekao S.A., resulting in growth of revenue as well as cost savings. Cost savings should offset all additional investments and expenses incurred within the integration process.

4.2.2 Investment plans, including equity

The Group's development strategy aims at strengthening its leading position in the financial sector. The development of the Bank and the Group does not exclude investments of the Bank in other financial entities.

4.2.3 Development of activity in Ukraine

On 3rd September 2007 a legal and operational merger between UniCredit Bank Ltd. and JSCB HVB Bank Ukraine S.A. took place, as a result of acquirement by Bank Pekao S.A. 100% shares of JSCB HVB Bank Ukraine S.A on 30th March 2007. The new bank that originated as a result of that merger operates as UniCredit Bank Ltd.

According to information provided by Bank Austria Creditanstalt AG (BA-CA), a member of UniCredit Group, BA-CA on 24th January 2008 completed on the acquisition of approximately 95% of the share capital of Ukrsotsbank from the group of investors represented by Interpipe Group. The structure of the Ukrainian operations belonging to the UniCredit Group is currently being assessed.

4.3 Changes within the Group

The Pekao Group is composed of financial and non-financial institutions organised around a universal bank. The Group offers a full range of financial services available on the Polish market to individual and institutional customers.

As at 31st December 2007, the Group comprised 26 members, including Bank Pekao S.A. as a parent company, 17 subsidiaries and 8 indirect subsidiaries. Bank Pekao S.A. also holds shares in associated and jointly-controlled undertakings, as well as minority interests in other companies, including financial market companies (GPW S.A., MTS-CeTO S.A. – the operators of the stock exchange and the OTC market, respectively). The complete list of members of the Pekao Group as at 31st December 2007 is presented in *Notes to the Financial Statements* (Note 1).

In 2007, there were significant changes in the Group's composition in connection with the merger with the spun-off part of Bank BPH S.A. Following the merger, Group acquired the following companies:

<u>Subsidiary companies:</u>

- BPH Bank Hipoteczny S.A.
- BPH PBK Leasing S.A (and BPH Leasing S.A and BPH Auto Finanse – indirect subsidiaries through BPH PBK Leasing S.A.)
- BPH Real Estate S.A. (and Metropolis Sp. z o.o., Jana Kazimierza Development Sp. z o.o. – indirect subsidiaries through BPH Real Estate S.A.)
- Centrum Bankowości Bezpośredniej Sp. z o.o.
- Centrum Usług Księgowych Sp. z o.o.
- Final Holding Sp. z o.o.
- Finanse plc.
- PBK Property Sp. z o.o. (in liquidation) and its subsidiary FPB Media Sp. z o.o.

<u>Associated companies:</u>

- Bankowe Doradztwo Podatkowe Sp. z o.o.
- Polish Banking System S.A. (in liquidation)
- PPP Budpress Sp. z o.o. (in liquidation)

Moreover, as a result of the merger the Bank increased its equity interest in certain infrastructure companies operating on the financial market (BIK S.A., KIR S.A., GPW S.A.). In addition, the Bank's portfolio of equity holdings was expanded with a number of minority interests.

In 2007, the Bank sold all its holdings (direct or indirect) in the following companies:
- Stalexport S.A. – 807,127 shares (0.51%),
- Pekao Access Sp. z o.o. – 205 shares (55.26%),
- Anica System S.A. – 1,526,900 shares (33.84%)

On 30th March 2007, Bank Pekao S.A. acquired 100% of shares in Joint Stock Commercial Bank HVB Bank Ukraine. On 17th May 2007 (date of registration by the National Bank of Ukraine), Bank Pekao S.A. purchased from its subsidiary Drukbank Sp. z o.o. 2.43% of shares in the share capital of UniCredit Bank Ltd; following this transaction Bank Pekao S.A. holds directly 100% of shares in UniCredit Bank Ltd.

On 3rd September 2007, two banks in Ukraine: UniCredit Bank Ltd and Joint Stock Commercial Bank HVB Bank Ukraine were merged organisationally. Following the merger, the bank operates under the name UniCredit Bank Ltd, and Bank Pekao S.A. holds 100% of its share capital and 100% of the total vote at the General Shareholders Meeting.

In the fourth quarter of 2007 the process of liquidation of SARL Pekao Immobilier (the Bank's wholly-owned subsidiary) and Asset S.A. (wholly-owned by the Bank's subsidiary Final Holding Sp. z o. o.) has been completed.

The composition of the Group as at 31st December 2007 was the following:

Company's name	Core activity	% of shareholder's share capital / voting power	Consolidation method
Group parent company			
Bank Pekao S.A.	Banking	-	-
Subsidiaries entities consolidated full method			
UniCredit Bank Ltd. (d. Bank Pekao (Ukraina) Ltd.)	Banking	100,00	full
Centralny Dom Maklerski Pekao S.A.	Brokerage	100,00	full
Pekao Fundusz Kapitałowy Sp. z o.o.	Financial	100,00	full
Pekao Leasing Sp. z o. o.	Leasing	100,00	full
Pekao Faktoring Sp. z o.o.	Financial	100,00	full
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Financial	65,00	full
Drukbank Sp. z o.o.	Not operating	100,00	full
Centrum Kart S.A.	Financial support	100,00	full
Pekao Financial Services Sp. z o. o.	Financial services	100,00	full
BPH Bank Hipoteczny S.A. *	Banking	100,00	full
BPH PBK Leasing S.A.	Leasing	80,10	full
Finanse plc *	Financial brokerage	100,00	full
Indirect subsidiaries - subsidiaries of BPH PBK Leasing S.A.			full
BPH Leasing S.A.	Leasing	80,10	full
BPH Auto Finanse S.A..	Car leasing and fleet management	80,10	full
Indirect subsidiary - subsidiary of UniCredit Bank Ltd			full
BDK Consulting Sp. z o. o.	Consulting, hotel and transport services	99,99	full
Entities associated with the Bank Pekao S.A.			
Central Poland Fund LLC	Financial brokerage	53,19	equity
Xelion. Doradcy Finansowi Sp. z o.o.	Supporting, financial and insurance	50,00	equity
Pioneer Pekao Investment Management S.A.	Financial brokerage	49,00	equity
Pirelli Pekao Real Estate Sp. z o.o	Real estate management	25,00	equity
Krajowa Izba Rozliczeniowa S.A.	Clearing house	34,44	equity
Biuro Informacji Kredytowej S.A.	Credit information services	30,70	equity

* Percentage shares in entities which make up 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. - has 0.04 % share in equity of 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. - has 0.02 % share in equity of Finanse plc. Total share of the Group in Finanse plc equity is 100%.

4.4 Changes in the statutory bodies of the Bank

Supervisory Board

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

The Supervisory Board of Bank Pekao S.A. appointed Mr. Federico Ghizzoni to the position of Deputy Chairman of the Supervisory Board.

In June 2007 Mr. Andrea Moneta, Deputy Chairman and Member 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 24th July 2007.

Composition of the Supervisory Board

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

Management Board of the Bank

On 26th April 2007, the Supervisory Board appointed the following Members of the Management Board for the period of common term of office, lasting three years, beginning as of 27th 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 Wazynski as Member of the Management Board.

During the meeting on 14th November 2007 the Supervisory Board of the Bank Pekao S.A. appointed Przemysław Gdanski, Katarzyna Niezgoda and Grzegorz Piwowar to the positions of Vice Presidents of the Management Board as of the day of legal integration with Bank BPH S.A. 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 the Management Board, General Manager and Members of the Management Board – Paolo Iannone, Christopher Kosmider and Marian Wazynski to the positions of Vice Presidents of the Management Board.

Composition of the Management Board

	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, General Manager	2.	Luigi Lovaglio Vice President of the Management Board, COO
3.	Przemyslaw Gdanski Vice President of the Management Board	3.	Sabina Olton Vice President of the Management Board, Chief Accountant of the Bank
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 Wazynski Vice President of the Management Board	8.	Marian Wazynski Member of the Management Board

The members of the Management Board shall be appointed for the common term, which shall last three years.

The Supervisory Board appoints and recalls the members of the Management Board of the Bank. The Deputy Presidents and members of the Management Board of the Bank are appointed and recalled at the request of the President of the Management Board of the Bank. Appointment of two members of the Management Board of the Bank, including the President of the Management Board follows the approval of the Banking Supervision Commission. The Supervisory Board has to advise the Commission to express its approval.

The scope of operations and scope of actions of Members of the Management Board of the Bank have been set forth under Statutes of the Bank and the law - the Code of Commercial Companies, as well as the By-Laws of the Management Board of the Bank. The scope of operations of the Management Board of the Bank includes matters not reserved by virtue of the binding provisions of the law or of the Statutes of the Bank to the competence of the Bank's other statutory bodies.

4.5 The Bank's shareholding structure

Table below shows the Bank's shareholders who have (directly or indirectly through subsidiaries) at least 5% of total votes at the Bank's General Shareholders Meeting:

Shareholder's name	# of shares and votes at the General Meeting	Share in share capital and total number of votes at the General Meeting	# of shares and votes at the General Meeting	Share in share capital and total number of votes at the General Meeting
	31st December 2007		31st December 2006	
UniCredito Italiano S.p.A.	155,433,755	59.36%	88,121,725	52.83%
Other shareholders	106,432,902	40.64%	78,686,532	47.17%
Total	**261,866,657**	**100.00%**	**166,808,257**	**100.00%**

In 2007, the Bank's share capital was increased by PLN 95,058,400 through: the issue of 94,763,559 Series I ordinary bearer shares with a par value of PLN 1 per share, which were acquired by Bank BPH S.A.'s shareholders in exchange for the part of Bank BPH S.A.'s assets transferred to Bank Pekao S.A., and through the issue of 294,841 Series F shares acquired by the participants of the management stock option plan.

Moreover, from the beginning of 2008 until the publication date of this report, the share capital of Bank Pekao S.A. has been increased by PLN 237,993 through the issue of 237,993 Series G bearer shares, which were acquired by the participants of the management stock option plan.

As at the date of this report, the Bank's share capital amounts to PLN 262,104,650 and is divided into:

- 137,650,000 Series A bearer shares, with a par value of PLN 1.00 per share,
- 7,690,000 Series B bearer shares, with a par value of PLN 1.00 per share,
- 10,630,632 Series C bearer shares, with a par value of PLN 1.00 per share,
- 9,777,571 Series D bearer shares, with a par value of PLN 1.00 per share,
- 373,644 Series E bearer shares, with a par value of PLN 1.00 per share,
- 621,411 Series F bearer shares, with a par value of PLN 1.00 per share,
- 237,993 Series G bearer shares, with a par value of PLN 1.00 per share,
- 359,840 Series H bearer shares, with a par value of PLN 1.00 per share,
- 94,763,559 Series I bearer shares, with a par value of PLN 1.00 per share.

All outstanding Shares are ordinary bearer shares. There is no difference among the Shares in terms of the rights attached thereto. There are no preferences or restrictions related to the existing Shares. The rights and obligations related to the Shares are set out in the Commercial Companies Code and other provisions of law.

The share of UniCredito Italiano S.p.A. in the share capital and the total number of votes at the General Meeting amounts to 59.30% while the share of other shareholders amounts to 40.70%.

Spin-off Issue Shares

Bank Pekao S.A. issued 94,763,559 shares with the purpose of allotting them to Bank BPH S.A. shareholders who have also become Bank Pekao S.A. shareholders starting from the day of the Spin-off. Owing to the Share Allocation Ratio 1:3.3 and the principle that only integer of shares may be allotted to Bank BPH S.A. shareholders, in Bank Pekao's securities account 5,010 Spin-off Issue Shares were recorded. The Management Board of Bank Pekao S.A. has been authorized by Resolution No 4 Extraordinary General Meeting of the Bank Pekao S.A. dated 27th April 2007 to dispose of these shares to buyers of its choice. Spin-off Issue Shares acquired by Bank Pekao S.A. in the way described above constitute 0,0019% of the Bank Pekao S.A. capital shares. Bank Pekao S.A. cannot exercise voting rights attached to these shares.

In return for the fractional parts of Spin-off Issue Shares, that haven't been allotted to Bank BPH S.A. shareholders in view of the application of the above-mentioned principles, Bank BPH S.A. shareholders received the Supplementary Cash Payments. The value of one Spin-off Issue Share established for the purpose of the Supplementary Cash Payments amounted to PLN 256.69 and it was equal to the average market price of the Bank shares from 30 quotation days preceding the Reference Day.

4.6 New Capital Accord – Basel II

In 2007, the Bank continued work aimed at achieving compliance with Basel II requirements. The work started in 2005, when a separate Basel II project, led by the Chief Risk Officer, was originated. The Bank's Management and Supervisory Boards attach particular importance to Basel II implementation and to ongoing monitoring of all Basel II-related initiatives.

The foundations for the process of aligning the Bank's practices with the Basel II regime were laid down in the Final Gap Analysis paper, summarising the results of the Gap Analysis undertaken in 2005. A Master Plan for implementing the Pillar I assumptions in the area of credit risk was prepared in close cooperation with banking supervision authorities and under specific guidelines of UniCredit. In accordance with the agreed implementation schedule, the Bank will first adopt the Standardized Approach in 2010, and then Advanced IRB Approach for corporate and retail portfolios in 2011.

In the third quarter of 2007, the Bank completed implementation of the KAMAKURA IT system, a calculation engine to be used in computing capital adequacy requirements for Pillar I credit risk purposes, which is a key element of the Project's first stage. The implementation was accepted by the Management Board and endorsed by the Supervisory Board.

The general framework for the implementation of the capital adequacy system at the Bank, which encompasses key elements of capital management, as well as organisational structure and scope of responsibility within the process, was adopted by the Management Board and approved by the Supervisory Board. Then, detailed internal procedures relating to the processes of internal capital assessment, capital management and capital planning were developed.

To fulfill the requirements of Pillar III (Market Discipline), the Bank has drafted its *Information Policy*, which has been approved by the Bank's Management and Supervisory Boards. It is available at the Bank's website.

In the operational risk area the Bank will first report under the Standardized Approach, with a clear plan for transition to the AMA Approach in 2010. Pillar II (Supervisory Review) initiatives have been scheduled and defined in late 2007, and are now being executed in line with UCI guidelines, under supervision of the Bank's statutory bodies.

Given the above, since January 2008, the Bank has been effectively in compliance with the relevant Resolutions of the Banking Supervision Commission published in March 2007.

4.7

4.8 Assessment of the financial credibility of Bank Pekao S.A.

As at 31st December 2007, Bank Pekao S.A. had the following financial credibility ratings:

	Bank Pekao S.A.	Poland
Fitch Ratings		
Long-term rating (IDR) in local currency	A	A
Long-term rating (IDR) in foreign currency	A	A-
Short-term rating	F1	F2
Individual rating	B/C	-
Support rating	1	-
Outlook of IDR	Positive	Stable
Standard and Poor's		
Long-term rating in local currency	A	A
Long-term rating in foreign currency	A	A-
Short-term rating	A-1	A-2
Outlook of IDR	Stable	Stable
Moody's Investors Service Ltd. (The Bank has not ordered Moody's rating)		
Long-term deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Financial strength	C	D (banks average in country)
Outlook	Stable	Stable

Investor Relations

Bank Pekao S.A. is strongly committed to transparent and complete communication with inwestors and access to information about the company and its prospects. Regular meetings with investors are held to present the quarterly results. The presentations are broadcast live on the Internet. The Bank also participates in most regional and industry-specific investor conferences that are an occasion for communicating the company's performance and development outlook.

The scale of the investor relations programme has been similar for the last few years, with some 300 meetings with investors held every year.

In 2007, in connection with the on-going integration process, the presentations of the Bank's results were carried out together with Bank BPH S.A., which gave the investors a better chance to assess the development of operations and progress of integration of the two organisations.

Performance of Bank Pekao Stock on the Warsaw Stock Exchange (WSE)

Bank Pekao S.A. shares rank among Central Europe's most liquid equities. Due to the Bank's market capitalisation as well as liquidity of its securities, the Bank shares are a material component of various stock indices compiled by the WSE and by other institutions.

In 2007, transactions in Bank Pekao S.A. stock accounted for 6.31% of the total turnover on the WSE, which corresponds to an average daily traded volume of 231 thousand shares. The value of trades in the Bank shares in 2007 amounted to PLN 28.7 billion (approximately EUR 7.6 billion).

In 2007 Pekao S.A. share price fluctuated within the range between PLN 215.00 and PLN 278.40. The price volatility witnessed in 2007 was mainly the outcome of overall market conditions, and in particular the declines that swept across global equity markets in the second half of 2007 on the back of expectations of a significant slowdown of US economy, mounting inflationary pressures in the emerging markets and loss of confidence in the financial sector, which was a fall-out of the US mortgage crisis. Despite having no exposure to the above risks, the Polish equity market and our stock underwent a price correction similar to that suffered by those markets and issuers which were directly affected by them.

4.9 Awards and Distinctions

In 2007, Bank Pekao S.A. received numerous domestic and foreign awards and distinctions, both individually and as member of the UniCredit Group. Below we present an overview of the most significant awards.

UniCredit Group named Best Bank in Poland and in Western Europe

Euromoney, a renowned UK financial magazine, honoured the UnitCredit Group with the Best Western European Bank 2007 title and named it the best bank in Italy, Austria, Bulgaria and Poland, as a token of recognition of its activities and achievements over the previous year. In addition, the Group was recognised for Best Investor Relations in CEE and made an honoree of the Best Investment Bank in Bulgaria and the Best Capital in Poland.

Euromoney gives its awards to the most effective financial institutions representing each significant financial market and product segment, as well as to leading banks in over 100 countries. Every year, the awards set standards of excellence in banking services and capital markets among top-tier financial institutions all over the world.

Bank Pekao Shortlisted for European Business Awards 2008

Bank Pekao S.A. was the only Polish name shortlisted for the international European Business Awards 2008 competition in "The Business of the Year" category. As a shortlisted candidate, the Bank received the special accolade of *Ruban d'Honneur*.

European Business Awards are granted to institutions based in 27 member states of the European Union as a tribute to their outstanding achievements, innovative solutions and high standards of ethical conduct in business.

Special Mention by the *BANK* Monthly

Bank Pekao S.A. received a special mention for its continued determined efforts towards consolidation of the Polish banking sector in the “Poland’s 50 largest banks 2007” ranking, which reflects the financial standing and development of banks in the financial market. The ranking was compiled by the monthly’s editors, supported by a team of financial analysts.

Pekao S.A.’s Eurokonto Account Chosen “Product of the Year 2007” according to *Reader’s Digest*

For the second consecutive time, the Eurokonto account offered by Bank Pekao S.A. won the Product of the Year 2007 certificate in the finance category, granted by the *Reader’s Digest* monthly.

For three years, *Reader’s Digest* has been conducting surveys in which Polish readers are asked to indicate the most popular and frequently chosen products of the previous year. Winners are announced in six industry categories.

Pioneer Pekao TFI S.A. named Polish Business Leader

Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A. was awarded a gold statuette of the Polish Business Leader for its unchallenged industry leadership and in recognition of its innovative offer and commitment to the highest standards of customer service.

In the seventeenth edition of the Polish Business Leader competition, the jury shortlisted 37 companies out of the total of 121 entrants, from among which it selected 15 winners of gold statuettes of Polish Business Leaders.

Pioneer Pekao TFI S.A. is Poland’s largest mutual fund company in terms of assets under management, enjoying one of the strongest brand recognition of all industry names.

When reviewing the candidates, the judges paid attention not only to financial ratios, but also to the quality and modernity of product ranges, as well as involvement in charitable and environmental projects.

In addition to numerous awards granted to the UniCredit Group, its General Manager (CEO) Alessandro Profumo was also winner of prestigious European awards.

Alessandro Profumo Named European Business Leader

In March 2007 at a gala held in London, CNBC Europe announced UniCredit’s General Manager (CEO) Alessandro Profumo European Business Leader of the Year for creating and sustaining entrepreneurship, developing best practices and conducting effective business in the global environment.

Alessandro Profumo was honoured for his outstanding leadership, the results he achieved in expanding the bank’s operations into Central and Eastern Europe, and for leading the merger with the HVB Group. The judges evaluated his achievements in various areas, including financial performance, creation of shareholder value, management, innovation, corporate governance, business practices and social accountability.

CNBC Europe is the world’s largest network of TV business and financial news channels.

5 Factors and events of significance to the Bank's performance

5.1 Important factors influencing Bank's activities and results

The main factors influencing the Bank's activities and results in 2007 include:

- integration of Bank Pekao S.A. and a spun-off part of Bank BPH S.A.,
- growth of commercial activity,
- overhead costs under control,
- cost of risk reduction.

Integration of Bank Pekao S.A. and a spun-off part of Bank BPH S.A.

The integration of Bank Pekao S.A. and Bank BPH S.A., in addition to involvement of top management into organisational and logistic processes, caused also costs connected with integration in 2007 estimated at PLN 202.3 million.

At the same time as a result of integration profit and loss data include, since the spin-off date, the results of integrated Bank and acquired subsidiaries. The integration influenced also volumes and structure of balance sheet as well as off-balance sheet items, which as at 31st December 2007 are presented for the combined Bank.

Growth of commercial activity

In 2007, the Bank noted a continued positive trend in the results of its business activity, with the successful sale of key products: mutual funds, PLN mortgage loans and consumer loans "Express Loan". The value of mutual funds increased by 23.4% compared with the end of 2006. The stock of PLN mortgage loans in the network of former Bank Pekao S.A. increased by 52.0% in 2007. The Bank continued its policy of offering PLN mortgage loans. The stock of "Express Loans" in the former Bank Pekao S.A. network increased by 16.8% in 2007.

Overhead costs under control

Overhead costs were kept under control while the increase was driven by the costs of the integration and also expansion in the Ukrainian market. It is estimated that excluding costs of integration, the Bank's cost / income ratio in 2007 stood at 45.4% and on a comparative basis was 1.7 p.p. lower than in 2006.

Cost of risk reduction

Impairment losses on loans and advances amounted in 2007 to PLN 128.8 million, i.e. PLN 78.8 million lower than in the previous year, resulting from effective credit risk management and positive macroeconomic situation. The ratio of impaired receivables to total receivables decreased from 8.8% at the end of 2006 (comparable value) to 7.7% at the end of 2007 as a result of an increase in the total receivables combined with a decrease in the impaired receivables.

5.2 Factors which will affect the results of the Bank

Internal factors

The integration of Bank Pekao S.A. and Bank BPH S.A., performed in a way of the spin-off of Bank BPH S.A. by transferring a part of Bank BPH S.A. property, will have relevant influence on the results of the Bank. Growth of value and synergies capture are expected according to the Group's strategy.

External factors

The Polish economy is expanding at high rate due to strong domestic demand, which creates favourable conditions for banking activities. Fast growth rate in retail loans and corporate customer loans is observed while the growth in deposits, though clearly higher than the GDP, was still half lower than the growth in loans. Drop in prices on the stock market in the last months of 2007 and in the beginning of 2008 has caused decrease of investment funds assets and outflow of savings from those funds. These savings were in majority located on term deposits, encouraged by the increase of deposits interest rates offered by the banks.

Significant increase of the prices growth in the second half of 2007 will last in the first half of 2008 and will bring further increases of the interest rates.

Disturbances on the international financial markets related to the crisis on the US mortgage loans market are another negative occurrence that decreases the availability of foreign financing and also increase the risk of global economy slow-down and deeper price drop on the stock market which in return threatens further outflow of savings from mutual funds.

Disproportion between growth rates of loans and deposits as well as growing discrepancies between maturity of assets and liabilities will have negative impact on banks liquidity. The necessity of depository base extension in the conditions of a more difficult access to foreign financing will cause the growth of financing costs.

The GDP growth rate is expected to decrease gradually in the following quarters, however, it will still remain at a high, above 5% level. Credit action growth rate will gradually decline, but it will still remain at a two-digit number level. Household incomes growth will be favourable for their savings which will be placed on deposits more often than in the previous months because of the prices drop on the stock market as well as the higher deposit rates.

Strong income growth, PLN appreciation and higher interest rates will gradually diminish enterprises efficiency and in the case of enterprises it will make the occurrence of higher credit risk more probable. However, fast increase of average households incomes will considerably balance the risk related to higher costs of debt service with a risk increase regarding households with incomes lower than average.

5.3 Description of major sources of risk and threats

Economic Factors

Bank Pekao S.A. and its subsidiaries operate predominantly on the territory of Poland. Therefore, the Bank's performance will be influenced by the economic events in Poland and international events that have an impact on Poland's economy.

Taking into consideration the strategy of increasing activity on the Ukrainian market, the Group results might also be dependent on the economic trends in Ukraine. Currently the scale of risks and threats connected with the Ukrainian market is not significant.

Risk Management

Effective risk management is prerequisite for maintaining high level of security of the funds entrusted to the Bank, and for achieving a sustainable and balanced profit growth.

The key risks inherent in the Group's financial instruments include the credit risk, liquidity risk, and market risk (interest-rate and foreign-exchange risks). A significant element of the risk management system is also the operational risk.

The Bank has adopted a comprehensive and consolidated approach to risk management. It extends to all units of the Bank and its subsidiaries. Risks are monitored and controlled with respect to profitability and the funds necessary to cover the exposure.

The Management Board is responsible for achieving the strategic risk management goals, while the Supervisory Board oversees whether the Bank's policy of exposure to various types of risk is compliant with overall strategy and financial plan. The Bank's Credit Committee plays an important role in the credit risk management, and the Asset-Liability Committee – in market and liquidity risk management, while management of the operational risk falls within the scope of responsibility of the Bank Security Committee.

The rules of managing each of the risks are defined in internal procedures and are subject to the assumptions of the credit and investment policies adopted annually by the Management Board and approved by the Supervisory Board. The rules of managing operational risk are determined by the objectives specified in the Operational Risk Management Strategy.

Credit Risk

Managing credit risk and maintaining it at a safe level is vital for the Bank's financial performance. In order to minimise credit risk, special procedures have been established, pertaining in particular to the rules of assessing transaction risk, collateralisation of loan and lease receivables, credit decision powers, and restrictions on lending to certain types of businesses.

Lending activities are subject to limits following both from the Banking Law and the Bank's internal standards, including limits concerning exposure concentration ratios for individual sectors of the economy, limit on the share of large exposures in the Bank's loan portfolio and limits of exposures to countries, foreign banks and domestic financial institutions.

The credit decision powers, lending restrictions as well as internal and external prudential standards, pertain to loans and guarantees as well as derivative transactions and debt instruments. The lending portfolio quality is also protected by way of periodic reviews and ongoing monitoring of the timely servicing of loans and the financial standing of the customers.

Under the guidelines of UniCredit, the Bank has continued work on further rationalisation of the credit process with a view to obtaining better efficiency and security, including in particular enhancement of the procedures and tools for risk measurement and monitoring.

Credit Risk Concentration Limits

In accordance with the Banking Law, a bank's exposure to a single entity or to entities linked by equity or organisational connections may not exceed 20% of the bank's equity if any of such entities is a related party of the bank, or otherwise 25% of the bank's equity. Moreover, the aggregate amount of the bank's exposures equal or in excess of 10% of its equity may not exceed the large exposure limit which is 800% of the bank's equity. In 2007, the Bank did not exceed the maximum exposure limits defined in the Banking Law.

Sector Exposure Concentration

In order to mitigate the credit risk attributable to an excessive sector concentration, the Bank has a system in place which allows it to control the sector structure of exposure. The system includes setting sector concentration ratios, monitoring the loan portfolio, and information exchange procedures. The system supports the management of exposures to individual business areas classified in accordance with the Polish Classification of Business Activities (PKD).

Concentration ratios are established based on an analysis of investment risk, the quality of credit exposure, trends prevailing in a given sector, the Bank's own funds and the sector's assets. Monthly comparison of the Bank's exposures with the applicable concentration ratios enables quick identification of those sectors where an excessive risk concentration might occur. If such concentration occurs, the Bank analyses the sector's economic situation (both existing and forecast trends) as well as the quality of the exposure to the sector. Based on these measures the Bank's policy of mitigating sector risk is defined and adjusted to the changing environment.

Market and Liquidity Risks

The management of liquidity and market risks is a vital element of the Bank's assets and liabilities management policy, which aims at optimising the structure of balance-sheet and off-balance-sheet items, taking into account the assumed relation of risk to income and comprehensive approach to all types of risk borne by the Bank in its business activities. The risks are monitored in relation to profitability and funds necessary to cover the exposure, and relevant reports are prepared on a regular basis.

The Asset-Liability Committee monitors the capital adequacy and the exposure to liquidity and market risks against the external limits imposed by supervisory authorities and internal limits adopted by the Bank.

Liquidity Risk

The overall objective of the liquidity risk management is to ensure the Bank's ability to meet its current and future payment obligations, taking into account the cost of acquiring liquidity and the return on equity, to prevent liquidity crisis situations and define contingency solutions to be employed in the event of a crisis.

The Bank invests its funds (both in the Polish currency and in foreign currencies) in compliance with the Banking Law and recommendations of supervisory authorities. The funds are invested mainly in Polish treasury securities, as well as in highly liquid securities of other sovereign issuers and financial institutions with highest ratings, offering the required yields. Since such securities can be sold at short notice, they provide the Bank with a liquidity reserve, allowing to overcome potential crisis situations.

In line with the recommendation of the banking supervisory authorities, the Bank applies and monitors internal liquidity measures that reflect the ratios of total adjusted maturing assets to total adjusted maturing liabilities.

The Bank has specific contingency procedures for addressing increased liquidity risk and for handling material deterioration of the financial liquidity. The contingency plan in the event of deterioration of financial liquidity provides for four levels of the liquidity risk, based on the size and duration of cash outflow from customers' accounts. The plan specifies the sources of funds to cover such outflows. The contingency plan also defines the scope of the Bank management's responsibilities and authority to make decisions necessary to restore the required level of financial liquidity. Both the emergency plan and the possibility of obtaining funds from sources specified in the plan are subject to periodic verification.

Market Risk

In its commercial activities, the Bank is exposed to certain market risks, that is the interest-rate risk and exchange-rate risk as well as other risks resulting from changes in market conditions.

As part of management of the interest-rate risk related to the banking book, the Bank seeks to maximise the economic value of its capital and achieve the interest income target within the set limits. In terms of the interest-rate risk, the Bank's position is monitored with the use of such tools as the interest-rate gap (revaluation gap) analysis, duration analysis, simulation analyses, and stress testing. The sensitivity of the Bank's interest income and of the economic value of the Bank's capital to interest rate changes in 2007 remained within the binding in-house limits.

Foreign-exchange risk management aims at controlling the currency profile of balance-sheet and off-balance-sheet items so that it stays within the external and internal limits. In 2007, the Bank's foreign-exchange risk remained low.

The VaR method is integral to the market risk management process at the Bank. Therefore, VaR limits have been set and are monitored on a daily basis. However, since these limits do not sufficiently protect the Bank against rare and large-scale changes in market conditions, the

Bank also uses stress test analyses, which are to show how movements in market parameters affect the Bank's performance.

The instruments classified as held for maturity and available for sale as well as derivative instruments are marked to market on a regular basis or, if no market prices are available, on the basis of valuation models which, in the Bank's opinion, provide the most proximate fair value of such instruments.

Operational Risk

Operational risk management is based on internal procedures approved by the Bank's Management Board. These procedures are consistent with "Recommendation M" of the Banking Supervision Commission, as well as the Banking Supervision Commission's Resolution No. 1/2007 dated 13th March 2007. The procedures define the system of operational risk management, evaluation, monitoring, control/mitigation, reporting, outsourcing and classification of operations.

The system of control over operational risk management covers the Bank and its subsidiaries. Operational risk reports, including an analysis of operating events broken down by types of events and regions, a review of risk ratios, and an analysis of capital necessary to cover the operational risk, are provided to the Management Board.

For the purpose of operational risk mitigation, the Bank pursues its security policy procedures, including those referring to money laundering prevention. The Bank has also introduced and follows rules concerning security of the Bank's facilities, business continuity, protection of banking secret, personal data protection, as well as rules for the Bank units' cooperation with third parties. Other operational risk mitigation measures include contingency plans, internal audit controls, insurance schemes, and ongoing enhancement of the process quality. Moreover, in the event that any irregularities are identified, guidance is immediately provided concerning the scope, method and frequency of functional controls in the specific area of the Bank's operations.

5.4 Bank Pekao S.A. on the Polish Banking Market

5.4.1 Retail Banking

The Bank's offering targeted at the largest group of retail customers choosing standard products and services is among the most comprehensive ones to be found on the Polish market of banking services.

Retail customers are offered the Eurokonto current and savings accounts, which come in nine different packages tailored to suit their individual needs. The Eurokonto packages are sold with a unique assistance insurance cover Pakiet Pomocny (Assistance Package), designed jointly with Switzerland's Mondial Assistance Group and Towarzystwo Ubezpieczeniowe Allianz.

For the second consecutive time, readers of the Reader's Digest monthly chose the Eurokonto account as Product of the Year in the Bank Account category. Customers appreciated its attractive price and a wide range of subsidiary products available, as well as the newly launched services and the continually upgraded Pekao24 service.

Holders of the Eurokonto account are issued with an international Maestro payment card, which is honoured worldwide. Maestro cards can also be used as ATM cards to make cash withdrawals from ATMs marked with the Maestro and Cirrus symbols both in Poland and abroad. Retail customers are furthermore offered a wide selection of Maestro or Visa debit, credit and charge cards, tailored to suit their individual needs.

As part of the Bank's loan offering, retail customers are offered our key loan products, such as Pożyczka Ekspresowa (Express Loan) and PLN mortgage loans. Prosty Kredyt Mieszkaniowy (Simple Housing Loan) can be used to purchase a house or a flat, or to repay a housing loan taken out with another bank. Thanks to a variety of options, it is possible to design a loan best-suited to the circumstances of a given borrower. The Bank also sells Kredyt Mieszkaniowy z Dopłatą (Housing Loan with a Subsidy) under the government-led initiative designated as "Family in their Own Home".

In addition to a full palette of term deposits in PLN and foreign currencies, the Bank sells units in over 20 mutual funds managed by Pioneer Pekao TFI. The offering is enhanced with savings products: PAK PRO and PAK JUNIOR, Indywidualne Konto Emerytalne (Individual Pension Account) and Otwarty Fundusz Emerytalny Pekao (Open-End Pension Fund).

5.4.2 Affluent Customers

Affluent individuals, who demand high quality of service and individualised approach, are served in the VIP Advisory Centres model.

The model, under which customer relations are largely handled by a single Adviser, helps to build a personal relationship and intensify cooperation. As a result, Advisers have an ever-better understanding of the needs of each customer and thus are able to guide them in choosing optimal financial solutions.

As part of the comprehensive dedicated product and service package, affluent customers are offered the Eurokonto VIP account bundled with unique assistance insurance cover Pakiet Pomocny (Assistance Package), which protects its holders against the consequences of unforeseen adverse events. Additionally, the account is bundled with a free accident insurance. Its holders can also place standing orders free of charge and access the Pekao24 service.

The most affluent clients of Bank Pekao S.A. are offered a private banking service model. The Private Banking service gives them the guarantee of a comprehensive and tailored service provided with the highest quality. A personal banking adviser assists the client in choosing an optimal investment strategy both on domestic and foreign financial markets. Without making any concessions as regards the stability and security of investments, the advisor also aims at providing clients with constant and satisfactory financial benefits. In addition to standard services rendered to all retail customers, Bank offers products and services tailored to the private banking clients' individual needs and expectations.

The offering for affluent customers is complemented with a wide selection of payment cards, including platinum, gold and silver MasterCard and Visa credit cards, with a variety of value added services, such as insurance, loyalty programmes and affinity programmes. Concurrently, to add to their attractiveness and competitive edge, the cards have been equipped with new functionalities, such as the PIN change option, online credit card service, including transfers from the card account, and transaction alerts in the form of text messages.

Customers with surplus financial resources are offered a wide selection of mutual funds managed by Pioneer TFI, insurance and savings products, a full spectrum of deposits in PLN and foreign currencies, as well as brokerage services.

Dom Maklerski

In December 2007, the Bank launched the operations of Dom Maklerski. It was set up to ensure uninterrupted provision of brokerage services to customers whose accounts, following the merger, were migrated from Bank BPH S.A. to Bank Pekao S.A., as well as to offer individual customers comprehensive and professional service related to capital market products.

The mission of Dom Maklerski is to deliver the highest standards of brokerage service to achieve a maximum degree of satisfaction on the part of individual customers. The comprehensive offering allows customers to invest in equities, derivatives (financial futures and options), bonds and private market instruments.

Our investment product experts are not only sales persons, but also consultants and advisers. Their wealth of experience combined with an advanced telephone and online service platform Pekao24Makler, guaranteeing modern management of surplus resources from any place and at any time, helps to expand the offering in a flexible manner, while keeping it in line with the evolving environment and changing needs of customers.

5.4.3 Business Customers (Small-Sized and Micro Enterprises)

Business Customers are offered a wide spectrum of products and services, including bank accounts, term deposits, payment cards, loans, guarantees in domestic and international transactions, foreign trade finance, packages of comprehensive business banking services, online banking and Business hotline, which customers can call to enquire about the Bank's product offering.

December 2007 saw the launch of a promotional offering for new business customers whose accounts were migrated from Bank BPH S.A to Bank Pekao S.A. The offering, which includes a deposit within a bank account, a debit card and an online banking service, is differently priced depending on the size and type of an enterprise.

Additionally, the loan offering for Business Customers was modified with respect to overdraft facilities and investment loans, i.e. the relevant procedures were simplified and adjusted to meet the customers' needs and expectations.

The Bank has bundled its services into product packages, including *Business Lider* (Business Leader), *Eurokonto Business*, *Lider Farmacji* (Pharmacy Leader) and *Firma i Ja* (My Business and Me).

As part of these packages, small entrepreneurs are offered:

- comprehensive business banking services,
- joint business and personal account in the case of the *Eurokonto Business* package,
- convenient financing of day-to-day operations,
- attractive investment opportunities,
- safe and user-friendly payment cards, including credit cards,
- access to the account via remote channels.

5.4.4 Corporate Banking

Bank Pekao S.A. is the market leader in the provision of banking services to large and medium-sized enterprises. Bank's corporate product mix is among the most comprehensive ones available on the market. Additionally, Bank provides services to the public administration and local self-government sectors, social organisations and non-profit institutions. With quality of service for corporate customers paramount among our priorities, we keep enhancing our banking products and services and implement tools aimed at facilitating sales.

The Corporate Banking, Markets and Investment Banking of the new Bank Pekao S.A. was formed by amalgamating the corporate banking divisions of Bank Pekao S.A and Bank BPH S.A. and by integrating the Treasury Division of Bank Pekao S.A. with a part of International Markets Division of Bank BPH S.A. According to analyses conducted by our in-house experts, Bank Pekao S.A. has business relations with 46% of the companies which meet internal criteria for qualifying as corporate customers.

Leading role of combined bank in corporate client segment is confirmed also by research made by independent research agency GfK Polonia on the beginning of 2007 i.e. before integration of Banks. From the sample of 1 000 enterprises with annual sale of PLN 10 mil or more, 22% indicated one of the bank as its main bank.

The service model for corporate customers is based on the key role of a dedicated Relationship Manager responsible for identifying the customer's needs and selecting suitable products and services. The Relationship Managers are assisted by product specialists.

Large Corporates are served on an individual basis by Relationship Managers working from the Head Office's Department of Large Corporates, which is divided into seven industry service offices.

A dedicated unit was also set up at the Head Office level which serves the financial and public sectors and tailors our products to suit individual needs of customers from those sectors.

With a view to ensuring comprehensive banking and advisory service for medium-sized enterprises, they are served through 24 Regional Corporate Centres, grouped in six macro-regions, which can rely on strong support of the Bank's Head Office.

Thanks to close cooperation with experts in various fields of banking as well as the Group companies, Bank provides also other financial services, including guarantees and sureties in domestic and foreign transactions, factoring and leasing. The Bank is a leading arranger of project financing, M&A financing and debt security issues. Our customers have access to a full suite of transactional products, as well as a wide range of money market and FX products, to be used either in day-to-day operations or to build long-term risk hedging structures with respect to currency or interest-rate risk.

CRM Fokus System

The CRM Fokus system is a sophisticated tool designed to comprehensively manage the sales process and corporate customer relations. CRM Fokus is currently in the final stage of implementation and will soon reflect the business model underpinning the Bank's corporate banking. It will be integrated with key banking systems and thus – as a single aggregated resource of key information indispensable for day-to-day handling of the customers' accounts – will become the major platform for the distribution network. The system will be upgraded and new functionalities will be launched with a view to ensuring optimal individualized service for corporate customers.

BusinessLine

Since early December 2007, corporate customers can contact the Bank via the BusinessLine call service. Over the telephone, customers can receive effective support, obtain all information they need and report matters requiring urgent attention.

The current capacity of the BusinessLine service reaches 10 thousand companies. In 2007, it was one of the main communications channels during the integration of Bank Pekao S.A. and Bank BPH S.A.

Transactional Services

The Bank's Transactional Services are geared to offer corporate customers modern solutions in the area of electronic banking, cash management and trade finance.

In addition to a strong focus on gaining market share and developing new services, the key priority in the Transactional Services area in 2007 was to adjust the product portfolio to the migration of customers data to Bank Pekao S.A.'s platform. The main objective behind those efforts was to ensure that corporate customers taken over by the Bank have access to the same product functionalities as its existing customers.

Under an agreement signed by the Bank, in fourth quarter 2008 Bank will join the SEPA project (Single Euro Payment Area) in relation to euro payments. Participation in the SEPA project will allow customers to make euro payments more speedily and efficiently, in accordance with international standards.

Internet and electronic banking

PekaoBiznes[24]

PekaoBiznes[24] is an advanced internet banking system designed for corporate clients, established in 2005. The system facilitates the management of financial assets by on-line settlements throughout the entire business day between clients having an account at Bank Pekao S.A. and by ensuring prompt settlements with counterparties holding accounts in other banks.

Year 2007 saw the launch of new functionalities improving the security of the PekaoBiznes[24] service: masked passwords, login restrictions management and IP address control. Additionally, customers were offered a functionality which enables them to make online applications for setting up a new user, modifying the scope of user privileges or detaching a user from the company. The Integration Center provides additional formats for importing orders and exporting financial data from the banking system. Numerous functional modifications were also added to facilitate the usage of the service.

As of the end of 2007 there were 13,8 thousand active users of PekaoBiznes[24] while the number of internet banking application users reached almost 70 thousand. These users make up to 3.5 million of electronic transactions per month.

Electronic Banking (Proffice)

Bank's Electronic Banking System Proffice was extended with new functionalities, such as the Status and Orders module, Current Balances module, statements in the S.A.M2 and PDF file formats, Cash Management reports and duplicating orders filter.
Over 910 thousand transactions were processed in banking electronic system in December 2007.

Investment Banking and Structured Finance

The year 2007 was a period of intensive activity for the teams which – following the integration – were incorporated into the Investment Banking and Structured Finance of the new Bank Pekao S.A. In 2007 the new Bank reinforced its position as leader of the Polish market of structured debt products.

As at the end of 2007, Bank was involved in 49 structured finance transactions, out of which the Bank acted as an arranger or co-arranger in 43 transactions with an aggregate nominal value of approximately PLN 12 billion.

As of the end of 2007, the Bank was active in 19 syndicated loans. Bank was an organizer or co-organizer for 16 loans with total nominal amount of PLN 5.3 billion, of which guaranteed value amounted to PLN 3.1 billion.

In addition as of the end of 2007 there were 9 loans for financing leveraged buy outs and M&A. The total amount of these loans was ca PLN 3 billion of which Bank's exposure was ca PLN 2 billion. Substantial part of leveraged transactions was done in cooperation with leading European Private Equity Funds, which proves competitiveness of offered solutions with instruments available at international market.

The TMT industry (telecommunications, media, technology) was an arena of particularly busy structured finance activity – eight financing deals with an aggregate nominal value amounting to PLN 5 billion were arranged for TMT companies. Thus, Bank's undisputed leadership in that sector has been reinforced even further. All material transactions arranged by the Bank in the TMT sector were underwritten transactions.

Commercial Real Estate

During 2007, the Bank was very active in financing purchase and construction of real estate for lease or for sale (commercial real estate). There was an over 200% upsurge in the volume of new loans in that segment. As a result, Bank Pekao S.A. has credit exposure to over 100 groups of companies – its off-balance-sheet liabilities are close to PLN 10 billion and its credit exposure amounts to approx. PLN 5 billion.

Prior to the merger, the two parts of the Bank conducted complementary lending activities, and so the merger made it possible to combine also their respective loan portfolios. The part of business taken over from Bank BPH S.A. (so-called Pekao 285) was focused to a greater extent on transactions with international partners, managed in large cities. The Bank has entrenched its strong market position in that segment by increasing its exposure across the board: from office space and shopping malls, to warehouses and residential space. The part of business which operated within structures of Bank Pekao S.A. exhibited strong growth dynamics for loans advanced to residential property developers, especially those with regional operations. The Bank was involved in numerous high-profile transactions executed on the commercial real estate market.

Financial Market

In 2007, the Bank ranked among the top performers on the Polish inter-bank market. It was rated second in the general ranking of Treasury Securities Dealers and once again attained the number one position as the largest bond trader on the primary market

At the end of 2007, the Bank secured leadership of the domestic market of non-treasury debt securities. As at 31st December 2007, the value of active issues placed and supported by the Bank was in excess of PLN 9.3 billion, which accounted for 21.8% of the estimated domestic market.

From January through November 2007, we recorded an over 20% growth in income on sales of financial instruments. Following the integration of a spun-off part of Bank BPH S.A. into Bank Pekao S.A. in December 2007, there was a massive expansion of the Bank's operations in that area.

Cooperation with Customers with Respect to Issues of Commercial Paper

In 2007, we successfully upheld our active leadership of the market of non-treasury debt securities, as evidenced by two breakthrough transactions which are particularly worth noting:

- Poland's first issue of five-year bonds, carried out pursuant to the provisions of Art. 3.1. and Art. 7.3 of the Act on Public Offering, Conditions Governing Introduction of Financial Instruments to Organised Trading, and Public Companies, for one of the leading municipalities in Poland, worth PLN 125 million – issue addressed to qualified investors,
- issue of four series of bonds for one of the leading financial institutions, worth in aggregate PLN 1,150 million.

The position of a leader of Bank Pekao S.A. is confirmed by the reports of Fitch Polska, in which Bank as at the end of 2007 was ranked first or second in many categories.

Custodial Services

The Bank's custodial activities are performed pursuant to a decision by the Financial Supervision Authority. Our customers include Polish and international financial institutions, custodian and investment banks, insurance companies, mutual and pension funds, as well as non-financial institutions. Our custodial services include, in particular, settlement of transactions executed on domestic and international financial markets, custody of assets, handling of securities and cash accounts, asset valuation, and services related to dividend and interest payments.

Following the integration between the spun-off part of Bank BPH S.A and Bank Pekao S.A., we have become one of the largest provider of custodial services within the UniCredit Group network in Central and Eastern Europe. Additionally, we have rolled out some new services, including settlement of trades executed by remote participants of the Warsaw Stock Exchange and settlement of trades in derivatives.

As at 31st December 2007, the Bank kept over 5 thousand securities accounts.

As at the end of 2007, the value of domestic assets entrusted to the Bank's custody increased by 126% year on year. In 2007, the Bank signed agreements for maintenance of registers and custody of assets with five new mutual funds/subfunds.

The Bank continued to provide foreign financial institutions with custodial services in the territory of Poland and securities lending to ensure liquidity of their settlements. Furthermore, we have held on to our market leader position in depositary receipt programmes, handling more than 50% of such programmes.

5.4.5 Cooperation with International and Domestic Financial Institutions

Bank Pekao SA maintains correspondent relations with 2,135 international and Polish banks.

As at 31st December 2007, for the purposes of handling international settlements and payments, the Bank had 110 *nostro* accounts held with 65 banks in 31 countries, and maintained 227 *loro* accounts for 196 foreign customers (banks and other financial institutions) from 40 countries.

The Bank acts as an intermediary in transactions executed for the customers of other Polish banks and for that purpose maintains 53 *loro* currency accounts for 16 Polish banks and holds five *nostro* currency accounts with two Polish banks. In addition, Bank Pekao S.A. provides services consisting in purchase and sale of foreign coins and banknotes for a few dozen Polish banks or Polish branches of foreign banks.

In 2007, Bank Pekao S.A. extended its cooperation with foreign banks by concluding framework agreements whereby the banks are to recommend Bank Pekao S.A.'s corporate offer to their corporate customers doing business in Poland. In turn, Bank Pekao S.A.'s corporate customers can obtain similar support in their operations abroad.

The Bank is also expanding the Direct Deposit service, which enables its customers to receive US pensions as a direct payment into their account. Direct Deposit service ensures faster access to the funds for the beneficiaries and limits the use of the expensive cheque payment system.

5.4.6 Bank Pekao S.A.'s Participation in Financing EU Projects

As a result of its active participation in the EU aid funds programmes, Bank Pekao S.A. ranks top on the market of EU financing for enterprises.

In 2007, in anticipation of new projects to be launched as part of the EU financial perspective for 2007-2013, the Bank's activities were focused on providing information and improving the knowledge of the Bank's employees and customers about the EU funds.

In addition, Bank Pekao S.A. launched an Internet search engine for information about the EU funds – a completely innovative project in Poland. Developed by the Bank's experts, the tool enables its users to find information about the possibilities offered as part of individual EU funds.

The year 2007 also saw the introduction of training courses on using the EU funds, organised for the Bank's current and prospective customers.

According to the official information of the Polish Agency for Enterprise Development, in the last round of applications for 2.2.1, the only EU aid activity available in 2007, targeted at small and medium-sized companies, the Bank's share in the financing amounted to 10%. This was possible thanks to Bank Pekao S.A.'s attractive credit offer, but also as a result of the extensive information activity.

5.4.7 Network of distribution products and services

The Bank makes the superior physical distribution available to its clients, with the most convenient network footprint countrywide. As a result of the integration with separated part of Bank BPH S.A. this network has been additionally expanded. Distribution network is supplemented with teams of Relationship Managers and a network of Private Banking offices.

	31.12.2007	31.12.2006
Total number of outlets (in items)	1,058	782
Total number of own ATMs (in items)	1,885	1,262

The number of customers using alternative distribution channels such as call centre and internet banking platform is systematically growing. Pekao24 Service (for retail and SME clients) and PekaoBiznes[24] (for corporate clients) facilitate the management of financial assets, and scope of services is being systematically extended.

At the end of 2007 the Bank's clients used 4,179.7 thousand PLN current accounts, 182.7 thousand mortgage loans accounts and 679.7 thousand "Express Loans" accounts

	31.12.2007	31.12.2006
Total number of PLN current accounts (in thousand) *	4,179.7	3,054.4
of which packages	3,205.1	2,221.1
Number of mortgage loans accounts (in thousand)	182.7	74.7
Number of "Express Loans" accounts (in thousand)	679.7	328.4
Number of customers actively using Pekao24 (in thousand)		
Retail customers	865.1	707.6
SME segment	36.0	33.7
Number of customers actively using PekaoBiznes[24] (in thousand)	13.8**	6.1

* Number of accounts including accounts of pre-paid cards.
** Including 9.3 thousand customers of Bank Pekao S.A. before spin off.

The alternative distribution channels include all bank services that may be accessed by fixed line telephone, mobile phone and through the Internet.

Pekao24

Pekao24 service is available to:
- retail clients - an integral part of the Eurokonto packages offered in traditional outlets: Standard, Plus, VIP, Akademickie, Prestige and Hipoteczne Plus, Agro, Basic,
- SME clients – offered to holders of the Eurokonto packages: Business, Firma i Ja, Business Lider, Lider Farmacji as well as to non-package accounts holders.

Pekao24 allows access to the account through three different access channels:
- TelePekao, which offers access to an account by fixed line telephone. The operation may be executed automatically with the keypad or with the assistance of a consultant,
- PekaoSMS which enables access to an account through SMS sent from cellular phone,
- PekaoInternet which gives access to an account through the Internet.

This service is available 7 days a week, 24 hours a day both on the territory of Poland and from abroad. The scope of services is being systematically extended. In 2007, a number of new functionalities were launched:

- the *Pekao24Przelew* (Pekao24Transfer) service was launched for customers who make online purchases,
- a 10-day deposit with a preferential interest rate was launched,
- an activity log, i.e. a functionality which enables users to view the history of all activities performed via the *Pekao24* platform, sorted according to pre-selected criteria, such as time, service, type of transaction, type of activity. It materially enhanced the service security by allowing users to check their login history or the activation date of their TAN Block,
- a functionality which allows users to check the number and value of participation units held on their Pioneer Individual Pension Accounts (IKE),
- a functionality which allows users to place instructions to open the first and subsequent accounts under the PAK PRO savings programme. It is also possible to use the *Pekao24* platform to convert one's participation units to other existing and newly opened Pioneer accounts,
- a functionality which allows users to view the history of their current accounts, deposit accounts and payment cards up to 12 months back and download on-line statements in the PDF file format,
- a functionality which allows users to recurrently top-up their prepaid telephone cards.

Information concerning internet banking (PekaoBiznes[24]) and electronic banking (Proffice) for corporate customers are presented in point 5.4.4.

6 Balance sheet and financial results

6.1 Structure of the balance sheet

The integration of Bank Pekao S.A. and Bank BPH S.A., performed in a way of the spin-off of Bank BPH S.A. has substantially influenced volumes and structure of the balance sheet items.

In order to better present the changes in main balance sheet items, this paragraph presents additional information regarding growth of particular balance sheet items value in comparison to values estimated as of the end of 2006. Estimated values as of the end of 2006 include given item for Bank Pekao S.A. as well as estimated value for Separated Part of BPH S.A. ("the estimated growth on a comparative basis").

It should be emphasised, that the results of estimates were not subject to verification by external auditor and information presented below as "the estimated growth on a comparative basis" should be treated as indicative.

The table below presents Bank's balance sheet:

Assets	31.12.07		31.12.06	
	PLN mil.	Structure	PLN mil.	Structure
Cash and balances with the Central Bank	5,082.8	4.2%	3,573.9	5.3%
Loans and advances to banks	17,551.1	14.7%	10,388.8	15.5%
Loans and advances to customers*	63,956.4	53.5%	32,354.8	48.3%
Securities**	24,322.4	20.3%	16,663.5	24.9%
Investments in subordinated undertakings	1,688.2	1.4%	722.2	1.1%
Tangible and intangible assets	2,576.6	2.2%	1,996.9	3.0%
Other assets	4,391.1	3.7%	1,276.7	1.9%
Total assets	**119,568.6**	**100.0%**	**66,976.8**	**100.0%**

* including debt securities eligible for rediscounting at the Central Bank
** including financial assets held for trading and other financial instruments at fair value through profit or loss

Liabilities and equity	31.12.07		31.12.06	
	PLN mil.	Structure	PLN mil.	Structure
Amounts due to the Central Bank	1,485.9	1.2%	2,045.3	3.0%
Amounts due to banks	6,884.3	5.8%	1,927.0	2.9%
Amounts due to customers	89,160.1	74.6%	51,811.3	77.4%
Amounts due to own securities issued	2,097.1	1.8%	0.0	0.0%
Other liabilities	5,562.8	4.6%	2,573.0	3.8%
Shareholders' equity	14,378.4	12.0%	8,620.2	12.9%
Total liabilities and equity	**119,568.6**	**100.0%**	**66,976.8**	**100.0%**

6.1.1 Assets

Changes in assets structure

Loans and advances to customers are the dominant items in the structure of assets which constituted at the end of 2007 53.5% of total assets and securities which constituted 20.3% of total assets (at the end of 2006 respectively 48.3% and 24.9%).

Cash and balances with the Central Bank

	31.12.07	31.12.06
	PLN mil.	
Cash and balances with the Central Bank, including:	**5,082.8**	**3,573.9**
cash	2,532.5	1,089.4
current account	802.4	1,120.5
reserve bonds	1,699.0	1,313.1
other	48.9	50.9

Loans and advances

Customer structure of loans and advances*

	31.12.07	31.12.06
	PLN mil.	
Loans and advances in nominal value	**68,495.6**	**35,974.1**
loans	67,701.6	35,891.1
retail	23,344.0	10,269.8
corporate	44,357.6	25,621.3
non quoted securities	61.0	83.0
repo transactions	733.0	0.0
Other	259.1	138.3
Nominal value adjustment	(338.7)	(217.3)
Impairment losses	**(4,459.6)**	**(3,540.3)**
Net loans and advances	**63,956.4**	**32,354.8**

* Including debt securities eligible for rediscounting at the Central Bank

The volumes of loans at the end of 2007 amounted to PLN 67,701.6 million, of which corporate loans PLN 44,357.6 million and retail loans PLN 23,344.0 million.

Estimated growth on a comparative basis would have amounted to 6.3%. The growth was driven by increase in mortgage, consumer and corporate loans.

Impairment of financial assets

	31.12.07	31.12.06
	PLN mil.	
Gross credit and loans	68,219.0	35,759.3
not impaired	62,974.4	31,817.4
impaired	5,244.6	3,941.9
Impairment losses, including:	(4,459.6)	(3,540.3)
for loans assessed individually	(2,049.3)	(1,432.3)
for loans assessed in groups	(2,410.3)	(2,108.0)
Interest	197.0	135.8
Total net value	**63,956.4**	**32,354.8**

The ratio of impaired receivables to total receivables at the of 2007 amounted to 7.7% as compared to 8.8% at the end of 2006 (comparable value). This ratio decreased as a result of an increase in total loans volume combined with a decrease in impaired loans (on comparable basis).

The balance sheet value of impairment losses at the end of 2007 amounted to PLN 4,459.6 million of which PLN 356.0 million was attributed to the impairment losses resulting from incurred but not recognised losses (IBNR).

The currency structure of the receivables from customers

Gross receivables from customers* denominated in:	31.12.07		31.12.06	
	PLN mil.	%	PLN mil.	%
- PLN	52,586.8	76.9%	29,584.5	82.4%
- foreign currencies**	15,829.2	23.1%	6,310.6	17.6%
Total	**68,416.0**	**100.0%**	**35,895.1**	**100.0%**
Impairment losses	(4,459.6)	x	(3,540.3)	x
Total net	**63,956.4**	**x**	**32,354.8**	**x**

* including interests and amounts due in transit
** including indexed loans

PLN prevails in the currency structure of the receivables from customers, with share in total receivables at the end of 2007 of 76.9%. The highest share among foreign currency receivables had those denominated in EUR – 55.2%, CHF – 36.7% and USD – 8.1%.

Receivable structure by maturity

Gross receivables	31.12.07		31.12.06	
	PLN mil.	%	PLN mil.	%
Current and up to 1 month	12,645.0	18.5%	5,346.1	14.9%
1-3 months	2,158.2	3.1%	557.8	1.6%
3 months – 1 year	5,584.5	8.2%	3,637.6	10.1%
1-5 years	21,282.6	31.1%	12,311.4	34.3%
Over 5 years	26,486.6	38.7%	13,903.9	38.7%
Interest	197.0	0.3%	135.8	0.4%
Amounts due in transit	62.1	0.1%	2.5	0.0%
Total	**68,416.0**	**100.0%**	**35,895.1**	**100.0%**
Impairment losses	(4,459.6)	x	(3,540.3)	x
Total net	**63,956.4**	**x**	**32,354.8**	**x**

Broken down by maturities, receivables with maturity over 5 years have the highest share (38.7%), mainly attributed to mortgage loans, receivables for which the maturity date already passed and a large loan for a central state investment.

Loan portfolio concentration

The Bank's loan portfolio concentration is shaped according to the policy of reducing the Bank's loan portfolio dependence on a narrow group of clients.

As of the end of 2007 indebtedness of largest client valued at effective interest rate stood at PLN 1,642.5 million (nominal value of PLN 2,108.2 million). The debt is a result of a loan contracted for a central state investment, which starting from the beginning of 1999 is being repaid quarterly. The final repayment date of the loan is 30th December 2012. The loan agreement for financing the central state investment was concluded on 30th April 1984. The loan is refinanced by the National Bank of Poland and guaranteed by the State Treasury.

The concentration of the Bank's loan portfolio is as follows*:

	31.12.07	31.12.06
	PLN mil.	
10 largest borrowers	6,544.3	6,173.0
20 largest borrowers	9,704.5	8,548.4
50 largest borrowers	15,387.3	12,215.8

*This listing covers the largest borrowers (excluding banks) on the basis of used loans. The values of the concentration ratios shown in the table are significantly influenced by the central state investment loan described above.

The table below presents 10 largest borrowers* of the Bank as of 31st December 2007.

PLN mil.

	Total exposure	Balance sheet exposure	Off-balance sheet exposure
Client 1	1,642.5	1,642.5	0.0
Client 2	1,600.2	0.2	1,600.0
Client 3	1,113.7	559.6	554.1
Client 4	1,066.5	695.9	370.6
Client 5	909.1	884.3	24.8
Client 6	896.2	0.0	896.2
Client 7	782.3	507.3	275.0
Client 8	753.4	414.1	339.3
Client 9	719.3	118.6	600.7
Client 10	642.6	186.9	455.7

* This data does not include exposure related to the shares and other securities, derivatives or loan exposure to banks. This list entails exposure to one entity, i.e. without exposure to related entities.

6.1.2 Liabilities

Changes in the liabilities structure

Funds deposited by customers represent the most significant part of the total liabilities of the Bank. As at the end of 2007 amounts due to customers amounted to PLN 89,160.1 million and the share of this item in total liabilities and equity stood at 74.6% as at the end of 2007 (77.4% as at the end of 2006).

External sources of financing

	31.12.07	31.12.06
	PLN mil.	
Amounts due to the Central Bank	1,485.9	2,045.3
Amounts due to banks	6,884.3	1,927.0
Amounts due to customers	89,160.1	51,811.3
Amounts due to own securities issued	2,097.1	0.0
Total external sources of financing	**99,627.4**	**55,783.6**

Apart from customers' deposits and funds from interbank market, Bank uses also a refinancing loan from the National Bank of Poland for financing a loan contracted for a central state investment.

Bank Pekao S.A. acquires deposits mainly in Poland.

The geographical structure of the deposits acquired by domestic branches of Bank Pekao S.A. at the end of 2007 was as follows:

Region	% of total deposits
Warszawski	37.1
Malopolski	17.1
Centralny	8.7
Poludniowo - Wschodni	8.4
Mazowiecki	8.2
Wielkopolski	6.1
Pomorski	5.1
Zachodni	4.8
Dolnoslaski	4.5
Total	100.0

The deposit base of the Bank is well diversified. The main sources of deposits are retail and corporate customers. The Bank does not depend on any single client or group of clients.

Total customer savings

	31.12.07	31.12.06
	PLN mil.	
Customer deposits	85,658.8	49,472.2
retail	35,631.6	25,085.1
corporate	50,027.2	24,387.1
sell buy back transactions	2,703.9	2,223.0
other	797.4	116.1
Liabilities to customers	**89,160.1**	**51,811.3**
Structured Certificate of Deposits	**2,049.6**	0.0
Mutual funds managed by PPIM sold in the Bank	**24,153.9**	**18,881.2**
Total savings	**111,862.3**	**68,353.5**
including retail	61,835.1	43,966.4

At the end of 2007, savings of the Bank's clients (deposits, mutual funds and Structured Certificate of Deposits) amounted to PLN 111,862.3 million, of which savings of individual clients PLN 61,835,1 million and corporate one PLN 50,027.2 million. Estimated growth of savings (deposits and mutual funds) on a comparative basis would have amounted to 5.4%.

Currency structure of liabilities

Liabilities to customers* denominated in:	31.12.07		31.12.06	
	PLN mil.	%	PLN mil.	%
- PLN	72,368.2	81.2%	38,738.8	74.8%
- Foreign currency	16,792.1	18.8%	13,072.5	25.2%
- Value correction	(0.2)	(0.0%)	0.0	0.0%
Total	**89,160.1**	**100.0%**	**51,811.3**	**100.0%**

* including interest and amounts due in transit

PLN prevails in the currency structure of the Bank's liabilities to customers, with share in total liabilities at the end of 2007 of 81.2%. The highest share among foreign currency liabilities were EUR – 58.6% and USD – 36.1%.

Maturity structure of liabilities

	31.12.07		31.12.06	
	PLN mil.	%	PLN mil.	%
On demand	46,278.3	52.4%	24,386.9	47.2%
Term:	42,084.4	47.6%	27,308.3	52.8%
up to one month	30,895.9	34.9%	15,206.2	29.4%
1-3 months	6,004.6	6.8%	6,782.7	13.1%
3 months – 1 year	4,429.0	5.0%	4,422.9	8.6%
1-5 years	693.5	0.8%	757.3	1.5%
over 5 years	61.4	0.1%	139.2	0.3%
Total deposits	**88,362.7**	**100.0%**	**51,695.2**	**100.0%**
Accrued interest	154.5	x	88.5	x
Amounts due in transit	643.1	x	27.6	x
Value correction	(0.2)	x	0.0	x
Total amounts due to customers	**89,160.1**	**x**	**51,811.3**	**x**

6.1.3 Off-balance sheet items

As at 31st December 2007 the Bank had the following open off-balance sheet liabilities for an amount equal to or greater than PLN 250 million*:

PLN mil.

Client	Industry by PKD (Polish Classification of Business Activity)	Endorsement, guarantee, sureties	Open lines of credit	Letters of credit	Total
Client 1	Social security	0.0	1 600.0	0.0	1,600.0
Client 2	Manufacture and distribution of gaseous fuels	219.2	677.0	0.0	896.2
Client 3	Bank	0.0	696.7	0.0	696.7
Client 4	Property service	0.0	600.7	0.0	600.7
Client 5	Producing and processing of petroleum products	105.6	448.5	0.0	554.1
Client 6	Telecommunications	104.7	434.5	0.0	539.2
Client 7	Informatics	2.1	453.6	0.0	455.6
Client 8	Property service	0.0	452.4	0.0	452.4
Client 9	Publishing activities	2.0	390.5	0.0	392.5
Client 10	Business and management consultancy activities	0.0	390.4	0.0	390.4
Client 11	Financial brokerage	0.1	370.5	0.0	370.6
Client 12	Producing and processing of petroleum products	0.0	199.3	140.0	339.3
Client 13	Electric producing	100.5	228.1	0.0	328.6
Client 14	Transport	0.5	300.0	0.0	300.5
Client 15	Ships producing and renovation	153.1	128.3	0.0	281.4
Client 16	Financial brokerage	0.0	275.0	0.0	275.0
Client 17	Construction	209.7	64.9	0.0	274.6

* data do not include the guarantees of issues

Important guarantees and sureties granted by the Bank

The Bank pursues a conservative policy in relation to the guarantees and sureties. Guarantees for amount equal or higher than PLN 100 million as of 31.12.2007* related to the following single customers:

	(PLN mil.)
Guarantee 1	219
Guarantee 2	210
Guarantee 3	153
Guarantee 4	140
Guarantee 5	107
Guarantee 6	106
Guarantee 7	105
Guarantee 8	104
Guarantee 9	101

* data do not include the guarantees of issues

In 2007 the Bank did not grant sureties of loans or guarantees to any single entity or subsidiary of that entity, the total value of which would have been at least 10% of the Bank's own funds.

6.2 Profit and Loss Account

As a result of the integration of Bank Pekao S.A. and Bank BPH S.A., performed in a way of the spin-off of Bank BPH S.A. by transferring a part of Bank BPH S.A. property in a form of an organized part of enterprise to Bank Pekao S.A., financial data presented in the financial statements for the year 2007 comprise, since the date of the integration, the results of the combined Bank.

In order to assure better comparability of dynamics of the main components of the profit and loss statement, indicative information concerning estimated growth of those items, on a comparative basis, has been presented in this paragraph.

For the purpose of these estimations, the results for the year 2006 were recalculated by including estimation of the results of hypothetical integration of Bank Pekao S.A. and separated part of Bank BPH S.A. in the period from 30th November 2006 to 31st December 2006. Furthermore, costs related to integration were excluded from the results of the year 2006 and 2007, with the intention to better reflect the dynamics of business activity of the Bank.

It should be emphasised, that the results of estimates were not subject to verification by external auditor and information presented below as “the estimated growth on a comparative basis” should be treated as indicative.

Starting from 30th November 2007, the results of the Bank include results of the part of Bank BPH S.A. transferred in a form of an organized part of enterprise to Bank Pekao S.A. and are not fully comparable with the results of the year 2006.

The Bank’s net profit attributable to equity holders generated in 2007 amounted to PLN 2,006.6 million and was PLN 278.1 million higher than in 2006. The estimated growth on a comparative basis would have amounted to 16.7%.

The increase in the net profit was achieved through an increased commercial activity that translated into higher income, particularly fee and commission income and interest income, with operating costs under control and lower cost of risk.

The results confirm the high efficiency of the Pekao Bank. Return on average equity (ROE) increased from 21.0% in 2006 to 22.4% in 2007 (the estimated value on a comparative basis).

The profit and loss account for the year 2007 and the year 2006 is presented below:

(PLN million)

	2007	2006	Change
Net interest income *	2,514.0	2,288.9	9.8%
Fee and commission income	1,796.6	1,575.1	14.1%
Dividend income	243.2	170.6	42.6%
Trading income / FX gains	368.1	366.2	0.5%
Other operating income / cost net	73.4	63.5	15.6%
Total income	**4,995.3**	**4,464.3**	**11.9%**
Overhead costs (including depreciation)	**(2,469.0)**	**(2,157.1)**	**14.5%**
Operating income	**2,526.3**	**2,307.2**	**9.5%**
Impairment losses on loans and advances	(128.8)	(207.6)	(38.0%)
Pre-tax profit	**2,397.5**	**2,099.6**	**14.2%**
Tax charge	(390.9)	(371.1)	5.3%
Net profit	**2,006.6**	**1,728.5**	**16.1%**

* Including income on SWAP transactions.

The Bank's income

In 2007, the Bank's total income amounted to PLN 4,995.3 million and was PLN 531.0 million higher than in the previous year. The estimated growth on a comparative basis would have amounted to 6.3%.

The key income growth driver in 2007 was fee and commission income, which amounted to PLN 1,796.6 million and was PLN 221.5 million higher than in 2006. The estimated growth on a comparative basis would have amounted to 9.5%, primarily driven by commissions on investment products.

Another important income growth factor was net interest income, that amounted to PLN 2,514.2million and was PLN 225.1 million higher than in 2006. The estimated growth on a comparative basis would have amounted to 3.9% mainly as a result of increasing volumes allowing to offset the impact of a lower yield on the debt securities portfolio.

The Bank's overhead costs (including depreciation)

Total overhead costs (including depreciation) in 2007 amounted to PLN 2,469.0 million, with an estimated growth on a comparative basis amounting to 2.5%.

	(PLN million)		
	2007	**2006**	**Change**
Overhead costs (including depreciation)	**(2,469.0)**	**(2,157.1)**	**14.5%**
Personnel costs	(1,244.3)	(1,089.6)	14.2%
Non-personnel costs	(908.0)	(763.2)	19.0%
Depreciation	(316.7)	(304.3)	4.1%

Overhead costs were kept under control and the increase was driven mainly by the costs of the integration. Total overhead costs incurred in 2007 in relation to integration activities are estimated at the level of PLN 202.3 million.

It is estimated that excluding costs of integration, the Bank's cost / income ratio in 2007 stood at 45.4% and on a comparative basis was 1.7 p.p. lower than in 2006.

As at the end of 2007, the Bank had 20,636 employees (of which 6,614 employees transferred from Bank BPH S.A.), compared to 14,362 as at the end of December 2006.

Impairment losses on loans and advances

In 2007, impairment losses on loans and advances amounted to PLN 128.8 million and were PLN 78.8 million lower than in the previous year (on a comparative basis the estimated decrease was 42.5%), thanks to the effective credit risk management and a good macroeconomic situation.

Write-offs for revaluation of assets

		(PLN million)
	2007	**2006**
Total	**(128.8)**	**(207.6)**
for loan receivables	(96.6)	(114.4)
for off-balance sheet liabilities	(19.3)	(93.3)
other	(12.9)	0.1

Adjustments for provisions, deferred tax provision and assets

(PLN million)

	31.12.2007	31.12.2006
Total provisions	**375.0**	**221.0**
of which:		
provisions for off-balance sheet liabilities	186.2	112.6
provisions for liabilities to employees	121.9	68.0
other provisions	66.9	40.4
Provision for deferred tax	**0.0**	**0.0**
Deferred tax assets	**349.4**	**274.8**

7 Post balance sheet events

Agreement on sale of corporate brokerage part of Centralny Dom Maklerski Pekao S.A. (CDM)

On 28th January 2008 the Centralny Dom Maklerski Pekao S.A. (wholly owned subsidiary of the Bank) and UniCredit CA IB Polska S.A., signed the agreement on sale of part of enterprise of CDM conducting corporate brokerage and investment banking services for the price of PLN 444 million. The organized part of the business, which is the subject of the sale, generates about 12% of CDM net profit.

Transaction is in line with the strategy of focusing Bank Pekao S.A. on the retail brokerage as part of the integrated service offer for Bank's retail customers.

Increasing the share capital of UniCredit Bank Ltd. (former Bank Pekao (Ukraine) Ltd.)

On 4th February 2008 the National Bank of Ukraine registered the amendments to the Articles of Association of UniCredit Bank Ltd. covering the increase of share capital of UniCredit Bank Ltd. by the amount of UAH 109,834,200, comprising the equivalent of PLN 52,281,079.20 in keeping with the NBP table of exchange rates of 4th February 2008.

On of 3rd September 2007 the Extraordinary General Meeting of UniCredit Bank Ltd. adopted a conditional resolution (conditional to the consent of the National Bank of Ukraine NBU) on increasing the share capital of UniCredit Bank Ltd. by the amount of UAH 109,834,200, comprising the equivalent of PLN 61,221,583.08 in keeping with the NBP table of exchange rates of 3rd September 2007.

The increase in the share capital of UniCredit Bank Ltd. was a consequence of the merger between UniCredit Bank Ltd. and JSCB HVB Bank Ukraine (100%-owned subsidiaries of Bank Pekao S.A.) and take-up by Bank Pekao S.A. of 109,834,200 newly created shares in UniCredit Bank Ltd. with the par value of 1 UAH/share in the share capital of UniCredit Bank Ltd., totalling UAH 109,834,200, in return for 1,098,342 stocks of JSCB HVB Bank Ukraine with the par value of 100 UAH/stock, with the total par value of UAH 109,834,200.

At the moment of registration by the National Bank of Ukraine NBU of relevant amendments to the Articles of Association of the Bank concerning capital increase, the share capital of UniCredit Bank Ltd. has been increased from UAH 543,673,470 to the amount of UAH 653,507,670.

Bank Pekao S.A. currently holds shares in UniCredit Bank Ltd. of the total nominal value of UAH 653,507,670, comprising 100% of share capital of UniCredit Bank Ltd., carrying 100% of votes at the General Meeting of Shareholders in UniCredit Bank Ltd.

8 Human Resources and Corporate Social Responsibility

Corporate responsibility is regarded by Bank Pekao S.A. as a principle to be followed at all times, and represents a part of the Bank's underlying philosophy.

We operate in compliance with applicable laws, executed agreements, internal procedures and corporate governance principles. The compliance unit is responsible for ensuring that internal regulations and procedures and agreements under the civil law are in line with generally applicable laws. The efficient internal audit system is there to prevent breaches of agreements and procedures.

The Bank abides by the corporate governance principles provided for in the applicable laws, its Statute, the statutory by-laws and the standards defined in Best Practices in Public Companies, a document adopted by the Warsaw Stock Exchange to be followed by the companies listed on that market.
The Bank also observes Good Banking Practices adopted by the General Meeting of the Association of Polish Banks, which constitutes a code of ethical conduct for banking professionals in Poland. The document defines the rules of conduct in a bank's relations with customers, mutual relations between banks, and a bank's relations, in the capacity of an employer, with its staff.

The cornerstone of our corporate culture is the UniCredit Integrity Charter, which determines the values shared within the Group and the relations with all social partners (stakeholder groups).

UniCredit Integrity Charter

Shares Values as the Basis of the Group Identity

The UniCredit Group – one of Europe's leading financial groups, of which Bank Pekao S.A. is an important member – is proud of its geographical and cultural origins, from which stems its shared identity. The Group never loses sight of these origins in pursuing its mission aimed at maintaining a prominent market presence through distinctive identity based on values shared by its entire multi-cultural employee community.

In order to establish foundations for the cultural integration of a community of 170 thousand employees in 23 European countries, all companies within the UniCredit Group have adopted the UniCredit Integrity Charter – a code of fundamental values and rules of conduct based on integrity, considered to be the guarantee of durable transformation of profits earned by a company into value for all its stakeholders. The Integrity Charter is a tool helping to reconcile the pursuit of profits – a condition for every entrepreneur's development and independence – with the respect for interests of all social partners.

An enterprise is a legitimate participant of the market insofar as this is justified by its reputation. The reputation of the UniCredit Group is based on trust, performance accountability and quality business standards, while the Group's system of values is founded on integrity, which ensures that profits are translated into lasting value for all who work with us and who benefit from our activities, including customers, shareholders, employees, business partners and local communities.

According to the Integrity Charter, integrity in social relations is regarded as the guarantee of sustainable growth, that is durable transformation of profit into value for all the stakeholders. It identifies fundamental values for the relations with each such group, and indicates the models of conduct that should be followed in these relations.

The values constituting the foundation of integrity according to the Charter are: fair treatment, respect, freedom, transparency, reciprocity, and trust. These values, universally professed and observed by the employees, will shape the corporate culture and strengthen the distinctive image of the Bank in the increasingly more competitive market.

Integrity Charter Implementation

Implementation of the Integrity Charter at the UniCredit Group, including Bank Pekao S.A., is a process which involves all employees. Starting from 2006, the ethical values promoted by the UniCredit Integrity Charter and the rules of conduct recommended by that document have come to be considered as universal standards of behaviour required of all employees of the Bank regardless of their position.

In September 2007, the project **"Justice with the Integrity Charter"** was implemented. It is based on the idea of restorative justice, i.e. reconciliation of conflicting parties and mutual compensation with the assistance of the Integrity Charter ombudsmen. The task of the ombudsmen is to help in solving problems which may threaten the values enshrined in the Integrity Charter.

The system "Justice with the Integrity Charter" is already in place in a few countries in which the banks of the UniCredit Group conduct their operations.

The ombudsmen at Bank Pekao S.A. have been selected from very active retired employees, who offer a wealth of experience and wisdom. The choice has been made by their colleagues and subordinates.

In October 2007, the Bank celebrated the Integrity **Charter Day**, an event held throughout the UniCredit Group. On this occasion, the employees participated in workshops organised at all organisational units, discussing ways and means of translating the Integrity Charter values into patterns of behaviour in relations with external partners: customers, suppliers, local communities and investors.

The Bank's Relations with Stakeholders Consistent with the Integrity Charter

Bank Pekao S.A. is pursuing the values defined in the Integrity Charter through building trust in relations with each group of stakeholders, ensuring high business standards and achieving a steady, sustainable profit growth.

Our employees can always count on fair treatment, opportunities for personal growth and professional skill improvement as well as respect for them and their civil liberties.

Taking care of the interests of our **customers** is of key priority for us. We seek to be their bank of choice. We bolster their confidence by always improving the quality of our services, transparency of our activities, mutual respect and adequate protection of confidential data.

Our business partners are always treated with respect; we exercise objectivity and impartiality when selecting suppliers.

To our shareholders we guarantee a sustainable and continued growth of profits, achieved through honest means, with due regard to the needs of the remaining groups of stakeholders.

The Bank's commitment to **public causes** is evident in its sustainable growth initiatives aimed at environmental protection and its support of numerous socially-minded projects.

Human Resources Management

Trends in Personnel Policy

The principles of the personnel policy reflect the Bank's mission and the key values of its corporate culture. In 2007, the prevailing trend in the human resources management was a focus on the professional development of employees by creating an environment conducive to the fulfilment of their true potential, and offering all employees equal chances to contribute towards achievement of the Bank's commercial goals. The actions were focused both on retention of key personnel by means of effective incentives and efficient talent spotting within the organisation.

These priorities were accompanied by particular emphasis on promoting the corporate culture ethics shared across the UniCredit Group, as defined in the UniCredit Integrity Chart.

Employees Statistics

The Bank's headcount stood at 20,636 (including 6,614 employees transferred from Bank BPH S.A.), relative to 14,362 as at the end of 2006.

The Bank's employees are young and well educated. Their average age is 40 years (41 - as at the end of 2006). The percentage of employees holding university diplomas is 57%. Women account for 80% of the total workforce.

Training and Professional Development

The main objective of our training policy in 2007 was to help both the employees and the management staff in effective work and achieving clearly defined business goals, as well as to prepare the employees at all organisational levels for the Bank's integration with the spun-off part of Bank BPH S.A.

Nearly 52.3 thousand persons participated in all forms of training conducted in 2007 (a 34% increase compared with the previous year), including 16,894 employees.

A significant aspect of the Bank's training activity in the area of employee professional advancement was a continuous development of electronic tools supporting the management of development processes, as well as the launch of a knowledge-sharing platform spanning the whole organisation (accessible for each employee).

<u>Operational Training</u>

The bulk of the operational training content was based on the in-house programmes provided in the form of e-learning courses (38.9 thousand participants) and classroom-based courses taught by the Bank's internal trainers (11.9 thousand participants).

<u>Management Staff Training and Development Training</u>

2,732 participants took part in training courses targeted at the management staff. The main topics covered during the courses were directly connected with the development of managerial skills of key importance to the Bank and the UniCredit Group.

<u>Training Courses Connected with the Integration Process</u>

As part of the "Integration" project, classroom-based training courses concerning products, procedures and IT systems were organised at the Bank.

Moreover, the management staff were invited to participate in the "UniChange" programme, aimed at preparing the managers for the management of change within the organisation. Approximately 1,500 managers took part in the programme.

<u>Development Programmes at the UniCredit Group Level</u>

In cooperation with UniCredit, the Bank ran three international programmes intended for the employees of all banks of the UCI Group:

- Executive Development Program – dedicated for management board members and executive officers,

- Talents Management Program – aimed at identifying persons with the highest potential and assisting them in their professional advancement through various forms of education,

- UniQuest program – aimed at identifying high-potential individuals and assisting them in their development.

The total number of persons participating in these projects in 2007 was 115.

A number of training programmes were run by the Bank in cooperation with the strategic investor, using UniCredit Group's proprietary programmes and building on its experience. They were chiefly concerned with specialist training related to corporate banking, products targeted at customers of the Private Banking Division and improvement of the qualifications of the Bank's current and future management staff.

Internal Communications

The Bank's Management Board attaches great importance to continuous improvement in the quality of internal relations, using to this end a full variety of internal communication channels. In various areas this involves a dialogue with staff, which strengthens their affiliation with the Bank and a sense of contributing to its development.

Employee opinion survey confirms that relations between employees and their direct superior are of great importance to the internal communication. Other significant elements of internal communications are Bank's management meetings with managers and employees in the regions. It is an opportunity for direct contact and information exchange on the directions of development of the Bank and the Group, business strategy and methods of achieving commercial targets.

The process of internal communication is significantly facilitated by Zycie Zubra – (Bison's Life – Newsletter for Bank Pekao Staff), which covers all important events in the Bank's development.

The newsletter, which enjoys great popularity among the Bank's employees, helps them keep in touch with decisions of the Bank's governing bodies, its development plans, new product additions, technologies and procedures deployed in various areas of the Bank's business, projects implemented at the Bank, new training blocks or milestones in the banking community's life. In addition to that, it serves as a platform for exchanging experiences, voicing opinions and featuring individual achievements and career progress.

The intranet and electronic mail are important communication channels for quickly getting messages across to all employees.

A dialogue with staff underpins the periodic (annual) employee evaluation system and employee opinion surveys carried out bi-annually within the Bank and its subsidiaries.

The periodic employee evaluation process is extremely important for the entire organisation. For the staff being evaluated, it offers a chance to communicate their needs, aspirations and expectations further up the reporting line. The managers are given the opportunity to have a sincere conversation with staff about how they perceive their own performance. The evaluation results are also the basis for joint determination of an individual employee's professional development path. Before arriving at the final score, each employee can undertake self-evaluation.

The employee opinion surveys, carried out simultaneously across all companies of the UniCredit Group, allow staff to offer their feedback and come forward with their views and ideas regarding various aspects of the Bank's activities, evaluate its prospects, clarity of its goals, leadership, management quality, internal communications, brand image perception, as well as internal relations, effectiveness of training and a sense of "belonging" to the organisation. The surveys are anonymous and their overall results do not permit identification of the respondents' identities. They are designed by an external renowned international research firm. The firm also prepares survey follow-up reports, which are made available to the staff.

The surveys designed to poll the employees' opinions are a strategic management tool aimed at improving those areas which foster the sense of belonging to the organisation, commitment and motivation to continually improve business performance. The most recent opinion survey was conducted in January 2008.

Incentive and Retention Systems

The key incentive system of the Bank is the MBO (Management by Objectives), which has served to support execution of tasks since 2000. The employees covered by the MBO system are tasked with individual projects, whose successful completion makes them eligible to receive a specific amount of annual bonus. The system covers employees in the front-office sales jobs and in jobs which play a vital role in achieving the Bank's commercial targets.

In addition, in 2007 contests and sales campaigns were organised for the employees of individual business segments with the aim to bolster employee motivation and commitment in pursuing individually defined commercial targets within the timeframe of a given campaign. The best achievers were invited to annual conventions organised abroad by their respective business segments and at the level of the UniCredit Group.

A particularly important aspect of the HR policy in 2007 was retention of the employees of key significance for the success of the integration of Bank Pekao S.A. and Bank BPH S.A., as well as on strengthening their affiliation with the Bank. Considerable attention was also given to the most promising talent among the Bank's staff, selected for participation in the Talent Management scheme.

The above HR policy objectives are supported by the following retention schemes for key staff:

- Long-Term Incentive Plan for 2007-2011,
- Loyalty Plan.

The Long-Term Incentive Plan for 2007-2011 covers members of the Bank's Management Board and the remaining managerial staff, including selected employees of the Bank's subsidiaries, the personnel of particular importance for the implementation of the Bank's strategy, as well as employees chosen for participation in the Talent Management scheme. It should also be noted that in 2007 the Long-Term Incentive Plan had uniform rules across the UniCredit Group and was administered centrally.

The year 2007 saw further editions of the five-year Loyalty Plan, which had been launched in previous years. The Plan is designed to maintain strong staff affiliation with the Bank, by entitling its participants to receive additional remuneration, provided that they do not terminate their employment relationship with the Bank.

Relations with Trade Unions

In 2007, the interaction between the Bank as an employer and trade unions representatives, which consisted in consultations, bargaining and seeking consensus on various issues, was conducted in accordance with the labour law provisions, with due regard to the interests of all parties and the principles of social dialogue. In line with the procedure set out in the labour law, the parties to the Collective Bargaining Agreement amended the remuneration policy by signing in April 2007 Addendum No. 1 to the Collective Bargaining Agreement.

Relations with Works Council

The Bank Pekao Works Council, composed of members elected by the eligible trade unions active at Bank Pekao S.A., was set up on 24th July 2006.

The Works Council is a representative of the employees, authorised to obtain information for and hold consultations with staff within the scope defined in the Act on Employee Information and Consultation, dated 7th April 2006. In 2007 the Bank cooperated with the Works Council in compliance with the rules provided for in applicable laws.

9 Other information

<u>The position of the Management Board regarding the possibility of achieving forecasts</u>

The Bank has not published the forecast of financial results for 2007.

<u>Management Board and Supervisory Board Remuneration</u>

Total value of salaries, rewards and benefits (in cash, nature and in kind) paid or due to Management Board Members in 2007 (in PLN thousand)

No	Name	2007 base salary and bonus paid in 2007	Other benefits 2007	Total	Bonuses paid in 2007 (for 2006)	Comments
1	Bielecki Jan Krzysztof	1 417	30	1 447	1 700	
2	Figarski Przemyslaw Lech*	1 748	11	1 759	591	Management Board Member till April 2007
3	Gdański Przemyslaw	90	1	91	0	Management Board Member since December 2007
4	Grzybowski Irene	338	12	350	600	Management Board Member till April 2007
5	Iannone Paolo**	1 218	293	1 511	452	
6	Kosmider Christopher	930	112	1 042	400	
7	Lovaglio Luigi***	2 863	430	3 293	1 369	
8	Niezgoda Katarzyna	67	6	73	0	Management Board Member since December 2007
9	Olton Sabina****	2 058	3	2 061	580	Management Board Member till April 2007
10	Piwowar Grzegorz	67	0	67	0	Management Board Member since December 2007
11	Wazynski Marian	714	32	746	632	
	2007 Bonuses provision *****	5 179	0	0	0	
	Total	**16 689**	**930**	**12 440**	**6 324**	

*Amount of "Base salary and other bonuses paid or due in 2007" includes severance pay and compensation received due to not re-appointment as a Management Board Member.

**In the amount reported for Mr. Paolo Iannone it is included the amount of PLN 1 872 thousand which is paid by UniCredito Italiano and is refunded by Bank.

***In the amount reported for Mr. Luigi Lovaglio it is included the amount of PLN 4 348 thousand which is paid by UniCredito Italiano and is refunded by Bank.

****Amount of "Base salary and other bonuses paid or due in 2007" includes severance pay and compensation received due to not re-appointment as a Management Board Member.

***** 2007 Provisions consist of provisions for bonuses and Long Term Incentive Program.

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 thousand has been created for that purpose.

The total Bank accumulated expense for the stock option programs that may be executed by Management Board Members in the period between 2007 and 2012 (subject to fulfillment of given conditions) is equal PLN 1 458 thousand.

In 2007 Management Board Members were granted 632 737 stock options of UniCredito Italiano and 202 240 performance shares within the framework of Motivation Program LTIP 2007.

For stock options programs of 2004 refer in the Notes to the Annual Financial Statements of Bank Pekao S.A. for the year ended 31st December 2007..

In 2007, Management Board Members have not received any compensation - in any form, and they do not have any receivables by that title from subsidiaries, jointly controlled companies, and associated companies.

Total value of remuneration paid to Supervisory Board Members in 2007

No	Name	Amount in PLN thousand	Comments
1	Woznicki Jerzy	121	
2	Dangel Pawel	81	
3	Greene Oliver	89	
4	Pavoni Enrico	81	
5	Pawlowicz Leszek	81	
6	Starak Jerzy	45	Supervisory Board Member till July 24th, 2007
7	Pawlowski Krzysztof	35	Supervisory Board Member since July 25th, 2007
	Razem	**533**	

In 2007, Supervisory Board Members did not receive any compensation, in any form, nor are they entitled to any such amounts receivable from subsidiaries, jointly controlled companies, and associated companies.

Share the Bank and associates held by the Bank's Directors

According to the Bank's knowledge, as at 31st December 2007 the members of the Bank's management and supervisory bodies held 88,446 shares of Bank Pekao S.A. with nominal value of PLN 88,446. The table below presents the number of shares held by the Management Board Members:

Name and Surname	31.12.2007	31.12.2006	Change
Jan Krzysztof Bielecki	10,000	0	10,000
Luigi Lovaglio	65,357	32,679	32,678
Marian Wazynski	13,089	5,834	7,255
Total	**88,446**	**38,513**	**49,933**

On the 31st of December 2007 shares of UniCredit has: Luigi Lovaglio 122 355 shares with nominal value of EUR 61 177.5, Paolo Iannone 1 986 shares with nominal value of EUR 993.0 and Paolo Fiorentino 307 355 shares with nominal value of EUR 153 677.5.

Information regarding contracts for post termination benefits

The management contracts concluded by the Issuer with Management Board Members provide for the following compensations:

- Jan Krzysztof Bielecki, President of the Management Board: 18 times the base salary for the last month of work upon lapse of the term of office without re-appointment for another term of office or revocation, prejudiced only by dismissal pursuant to Art. 52 or Art. 53 of the Labor Code or improper performance of duties, or breach of the Pekao Charter, or Management Board or Supervisory Board resolutions,

- Przemyslaw Gdanski, Vice President of the Management Board: 12 times the base salary for the last month of work upon lapse of the term of office without re-appointment for another term of office or revocation, prejudiced only by dismissal pursuant to Art. 52 or Art. 53 of the Labor Code, or improper performance of duties, or breach of the Pekao Charter, or Management Board or Supervisory Board resolutions,
- Christopher Kosmider, Vice President of the Management Board: 22 times the base salary for the last month of work upon lapse of the term of office without re-appointment for another term of office or revocation, prejudiced only by dismissal pursuant to Art. 52 or Art. 53 of the Labor Code,
- Katarzyna Niezgoda, Vice President of the Management Board: 12 times the base salary for the last month of work upon lapse of the term of office without re-appointment for another term of office or revocation, prejudiced only by dismissal pursuant to Art. 52 or Art. 53 of the Labor Code, or improper performance of duties, or breach of the Pekao Charter, or Management Board or Supervisory Board resolutions,
- Grzegorz Piwowar, Vice President of the Management Board: 12 times the base salary for the last month of work upon lapse of the term of office without re-appointment for another term of office or revocation, prejudiced only by dismissal pursuant to Art. 52 or Art. 53 of the Labor Code, or improper performance of duties, or breach of the Pekao Charter, or Management Board or Supervisory Board resolutions,
- Marian Wazynski, Vice President of the Management Board: 12 times the base salary for the last month of work upon lapse of the term of office without re-appointment for another term of office or revocation, prejudiced only by dismissal pursuant to Art. 52 or Art. 53 of the Labor Code, or improper performance of duties, or breach of the Pekao Charter, or Management Board or Supervisory Board resolutions.

<u>Agreements with a companies entitled to auditing of financial reports</u>

Upon the issuance of the auditor's opinion and report on the financial statements of the Bank and the Pekao Group for 2006, the agreement concluded with the Bank's auditor, KPMG Audyt Sp. z o.o., for 2005–2006 expired.

According to *Best Practices in Public Companies 2005*, followed by the Bank, agreements for the audit of financial statements should be concluded with the same auditor for up to five years. Thus, extension of the two-year agreement concluded with KPMG Audyt Sp. z o.o. for another three-year term would be in compliance with the rules applicable at the Bank. The Management Board submitted to the General Shareholders Meeting a proposal for the agreement extension. The proposal was approved by the Supervisory Board.

On 26th April 2007, the Bank's Annual General Shareholders Meeting selected KPMG Audyt Sp. z o.o. as the Bank's auditor for 2007–2009.

(PLN ths.)

	2007	2006
Audit fees	6,047	3,135
Audit related fees	391	-

The amounts above do not include value added tax (VAT).

Average interest rates in Bank Pekao S.A. in 2007

The average nominal interest rates for the basic types of the PLN and foreign currency deposits for non-financial sector residents:

- PLN retail deposits	1.9% p.a.
- PLN corporate clients deposits	3.4% p.a.
- total foreign currency deposits in USD	1.0% p.a.
- total foreign currency deposits in EUR	0.5% p.a.

The average nominal interest rates for the PLN loans for non-financial sector residents:

- total retail loans	9.3% p.a.
- mortgage	6.4% p.a.
- other	12.8% p.a.
- corporate loans	6.6% p.a.

Number and value of titles of execution and value of collaterals

The collateral used by the Bank to hedge against risk related to its lending activities includes: transfers of ownership and pledges, mortgages, transfer of rights to insurance policies, sureties under the Civil Code, transfer of debt, appropriation of assets in bank accounts, guarantees, deposits and others.

For corporate clients, the total value of the collateral for impaired transactions as at 31st December 2007 amounted to PLN 2,786.2 million. During 2007, 406 titles of execution were issued on behalf of the Bank in the total amount of PLN 307.0 million.

For retail clients, the total value of the collateral for impaired transactions as at 31st December 2007 amounted to PLN 484.0 million. During 2007, 257 titles of execution were issued on behalf of the Bank in the total amount of PLN 19.6 million.

Issuance of bonds in the report period

In 2007, the Bank's share capital was increased by PLN 94,763,559 through the issue of 94,763,559 Series I ordinary bearer shares with a par value of PLN 1 per share, which were acquired by Bank BPH S.A.'s shareholders in exchange for the part of Bank BPH S.A.'s assets transferred to Bank Pekao S.A. Due to the specific nature of this offering, it does not feature certain elements typical of normal share offerings, such as subscription dates for shares, the filing of subscriptions for shares, the making of payment for the shares, influence from the issue, an issue price, the division of the offering into tranches, subscription withdrawals, the allotment of shares by the issuer and the possibility of abandonment or suspension of the offering.

Stock option programme

On the basis of Resolution No. 6 of the Bank's Extraordinary General Meeting dated 25th July 2003 on the issue of registered bonds under an incentive programme, the Bank issued registered A and B series bonds with pre-emptive rights to take up the Bank's F series shares as well as registered C and D series bonds with pre-emptive rights to take up the bank's G series shares.

All the pre-emptive rights to take up F series shares pursuant to the implementation of the right of priority ensuing from the A and B series bonds were executed.

Bank acquired 69,028 registered series C bonds from Pekao Faktoring Sp. Z o.o., for the purpose of redemption, and the total of 237,993 series C bonds from eligible persons, upon the request thereof for early redemption, pursuant to the implementation of the right of priority to take up the Bank's shares ensuing from the bonds, for the purpose of redemption thereof.

The issue price of G series share amounts to PLN 123.06.

The execution of the pre-emptive rights to take up G series share can be exercised in respect of C series bonds – from 1st January 2008 to 31st December 2012 and in respect of D series bonds – from 1st January 2009 to 31st December 2012.

D series bonds can be purchased from the Trustee agent by eligible persons until 30th December 2008.

The bonds that will not be sold by the Trustee agent by 30th December 2008, will be purchased on 31st December 2008 by the Bank for the purpose of redemption at the nominal value.

The Bank has also joined the UniCredit Group incentive program "Long-Term Incentive Plan 2007", based on offering the stock options and shares of UniCredito Italiano S.p.A. to the selected key managers and employees of the UniCredit Group. 63 employees of Pekao Group, including 8 members of the Management Board, are participating in this programme.

<u>Transactions with related entities</u>

Transactions with related entities are described in the Notes to the Annual Financial Statements of Bank Pekao S.A. for the year ended 31st December 2007.

<u>Information on the agreement with the Central Bank</u>

Information on the loan agreement with the Central Bank for financing the central state investment is described in the Notes to the Annual Financial Statements of Bank Pekao S.A. for the year ended 31st December 2007.

10 Representations of the Bank's Management Board

The Management Board of Bank Pekao S.A. declares to its best knowledge that:

- the annual financial statements and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner Bank Pekao S.A. financial position and its results,
- the annual Report on the activities for 2007 provides the true picture of Bank Pekao S.A. development, achievements and situation, including the main risks and threats.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the auditing of the annual financial statements of the Bank Pekao S.A. has been selected in line with the binding legal regulations. The company and the registered auditors performing auditing meet the requirements indispensable for issuing an objective and independent audit opinion concerning financial statement, in line with the relevant provisions of the Polish law.

11 Application of corporate governance standards set forth in the document "Good practices in public companies 2005" by Bank Pekao S.A. in 2007.

Based on §29 section 5 of the Regulations of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.), in relation to the resolution No 1013/2007 of the Warsaw Stock Exchange Management Board of 11 December 2007 on determining the scope and structure of the report concerning application of corporate governance standards by stock exchange companies, Bank Pekao S.A. (Bank) hereby declares:

Indication of corporate governance standards which were not applied by the issuer, including indication of circumstances and causes of not applying a given standard, and also the manner in which the company intends to remove possible effects (if any) of a failure to apply a given standard or what measures it is going to undertake in order to minimize the risk of a given standard being not applied in the future.

In 2007 Bank Pekao S.A. applied all corporate governance standards set forth in the document "Good practices in public companies 2005".

Description of the way in which the General Meeting of Shareholders works and its basic authorizations, as well as rights of the shareholders and the manner of exercising them.

Bank Pekao S.A. General Meeting of Shareholders acts on the basis of the Resolution No 19 adopted by Bank Pekao S.A. General Meeting of Shareholders on approving the Rules of Bank Pekao S.A. General Shareholders' Meetings of 8 April 2003, which defines detailed procedures of conducting sittings and adopting resolutions. Rules of the General Meeting of Shareholders are available on the Bank's internet pages.

The General Meeting of Shareholders, apart from other matters specified in the Code of Commercial Companies and the Statute of the Bank, shall have the authority to:
1. Review and approve the report on the operations and the financial statements of the Bank for the previous reporting year,
2. Adopt resolutions regarding distribution of profits or covering losses,
3. Review and approve the report on activities of the Supervisory Board,
4. Acknowledge the approval of duties by members of the Supervisory Board and the Management Board,
5. Review and approve the report on activities and the financial report of the Bank's capital Group,
6. Set the date of determining the right to dividend and the date of paying out the dividend,
7. Sell and lease of the enterprise, or its organized part, and establish a limited property right of usufruct thereof,
8. Amend the Statute of the Bank and establish its consolidated text,
9. Increase or decrease the Bank's share capital,
10. Issue bonds, including bonds convertible into shares or the bonds with pre-emptive right to acquire shares, and subscription warrants,
11. Redeem shares and determine conditions of such redemption,
12. Carry out a merger, division or liquidation of the Bank,
13. Create and liquidate special funds,
14. Appoint and recall members of the Supervisory Board,
15. Determine the rules of remunerating members of the Supervisory Board,
16. Conclude the agreement with a subsidiary company which provides for a management over the subsidiary company or a transfer of profit by such company,
17. Appoint the expert auditor,

18. Deal with other matters falling within the scope of the Bank's activities which are submitted to the General Meeting of Shareholders.

General Meeting of Shareholders shall be held in the Bank's seat. While determining the date of the General Meeting of Shareholders the Management Board of the Bank bears in mind that the date of the General Meeting of Shareholders should allow as many shareholders as possible to participate in the General Meeting. Draft resolutions proposed to be adopted by the General Meeting of Shareholders, including their justification, shall be provided to the shareholders at the latest 8 days before the General Meeting. Copies of the Bank's Management Board report on the Bank's operations and the financial statement, including the copy of the Supervisory Board's report as well as opinion of the expert auditor shall be issued to the shareholders upon their request at the latest fifteen days before the General Meeting.
All matters submitted to the General Meeting of Shareholders shall be provided with recommendation of the Supervisory Board. In accordance with §9 of the Statute, Bank's Management Board is obliged to submit matters to be submitted to the General Meeting of Shareholders to the Supervisory Board for consideration.
Members of Supervisory Board and Management Board shall be present at the General Meeting of Shareholders. Expert auditor shall be present at the Ordinary General Meeting of Shareholders and also at the Extraordinary General Meeting of Shareholders, if the company's financial matters are to be the subject of such meeting.
In the case where, due to some important reasons, participation of a Member of the Bank's Management Board or Bank's Supervisory Board in the General Meeting of Shareholders is not possible, reasons of the absence shall be presented to the General Meeting of Shareholders.
Bank's Management Board, as a body providing legal service for the General Meeting of Shareholders shall make every effort to ensure that the resolutions are formulated in a clear and lucid way.
Rules of the General Meeting of Shareholders shall include provisions (§13 sections 10-17) pertaining to elections to the Supervisory Board by voting in separate groups.
All amendments to the Rules of the General Meeting of Shareholders shall become effective starting from the next General Meeting.

Bank Pekao S.A. shareholders shall have the following rights:

1. Shareholders representing at least 1/10 of the share capital may put forward a motion to the Bank's Management Board for convening Extraordinary General Meeting of Shareholders and also require including specific matters in the agenda of the next General Meeting.
2. Shareholders may participate in the General Meeting of Shareholders in person or through their attorneys.
3. Upon request of the shareholders having one tenth of the share capital represented at the General Meeting of Shareholders, the list of presence should be checked by a commission specially appointed for this purpose, consisting of at least three persons. The requestors shall have the right to appoint one member of such commission.
4. The General Meeting of Shareholders may not adopt a resolution on removing from the agenda or on abandoning consideration of a matter included in the agenda upon shareholders' request, without consent of the shareholders.
5. Any ordered breaks in the sittings of the General Meeting, cannot be aimed at hindering the exercise of the shareholders' rights.
6. Each participant of the General Meeting of Shareholders shall have the right to propose one or several candidates for members of the Bank's Supervisory Board.
7. Upon request of the shareholders representing at least one fifth of the share capital, elections to the Supervisory Board should be performed by voting in separate groups. A relevant request should be submitted to the Bank's Management Board in writing, within a time-limit allowing the request to be included in the agenda of the General Meeting of Shareholders.

8. Shareholders may review the book of minutes and also require issuing copies of the resolutions authenticated by the Management Board.
9. Chairman of the General Meeting of Shareholders is obliged to ensure that rights of minority shareholders are respected.
10. A party objecting to a resolution must have an opportunity to concisely present the reasons for its objection.
11. Upon request of a participant in the general meeting, his written statement shall be recorded in the minutes.

Bank's organs as part of the tasks they are entrusted with, shall make sure the accomplishment of the majority shareholders' interests does not negatively affect the interests of the minority shareholders. Among other means, this principle is implemented via the appointment of appropriate composition of the Supervisory Board, i.e. members of the Board are the representatives of both majority as well as minority shareholders, which accounts for the fact that the supervision function comprises the interests of all groups of Bank's shareholders The expression of the principle of the rule of majority is §10 section 2 of the Bank's Charter, pursuant to which the General Meeting is authorised to take up resolutions, whenever there are 50% plus one stock represented at it. The aim of this provision is to guarantee that the General Meeting take up resolutions related to the most vital issues for the Bank and the shareholders by the shareholders representing in total the absolute majority share of the capital. If a GM resolution does not get passed due to lack of quorum required by the Bank's Charter, during the next General Meeting of Shareholders, with the same agenda as the General Meeting of Shareholders, which did not pass the resolution due to lack of quorum, required shall be the presence of the shareholders representing at least 20% of the shares.
The Chairman of the General Meeting makes sure the meeting goes smoothly and the rights and interests of all shareholders are duly respected; in particular he or she also prevents any abuse by the meeting participants of their rights and ensures the rights of the minority shareholders be respected.
The members of the Supervisory and Management Boards, as well as the Bank's chartered accountant, within the scope of their respective authorisations necessary for them to be able to decide on the issues discussed at the meeting, shall provide the explanations and information related to the Bank to all meeting participants.
Voting on the agenda-related issues during the General Meeting may be related only to the issues connected with conducting the meeting. This procedure may not be used to put resolutions to a vote which may affect the shareholders in terms of the possibility to freely execute their rights.
Removal from the agenda or resignation from putting under debate of an issue present on the agenda per the shareholders' motion requires a resolution to be passed by ¾ of the GM votes, having first obtained consent from all the present shareholders who had filed the motion in question.

Composition and procedures to be followed by managing and supervisory organs of a company and their committees

Composition of Bank Pekao S.A. Management Board in 2007

until 26 April 2007

Jan Krzysztof Bielecki – Bank Management Board President, CEO,

Luigi Lovaglio – Bank Management Board Vice President, Managing Director (till 11 Apr. 2007 Bank Management Board President, COO),

Sabina Olton – Management Board Vice President, Bank Chief Accountant

Przemysław Figarski – Bank Management Board Member,

Irene Grzybowski - Bank Management Board Member,

Paolo Iannone - Bank Management Board Member,
Christopher Kosmider- Bank Management Board Member,
Marian Ważyński - Bank Management Board Member.

from 27 April 2007 until 29 November 2007
Jan Krzysztof Bielecki - Bank Management Board President, CEO,
Luigi Lovaglio – Bank Management Board Vice President, Managing Director,
Paolo Iannone - Bank Management Board Member,
Christopher Kosmider- Bank Management Board Member,
Marian Ważyński - Bank Management Board Member.

from 30 November 2007
Jan Krzysztof Bielecki - Bank Management Board President, CEO,
Luigi Lovaglio - Bank Management Board 1st Vice President, Managing Director,
Przemysław Gdański - Bank Management Board Vice President,
Paolo Iannone - Bank Management Board Vice President,
Christopher Kosmider - Bank Management Board Vice President,
Katarzyna Niezgoda-Walczak - Bank Management Board Vice President,
Grzegorz Piwowar - Bank Management Board Vice President,
Marian Ważyński - Bank Management Board Vice President.

Principles and procedures prevailing for the Management Board have been set forth in the Rules of Bank Pekao S.A. Management Board adopted in the Resolution No. 101/VI/03 of the Bank's Management Board of 3 June 2003. Detailed distribution of competencies (authorisations) among the MB members was set forth in the President's Regulation which is an attachment the Rules of the Management Board. The Rules of the Management Board can be found on the Bank's website.

In accordance with the Rules referred to above, the Management Board develops the strategy of the Bank's further development and is responsible for its implementation and observance. The Supervisory Board passes its opinions on the long-term and annual financial plans for the Bank developed by the Management Board. Moreover, the Supervisory Board, via the especially appointed committees, monitors the degree of performance of the Bank's development strategy implementation. On the other hand, the Management Board takes care of the transparency and effectiveness of the management system and manages the Bank's policy in accordance with the legal regulations and Good Practices. The basic foundation of managing the Bank is professionalism, reliability and confidentiality. Relationships with customers are based on soundness and honesty and respect for the prevailing laws, including the laws related to money laundering prevention. The above mentioned values are the components of the Code of Professional Ethics prevailing in the Bank.
The mission of the Bank is to ensure to the shareholders constant and attractive growth of the Bank's worth. While effecting the principle of efficient and prudent management, the Management Board is responsible for initiation and implementation of programmes aimed at increasing the Bank's worth, shareholder return on investments and protection of long-term interests of the employees. While taking its decisions, the Bank's Management Board shall make every effort to ensure the accomplishment of the interests of the shareholders, creditors, employees and other entities cooperating with the Bank in its business activity.
The obligation of every member of the Bank's Management Board is to take up actions whose aim is to pursue the Bank's interests. According to the Code of Professional Ethics prevailing in

the Bank, every member of the Management Board is required to be reliable and loyal in pursuing the common goals as well as respect and reasonably use the Bank's resources. Moreover, the members of the Management Board are prohibited from taking decisions or actions which would bring about conflicts of interests, or which would be contradictory to the Bank's interests or their official duties. An MB member is obligated to inform the Supervisory Board of any situation in which a conflict of interests might occur; an MB member who encountered the demands for benefits put forward in any way by the employees or representatives of contractors should instantly inform the Supervisory Board of this fact.

Composition of Bank Pekao S.A. Supervisory Board in 2007

from 24 July 2007

Jerzy Woźnicki – Supervisory Board Chairman,

Paolo Fiorentino – Vice Chairman, Supervisory Board Secretary,

Andrea Moneta – Supervisory Board Vice Chairman,

Paweł Dangel - Supervisory Board Member,

Fausto Galmarini - Supervisory Board Member,

Oliver Greene - Supervisory Board Member,

Enrico Pavoni - Supervisory Board Member,

Leszek Pawłowicz - Supervisory Board Member,

Jerzy Starak - Supervisory Board Member.

from 25 July 2007

Jerzy Woźnicki – Supervisory Board Chairman,

Paolo Fiorentino – Vice Chairman, Supervisory Board Secretary,

Federico Ghizzoni – Supervisory Board Vice Chairman,

Paweł Dangel – Supervisory Board Member,

Fausto Galmarini - Supervisory Board Member,

Oliver Greene - Supervisory Board Member,

Enrico Pavoni - Supervisory Board Member,

Leszek Pawłowicz - Supervisory Board Member,

Krzysztof Pawłowski - Supervisory Board Member.

The Supervisory Board acts under the Rules of the Supervisory Board of Bank Pekao S.A. approved as part of Supervisory Board's Resolution No. 17/03 of 22 May 2003 (with further amendments, approved as part of Supervisory Board's Resolution No. 20/05 of 27 June 2005). The Rules of the Supervisory Board are presented on the Bank's web site.

The role of the Supervisory Board is to execute supervision in a manner that ensures Bank's achievement of assumed financial results. To do so, the Bank Management Board shall cooperate with the Supervisory Board and shall provide it with exhaustive information concerning all major issues related to Bank's operations.
When electing the Supervisory Board members the Bank shall stress the morals of the candidates, which remains compliant with the Bank's overall principle of conducting operations which says that when performing its operations the Bank observes high ethical standards. The procedure to elect the Supervisory Board, included in Par. 13 of the Rules of the General Meeting, requires that the person submitting a candidacy for the Supervisory Board member

present the curriculum vitae, which will allow the participants of the General Meeting to better assess the candidacy.
The principle applied so far, which says that at least half of the Supervisory Board should be composed of independent members, was observed by the Bank in 2007. The criteria for the Supervisory Board members' independence have been specified in Par. 14 section 5 of the Bank's Statute. An independent member of the Supervisory Board shall be the Audit Team Manager. No resolutions were passed, without the approval of the majority of independent members of the Supervisory Board, with regard to issues specified in principle 20 included in document "Good Practices in Public Companies 2005".
In their actions, the Supervisory Board Members are driven by the Bank's interest and undertake all actions to ensure efficient functioning of the Supervisory Board.
The Supervisory Board prepares and each year presents the General Meeting with a consistent assessment of the Bank's situation. The assessment of the Bank's situation prepared by the Supervisory Board shall be provided to the shareholders prior to the General Meeting.
The Bank has a procedure for obtaining, from the Supervisory Board members, of information related to personal, factual and organisational relations of the Board member. Information about the Supervisory Board member's relations are published in current and periodic reports according to valid legal regulations.

The Supervisory Board created dedicated committees dealing with individual areas of Bank's operations, including: Audit Committee, Remunerations Committee, Finance Committee. Reports of the committees created by the Supervisory Board are stored in the Bank Head Office and provided to the shareholders upon the request of the President's Office.

Compositions of committees created in 2007 were as follows:

Audit Committee

until 24 July 2007
Oliver Greene – Committee Chairman,
Paolo Fiorentino – Committee Member,
Andrea Moneta - Committee Member,
Leszek Pawłowicz - Committee Member,
Jerzy Woźnicki - Committee Member.

from 25 July 2007
Oliver Greene - Committee Chairman,
Paolo Fiorentino - Committee Member,
Federico Ghizzoni - Committee Member,
Leszek Pawłowicz - Committee Member,
Jerzy Woźnicki - Committee Member.

The scope of the Audit Committee's competence has been determined by the Supervisory Board's Resolution No. 42/07 of 2 Oct. 2007.

The role of the Audit Committee is to support the Supervisory Board in performing its obligations concerning: correctness and effectiveness of internal audit mechanisms applied in the Bank, including identification, measurement and managing risks; compliance with legal regulations and procedures regulating Bank's operations; correctness of application of accounting standards to preparation of financial statements; independence of external auditors and resources of the Internal Audit Department.

The Audit Committee consists of five members elected from among the Supervisory Board members, at least three of whom are independent members of the Supervisory Board. The Audit Committee Chairman shall be an independent member of the Supervisory Board.
The Audit Committee meetings shall be held as required, though at least four times a year, and dates of these meetings shall be corresponding to critical quarterly dates of the Bank's reporting cycle and the analysis of the annual audit plan presented by the Internal Audit Department Director.

Remuneration Team

From 24 July 2007
Paolo Fiorentino – Committee Chairman
Jerzy Woźnicki
Andrea Moneta
Enrico Pavoni

From 25 July 2007
Paolo Fiorentino – Committee Chairman
Jerzy Woźnicki
Federico Ghizzoni
Enrico Pavoni

Remuneration Team operates under the Supervisory Board's resolution; its tasks include presenting the Supervisory Board with proposals concerning: determination of remunerations for the Bank Management Board, remuneration policy for Bank's managers, presenting the General Meeting of Shareholders with proposals concerning remunerations for Supervisory Board members.

Finance Team

From 24 July 2007
Paolo Fiorentino
Andrea Moneta
Enrico Pavoni

From 25 July 2007
Paolo Fiorentino
Federico Ghizzoni
Enrico Pavoni

The Finance Team operates under the Supervisory Board's resolution; its task is to effect supervision over execution of Bank's financial tasks. The team members have the right to use consultants' services.

Description of the basic features of company's internal audit and risk management systems with regard to the process of preparing financial statements.

Bank's Management Board is responsible for designing, implementation and functioning of the Internal Audit System and risk management system with regard to the process of preparing financial statements.
The Supervisory Board shall supervise the functioning of the Internal Audit System by assessing its adequacy and effectiveness via the Audit Committee and the Internal Audit Department.

The Internal Audit System in the process of preparing financial statements is to ensure diligence, completeness and correctness of presentation of all economic transactions in the analysed period. One of the key elements of audit in the process of preparing financial statements is verification of the financial statement performed by an independent expert auditor.

The accounting policy adopted by the Bank, compliant with the International Financial Reporting Standards, the chart of accounts and reporting databases take into consideration the format and the detail level of financial data presented in the financial statements, in compliance with requirements and rules of the dominant entity. The Bank maintains accounting books in IT systems in the form of separated IT resources according to the adopted business structure. The IT systems ensure clear and centralised data, separately for each system, which confirms records in accounting books and enables control of continuity of the records and transfer of account activity and balances as well as drawing up of financial statements.
Accounting books must be reconciled against reporting databases.
Drawing up of the financial statements, periodic financial reports and ensuring management information is a responsibility of the Financial Division supervised by the Bank Management Board Vice President, Chief Financial Officer.

UCI group is subject to the provisions of the Italian law „Saving Act 262" (law 262/2005 and Legislative Decree 303/2006), reflecting the USA provisions of „Sorbanes Oxley Act", and therefore the Bank is subject to verification of operational and audit procedures applied when drawing up the financial statements, in accordance with UCI Group's guidelines arising from the above-mentioned provisions of law.

Signatures of all Members of the Bank's Management Board

Date	First Name / Family Name	Position / Function	Signature
	Jan Krzysztof Bielecki	*President, CEO*	
	Luigi Lovaglio	*First Vice President, General Manager*	
	Przemyslaw Gdanski	*Vice President*	
	Paolo Iannone	*Vice President*	
	Christopher Kosmider	*Vice President*	
	Katarzyna Niezgoda	*Vice President*	
	Grzegorz Piwowar	*Vice President*	
	Marian Wazynski	*Vice President*	