BANK
POLSKA KASA OPIEKI
SPOLKA AKCYJNA

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

Warsaw. March 2008

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(in PLN thousand)

Income Statement

For the year ended as at 31 December 2007

	Notes	2007	2006
Interest income	9	4 404 556	3 779 648
Interest expense	9	(1 913 245)	(1 499 156)
Net interest income		**2 491 311**	**2 280 492**
Fee and commission income	10	2 077 842	1 762 433
Fee and commission expense	10	(281 225)	(187 324)
Net fee and commission income		**1 796 617**	**1 575 109**
Dividend income	11	243 184	170 620
Gains (losses) on financial instruments at fair value	12	27 731	35 184
Gains (losses) on investment securities	13	37 331	86 224
Foreign exchange gains (losses)		325 744	253 159
Other operating income	14	148 051	163 658
Other operating expense	14	(74 644)	(100 132)
Net other operating income		**73 407**	**63 526**
Net provision charges for financial assets and contingent liabilities and commitments	16	(128 768)	(207 639)
General and administrative expenses	15	(2 469 010)	(2 157 085)
Operating profit		**2 397 547**	**2 099 590**
Gross profit		**2 397 547**	**2 099 590**
Income tax	19	(390 947)	(371 051)
Net profit		**2 006 600**	**1 728 539**
Earnings per share (in PLN per share)			
– basic	20	11.42	10.37
– diluted	20	11.41	10.36

(in PLN thousand)

Balance Sheet

As at 31 December 2007

	Notes	31.12.2007	31.12.2006
Assets			
Cash and due from Central Bank	22	5 082 829	3 573 882
Debt securities eligible for rediscounting at Central Bank		1 108	2 519
Loans and receivables from banks	23	17 551 065	10 395 551
Financial assets held for trading	24	2 828 802	2 050 828
Derivative financial instruments	25	1 917 960	526 643
Other financial instruments at fair value through profit or loss	26	3 777 679	1 613 195
Loans and receivables from customers	27	63 955 254	32 352 315
Hedging derivative financial instruments	28	40 672	-
Investment securities	29	17 715 886	12 999 469
1. Available for sale		17 128 996	12 574 059
2. Held to maturity		586 890	425 410
Non- current assets held for sale	30	514	8 784
Investments in subsidiaries	31	1 631 694	671 100
Investments in associates	32	56 530	51 092
Intangible assets	33	668 183	597 050
Property, plant and equipment	34	1 908 424	1 399 804
Investment properties	35	55 730	49 916
Income taxes		349 412	274 824
1. Current tax receivable		-	-
2. Deferred tax assets	19	349 412	274 824
Other assets	36	2 026 814	409 783
Total assets		**119 568 556**	**66 976 755**
Liabilities			
Amounts due to Central Bank	38	1 485 921	2 045 278
Amounts due to other banks	39	6 884 279	1 926 999
Financial liabilities held for trading	40	491 382	203 408
Derivative financial instruments	25	1 683 306	504 194
Amounts due to customers	41	89 160 124	51 811 250
Hedging derivative financial instruments	28	29 083	-
Debt securities in issue	42	2 097 070	12
Current income tax payable		51 793	201 631
Deferred tax liabilities	19	-	-
Provisions	43	374 998	221 012
Other liabilities	44	2 932 216	1 442 806
Total liabilities		105 190 172	58 356 590
Equity			
Share capital	48	261 867	166 808
Other capital and reserves	49	12 109 917	6 724 818
Retained earnings and current year profit	49	2 006 600	1 728 539
Total equity		14 378 384	8 620 165
Total equity and liabilities		**119 568 556**	**66 976 755**

(in PLN thousand)

Statement of changes in equity

For the year ended as at 31 December 2007 and as at 31 December 2006

	Share capital	Total reserves	Other reserve capital, of which:						Priori and current year profito	**Total equity**
			Share premium	General banking risk fund	other reserve capital	Revaluation reserves from financial instruments	Exchange differences from translation of foreign entities	Other		
Equity as at 1st January 2007	**166 808**	**6 724 818**	**1 395 885**	**1 137 850**	**3 992 997**	**(15 141)**	**555**	**212 672**	**1 728 539**	**8 620 165**
Management options	**295**	**35 973**	**31 623**	**-**	**-**	**-**	**-**	**4 350**	**-**	**36 268**
Options exercised (share issue)	295	31 623	31 623	-	-	-	-		-	**31 918**
Revaluation of management share options	-	4 350	-	-	-	-	-	4 350	-	**4 350**
Valuation of financial instrument	**-**	**(262 917)**	**-**	**-**	**-**	**(262 917)**	**-**	**-**	**-**	**(262 917)**
Revaluation of available –for-sale investments net of deferred tax	-	(212 878)	-	-	-	(212 878)	-	-	-	**(212 878)**
Revaluation of hedging financial instruments net of deferred tax	-	(50 039)	-	-	-	(50 039)	-	-	-	**(50 039)**
Appropriation of retained earings and current year profit	**-**	**224 611**	**-**	**100 000**	**109 611**	**-**	**-**	**15 000**	**278 061**	**502 672**
Dividend paid	-	-	-	-	-	-	-	-	(1 503 928)	**(1 503 928)**
Profit appropration	-	224 611	-	100 000	109 611	-	-	15 000	(224 611)	**-**
Current year nett profit	-	-	-	-	-	-	-	-	2 006 600	**2 006 600**
Merger of Pekao 285	**94 764**	**5 388 665**	**7 635 740**	**-**	**(2 247 075)**	**-**	**-**	**-**	**-**	**5 483 429**
Share capital issued	94 764	-	-	-	-	-	-	-	-	**94 764**
Share	-	5 388 665	5 388 665	-	-	-	-	-	-	**5 388 665**
Recognition of minority acquisition	-	-	2 247 075	-	(2 247 075)	-	-	-	-	**-**
Other	**-**	**(1 233)**	**-**	**-**	**-**	**-**	**(1 233)**	**-**	**-**	**(1 233)**
Foreign exchange differences from translation of foreign entities	-	(1 233)	-	-	-	-	(1 233)	-	-	**(1 233)**
Equity as at 31th December 2007	**261 867**	**12 109 917**	**9 063 248**	**1 237 850**	**1 855 533**	**(278 058)**	**(678)**	**232 022**	**2 006 600**	**14 378 384**

	Share capital	Total reserves	Other reserve capital, of which: Share premium	General banking risk fund	other reserve capital	Revaluation reserves from financial instruments	Exchange differences from translation of foreign entities	Other	Priori and current year profito	**Total equity**
Equity as at 1st January 2006	**166 482**	**6 522 997**	**1 361 034**	**1 067 850**	**3 790 599**	**95 835**	**884**	**206 795**	**1 506 779**	**8 196 258**
Management options	**326**	**40 728**	**34 851**	**-**	**-**	**-**	**-**	**5 877**	**-**	**41 054**
Options exercised (share issue)	326	34 851	34 851	-	-	-	-		-	**35 177**
Revaluation of management share options	-	5 877	-	-	-	-	-	5 877	-	**5 877**
Valuation of financial instrument	**-**	**(110 976)**	**-**	**-**	**-**	**(110 976)**	**-**	**-**	**-**	**(110 976)**
Revaluation of available –for-sale investments net of deferred tax	-	(110 976)	-	-	-	(110 976)	-	-	-	**(110 976)**
Revaluation of hedging financial instruments net of deferred tax	-	-	-	-	-	-	-	-	-	**-**
Appropriation of retained earings and current year profit	**-**	**272 398**	**-**	**70 000**	**202 398**	**-**	**-**	**-**	**221 760**	**494 158**
Dividend paid	-	-	-	-	-	-	-	-	(1 234 381)	**(1 234 381)**
Profit appropration	-	272 398	-	70 000	202 398	-	-	-	(272 398)	**-**
Current year nett profit	-	-	-	-	-	-	-	-	1 728 539	**1 728 539**
Other	**-**	**(329)**	**-**	**-**	**-**	**-**	**(329)**	**-**	**-**	**(329)**
Foreign exchange differences from translation of foreign entities	-	(329)	-	-	-	-	(329)	-	-	**(329)**
Equity as at 31th December 2007	**166 808**	**6 724 818**	**1 395 885**	**1 137 850**	**3 992 997**	**-15 141**	**555**	**212 672**	**1 728 539**	**8 620 165**

(in PLN thousand)

Cash Flow Statements

For the year ended as at 31 December 2007

	2007	2006
Cash flow from operating activities - indirect method		
Net profit (loss)	2 006 600	1 728 539
Adjustments:	8 545 839	533 406
Depreciation expense	316 695	304 341
Gains (losses) on foreign exchange differences	355 271	266 297
Gains (losses) on investing activities	(63 768)	(95 057)
Impairment provisions	-	(191)
Interest and dividend	(1 080 144)	(950 082)
Change in loans and receivables from banks	2 318 736	(506 219)
Change in financial assets as held for trading and other financial instruments at fair value through profit or loss	10 045 479	335 181
Change in derivative financial instruments	(1 391 317)	(27 353)
Change in loans and receivables from customers and debt securities eligible for rediscounting at Central Bank	(2 032 690)	(3 664 871)
Change in investment securities available for sale	(824 442)	(2 760)
Change in deferred tax assets	349 139	(96 813)
Change in other assets	(284 353)	(136 211)
Change in amounts due to banks	(182 935)	27 966
Change in liabilities as held for trading	(614 997)	(342 522)
Change in derivative financial instruments and other financial liabilities at fair value through profit or loss	1 179 112	(103 495)
Change in amounts due to customers	689 419	4 961 502
Change in debt securities in issue	31 545	-
Change in provisins	50 409	115 999
Change in other liabilities	201 857	218 761
Income tax paid	(907 742)	(238 930)
Current tax	390 563	467 863
Net cash flows from operating activities	**10 552 439**	**2 261 945**
Cash flows from investing activities		
Investing activity inflows	42 157 453	44 089 664
Sale of subsidiaries and associates	-	120 036
Sale of investment securities	40 290 930	43 153 863
Sale of intangible assets and property. plant and equipment	700	1 206
Other investing inflows	839 783	814 559
Merger of "Pekao 285"	1 026 040	-
Investing activity outflows	(44 948 235)	(42 263 569)
Purchase of subsidiaries and associates	(474 729)	(156 242)
Purchase of investment securities	(43 643 758)	(41 842 058)
Purchase of intangible assets and property. plant and equipment	(338 176)	(265 269)
Other investing outflows	(491 572)	-
Net cash flows used in investing activities	(2 790 782)	**1 826 095**
Cash flows from financing activities		
Financing activity inflows	35 973	35 177
Issue of normal shares	35 973	35 177
Financing activity outflows	(1 560 837)	(1 234 386)
Redemption of debt securities	(56 909)	(5)
Dividends and other payments to shareholders	(1 503 928)	(1 234 381)
Net cash flows from financing activities	**(1 524 864)**	**(1 199 209)**
Total net cash flows	**6 236 793**	**2 888 831**
Net change in cash and cash equivalents	6 236 793	2 888 831
Cash and cash equivalents at the beginning of the period	10 577 405	7 688 574
Cash and cash equivalents at the end of the period	16 814 198	10 577 405

Notes to the financial statements

1. General information

These annual financial statements of the Bank Polska Kasa Opieki Społka Akcyjna ("the Bank") cover the period from 1 January 2007 to 31 December 2007 and include the comparatives data:

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

Bank Pekao S.A. head quartered in Warsaw, 00-950 Grzybowska Street 53/57 operates as a joint stock company under Polish legal code including the Bank Law Act and Code of Commercial Companies and under its own articles of association.

Bank Pekao S.A. was initially recorded in the Commercial Register on 29 October 1929 maintained by the District Court in Warsaw and has been continuously in operation since that time.

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

The Bank's identification number is REGON 000010205.

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

Bank Pekao S.A. is a part of the BankUniCredito Italiano S.p.A capital Group with its seat in Genoa. Italy.

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

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

The financial statements of the Bank for the year ended 31 December 2006 contain financial data of all branches performing activities.

Bank prepares also consolidated financial statements of the Capital Group of the Bank Pekao S.A.

2. Merger of the organized part of Bank BPH into Bank Pekao

Background of the Transaction

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

On 15th November 2006 the Management Boards of Bank Pekao and Bank BPH signed the Division Plan of Bank BPH S.A., in accordance with art. 533 § 1 and art. 534 of the Commercial Code ("KSH"), which resolved that the division of Bank BPH will be carried out under art. 529 § 1 item 4 of the KSH. and will result in a transfer of an organized part of the enterprise to Bank Pekao S.A., hereafter referred to as **"**Bank BPH Spin-off".

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

Effective date of the Transaction

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

Accounting for the Transaction

In applying the book value accounting method Bank Pekao recognized the assets and liabilities of Pekao 285 at their carrying values at the transfer date, adjusted only to unify the accounting policy applied by Bank BPH. The carrying value of Pekao 285 total assets at 29 November 2007 amounted to PLN 51 871 222 thousand. As both Bank Pekao and Bank BPH prepare their financial statements under IFRS as adopted by the EU, minor adjustments to unify the accounting policies were recognized ordered at the transfer date.

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

The difference between the carrying amount of Pekao 285's net assets transferred, being PLN 5 458 012 thousand, and the nominal value of the shares issued by Bank Pekao, being PLN 94 764 thousand, was recognized in equity by the Bank as described below.

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

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

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

Shareholders' equity instruments issued for the transaction

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

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

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

The fair value of series I ordinary share for the purposes of the supplementary cash payments was set at PLN 256.69 per share. This fair value was established based on the average market price quotation for Bank Pekao's shares for the 30 day trading sessions, for which quotations were held, preceding the reference date of 7 December 2007. The average market price was an arithmetic average calculated from average daily prices weighted by traded volumes.

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

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

Acquisition of minority interest by UCI

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

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

Assets and Liabilities recognized at acquisition date

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

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

Item name	Amount as at 29.11.2007
Assets	
Cash and amounts due from Central Bank	600 203
Financial assets as held for trading	1 340 094
Receivables due from banks	4 746 404
Receivables due from customers	29 555 375
Other financial assets	13 409 779
Property plant and equipment	527 486
Intangible assets	51 967
Other assets	1 639 914
Total assets	**51 871 222**
Liabilities	
Amounts due to banks	4 580 858
Amounts due to customers	36 659 455
Debt securities in issue	2 128 124
Provisions	457 825
Financial liabilities as held for trading	902 971
Other liabilities	1 683 977
Total equity	5 458 012
Total equity and liabilities	**51 871 222**

Combined Profit for the period through the acquisition dated

The following table presents 2007 profit information for the combined Bank Pekao. This combined financial information was prepared by combining the financial results generated by Bank for the twelve months ended 31 December 2007 and the results of operations generated by Pekao 285 for the 12 month of 2007, adjusted only by an elimination of the mutual transactions between Bank Pekao and BPH 285 conducted during the period.

Item	2007
Net interest income	3 979 493
Net fee and commissions income	2 560 942
Other income	1 314 606

(in PLN thousand)

Total income	**7 855 041**
General and administrative expenses	(3 487 274)
Net operating income	**4 367 767**
Net provision charges for financial assets and contingent liabilities and commitments	(242 693)
Profit before income tax	**4 125 074**
Income tax	(743 238)
Net profit	**3 381 836**

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

Acquiree's profit since the acquisition dated

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

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

3. Information about the members of the Managmement Board and the Supervisory Board

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

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

7. Grzegorz Piwowar Vice President of the Management Board	7. Christopher Kosmider Member of the Management Board
8. Marian Ważyński Vice President of the Management Board	8. Marian Wazynski Member of the Management Board

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

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

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

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

(in PLN thousand)

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

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

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

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

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

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

4. Going concern

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

5. Approval of the financial report

This financial report was approved by the Supervisory Board of the Bank for issue on 20 March 2008.

6. Accounting policies

6.1. Statement of compliance

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

6.2. Basis of preparation of financial statement

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

The Bank has not elected to early adopt any new Standards and Interpretations. which have been approved by the European Union. and which will be effective after the balance sheet date.

As at the balance sheet date. the Bank has not yet completed its analysis of how those standards and interpretations will impact the financial statements for the period when the standards and interpretations will be applied for the first time.

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

Standards and interpretations approved by EU

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

(in PLN thousand)

Standards and interpretations pending approval by EU

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Date becomes effective for periods from and after
Revised IAS 23 *Borrowing Costs*)	The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.	The Bank has not yet completed its analysis of the impact of the revised Standard.	1 January 2009
Revised IAS 1 *Presentation of Financial Statements*	The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals. or in two separate statements (a separate income statement followed by a statement of comprehensive income).	The Bank is currently evaluating whether to present a single statement of comprehensive income. or two separate statements.	1 January 2009
IFRIC 12 *Service Concession Arrangements*	The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.	IFRIC 12 is not relevant to the Banks's operations as the Bank has not entered into any service concession arrangements.	1 January 2008
IFRIC 13 *Customer Loyalty Programmes*	The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognize these proceeds as revenue only when they have fulfilled their obligations.	The Bank does not expect the Interpretation to have any impact on the consolidated financial statements.	1 July 2008
IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset. Minimum Funding Requirements and their interactions*	The interpretation addresses 1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; 2) how a MFR might affect the availability of reductions in future contributions; and 3) when a MFR might give rise to a liability. No additional liability need be recognized by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company.	The Bank has not yet completed its analysis of the impact of the new Interpretation.	after 1 January 2008

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

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

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

During the reporting period the Bank did not change significantly the accounting principles as compared to the accounting principles adopted in prior period besides the accounting standards which comprised instruments hedging the future cash flows introduced by the Bank in 4th quarter 2007. Introduction of the hedge accounting caused a change in the way the fair value changes related to derivative financial instruments. it was described in 6.6 Derivative financial instruments and hedging accounting.

The accounting principles as described below have been consistently applied for all the historical periods presented apart from data relating to the integration with BPH and cash flow hedge accounting.

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

6.3. Accounting estimates and judgments applying accounting polices

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

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

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

- Impairment of financial assets

The assumptions presented herein. regarding measurement of impairment of credit and loans are described in this note 6.6. in the part titled “Impairment of financial assets”.

- Impairment of other non-current assets

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

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

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

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

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

- Measurement of management options

The assumptions adopted. regarding measurement of management options are described in the section entitled "Employment Benefits" in the Note 45.

- Calculation of retirement and pension severance payments provision

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

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

- expected amount of the basis of calculation of severance pay. in accordance with provisions of the BBA;
- expected increase of the calculation basis until the retirement age;
- percentage factor depending on the amount of years of employment. in accordance with the BBA.

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

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

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

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

- possibility of ceasing employment;
- risk of complete disability for work;
- risk of death.

6.4. Valuation of the foreign currency items

- Functional and presentation currency

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

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

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

(in PLN thousand)

- Transactions and balances

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

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

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

- Bank's branch in Paris

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

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

- for conversion of the balance sheet items the following exchange rates published by the National Bank of Poland have been applied:

	31.12.2007	31.12.2006
PLN for 1 EUR	3.5820	3.8312

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

	2007	2006
PLN for 1 EUR	3.7768	3.8991

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

6.5. Profit and loss account

Interest income and expense

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

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

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

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

Interest accrued on customer debt and issued securities are accounted for the income statement using the effective interest rate.

Fee and commissions income and expense

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

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

- origination fees and commissions;
- commitment fees and commissions.

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

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

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

Foreign exchange gains (losses)

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

Other operating income and expenses

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

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

Financial assets

Financial assets are classified in the following categories:

- financial assets valued at fair value through the profit and loss

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

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

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

- held-to-maturity

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

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

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

c) those that meet the definition of loans and receivables

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

- loans and advances

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

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

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

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

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

- available for sale

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

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

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

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

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

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

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

Impairment of financial assets

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

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

- substantial financial problems of the issuer or debtor;
- failure to keep to the contract terms, e.g. failing to repay or delay in repayment interest or part of capital;
- the Bank’s granting concessions or privileges to the debtor, for economic and legal reasons following financial problems of the debtor, which in other circumstances would not be taken into account;
- high probability of bankruptcy or of another financial reorganization of the debtor;
- disappearance of the active market for the particular financial assets due to financial difficulties;
- observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
  - adverse changes in the payment status of borrowers in the Bank or
  - national or local economic conditions that correlate with defaults on the assets in the Bank.

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

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

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

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

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

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

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

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

Sale and re-purchase agreements

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

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

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

Derivative financial instruments and hedge accounting

The Bank conducts operations in derivative financial instruments: currency transactions (spot, forward, currency swap, and currency options, CIRS), exchange rate transactions (FRA, IRS, CAP). derivative transactions based on securities prices, exchange rates and stocks indices, Derivative financial instruments are initially recorded at fair value as at the transaction date, and subsequently valued to fair value. The fair value is established on the basis of quotations of the instruments in active markets as well as on the basis of valuation techniques, including the models based on discounted cash flows and options valuation models, depending on which of the valuation models is appropriate. Positive valuation of derivative financial instruments is presented in the balance sheet in the item of "Derivative financial instruments" on assets side. and on the liabilities side, if the fair value is negative. Changes in the financial instruments valuation to fair value are reflected in the profit and loss account.

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

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

- it is possible to reliably establish the fair value of the embedded derivative instrument.

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

Derecognition of financial instruments

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

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

– discontinuation of execution proceeding;

- death of borrower;
- conclusion of bankruptcy procedures;
- unconditional cancellation of a part of the loan.

6.7. Valuation of other balance sheet items

Subsidiaries

Subsidiaries are entities in which the Bank directly and indirectly has control. The control is ability to manage financial and operating policies in order to gain economic profits. Control basically is involved with larger number of votes in governing bodies.

Associates

Associated entities are entities in which the Bank has significant influence and are not subsidiaries or joint venture entities. The Bank usually determines significant influence by possession of 20 % to 50 % of the total number of votes in governing bodies.

Joint ventures

Joint ventures are entities. in which contractually agreed and exist only when the strategic financial and operating decisions relating to the activity require the unanimous consent of parties sharing control.

Recognition and valuation

Investments in subsidiaries. associates and join ventures are recorded at cost less any provision for impairment. The carrying value is subjected to tests impairment in accordance with IAS 36. Any impairment is recognized in the profit and loss account as “Other operating costs”. Dividends are recognized in the profit and loss account when the Bank obtains legal rights to receipt.

Moreover. equity investments in foreign entities represent non-monetary assets. Non-monetary assets are measured in accordance with historical cost expressed in the foreign currency and translated on the base of exchange rate from the transaction date. In this case the purchase price is calculated on the basis of balance sheet value as of the day of the transition into IFRS. for the purposes of recalculation of the equity investment in foreign entities.

Recognizing transactions under common controls using book values

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

The elected accounting policy of Bank Pekao is as follows:

The combined entity recognizes the assets, liabilities and equity of the combining enterprises at their existing book value amounts adjusted only as a result of aligning the combining enterprises’ accounting policies. There is no recognition of any new goodwill or negative goodwill.

The difference between the book value amount of the net assets received and the consideration paid, if any, are recognized in the Bank’s equity.

In applying the book values method of accounting, comparative periods presented are not restated.

If the transaction will result in the acquisition of minority interests, the acquisition of any minority interest is accounted separately.

There is no guidance in IFRS as to how to determine the percentage of minority interests acquired from the perspective of the subsidiary. As such Pekao uses the same basis as the parent for determining the minority interests acquired.

Intangible assets

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

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

Goodwill

Goodwill on acquisition of a business entity is initially recognized at cost. which is the surplus of the costs of business combination of business entities over the share of the acquiring entity in the net fair value of identifiable assets, liabilities, and contingent liabilities. After the initial recognition, goodwill is presented at cost less any accumulated impairment losses.

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

Other intangible assets

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

These are mainly:

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

Intangibles acquired in a separate transaction are recognized at cost. Intangibles acquired in transactions of acquisition of a business entity are recognized at fair value as of the date of acquisition. After initial recognition, this category of intangibles is treated using the historic cost model. The useful life of intangible assets is assessed and considered to be limited or indefinite.

In the case of amortisation being calculated from assets with limited useful life, such costs are indicated in the profit and loss account under the heading “Overheads”. Amortization write-offs are not made for intangible assets with indefinite useful life.

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

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

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

The research costs are charged to the profit and loss account at the time when they are incurred. Outlays for development work performed within the given project are carried forward to the next period. if it can be acknowledged that they will be recovered in the future. After the initial recognition of outlays for development work. the historic cost model is applied. which requires that assets be recognized at cost less accumulated amortisation and accumulated impairment write-offs. All outlays carried forward to the next period are amortized throughout the expected period of obtaining profits from selling the given project.

Costs of development work are reviewed for any impairment on an annual basis

– if an asset has not yet been commissioned. or more often

– when during a reporting period indications of impairment appear. indicating that their carrying value may not be recoverable.

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

Property. plant and equipment

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

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

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

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

Service and maintenance costs of tangible assets has an influence on profit and loss account in reporting period in which they were born.

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

Depreciation and amortization charge

Depreciation charge for property. plant and equipment and amortization charge for inproperty. plant and equipment is applied using the straight line method. using defined depreciation rates throughout the period of their useful lives. Depreciable amount is the cost of an asset. or other amount substituted for cost. less it’s residual value. Depreciation rates defined for balance sheet purposes are periodically verified. with results of verification effective starting from the year following the year of verification.

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

a/ depreciation rates used for fixed assets

(in PLN thousand)

Buildings; cooperative ownership right to an apartment. cooperative right to non-residential property	1.5 % - 10.0%
Technical equipment and machines	2.5% - 30.0%
Means of transport	12.5% - 30.0%

b/ amortization rates for intangible assets

Software licenses. Copyrights	14.0% - 50.0%
Costs of completed development works	33.3%
Other intangible assets	20.0%

c/ depreciation rates for investment properties

Buildings	1.5% - 10%

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

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

Investment properties

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

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

Non-current assets held for sale

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

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

Leases

The Bank is a party to lease contracts. on the basis of which it grants for paid use non-current assets or intangible assets for an agreed period of time.

The Bank is also a party to lease contracts. under which it takes for paid use or drawing benefits another party's non-current assets or intangible assets for an agreed period.

Operating lease

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

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

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

Financial lease

In the case of lease contracts. under which essentially all risks and rewards incident to ownership of the lease are transferred. the subject of lease is recognized in assets as a non-current asset. and a liability is recognized in the amount equal to the present value of minimum lease payments as of the date of commencement of the lease. Lease payments are divided into financial costs and reduction of the balance of the liability in such way as to enable obtaining a fixed rate of interest on the outstanding liability. Financial costs are recognized directly in the profit and loss account in item "Interest expense".

Fixed assets which are the basis of the finance lease contract are depreciated in the manner defined for the Bank's non-current assets. However. if it is uncertain whether the ownership of the subject of the contract has been transferred. then non-current assets used pursuant to finance lease contracts are depreciated over the shorter of: the expected useful life or the period of lease.

Prepayments

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

Provisions

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

Also. this item includes provisions related to actuarial long-term employee benefits. All provisions are charged to the profit and loss account.

Employee benefits provisions

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

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

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

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

Deferred income and accrued costs

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

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

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

Equity of the Bank

Shareholders' equity is comprised of the capital and funds created by the Bank in accordance with the binding legal regulations and the Articles of Association. The Bank's equity also includes retained profits (losses) and the current profit (loss) for the year.

Presented below are descriptions of selected items of the equity:

a) statutory capital may be increased by the issue of new bearer shares or by an increase in the nominal value of the previously issued shares. The General Shareholders Meeting may increase the statutory capital by dedicating part of the supplementary capital or other capitals created from the profit in accordance with the Code of Commercial Companies and Statutes of Association;

b) reserve capital is created from yearly appropriations of the net profit. This capital is designated to cover the losses that may result from the Bank's activities. These annual appropriations should constitute at least 8% of net profit and should be made until the value of the reserve capital reaches at least one third of the statutory capital. In addition. the reserve capital is created with the surplus of the selling price of the issued shares over their nominal value once the costs of the shares issue have been covered Moreover the change of the value of the minorities shareholding. caused by the increase of the share of the parent company in the share capital of the Bank was reflected as an increase of this item. according to the accounting principles applied by Unicredit Group;

c) revaluation reserve includes: the accumulated amount of revaluation of fixed assets; the effects of revaluation of financial assets available for sale. the effect of the valuation of the cash flow hedging derivatives. foreign exchange differences arising from revaluation of the foreign branch's result at the average weighted exchange rate established as at the balance sheet date in relation to the average NBP exchange rate and the value of deferred tax for items that comprise temporary differences reflected in revaluation reserve. Revaluation reserve is presented net in the balance sheet;

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

e) bonds convertible into equity includes the equity fair value of financial instruments issued as part of transactions settled in equity instruments in accordance with IFRS 2;

f) general banking risk provision represents accumulated appropriations of net profit after tax in accordance with the terms of the Banking Law of 29 August 1997;

g) retained earnings comprises the total retained profits and uncovered losses;

h) net profit/loss which constitute profit/loss presented in profit and loss statement for period which concerns. Net profit includes income tax.

Share-based Payments

Employee participation programs are running at the Bank. under which senior and lower management staff crucial to realization of the Capital Group Banks' strategy are granted pre-emptive rights to buy shares of the Bank and shares of a dominant entity of UniCredito Italiano S.p.A. (see Note 45).

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

The cost of transactions settled with employees in equity instruments is measured by reference to the fair value as of the granting date. The fair value is established on the basis of the Black-Scholes model for appraisal of dividend-yielding stock options. according to expectations of the

Management Board concerning the number of rights to be exercised. No efficiency/results data except those related to the price of shares ("market conditions") are taken into account in the assessment of transactions settled in capital instruments.

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

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

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

The diluting effect of options issued is taken into account when establishing the amount of earnings per share, as additional dilution of shares (see Note 20).

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

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

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

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

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

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

The equity intstruments issued diluting effect is not considered for the earnings per share calculation.

6.8. Income tax and other taxes

Income tax

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

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

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

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

- except for situations where deferred tax assets concerning negative temporary differences originate from initial recognition of an asset or liability in a transaction other than merger, and at the point of the transaction it has no influence on the gross financial result, nor for the taxable income or deductible loss, and
- in the case of negative temporary differences resulting from investments in subsidiaries or associates and participation in joint ventures, the deferred tax asset is recognized in the balance sheet only in such amount, in which it is probable that the above temporary differences will be reversed and taxable income will be available against which the negative temporary differences can be utilised.

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

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

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

Bank offsets deferred tax assets and deferred tax provisions, where it has legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

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

Other taxes

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

- the tax on sale, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the sales tax is recognized accordingly as a part of the cost of acquisition of an asset, or as part of a cost item, and
- receivables and payables are presented with the amount of sales tax taken into account.

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

6.9. Other positions

Contingent liabilities and commitments

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

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

Cash and cash equivalents

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

Segment reporting

Information of the Group’s business of the segment reporting is presented in the consolidated financial statements of the Capital Group of the Bank Pekao S.A. for the year ended as at 31 December 2007.

7. Purposes and rules of financial risk management.

The policy risk management of the Bank has a goal of optimizing the structure of the balance sheet and off-balance sheet positions under the consideration of all risks in relation to income and other risks interest rate. liquidity risk. foreign exchange rate risks). that the Bank encounters in conducting it’s daily activity. Risks are monitored and controlled with reference to profitability and equity coverage and are regularly reported in accordance with rules briefly presented below.

The Bank’s Management Board is responsible for achieving the strategic goals set within the risk management policy.

The Asset and Liability Management Committee controls the capital adequacy of the Bank. as well as the liquidity risk and the market risk (interest rate and foreign exchange rate risks) related to the external banking supervision limits and to the internal limits of the Bank.

The accounting policy for derivative instruments was presented at Note 6.

Credit risk

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

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

(in PLN thousand)

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

Concentration of credit risk

The Banking Law establishes maximum limits for the banks. According to article 71.1 of the Law the total balance sheet and off-balance sheet exposure of a bank to the risks associated with a single borrower or a group of related borrowers may not exceed 20% of a bank's equity when at least one of those entities is related to the bank or 25% when no relation between those entities and the bank exists. Moreover. article 71.2 of the Law specifies a maximum total exposure limit with entities whose individual exposure exceeds 10% of a bank's equity. at a level of 800% of this equity.
As at 31 December 2007 no exposures exceeded the limit set forth by article 71.2. whereas exposure of the Bank exceeded the limits specified in article 71.1 in the case of two group of related entities. However. these exposures. according to the resolution 3/2007 of the Commission for Banking Supervision. can be excluded to a large extent from calculations of exposure limits due to a type of transaction or collateral. As a consequence of above. the maximum exposure limits set forth in the Banking Law were not exceeded.

a) Concentration by entity:

as at 31.12.2007

Exposure to 10 largest clients of the Bank	% of portfolio
Client 1	1.5%
Client 2	1.4%
Client 3	1.1%
Client 4	1.1%
Client 5	1.0%
Client 6	1.0%
Client 7	0.9%
Client 8	0.8%
Client 9	0.8%
Client 10	0.8%
Total	**10.4%**

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

(in PLN thousand)

b) Concentration by capital group:

Exposure to 5 largest capital Groups which are the Bank's clients	as at 31.12.2007 **% of portfolio**
Group 1	3.1%
Group 2	1.8%
Group 3	1.6%
Group 4	1.4%
Group 5	1.3%
Total	**9.2%**

c) Concentration by industrial sector:

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

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

	% of portfolio	
Sector description	**31.12.2007**	**31.12.2006**
Financial services	21.9%	14.9%
Construction and real estate management	14.9%	8.6%
Wholesale and retail trade. repair of motor vehicles and motorbikes. articles for personal use and household goods	14.1%	15.0%
Production and supply of utilities (electricity. gas. water)	7.4%	12.6%
Other manufacturing activities and waste management	6.5%	7.5%
Rental and other business. IT services. Education	5.6%	3.4%
Transport. storage and communication	5.2%	6.1%
Production of food. beverages and tobacco products	4.5%	5.1%
Production of metals and processed metal products	4.0%	3.7%
Public administration and national defence. guaranteed social insurance	3.4%	8.3%
Production of celluloid pulp. paper and paper products. publishing and printing	2.1%	3.0%
Other sectors	10.4%	11.8%
Total	**100.0%**	**100.0%**

(in PLN thousand)

Exposure to credit risk

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

	Loans and advances from banks		Loans and advances from customers	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Gross carrying amount exposure individually impaired				
Past due:				
- not past due	848	-	786 977	305 411
- up to 1 month	-	-	52 743	203 158
- between 1 month and 3 months	-	-	49 726	411
- between 3 months and 1year	-	-	175 091	177 861
- between 1 year and 5 years	-	-	967 559	719 138
- above 5 years	6 553	52 267	854 255	445 662
Total gross amount	**7 401**	**52 267**	**2 886 351**	**1 851 641**
Allowance for impairment				
- not past due	(841)	-	(312 453)	(117 899)
- up to 1 month	-	-	(21 653)	(95 665)
- between 1 month and 3 months	-	-	(44 888)	(411)
- between 3 months and 1year	-	-	(149 024)	(172 596)
- between 1 year and 5 years	-	-	(790 077)	(625 549)
- above 5 years	(6 553)	(52 234)	(731 260)	(420 140)
Total allowance	**(7 394)**	**(52 234)**	**(2 049 355)**	**(1 432 260)**
Net carrying amount individually impaired	**7**	**33**	**836 996**	**419 381**

	Loans and advances due from banks		Loans and advances due from customers	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Gross carrying amount exposure collectively impaired				
- not past due	2 024	11 003	105 179	16 756
- up to 1 month	-	-	27 519	9 194
- between 1 month and 3 months	9 800	-	27 681	19 268
- between 3 months and 1year	-	-	234 817	180 221
- between 1 year and 5 years		-	999 066	1 137 227
- above 5 years	8 098	9 347	964 042	727 573
Total gross amount	**19 922**	**20 350**	**2 358 304**	**2 090 239**
Allowance for impairment				
- not past due	-	(10 914)	(61 812)	(10 997)
- up to 1 month	-	-	(15 066)	(5 920)
- between 1 month and 3 months	(9 800)	-	(15 420)	(12 027)
- between 3 months and 1year	-	-	(151 557)	(121 946)
- between 1 year and 5 years	-	-	(861 923)	(1 006 022)
- above 5 years	(7 716)	(9 238)	(947 790)	(701 345)
Total allowance	**(17 516)**	**(20 152)**	**(2 053 568)**	**(1 858 257)**
Net carrying amount collectively impaired	**2 406**	**198**	**304 736**	**231 982**
Gross carrying amount but not impaired				
- not past due	17 553 037	10 397 703	61 844 901	31 190 410
- up to 30 days	-	759	1 043 221	592 745
- 30 – 60 days	-	24	168 845	132 247

(in PLN thousand)

- 60 – 89 days	-	2	113 249	35 253
Total gross amount	**17 553 037**	**10 398 488**	**63 170 216**	**31 950 655**
IBNR:				
- not past due	(4 385)	(3 168)	(278 245)	(188 602)
- up to 30 days	-	-	(37 295)	(32 063)
- 30 – 60 days	-	-	(18 600)	(16 550)
- 60 – 89 days	-	-	(22 554)	(12 488)
Total IBNR	**(4 385)**	(3 168)	**(356 694)**	**(249 703)**
Net carrying amount exposure with no impairment	**17 548 652**	**10 395 320**	**62 813 522**	**31 700 952**
Total loans and advances	**17 551 065**	**10 395 551**	**63 955 254**	**32 352 315**

Collateral

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

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

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

Maximum credit exposure

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

	31.12.2007	31.12.2006
Cash, due from Central Bank	5 082 829	3 573 882
Loans and advances from banks and from customers	81 507 427	42 750 385
Financial assets held for trading	2 828 802	2 050 828
Derivative financial instruments (held for trading)	1 917 960	526 643
Other financial instruments at fair value through profit or loss	3 777 679	1 613 195
Hedging instruments	40 672	-
Investment securities	17 715 886	12 999 469
Total	**112 871 255**	**63 514 402**
Liabilities due for credits	32 534 925	13 899 328
Other contingent liabilities	6 261 878	5 572 616
Total	**38 796 803**	**19 471 944**
Total credit exposure	**151 668 058**	**82 986 346**

Overall characteristics of internal models used within the rating system

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

a) full accountancy SME

b) simplified accountancy SME

c) private entrepreneurs

(in PLN thousand)

The final rating is obtained after applying several rules. warning signals and classifications from the Bank internal monitoring tools. The master scale for both models consists from seventeen rating grades. The performance of rating models is monitored continuously and fine tuned if necessary . The back testing of the models is carried out annually. The rating model classifies customers based on their creditworthiness independently from the nature of the transaction. Hence. the model can be characterized as one-dimensional at point-in-time. For credit risk purposes. and those related to the Bank commitments arising on implementation of Basel II rules. the Bank applies Standard & Poor as the eligible external credit agency. The mapping of the Bank's internal rating to Standard & Poor master scale is as follows:

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

Overall characteristics of monitoring process

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

Overall characteristics of provisioning model

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

(in PLN thousand)

Loan Agreements with renegotiated terms

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

Credit portfolio neither impaired nor past-due

as at 31 December 2007

Gross carrying amount but not impaired	Corporate		Retail	
- not past due	40 885 491		20 959 410	
- up to 30 days	168 777		874 444	
- 30 – 60 days	47 420		121 425	
- 60 – 89 days	65 986		47 263	
Total gross Mount	**41 167 674**		**22 002 542**	
IBNR:		**coverage ratio**		**coverage ratio**
- not past due	(210 675)	0.52	(67 570)	0.32
- up to 30 days	(5 390)	3.19	(31 905)	3.65
- 30 – 60 days	(3 089)	6.51	(15 511)	12.77
- 60 – 89 days	(5 412)	8.20	(17 142)	36.27
Total IBNR	**(224 566)**	**0.55**	**(132 128)**	**0.60**
Net carrying amount exposure with no impairment	**40 943 108**		**21 870 414**	

as at 31 December 2006

Gross carrying amount but not impaired	Corporate		Retail	
- not past due	22 228 714		8 961 696	
- up to 30 days	346 048		246 697	
- 30 – 60 days	79 069		53 178	
- 60 – 89 days	8 675		26 578	
Total gross Mount	**22 662 506**		**9 288 149**	
IBNR:		**coverage ratio**		**coverage ratio**
- not past due	(138 403)	0.62	(50 199)	0.56
- up to 30 days	(15 657)	4.52	(16 406)	6.65
- 30 – 60 days	(3 330)	4.21	(13 220)	24.86
- 60 – 89 days	(1 468)	16.92	(11 020)	41.46
Total IBNR	**(158 858)**	**0.70**	**(90 845)**	**0.98**
Net carrying amount exposure with no impairment	**22 503 648**		**9 197 304**	

Market risk

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

(in PLN thousand)

The main tool applied for market risk measurement is Value at Risk (VaR). As of 31 December 2007. the trading portfolio VaR was PLN 3.99 mln (of which FX risk PLN 0.02 mln and the remainder interest rate risk). This represents the loss the Bank could incur assuming 99% confidence level. one-year historical series and one-day holding period.
This value reflects a level of losses to which the Bank is potentially exposed in normal market conditions. In a financial market crisis. the potential loss level may exceed the VaR level.
The table below presents the trading portfolio market risk exposure of the Bank measured as Value at Risk in the year 2007 and 2006..

VaR in ths PLN	2007-12-31	Min Y	Avg Y	Max Y
Foreign exchange risk	20	5	153	1 916
Interest rate risk	3 991	595	2 090	9 532
Trading portfolio	3 992	726	2 109	9 532

VaR in ths PLN	2006-12-31	Min Y	Avg Y	Max Y
Foreign exchange risk	16	6	79	1 863
Interest rate risk	2 278	663	1 900	5 177
Trading portfolio	2 278	663	1 907	5 177

Interest rate risk

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

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

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

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

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

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

- Equity securities

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

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

(in PLN thousand)

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

	up to1 month inclusive		from 1 month to 3 months inclusive		from 3 months to 1 year inclusive		from 1 year to 5 years inclusive		above 5 years		Non interest bearings assets/liabilities	Total	
Balance sheet items	Book value	%	Book value	%	Book value	%	Book value	%	Book value	%	Book value	Book value	%
Assets:	**62 114 598**	**6,69**	**21 036 373**	**6,21**	**6 763 061**	**7,21**	**12 212 762**	**7,31**	**3 720 041**	**5,39**	**13 721 721**	**119 568 556**	**5,89**
Cash , due from Central Bank	771 602	4,73	1 688 709	4,28	-	0,00	-	0,00	-	0,00	2 622 518	5 082 829	2,14
Debt securities eligible for rediscounting in the Central Bank	347	5,25	761	5,25	-	0,00	-	0,00	-	0,00	-	1 108	5,25
Amounts due from banks	12 751 018	5,27	1 430 220	5,15	926 556	4,84	-	0,00	-	0,00	2 443 270	17 551 065	4,51
Financial assets held for trading	567 733	4,53	630 663	5,42	252 231	5,80	1 003 128	5,79	375 048	5,41	-	2 828 802	5,40
Other financial instruments at fair value through profit or loss	-	0,00	2 571 712	5,23	13 809	7,70	652 869	6,99	539 290	4,45	-	3 777 679	5,43
Loans and advances from customers	45 934 872	7,24	13 315 022	6,89	2 878 833	9,36	1 808 753	14,06	17 774	6,71	-	63 955 254	7,45
Debt securities available for sale*	1 679 554	4,62	1 399 287	5,40	2 676 455	5,88	8 585 771	6,14	2 787 929	5,57	-	17 128 996	5,80
Investment securities with held maturity	409 472	4,91	-	0,00	15 177	4,35	162 241	4,91	-	0,00	-	586 890	4,90
Others	-	0,00	-	0,00	-	0,00	-	0,00	-	0,00	8 655 933	8 655 933	0,00
Liabilities:	**82 847 847**	**2,19**	**7 226 600**	**4,09**	**6 117 523**	**3,56**	**1 858 389**	**10,85**	**255 485**	**5,64**	**21 262 712**	**119 568 556**	**2,13**
Amounts due to banks	3 593 341	4,83	1 316 346	5,50	2 250 458	4,00	1 210 054	15,56	-	0,00	-	8 370 200	6,26
Amounts due to customers	79 254 505	2,07	5 896 634	3,78	3 570 716	3,38	411 359	1,03	26 910	4,57	-	89 160 124	2,23
Liabilities arising from securities issued	-	0,00	13 620	4,00	296 349	2,33	103 180	0,99	-	0,00	1 683 921	2 097 070	0,40
Other	-	0,00	-	0,00	-	0,00	133 796	6,10	228 575	5,77	19 578 791	19 941 162	0,11
Gap	**(20 733 249)**		**13 809 773**		**645 538**		**10 354 373**		**3 464 555**		**(7 540 991)**		
Off-balance sheet exposures													
Assets	57 546 832		42 679 911		80 328 791		43 414 584		8 507 902		-	232 478 021	-
Liabilities	59 261 130		44 706 686		80 427 976		40 269 446		7 518 194		-	232 183 432	-
Gap	**(1 714 297)**		**(2 026 775)**		**(99 184)**		**3 145 138**		**989 708**		**-**	**294 589**	**-**
Total Gap	**(22 447 547)**		**11 782 998**		**546 354**		**13 499 512**		**4 454 263**		**(7 540 991)**	**294 589**	

(in PLN thousand)

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

	up to1 month inclusive		from 1 month to 3 months inclusive		from 3 months to 1 year inclusive		from 1 year to 5 years inclusive		above 5 years		Non interest bearings assets/liabilities	Total	
Balance sheet items	Book value	%	Book value	%	Book value	%	Book value	%	Book value	%	Book value	Book value	%
Assets:	**32 150 750**	**5.66**	**8 872 877**	**5.51**	**6 746 111**	**6.12**	**9 023 252**	**6.42**	**4 392 193**	**6.01**	**5 791 572**	**66 976 755**	**5.39**
Cash, due from Central Bank	1 085 017	1.53	1 313 002	4.29	-	-	-	-	-	-	1 175 863	3 573 882	2.04
Debt securities eligible for rediscounting in the Central Bank	903	-	1 616	-	-	-	-	-	-	-	-	2 519	-
Amounts due from banks	7 848 368	4.29	1 032 632	4.24	1 514 551	4.71	-	-	-	-	-	10 395 551	4.35
Financial assets held for trading	92 779	2.61	93 192	3.98	1 125 656	4.26	200 991	4.67	538 210	5.27	-	2 050 828	4.48
Other financial instruments at fair value through profit or loss	-	-	-	-	-	-	648 274	4.64	964 921	5.18	-	1 613 195	4.96
Loans and advances from customers	22 484 952	6.49	5 912 050	6.13	1 771 307	9.75	1 247 625	17.38	309 668	17.51	626 713	32 352 315	7.14
Debt securities available for sale*	405 130	1.05	520 385	4.35	2 319 349	5.16	6 749 801	4.66	2 579 394	5.09	-	12 574 059	4.71
Investment securities with held maturity	233 601	0.71	-	-	15 248	5.61	176 561	4.85	-	-	-	425 410	2.60
Others	-	-	-	-	-	-	-	-	-	-	3 988 996	3 988 996	-
Liabilities:	**43 034 759**	**1.55**	**6 909 703**	**3.42**	**3 885 233**	**3.69**	**1 797 712**	**11.54**	**367 192**	**13.38**	**10 982 156**	**66 976 755**	**1.95**
Amounts due to banks	978 248	4.27	1 026 502	4.59	395 748	11.19	1 257 423	15.56	314 356	15.56	-	3 972 277	9.51
Amounts due to customers	42 056 511	1.49	5 883 201	3.22	3 489 473	2.84	329 229	0.70	52 836	0.41	-	51 811 250	1.77
Liabilities arising from securities issued	-	-	-	-	12	-	-	-	-	-	-	12	-
Other	-	-	-	-	-	-	211 060	4.48	-	-	10 982 156	11 193 216	0.08
Gap	**(10 884 009)**		**1 963 174**		**2 860 878**		**7 225 540**		**4 025 001**		**(5 190 584)**	**-**	
Off-balance sheet exposures													
Assets	14 646 331		8 958 713		23 285 566		8 896 365		2 378 679		-	58 165 654	
Liabilities	13 753 254		9 492 371		21 362 386		9 908 065		3 598 463		-	58 114 539	
Gap	**893 077**		**(533 658)**		**1 923 180**		**(1 011 700)**		**(1 219 784)**		**-**	**51 115**	
Total Gap	**(9 990 932)**		**1 429 516**		**4 784 058**		**6 213 840**		**2 805 217**		**(5 190 584)**	**51 115**	

(in PLN thousand)

Currency risk

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

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

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

as at 31 December 2007

	PLN	EUR	USD	CHF	Other	**Total**
Assets						
Cash. due from Central Bank	4 429 744	361 472	106 270	7 827	177 515	**5 082 828**
Debt securities eligible for rediscounting in The Central Bank	1 108	-	-	-	-	**1 108**
Loans and advances from banks	11 234 337	3 715 334	2 372 191	185 802	43 401	**17 551 065**
Financial assets held for trading	2 680 492	41 639	106 671	-	-	**2 828 802**
Derivative financial instruments	1 721 867	80 506	108 410	550	6 627	**1 917 960**
Other financial instruments at fair value through profit or loss	2 394 517	392 457	990 705	-	-	**3 777 679**
Loans and advances from customers	48 867 124	8 131 082	1 222 058	5 726 269	8 721	**63 955 254**
Securities available for sale	14 727 520	805 423	1 200 615	-	395 438	**17 128 996**
Securities held to maturity	413 102	156 511	17 277	-	-	**586 890**
Investments in associates	1 688 224	-	-	-	-	**1 688 224**
Other	3 652 527	407 101	550 898	106 411	332 812	**5 049 749**
Total	**91 810 562**	**14 091 525**	**6 675 095**	**6 026 859**	**964 515**	**119 568 556**

	PLN	EUR	USD	CHF	Other	**Total**
Liabilities:						
Amount due to Central Bank	1 485 921	-	-	-	-	**1 485 921**
Amounts due to banks	3 988 310	2 015 506	777 175	237	103 051	**6 884 279**
Amounts due to customers	72 368 053	9 847 914	6 069 508	143 514	731 135	**89 160 124**
Derivative financial instruments	1 465 067	87 430	124 326	396	6 087	**1 683 306**
Liabilities arising from securities issued	1 666 000	98 508	332 562	-	-	**2 097 070**
Provisions	361 185	9 608	4 169	8	28	**374 998**
Other	17 206 373	347 960	236 934	20 748	70 843	**17 882 858**
Total	**98 540 909**	**12 406 926**	**7 544 674**	**164 903**	**911 144**	**119 568 556**
Net exposure	(6 730 347)	1 684 599	(869 579)	5 861 956	53 371	-
Off-balance sheet assets	22 618 254	11 506 882	8 997 777	1 381 655	669 839	**45 174 407**
Off-balance sheet liavilities	15 870 967	12 827 294	7 952 637	7 285 465	646 314	**44 582 677**

as at 31 December 2006

(in PLN thousand)

	Currency				
	PLN	EUR	USD	Other	**Total**
Assets:					
Cash. due from Central Bank	3 160 506	205 267	75 629	132 480	**3 573 882**
Debt securities eligible for rediscounting in the Central Bank	2 519	-	-	-	**2 519**
Loans and advances from banks	3 765 268	3 577 893	2 969 507	82 883	**10 395 551**
Financial assets held for trading	1 905 945	20 753	124 130	-	**2 050 828**
Derivative financial instruments	489 193	18 488	18 257	705	**526 643**
Other financial instruments at fair value through profit or loss	-	437 023	1 176 172	-	**1 613 195**
Loans and advances from customers	26 467 626	4 624 589	832 222	427 878	**32 352 315**
Debt securities available for sale	9 815 577	336 287	2 088 592	333 603	**12 574 059**
Securities held to maturity	237 570	167 151	20 689	-	**425 410**
Investments in subordinated undertakings	722 142	50	-	-	**722 192**
Other	2 490 101	209 373	10 100	30 587	**2 740 161**
Total	**49 056 447**	**9 596 874**	**7 315 298**	**1 008 136**	**66 976 755**
Liabilities:					
Amount due to Central Bank	2 045 278	-	-	-	**2 045 278**
Amounts due to banks	505 036	986 074	401 852	34 037	**1 926 999**
Amounts due to customers	38 738 766	5 383 640	6 791 885	896 959	**51 811 250**
Derivative financial instruments	458 292	14 834	31 068	-	**504 194**
Liabilities arising from securities issued	12	-	-	-	**12**
Provisions	213 124	5 288	2 517	83	**221 012**
Other	10 192 848	214 483	41 450	19 229	**10 468 010**
Total	**52 153 356**	**6 604 319**	**7 268 772**	**950 308**	**66 976 755**
Net exposure	**(3 096 909)**	**2 992 555**	**46 526**	**57 828**	**-**
Off-balance sheet assets	5 730 127	2 193 528	2 717 338	721 661	**11 362 654**
Off-balance sheet liavilities	2 706 343	5 087 199	2 773 743	744 150	**11 311 435**

Liquidity risk

The objective of managing liquidity risk is:

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

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

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

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

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

The liquidity gaps presented below include among others. adjustments of core deposits and their maturities. which is the main element distinguishing the adjusted from the unadjusted gap. Changes in

2007 in the liquidity gap in comparison with previous years resulted also from changes in the methodology of assessing core deposits and deposit base maturities. These changes arose from unification of the risk assessment methodology in UniCredit Group.

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

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

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(in PLN thousand)

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

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**31 995 709**	**9 885 172**	**20 297 772**	**34 246 572**	**23 143 331**	**119 568 556**
Cash, due from Central Bank	3 395 658	-	-	1 687 171	-	5 082 829
Debt securities eligible for rediscounting in the Central Bank	347	761	-	-	-	1 108
Amounts due from banks	14 480 567	1 757 852	1 007 565	263 757	41 324	17 551 065
Financial assets held for trading	2 828 802	-	-	-	-	2 828 802
Other financial instruments valued at fair value through profit and loss	-	-	12 526	3 272 742	492 411	3 777 679
Loans and receivables from customers	10 385 538	6 841 745	13 093 209	17 413 779	16 220 983	63 955 254
Debt securities held for sale	8 450	280 881	1 666 775	11 416 614	3 756 276	17 128 996
Debt securities held to maturity	394 381	-	-	192 509	-	586 890
Other	501 966	1 003 933	4 517 697	-	2 632 337	8 655 933
Liabilities	**20 455 836**	**4 429 000**	**13 082 151**	**7 222 558**	**74 379 011**	**119 568 556**
Amounts due to banks	5 518 933	660 234	1 881 245	109 991	199 797	8 370 200
Amounts due to customers	14 454 972	2 799 929	4 385 737	5 712 056	61 807 430	89 160 124
Liabilities arising from securities issued	18 367	41 707	636 485	1 400 511	-	2 097 070
Other	463 564	927 130	6 178 684	-	12 371 784	19 941 162
Gap	**11 539 873**	**5 456 172**	**7 215 621**	**27 024 014**	**(51 235 680)**	**-**
Off-balance sheet items						
Assets	28 127 011	10 334 124	7 430 534	825 551	389 389	47 106 609
Liabilities	26 271 701	9 689 661	9 273 201	8 396 159	18 859 440	72 490 162
Gap	**1 855 310**	**644 463**	**(1 842 667)**	**(7 570 608)**	**(18 470 051)**	**(25 383 553)**
Gap total	**13 395 183**	**6 100 635**	**5 372 954**	**19 453 406**	**(69 705 731)**	**(25 383 553)**

(in PLN thousand)

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

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**17 899 300**	**4 743 931**	**9 949 547**	**17 900 785**	**16 483 192**	**66 976 755**
Cash , due from Central Bank	2 260 783	-	-	-	1 313 099	3 573 882
Debt securities eligible for rediscounting in the Central Bank	903	1 616	-	-	-	2 519
Amounts due from banks	7 408 650	992 167	1 223 587	731 654	39 493	10 395 551
Financial assets held for trading	2 050 828	-	-	-	-	2 050 828
Other financial instruments valued at fair value through profit and loss	-	-	-	650 323	962 872	1 613 195
Loans and advances due from customers	5 456 892	3 424 425	6 705 903	7 222 709	9 542 386	32 352 315
Debt securities held for sale	340 214	2 019	563 387	9 089 867	2 578 572	12 574 059
Debt securities held to maturity	219 178	-	-	206 232	-	425 410
Other	161 852	323 704	1 456 670	-	2 046 770	3 988 996
Liabilities	**11 290 176**	**3 997 971**	**7 662 876**	**5 340 148**	**38 685 584**	**66 976 755**
Amounts due to banks	2 409 734	1 071 777	83 281	407 485	-	3 972 277
Amounts due to customers	8 666 017	2 497 352	3 921 264	4 932 659	31 793 958	51 811 250
Liabilities arising from securities issued	4	-	4	4	-	12
Other	214 421	428 842	3 658 327	-	6 891 626	11 193 216
Gap	**6 609 124**	**745 960**	**2 286 671**	**12 560 637**	**(22 202 392)**	**-**
Off-balance sheet items						
Assets	16 094 396	1 727 815	3 137 933	723 092	4 636	21 687 872
Liabilities	14 627 052	1 354 699	3 603 674	4 947 908	7 959 699	32 493 032
Gap	**1 467 344**	**373 116**	**(465 741)**	**(4 224 816)**	**(7 955 063)**	**(10 805 160)**
Gap total	**8 076 468**	**1 119 076**	**1 820 930**	**8 335 821**	**(30 157 455)**	**(10 805 160)**

(in PLN thousand)

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

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**35 851 528**	**7 982 188**	**16 390 104**	**35 493 419**	**23 851 317**	**119 568 556**
Cash , due from Central Bank	3 395 658	-	-	1 687 171	-	5 082 829
Debt securities eligible for rediscounting in the Central Bank	347	761	-	-	-	1 108
Amounts due from banks	14 480 567	1 757 852	1 240 605	30 717	41 324	17 551 065
Financial assets held for trading	580 018	382 856	254 675	1 162 015	449 238	2 828 802
Other financial instruments valued at fair value through profit and loss	-	-	12 526	3 272 742	492 411	3 777 679
Loans and receivables from customers	16 490 141	4 555 905	8 697 826	17 731 651	16 479 731	63 955 254
Debt securities held for sale	8 450	280 881	1 666 775	11 416 614	3 756 276	17 128 996
Debt securities held to maturity	394 381	-	-	192 509	-	586 890
Other	501 966	1 003 933	4 517 697	-	2 632 337	8 655 933
Liabilities	**81 480 384**	**8 234 739**	**11 181 722**	**3 680 419**	**14 991 292**	**119 568 556**
Amounts due to banks	5 518 933	660 234	1 881 245	109 991	199 797	8 370 200
Amounts due to customers	75 479 519	6 605 668	4 491 908	2 169 917	413 112	89 160 124
Liabilities arising from securities issued	18 367	41 707	636 485	1 400 511	-	2 097 070
Other	463 656	927 130	4 172 084	-	14 378 383	19 941 162
Gap	**(45 628 856)**	**(252 551)**	**5 208 382**	**31 813 000**	**8 860 025**	**-**
Off-balance sheet items						
Assets	28 028 351	9 533 723	6 036 942	809 727	389 389	44 798 132
Liabilities	26 753 317	10 031 488	12 019 131	15 580 786	7 515 784	71 900 505
Gap	**1 275 034**	**(497 765)**	**(5 982 189)**	**(14 771 059)**	**(7 126 395)**	**(27 102 373)**
Gap total	**(44 353 822)**	**(750 316)**	**(773 807)**	**17 041 941**	**1 733 630**	**(27 102 373)**

(in PLN thousand)

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

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**18 696 437**	**3 703 263**	**9 188 766**	**17 959 525**	**17 428 764**	**66 976 755**
Cash , due from Central Bank	2 260 783	-	-	-	1 313 099	3 573 882
Debt securities eligible for rediscounting in the Central Bank	903	1 616	-	-	-	2 519
Amounts due from banks	7 647 811	992 167	1 462 538	253 542	39 493	10 395 551
Financial assets held for trading	92 789	92 068	1 135 733	193 776	536 462	2 050 828
Other financial instruments valued at fair value through profit and loss	-	-	-	650 323	962 872	1 613 195
Loans and receivables from customers	7 972 907	2 291 688	4 570 438	7 565 785	9 951 497	32 352 315
Debt securities held for sale	340 214	2 020	563 387	9 089 867	2 578 571	12 574 059
Debt securities held to maturity	219 178	-	-	206 232	-	425 410
Other	161 852	323 704	1 456 670	-	2 046 770	3 988 996
Liabilities	**41 043 416**	**8 020 637**	**6 550 681**	**2 396 526**	**8 965 495**	**66 976 755**
Amounts due to banks	2 409 734	1 071 776	83 281	407 486	-	3 972 277
Amounts due to customers	38 419 257	6 520 019	4 537 608	1 989 036	345 330	51 811 250
Liabilities arising from securities issued	4	-	4	4	-	12
Other	214 421	428 842	1 929 788	-	8 620 165	11 193 216
Gap	**(22 346 979)**	**(4 317 374)**	**2 638 085**	**15 562 999**	**8 463 269**	**-**
Off-balance sheet items						
Assets	17 317 514	1 680 450	2 485 216	723 092	4 636	22 210 908
Liabilities	11 991 404	1 804 859	3 714 538	8 705 650	4 003 582	30 220 033
Gap	**5 326 110**	**(124 409)**	**(1 229 322)**	**(7 982 558)**	**(3 998 946)**	**(8 009 125)**
Gap total	**-17 020 869**	**-4 441 783**	**1 408 763**	**7 580 441**	**4 464 323**	**(8 009 125)**

Capital management

Banks are required to possess equity adequate to scale of their business activities and adequate to the level of risk taken in the course of their business. The proper capital structure should take into consideration on the one hand prudent norms imposed by supervisory authorities, and on the other hand the economic safety of the bank must be guaranteed, taking into account the true exposure on the risk. The structure of the Bank Pekao SA equity and manner of creating, maintaining and using of its respective components is described in the Statute of the Bank.

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

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

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

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

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

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

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

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

The minimum capital adequacy ratio required by law equals to 8%, both for the Bank and the Group. Capital management policy at Pekao S.A. assumes maintaining of capital adequacy ratio at the level higher than 8 % (in December 2007 CAR amounted to 11,13 % which is by 3,13 p.p. higher than minimum value). Group's capital adequacy is controlled by the Management Board and the Asset-Liability Committee.

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

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

(in PLN thousand)

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

Capital requirement	**31.12.2007**	**31.12.2006**
Credit risk	6 254 038	2 925 986
Exceeding large exposure limit	-	-
Market risk	460 052	79 524
Delivery and contractor settlement risk	67 246	16 252
Exceeding exposure concentration limit	-	-
Other	-	-
Total capital requirement	**6 781 336**	**3 021 762**

Capital (*)	**31.12.2007**	**31.12.2006**
Tier 1 capital	9 432 756	5 567 977
Tier II capital	-	-
including deductions from Tier 1 and Tier 2 capital		
- due from capital engagement	1 683 215	726 599
- due from intangible assets	668 183	597 050
Capital	**9 432 756**	**5 567 977**
Capital adequacy ratio (%) (**)	**11,13%**	**14,74%**

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

** Capital Adequacy Ratio calculated according to Basel I rules valid for the interim period in accordance with Resolution 1/2007 of the Commission for Banking Supervision.

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

CAR decrease was influenced also by the growth of the capital exposure to financial institutions which is deducted from the capital. The capital exposure increase follows partly from the integration of Bank Pekao S.A. with Bank Pekao BPH S.A. (for example BPH Bank Hipoteczny S.A., BPH BPK Leasing S.A., Final Holding) and partly from the capital exposure increase before the merger (for example due to the acquisition of 100% Commercial Bank HVB Ukraine by Bank Pekao SA).

The total capital requirement for the Bank Pekao S.A. in December 2007 amounted to PLN 6 781 336 thousand, from which the capital requirement for credit risk constitutes 92%, for market risk 7%, and for delivery and contractor settlement risk 1%.

Fair value of balance sheet financial instruments

For those financial instruments. for which the market value is available, the fair value is measured following the market value.

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

(in PLN thousand)

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

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

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

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

Fair value of central investment loan is presented on a net basis with the fair value financing and refinancing with the loan from NBP. On a gross basis the fair value adjustment amounts to PLN 385 million for the loan and PLN 365 million for the refinancing. (at 31 December 2006 the fair value adjustment amounts to PLN 593 million for the loan and PLN 569 million for the refinancing).

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

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

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

As at 31.12.2007	Book value	Fair value	Increase/decrease of fair value over the book value
Assets			
Cash. due from Central Bank	5 082 829	5 082 829	-
Loans and receivables from banks	17 551 065	17 553 935	2 870
Financial assets as held for trading	2 828 802	2 828 802	-
Derivative financial instruments	1 917 960	1 917 960	-
Other financial instruments at fair value through profit or loss	3 777 679	3 777 679	-
Loans and receivables from customers (*)	63 956 362	63 972 648	16 286
Hedging derivative financial instruments	40 672	40 672	-
Debt securities available for sale	17 128 996	17 128 996	-
Securities held to maturity	586 890	592 117	5 227
Investments in subsidiaries	1 631 694	1 631 694	-
Investments in associates	56 530	56 530	-
Total	**114 559 479**	**114 583 862**	**24 383**

(*) including: debt securities eligible for rediscounting at Central Bank

(in PLN thousand)

As at 31.12.2006	Book value	Fair value	Increase/decrease of fair value over the book value
Assets			
Cash. due from Central Bank	3 573 882	3 573 882	-
Loans and receivables from banks	10 395 551	10 403 560	8 009
Financial assets as held for trading	2 050 828	2 050 828	-
Derivative financial instruments	526 643	526 643	-
Other financial instruments at fair value through profit or loss	1 613 195	1 613 195	-
Loans and receivables from customers (*)	32 354 834	32 472 054	117 220
Hedging derivative financial instruments	-	-	-
Debt securities available for sale	12 574 059	12 574 059	-
Securities held to maturity	425 410	428 235	2 825
Investments in subsidiaries	671 100	671 100	-
Investments in associates	51 092	51 092	-
Total	**64 236 594**	**64 364 648**	**128 054**

(*) including: debt securities eligible for rediscounting at Central Bank

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

8. Custodial activities

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

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

As of 31 December 2007 the Bank maintained 5 179 securities accounts (944 securities accounts as of 31st December 2006).

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

(in PLN thousand)

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

9. Interest income and expense

Interest income

	2007	2006
Income on placements in other banks	482 049	344 344
Income on other placements on money market	61 652	36 145
Income on loans and receivables from customers	2 915 759	2 415 688
Income on hedging derivatives	2 552	-
Income on investment securities	780 584	843 381
Income on financial assets held for trading	59 063	39 811
Income on financial assets designated at fair value through profit and loss	102 897	100 279
Total	**4 404 556**	**3 779 648**

Interest expense

	2007	2006
Expense on other banks' deposits	(121 350)	(56 697)
Expense on other deposits on the money market	(152 521)	(114 791)
Expense on customers' deposits	(1 310 908)	(967 820)
Expense on obtained loans	(264 660)	(297 562)
Expense due to the amortization of premium on securities	(58 618)	(62 286)
Expense on debt securities	(5 188)	-
Total	**(1 913 245)**	**(1 499 156)**

Interest income for 2007 includes income from impaired financial assets in the amount of PLN 143 465 thousand (in 2006: PLN 119 110 thousand).

Total amount of interest income for the 2007 measured at amortized cost using the effective interest rate method. with reference to financial assets which are not valued at fair value through profit and loss. amounted to PLN 3 124 246 thousand (in 2006: PLN 2 674 103 thousand). Interest expense calculated at amortized cost using the effective interest rate method with reference to financial liabilities which are not valued at fair value through profit and loss amounted to PLN 1 666 204 thousand (in 2006: PLN 1 299 266 thousand).

10. Fee and commission income and expense

Fee and commission income

	2007	2006
Accounts maintenance and payment orders	662 436	626 277
Payment cards	487 237	400 676
Acquisition services	633 385	451 741
Credits and loans granted	197 063	198 966
Guarantees and similar operations	23 817	19 349
Custody activity	33 304	31 035
Securities operations	9 202	3 791
Other	31 398	30 598
Total	**2 077 842**	**1 762 433**

(in PLN thousand)

Fee and commission expense

	2007	2006
Payment cards	(231 783)	(155 157)
Securities operations	(5 409)	(4 642)
Custody activity	(4 887)	(2 066)
Acquisition services	(15 831)	(8 775)
Accounts maintenance	(2 369)	(2 531)
Other	(20 946)	(14 153)
Total	**(281 225)**	**(187 324)**

11. Dividend income

	2007	2006
Dividend income from the issuers:		
Subsidiaries	164 347	111 874
Associates	78 601	57 094
Other entities	236	1 652
Total	**243 184**	**170 620**

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

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

	2007	2006
Derivative instruments	9 515	66 222
Debt instruments	31 784	24 709
Total	**41 299**	**90 931**

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

	2007	2006
Debt instruments	(13 568)	(55 747)
Total	**(13 568)**	**(55 747)**
Total result on financial instruments valued at fair value (a+b)	**27 731**	**35 184**

Total change in the fair value of financial instruments valued at fair value through profit and loss established using valuation techniques (where no established quotations were published on the active market) in the 2007 was PLN 12 843 thousand (in 2006: PLN 63 311 thousand respectively).

13. Gains (losses) on investment securities

Realized gains (losses) on financial assets and liabilities other than valued at fair value through profit and loss

	2007	2006
Realized profit		
Financial assets available for sale	40 146	86 320
Investments held to maturity	-	106
Debt securities in issue	80	-
Total	**40 226**	**86 426**

(in PLN thousand)

Realized losses		
Financial assets available for sale	(2 696)	(202)
Debt securities in issue	(199)	-
Total	**(2 895)**	**(202)**
Net realized profit	**37 331**	**86 224**

Change in the fair value of financial assets available for sale recognized in the 2007 directly in equity amounted to PLN 225 329 thousand (decrease of equity) (in 2006 PLN 50 862 thousand (decrease of equity)).

Profits and losses from financial assets moved in the 2007 from equity to profit and loss account amounted to PLN 37 450 thousand (profit) (in 2006 PLN 86 118 thousand (profit)).

14. Other operating income and expense

	2007	2006
Other operating income		
Rent and other revenue	25 057	30 001
Gains on sale of equity investments	-	50 178
Gains on sale of properties and other assets	29 373	15 071
Recovery of prescribed. written-off against provisions and bad debts	15 245	15 917
Credit insurance	17 002	12 042
Recovery of debt collection costs	5 766	4 892
Releases of provisions for other assets	19 441	5 157
Releases of provisions for litigation and claims	8 032	761
Compensation. fees and penalties	74	29
Other	28 061	29 610
Total	**148 051**	**163 658**

	2007	2006
Other operating expense		
Debt recovery costs	(13 777)	(11 935)
Provision charges for litigation and claims	(15 797)	(24 083)
Impairment of intangible and property, plant and equipment and other assets	(2 929)	(17 978)
Credit insurance	(14 544)	(9 521)
Losses on disposal and liquidation of properties and other assets	(3 441)	(5 638)
Losses on sale of equity investments	-	(2 639)
Donations	(2 801)	(2 866)
Customers complaints	(2 646)	(2 858)
Amortization of start-up costs	-	(1 142)
Debts written off's	(10)	(263)
Compensations, fees and penalties	(258)	(180)
Other	(18 441)	(21 029)
Total	**(74 644)**	**(100 132)**

15. General and administrative expenses

	2007	2006
Payroll and employee benefits	(1 246 643)	(1 090 547)
including:		
Wages and salaries	(1 046 267)	(932 076)
Insurance and other charges related with employees	(196 025)	(152 594)
Cost of share-based payments	(4 351)	(5 877)
Other administrative costs	(874 624)	(732 522)
Amortization	(316 695)	(304 341)

(in PLN thousand)

Taxes and charges	(22 659)	(22 770)
Annual Bank Guarantee Fund fee	(8 389)	(6 905)
Total	**(2 469 010)**	**(2 157 085)**

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

	2007	2006
Provision charges		
Loans to clients and receivables from banks	(1 711 563)	(899 287)
Financial assets available for sale	(12 079)	-
Investments held to maturity	(28)	(78)
Investments in subsidiaries and associates	(913)	(1 571)
Contingent liabilities and commitments	(240 058)	(189 218)
Total	**(1 964 641)**	**(1 090 154)**

	2007	2006
Provision releases		
Loans to clients and receivables from banks	1 614 964	784 831
Investments held to maturity	118	39
Investments in subsidiaries and associates	-	1 762
Contingent liabilities and commitments	220 791	95 883
Total	**1 835 873**	**882 515**
Net provision	**(128 768)**	**(207 639)**

(in PLN thousand)

17. Impairment

2007	**Impairment at the end of previous period**	Increase				Decrease				**Impairment charges balance at the end of the period**	**Influence on the profit and loss statement**
		Merger of "Pekao 285"	Impairment charges during the period	Foreign exchange differences	Other	Write off of assets from the balance sheet	Release of the provisions	Foreign exchange differences	Other		
Impairment of the financial assets not valued at the fair value through the profit and loss:											
Financial assets available for sale	**400**	2 788	12 079	-	-	-	-	(99)		**15 168**	12 079
Loans to clients and receivables from banks valued at amortized cost	**3 615 774**	1 050 961	1 711 563	32 317	-	(216 307)	(1 614 964)	(90 196)	(236)	**4 488 912**	96 599
Investments held to maturity valued at amortized cost	**202**	-	28	-		-	(118)	(8)	-	**104**	(90)
Impairment of:											
Property. plant and equipment	**3 202**	12 884	83	-	56	-	-	(153)	(680)	**15 392**	83
Investment real estate property	**8 654**	-	-	-	350	-	-	(231)	-	**8 773**	-
Intangible assets	**10 961**	-	143	-	-	-	-	-	(24)	**11 080**	143
Goodwill	**-**	-	-	-	-	-	-	-	-	**-**	-
Other intangible assets	**10 961**	-	143	-	-	-	-	-	(24)	**11 080**	143
Impairment of the investments in subsidiaries and associates	**45 646**	3 066	913	-	-	-	-	-	(4 897)	**44 728**	913
Other	**101 174**	16 755	2 703	490	734	(1 111)	(19 441)	-	(388)	**100 916**	(16 738)
Total	**3 786 013**	**1 086 454**	**1 727 512**	**32 807**	**1 140**	**(217 418)**	**(1 634 523)**	**(90 687)**	**(6 225)**	**4 685 073**	**92 989**

(in PLN thousand)

2006	**Impairment at the end of previous period**	**Increase** Impairment charges during the period	Foreign exchange differences	Other	**Decrease** Write off of assets from the balance sheet	Release of the provisions	Foreign exchange differences	Other	**Impairment charges balance at the end of the period**	**Influence on the profit and loss statement**
Impairment of the financial assets not valued at the fair value through the profit and loss:										
Financial assets available for sale	400	-	-	-	-	-	-	-	400	-
Loans to clients and receivables from banks valued at amortized cost	4 161 095	899 287	47 664	7 797	(617 089)	(784 831)	(90 352)	(7 797)	3 615 774	114 456
Investments held to maturity valued at amortized cost	164	78	-	-	-	(39)	(1)	-	202	39
Impairment of:										
Property. plant and equipment	8 368	2 636	-	6	-	(1)	(17)	(7 790)	3 202	2 635
Investment real estate property	3 588	-	-	5 092	-	-	(26)	-	8 654	-
Intangible assets	-	13 665	-	-	-	-	-	(2 704)	10 961	13 665
Goodwill	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	13 665	-	-	-	-	-	(2 704)	10 961	13 665
Impairment of the investments in subsidiaries and associates	46 394	1 571	-	-	-	(1 762)	-	(557)	45 646	(191)
Other	105 728	1 677	-	1 645	-	(5 156)	(374)	(2 346)	101 174	(3 479)
Total	**4 325 737**	**918 914**	**47 664**	**14 540**	**(617 089)**	**(791 789)**	**(90 770)**	**(21 194)**	**3 786 013**	**127 125**

(in PLN thousand)

Write downs and write backs related to impairment of loans advances and other financial assets and impairment reverse are presented in the profit and loss account under “Net impairment losses on financial assets and provisions for quarantees and commitments”. Write downs for depreciation of other assets are presented under “other operating expenses, reversal of write downs for depreciation of other assets are presented under “other operating income”

18. Discontinued operations

In the 2007 and in the 2006 the Bank did not discontinue any of its operations.

19. Income tax

Income tax

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

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

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

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

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

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

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

(in PLN thousand)

	-	-	-
Deferred tax	384	(18 340)	-
	-	-	-
Total	**390 947**	**352 291**	**-**

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

	2007	2006
Accounting gross profit	**2 397 547**	**2 099 590**
Tax at applicable tax rate at 19%	**455 534**	**398 922**
Tax effect of the permanent differences	**(64 587)**	**(27 871)**
Non taxable income	(68 585)	(44 754)
Non tax deductible costs	6 865	13 172
Impact of other tax rates applied under a different tax jurisdiction	3 720	2 279
Influence of utilised tax lossess	-	-
Tax relieves not included in the profit and loss account	(4 282)	2 223
Other	(2 305)	(791)
The effective tax charge of the accounting profit	**390 947**	**371 051**

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

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

	2007	2006
Profit and loss account		
Current income tax	**(390 563)**	**(467 863)**
Current tax charge disclosed in the profit and loss account	(402 342)	(440 561)
Adjustments related to the tax from previous years	14 579	7 007
Other taxes (for example: withholding tax, income tax relating to foreign branches)	(2 800)	(34 309)
Deferred income tax	**(384)**	**96 812**
Due to the occurrence and reversal of timing differences	(384)	96 812
Tax charge disclosed in the profit and loss account	**(390 947)**	**(371 051)**

Equity

(in PLN thousand)

Deferred income tax	**55 392**	**26 004**
Due to the occurrence and reversal of timing differences	55 392	26 004
Tax charge disclosed in the net equity	**55 392**	**26 004**
Total	**(335 555)**	**(345 047)**

(in PLN thousand)

Deferred assets and liabilities

	As at 31 December 2005			Changes recognized in		As at 31 December 2006		
	Total defferred tax	in profit and loss account	in equity	Profit and loss account	equity	Total defferred tax	in profit and loss account	in equity
Deferred tax liability								
Income receivable from the securities	118 234	118 234	-	(118 234)	-	-	-	-
Income receivable from loans given	266 715	266 715	-	(25 981)	-	240 734	240 734	-
Upward revaluation of the financial assets	101 243	78 344	22 899	38 644	(22 899)	116 988	116 988	-
Accelerated depresiation	108 507	108 507	-	9 131	-	117 638	117 638	-
Investment relief	7 382	7 382	-	(843)	-	6 539	6 539	-
Rother	8 145	8 145	-	(64)	-	8 081	8 081	-
Gross deferred tax liability	**610 226**	**587 327**	**22 899**	**(97 347)**	**(22 899)**	**489 980**	**489 980**	**-**
Deferred tax asset								
Future costs related to securities	-	-	-	24 619	-	24 619	24 619	-
Future costs related to deposits and loans received	229 666	229 666	-	(21 979)	-	207 687	207 687	-
Unrealized losses on financial instruments	102 581	102 776	(195)	14 726	3 105	120 411	117 501	2 910
Income received to be accounted for over time from the loans and current accounts	61 316	61 316	-	(388)	-	60 928	60 928	-
Costs due to the loan provisions charges	286 513	286 513	-	(15 133)	-	271 380	271 380	-
Personnel costs provisions	52 110	52 110	-	2 410	-	54 521	54 521	-

(in PLN thousand)

Accruals	6 519	6 519	-	2 969	-	9 488	9 488	-
Uncovered losses from previous years	23 529	23 529	-	(7 759)	-	15 770	15 770	-
Rother	-	-	-	-	-	-	-	-
Gross deferred tax assets	**762 234**	**762 429**	**(195)**	**(535)**	**3 105**	**764 804**	**761 894**	**2 910**
Deferred tax charge	X	X	X	96 812	26 004	X	X	X
Net deferred tax assets	152 008	175 102	-	X	X	274 824	271 914	2 910
Net provision for the deferred tax	-	-	23 094	X	X	-	-	-

	As at 31 December 2006			Changes recognized in		Increase being the result of merger with Bank BPH recognized in		As at 31 December 2007		
	Total defferred tax	in profit and loss account	in equity	Profit and loss account	equity	Profit and loss account	equity	Total defferred tax	in profit and loss account	in equity
Deferred tax liability										
Income receivable from the securities	-	-	-	40 582	(3 720)	51 124	3 720	91 706	91 706	-
Income receivable from loans given	240 734	240 734	-	(51 990)	-	46 174	-	234 918	234 918	-
Upward revaluation of the financial assets	116 988	116 988	-	91 536	(4 264)	188 339	4 264	396 863	396 863	-
Accelerated depresiation	117 638	117 638	-	(26 169)	-	26 705	-	118 174	118 174	-
Investment relief	6 539	6 539	-	16 969	-	-	-	23 508	23 508	-

(in PLN thousand)

Rother	8 081	8 081		(32 057)		33 923		9 947	9 947	
Gross deferred tax liability	**489 980**	**489 980**	**-**	**38 871**	**(7 984)**	**346 265**	**7 984**	**875 116**	**875 116**	**-**
				Deferred tax asset						
Future costs related to securities	24 619	24 619	-	(26 632)	(1 829)	2 013	1 829	-	-	-
Future costs related to deposits and loans received	207 687	207 687	-	(48 771)	-	29 855	-	188 771	188 771	-
Unrealized losses on financial instruments	120 411	117 501	2 910	137 002	49 237	178 825	12 400	497 875	433 328	64 547
Income received to be accounted for over time from the loans and current accounts	60 928	60 928	-	(3 721)	-	37 220	-	94 427	94 427	-
Costs due to the loan provisions charges	271 380	271 380	-	(11 586)	-	75 862	-	335 656	335 656	-
Personnel costs provisions	54 521	54 521	-	21 792	-	1 182	-	77 495	77 495	-
Accruals	9 488	9 488	-	(16 021)	-	26 087	-	19 554	19 554	-
Uncovered losses from previous years	15 770	15 770	-	(8 678)	-	-	-	7 092	7 092	-
Rother	-	-	-	(4 898)	-	8 556	-	3 658	3 658	-
Gross deferred tax assets	**764 804**	**761 894**	**2 910**	**38 487**	**47 408**	**359 600**	**14 229**	**1 224 528**	**1 159 981**	**64 547**
Deferred tax charge	X	X	X	(384)	55 392	13 335	6 245	X	X	X
Net deferred tax assets	274 824	271 914	2 910	X	X	X	X	349 412	284 865	64 547
Net provision for the deferred tax	-	-	-	X	X	X	X	-	-	-

(in PLN thousand)

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

As at 31 December 2007 and 31 December 2006 there were no temporary differences, unused tax losses and tax credits that were not included in the deferred tax asset.

20. Earnings per share

Basic earnings per share

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

Earnings per share

	2007	2006
Net profit attributed to ordinary shareholders	2 006 600	1 728 539
Weighted average number of ordinary shares in the period	175 645 529	166 764 059
Earnings per each share (PLN per share)	11.42	10.37

Diluted earnings per share

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

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

	2007	2006
Net profit attributed to ordinary shareholders	2 006 600	1 728 539
Weighted average number of ordinary shares in the period	175 645 529	166 764 059
Adjustments to the number of shares for the purpose of calculating the diluted earnings per share	194 360	133 182
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	175 839 889	166 897 241
Diluted earnings per each share (PLN per share)	11.41	10.36

21. Dividend proposal

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

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

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

(in PLN thousand)

22. Cash and amounts due from Central Bank

	31.12.2007	31.12.2006
Cash	2 532 540	1 089 406
Current account in the Central Bank	802 444	1 120 462
NBP bonds *	1 687 171	1 313 099
Interest	59 105	49 160
Other funds	1 569	1 755
Total	**5 082 829**	**3 573 882**

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

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

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

23. Loans and receivables from banks

	31.12.2007	31.12.2006
Current account	4 251 495	5 694 890
Deposits and advances from other banks	7 753 893	3 456 766
Loans and advances	1 566 368	664 200
Unquoted securities	13 684	1 006
Repo transactions	2 564 669	506 216
Funds in transit	1 345 259	75 227
Interest	84 992	72 800
Total gross	**17 580 360**	**10 471 105**
Provision for the impairment of receivables	(29 295)	(75 554)
Total net	**17 551 065**	**10 395 551**

The variable interest rate due from banks amounts to PLN 2 474 054 thousand (as at 31 December 2006: PLN 733 759 thousand), fixed interest rate due from banks amounts to PLN 12 509 880 thousand (as at 31 December 2006: PLN 9 589 319 thousand).

As at 31 December 2007	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value
Current account	4 251 495				4 251 495
Deposits in other banks	7 753 893				7 753 893
Loans given	1 482 217	84 144		(28 447)	1 537 914
Unlisted securities	12 843	841	(841)		12 843
Repo transactions	2 564 669				2 564 669
Funds in transit	1 345 259				1 345 259
Interest	84 992	7	(7)		84 992
Total	**17 495 368**	**84 992**	**(848)**	**(28 447)**	**17 551 065**

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

(in PLN thousand)

As at 31 December 2006	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value
Current account	5 694 890	-	-	-	5 694 890
Deposits in other banks	3 456 766	-	-	-	3 456 766
Loans given	592 589	71 611	(52 233)	(22 315)	589 652
Unlisted securities	-	1 006	-	(1 006)	-
Repo transactions	506 216	-	-	-	506 216
Funds in transit	75 227	-	-	-	75 227
Interest	72 800	-	-	-	72 800
Total	**10 398 488**	**72 617**	**(52 233)**	**(23 321)**	**10 395 551**

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

Fair value of receivables from Banks as at 31 December 2007 was equal to PLN 10 300 554 thousand (as at 31 December 2006: PLN 10 391 889 thousand).

24. Financial assets held for trading

	31.12.2007	31.12.2006
Debt securities		
- issued by the State Treasury	1 975 575	1 921 838
- issued by non bank financial entities	260 794	42 228
- issued by non-financial entities	491 057	86 762
- issued by other banks	101 376	-
Total financial assets held for trading	**2 828 802**	**2 050 828**

Financial assets held for trading - breakdown

	31.12.2007	31.12.2006
1. Debt securities		
a) with embedded instrument		
- quoted	4 459	12 240
- unquoted		-
b) other		
- quoted	1 953 073	1 909 598
- unquoted	871 270	128 990
2. Stock and shares		
- quoted	-	-
- unquoted	-	-
3. Other financial instruments		
- quoted	-	-
- unquoted	-	-
Total financial assets held for trading	**2 828 802**	**2 050 828**

(in PLN thousand)

Financial assets held for trading according to residual maturities:

	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		undefined maturity	Total	
31 December 2007	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by the State Treasury	12 390	5.45	114 875	5.54	237 057	5.86	1 162 015	5.82	449 238	5.24	-	**1 975 575**	5.67
- issued by non bank financial entities	196 441	5.31	64 353	5.55	-		-		-		-	**260 794**	5.37
- issued by non-financial entities	286 393	5.26	187 046	5.69	17 618	6.28	-		-		-	**491 057**	5.46
- issued by other banks	84 794	5.11	16 582	5.35	-		-		-		-	**101 376**	5.15
Total	**580 018**	**5.26**	**382 856**	**5.61**	**254 675**	**5.89**	**1 162 015**	**5.82**	**449 238**	**5.24**	**-**	**2 828 802**	**5.59**
Including interest	-		-		128		15 428		7 199			**22 755**	

	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		undefined maturity	Total	
31 December 2006	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by the State Treasury	72 603	3.90	16 564	3.97	1 102 433	4.17	193 776	4.62	536 462	5.24	-	1 921 838	4.50
- issued by non bank financial entities	17 002	3.97	25 226	3.99	-	-	-	-	-	-	-	42 228	3.98
- issued by non-financial entities	3 183	4.46	50 279	4.06	33 300	4.16	-	-	-	-	-	86 762	4.11
Total	**92 788**	**3.94**	**92 069**	**4.02**	**1 135 733**	**4.17**	**193 776**	**4.62**	**536 462**	**5.24**	**-**	**2 050 828**	**4.48**
Including interest	**-**	**-**	**-**	**-**	**22 136**	**-**	**2 049**	**-**	**6 186**	**-**	**-**	**30 371**	**-**

25. Derivative financial instruments

Derivatives used by the Bank

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

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

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

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

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

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

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

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

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

Interest rate options (cap/floor) are contracts where one of the parties. the option buyer. purchases from the other party. the option issuer. at a so-called premium price. the right without the obligation to borrow (cap) or lend (floor) at specified points in the future (independently) amounts specified in the contract at the interest rate set during the conclusion of the option. Interest rate options concluded by the Bank are over-the-counter contracts used to manage interest rate risk and to satisfy customer demand. These transactions are measured using the Black model.

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

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

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

Derivatives embedded in other instruments

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

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

Derivatives are also embedded in deposit agreements.

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

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

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

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

Risk involved in financial derivatives

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

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

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

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

Credit risk involved in derivatives is presented in Note 7.

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

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

(in PLN thousand)

Financial derivatives as at 31 December 2007

Nominal values of base instruments and fair value of financial derivatives:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
Currency swaps	21 862 477	11 786 400	3 160 392	55 998	-	36 865 267	(144 198)	239 281
Purchase	10 973 954	5 874 718	1 607 451	27 999	-	18 484 122		
Sale	10 888 523	5 911 682	1 552 941	27 999	-	18 381 145		
Currency forward contracts	6 857 757	24 580 603	7 542 742	868 846	-	39 849 948	(273 690)	365 126
Purchase	3 444 370	12 349 668	3 757 401	426 126	-	19 977 565		
Sale	3 413 387	12 230 935	3 785 341	442 720	-	19 872 383		
Currency options	379 067	7 051 703	12 872 460	2 640 048	-	22 943 278	(120 492)	116 990
Purchase	189 544	3 519 186	6 439 298	1 318 350	-	11 466 378		
Sale	189 523	3 532 517	6 433 162	1 321 698	-	11 476 900		
Cross Currency IRS	-	135 151	2 310 954	5 441 312	1 757 627	9 645 044	(113 670)	210 514
Purchase	-	67 544	1 236 418	2 701 301	861 022	4 866 285		
Sale	-	67 607	1 074 536	2 740 011	896 605	4 778 759		
Interest rate transactions								
Interest rate swaps (IRS)	4 478 666	14 682 340	33 615 566	55 625 333	14 971 615	123 373 520	(724 642)	676 039
Purchase	2 240 203	8 916 709	15 558 950	26 359 521	7 388 194	60 463 577		
Sale	2 238 463	5 765 631	18 056 616	29 265 812	7 583 421	62 909 943		
Forward Rate Agreement (FRA)	-	4 500 000	40 571 680	17 702 500	-	62 774 180	(52 657)	61 368
Purchase	-	2 500 000	22 867 620	9 740 000	-	35 107 620		
Sale	-	2 000 000	17 704 060	7 962 500	-	27 666 560		

(in PLN thousand)

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Futures for debt securities	-	650 772	-	-	-	650 772	-	-
Purchase	-	401 184	-	-	-	401 184		
Sale	-	249 588	-	-	-	249 588		
Other	4 000	173 342	158 575	998 480	223 286	1 557 683	(17 309)	13 714
Purchase	-	51 882	47 400	509 463	111 643	720 388		
Sale	4 000	121 460	111 175	489 017	111 643	837 295		
Other transactions								
Securities forward contracts	487 092	-	-	-	-	487 092	(1 752)	103
Purchase	292 876	-	-	-		292 876		
Sale	194 216	-	-	-		194 216		
Stock options	-	144 074	660 739	2 815 740	-	3 620 553	(234 896)	234 825
Purchase	-	72 037	331 518	1 413 161		1 816 716		
Sale	-	72 037	329 221	1 402 579		1 803 837		
Total	**34 069 059**	**63 704 385**	**100 893 108**	**86 148 257**	**16 952 528**	**301 767 337**	**(1 683 306)**	**1 917 960**

(in PLN thousand)

Financial derivatives as at 31 December 2006

Nominal values of base instruments and fair value of financial derivatives:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
Currency swaps	10 117 863	141 950	1 273 327	-	-	11 533 140	(18 526)	60 189
Purchase	5 066 921	70 209	651 838	-	-	5 788 968		
Sale	5 050 942	71 741	621 489	-	-	5 744 172		
Currency forward contracts	3 664 935	2 709 348	2 153 852	223 928	-	8 752 063	(30 777)	37 135
Purchase	1 834 223	1 360 408	1 073 398	109 962	-	4 377 991		
Sale	1 830 712	1 348 940	1 080 454	113 966	-	4 374 072		
Currency options	929 250	1 915 514	4 157 608	91 792	-	7 094 164	(37 930)	37 930
Purchase	464 625	957 757	2 078 804	45 896	-	3 547 082		
Sale	464 625	957 757	2 078 804	45 896	-	3 547 082		
Cross Currency IRS	-	157 359	-	1 019 526	-	1 176 885	(27 337)	27 482
Purchase	-	78 682	-	509 763	-	588 445		
Sale	-	78 677	-	509 763	-	588 440		
Interest rate transactions								
Interest rate swaps (IRS)	2 901 022	1 117 000	5 608 324	17 276 649	5 644 304	32 547 299	(344 498)	320 355
Purchase	1 751 011	590 000	2 795 740	9 105 852	3 328 126	17 570 729		
Sale	1 150 011	527 000	2 812 584	8 170 797	2 316 178	14 976 570		
Other	-	-	-	-	242 376	242 376	(1 843)	1 843
Purchase	-	-	-	-	121 188	121 188		
Sale	-	-	-	-	121 188	121 188		
Forward Rate Agreement (FRA)	-	-	13 500 000	-	-	13 500 000	(6 484)	4 822
Purchase	-	-	7 900 000	-	-	7 900 000		
Sale	-	-	5 600 000	-	-	5 600 000		

(in PLN thousand)

Nominal values of base instruments and fair value of financial derivatives:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Futures for debt securities	-	228 901	-	-	-	228 901	-	-
Purchase	-	27 987	-	-	-	27 987		
Sale	-	200 914	-	-	-	200 914		
Other transactions								
Securities forward contracts	438 554	-	-	-	-	438 554	(185)	268
Purchase	222 060	-	-	-	-	222 060		
Sale	216 494	-	-	-	-	216 494		
Stock options	-	-	443 444	424 628	-	868 072	(36 614)	36 619
Purchase	-	-	221 796	212 314	-	434 110		
Sale	-	-	221 648	212 314	-	433 962		
Warrants	-	-	-	-	-	-	-	-
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
Total	**18 051 624**	**6 270 072**	**27 136 555**	**19 036 523**	**5 886 680**	**76 381 454**	**(504 194)**	**526 643**

(in PLN thousand)

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

	31.12.2007	31.12.2006
Debt securities		
- issued by non bank financial entities	538 986	650 323
- issued by the State Treasury	3 238 693	962 872
Total	**3 777 679**	**1 613 195**

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

	31.12.2007	31.12.2006
1. Debt securities		
a) with embedded instrument		
- quoted	-	-
- unquoted	-	-
b) other		
- quoted	3 238 693	1 613 195
- unquoted	538 986	
2. Stock and shares		
- quoted	-	-
- unquoted	-	-
3. Other financial instruments		
- quoted	-	-
- unquoted	-	-
Total	**3 777 679**	**1 613 195**

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

(in PLN thousand)

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

As at 31 December 2007	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield (%)	Book value	Average yield (%)	Book value	Average yield (%)	Book value	Average yield (%)	Book value	Average yield (%)	Book value	Book value	Average yield (%)
Debt securities													
- issued by non bank financial entities	-	-	-	-	12 526	4.75	526 460	4.28	-	-	-	**538 986**	4.29
- issued by the State Treasury	-	-	-	-	-		2 746 282	5.12	492 411	4.83	-	**3 238 693**	5.07
Total	**-**		**-**		**12 526**	**4.75**	**3 272 742**	**4.98**	**492 411**	**4.83**	**-**	**3 777 679**	**4.96**
Including interest	-		-		22		49 218		14 459			**63 699**	

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

As at 31 December 2006	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield (%)	Book value	Average yield (%)	Book value	Average yield (%)	Book value	Average yield (%)	Book value	Average yield (%)	Book value	Book value	Average yield (%)
Debt securities													
- issued by non bank financial entities	-	-	-	-	-	-	650 323	5.26	-	-	-	650 323	5.26
- issued by the State Treasury	-	-	-	-	-	-	-		962 872	4.80	-	962 872	4.80
Total	**-**	**-**	**-**	**-**	**-**	**-**	**650 323**	**5.26**	**962 872**	**4.80**	**-**	**1 613 195**	**4.98**
Including interest	**-**	**-**	**-**	**-**	**-**	**-**	**7 250**	**-**	**27 211**	**-**	**-**	**34 461**	**-**

(in PLN thousand)

27. Loans and receivables from customers

	31.12.2007	31.12.2006
Loans	66 417 115	35 300 728
Payment cards receivables	510 444	179 826
Purchased receivables	393 896	147 025
Realized guarantees and commitments	40 366	43 742
Unquoted securities	60 993	82 965
Repo transactions	732 997	-
Receivables in transit	62 097	2 472
Interest	196 963	135 777
Total gross	**68 414 871**	**35 892 535**
Impairment provisions	(4 459 617)	(3 540 220)
Total net	**63 955 254**	**32 352 315**

31.12.2007	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value	Fair value
Loans given to						
state budget entities	1 769 979	1 801	-	(6 834)	1 764 946	1 764 527
non-banking financial entities	5 018 792	56 313	(42 016)	(29 819)	5 003 270	5 003 306
non-financial entities	34 281 387	3 936 220	(1 919 903)	(1 320 285)	34 977 419	35 013 696
general public	21 903 095	1 250 321	(87 436)	(1 053 324)	22 012 656	21 993 048
Interest	196 963	-	-	-	196 963	196 963
Total	**63 170 216**	**5 244 655**	**(2 049 355)**	**(2 410 262)**	**63 955 254**	**63 971 540**

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

Fixed interest rate loans and lending facilities extended from customers as at 31 December 2007 represented 10.32 % of the total loans and advances portfolio or PLN 7 034 399 thousand

31.12.2006	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value	Fair value
Loans given to						
state budget entities	1 956 260	1 830	-	(12 273)	1 945 817	1 945 303
non-banking financial entities	2 297 434	56 606	(37 353)	(46 869)	2 269 818	2 269 983
non-financial entities	18 312 198	2 992 504	(1 358 764)	(1 227 643)	18 718 295	18 772 960
general public	9 248 986	890 940	(36 143)	(821 175)	9 282 608	9 345 512
Interest	135 777	-	-	-	135 777	135 777
Total	**31 950 655**	**3 941 880**	**(1 432 260)**	**(2 107 960)**	**32 352 315**	**32 469 535**

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

Fixed interest rate loans and lending facilities extended from customers as at 31 December 2006 represented 10.77 % of the total loans and advances portfolio or PLN 3 851 190 thousand

Changes in impairment balances in the reporting periods ended 31 December 2007 and 31 December 2006 are presented in the Note 17.

(in PLN thousand)

28. Cash flow hedge (macro hedge)

The hedge relationship description

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

Hedged items

Cash flows arising from variable rate assets

Hedging instruments

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

As at 31 December 2007 the net fair value of the hedging instruments amounted to PLN 11.589 ths.

Balance sheet disclosure

The effective part of the hedging instruments valuation is recognized in revaluation equity.

Interest on hedged items and hedging instruments is recognized as interest income.

No.	31.12.2007	31.12.2006
Gross revaluation equity (deferral of the p&l recognition of th changes in the fair value of hedging instrument of the effective hedge)	61 776	-
Period in which the cash flows related to the hedged items are expected to occur.	01.01.2008 - 20.11.2017	n/d

(in PLN thousand)

29. Investment securities

	31.12.2007	31.12.2006
Securities available for sale	**17 144 164**	**12 574 459**
Debt securities	17 131 729	12 568 441
- issued by central banks	554 092	334 975
- issued by other banks	1 483 933	45 479
- issued by non bank financial entities	230 452	35 224
- issued by non financial entities	619 783	420 265
- issued by the State Treasury	13 834 692	11 286 508
- issued by local governments	408 777	445 990
Stock and shares in other entities	12 435	6 018
Securities held to maturity	**586 994**	**425 612**
- issued by central banks	394 381	219 178
- issued by other financial entities	17 277	20 689
- issued by the State Treasury	175 336	185 745
Total gross	**17 731 158**	**13 000 071**
Impairment of securities available for sale	(15 168)	(400)
Impairment of securities held to maturity	(104)	(202)
Total net	**17 715 886**	**12 999 469**

Securities available for sale - breakdown

	31.12.2007	31.12.2006
1. Debt securities		
a) with embedded instrument		
- quoted	175 706	389 717
- unquoted		-
b) other		
- quoted	13 020 379	11 409 876
- unquoted	3 931 003	768 848
2. Stock and shares		
- quoted	383	-
- unquoted	1 525	5 618
3. Other financial instruments		
- quoted	-	-
- unquoted	-	-
Total	**17 128 996**	**12 574 059**

Securities held to maturity - breakdown

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

(in PLN thousand)

Changes in investment securities

	31.12.2007	31.12.2006
Securities available for sale		
Balance at the beginning of the period	**12 574 059**	**11 902 500**
Merger of "Pekao 285"	863 736	**-**
Increase (purchase)	32 077 537	33 242 530
Decrease (sale and redemption)	(28 577 262)	(32 615 422)
Impairment charges during period	(12 079)	-
Changes in the fair value	(261 361)	(137 018)
Exchange rate differences	(346 654)	(263 957)
Other	811 020	445 426
Balance at the end of the period	**17 128 996**	**12 574 059**
Securities held to maturity		
Balance at the beginning of the period	**425 410**	**2 587 874**
Increase (purchase)	12 426 059	8 599 527
Decrease (sale and redemption)	(12 273 171)	(10 855 754)
Impairment charges during period	28	(40)
Changes in the fair value	-	-
Exchange rate differences	(13 673)	(2 669)
Other	22 237	96 472
Balance at the end of the period	**586 890**	**425 410**
Total investment securities net	**17 715 886**	**12 999 469**

(in PLN thousand)

Securities available for sale according to maturities:

As at 31 December 2007	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by central banks	5 397	5.61	-		-		548 695	4.19	-		-	**554 092**	4.20
- issued by other banks	-		-		80 109	5.56	1 403 824	5.62	-		-	**1 483 933**	5.61
- issued by other financial entities	-		-		85 651	5.60	144 801	5.24	-		-	**230 452**	5.37
- issued by non financial entities	-		-		6 631	5.73	427 485	5.45	181 026	5.50	-	**615 142**	5.46
- issued by the State Treasury	3 053	4.31	280 881	4.94	1 345 773	5.75	8 632 174	5.97	3 572 811	5.72	-	**13 834 692**	5.86
- issued by local governments	-		-		148 611	4.92	259 635	5.32	531	4.82	-	**408 777**	5.17
Shares in other entities													
- listed											383	**383**	
- not listed											1 525	**1 525**	
Total	**8 450**	**5.14**	**280 881**	**4.94**	**1 666 775**	**5.66**	**11 416 614**	**5.80**	**3 754 368**	**5.71**	**1 908**	**17 128 996**	**5.75**
Including interest	147		11 151		22 237		249 397		73 641			**356 573**	

(in PLN thousand)

Securities available for sale according to maturities:

As at 31 December 2006	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by central banks	334 975	3.92	-	-	-	-	-		-	-	-	334 975	3.92
- issued by other banks	-	-	-	-	-	-	45 479	4.45	-	-	-	45 479	4.45
- issued by other financial entities	-	-	-	-	28 964	3.50	6 260	4.51	-	-	-	35 224	3.68
- issued by non financial entities	-	-	-	-	122 693	4.35	297 572	4.74	-	-	-	420 265	4.63
- issued by the State Treasury	-	-	-	-	317 793	5.24	8 396 803	4.79	2 571 912	5.13	-	11 286 508	4.88
- issued by local governments	5 240	4.95	2 020	4.62	93 937	4.93	343 752	4.85	1 041	5.48	-	445 990	4.87
Shares in other entities													
- listed	-	-	-	-	-	-	-	-	-	-	-	-	
- not listed	-	-	-	-	-	-	-	-	-	-	5 618	5 618	
Total	**340 215**	**3.93**	**2 020**	**4.62**	**563 387**	**4.91**	**9 089 866**	**4.79**	**2 572 953**	**5.13**	**5 618**	**12 574 059**	**4.84**
Including interest	**239**		**70**		**8 504**		**190 140**		**37 424**		**-**	**236 377**	

(in PLN thousand)

Securities held to maturity according to maturities:

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

Securities held to maturity according to maturities:

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

(in PLN thousand)

30. Non- current assets held for sale.

In accordance with IRFS 5 „Non-current assets held for sale and discontinued operations”. the Bank has separated in balance sheet in the item “Non-current assets held for sale” of Bank’s properties fulfilling the requirements of IFRS 5 regarding classification of Non-current Assets Held for Sale. During2007 also the shares in Access Sp. z o.o. were presented in this position.

Non-current assets held for sale:

	31.12.2007	31.12.2006
Investment properties	514	8 784
Total non-current assets held for sale	**514**	**8 784**

Changes in value of 2007

	Property	Shares
Opening balance	**8 784**	**-**
Increase:	4 134	820
Transfer from investment properties	-	-
Transfer from tangible assets	2 639	-
Transfer from investments in subordinated undertakings	-	820
Foreign exchange differences	11	-
Other changes	1 484	-
Decrease:	(12 404)	(820)
Disposals	(12 194)	(820)
Other changes	(210)	-
Closing balance	**514**	**-**

During 2007 the Bank disposed of 55.25% ofshares of it’s subsidiary Pekao Access Spółka z o.o.

The disposals were settled as follows:

	Property	Shares	Total
Income from sale	39 453	820	40 273
Book value of sold net assets (including costs of sales)	12 195	820	13 015
Profit / Loss on sale	27 258	-	27 258

Changes in value of 2006

	Property	Shares
Opening balance	**2 220**	**35 430**
Increase:	10 523	45 922
Transfer from investment properties	2 145	-
Transfer from tangible assets	8 378	-
Transfer from investments in subordinated undertakings	-	41 167
Foreign exchange differences	-	4 755
Decrease:	(3 959)	(81 352)
Disposals	(3 936)	(72 494)
Transfer to investments in subordinated undertakings	-	(8 858)
Other changes	(23)	-
Closing balance	**8 784**	**-**

(in PLN thousand)

During the 2006 year Bank did disposal of shares in subordinated undertakings.
- 75.00% shares of Pekao Development Spolka z.o.o. in aid of Pirelli Real Estate S.p.A..
- 49.40% shares of Hotel Jan III Sobieski Spolka z.o.o. in aid of Europa Hawk S.a.r.l.

The disposals were settled as follows:

	Property	Shares	Total
Income from sale	7 586	120 036	127 622
Book value of sold net assets (including costs of sales)	3 936	72 497	76 433
Profit / Loss on sale	3 650	47 539	51 189

(in PLN thousand)

31. Investments in subsidiaries

Selected data about shares in subsidiaries *

as at 31 December 2007

Company	Registered office	Core business	Total assets	Total liabilities	Revenues	Profit/Loss	Proportion of share capital held	Book value of shares
UniCredit Bank Ltd)	Luck. Ukraine	Banking	2 918 186	2 553 133	222 062	(3 875)	100.00	657 349
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	1 298 443	884 095	382 310	181 959	100.00	181 716
Pekao Faktoring Sp. z o.o.	Lublin	Financial	596 192	536 797	37 742	8 046	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Financial	70 117	133	2 110	19 305	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Financial	84 967	34 276	31 903	13 552	65.00	88 126
Pekao Financial Services Sp. z o.o	Warsaw	Financial services	29 479	2 519	41 721	15 316	100.00	4 500
Pekao Leasing Sp. z.o.o.	Warsaw	Leasing	1 287 524	1 188 151	97 200	17 101	100.00	84 658
Centrum Kart S.A.	Warsaw	Financial support	38 835	5 950	41 469	4 338	100.00	17 592
Drukbank Sp. z o.o.	Warsaw	Not operating	8 463	1	286	(5 040)	100.00	8 193
BPH Bank Hipoteczny S.A.	Warsaw	Banking	1 711 588	1 457 346	119 553	590	100.00	233 688
BPH PBK Leasing S.A. (**)	Warsaw	Leasing	1 901 944	1 586 542	134 210	41 759	80.10	166 345
Finanse plc	London. G. Britain	Financial brokerage	1 721	335	-	-	100.00	65
Final Holding Sp. z o.o.	Warsaw	Holding management	55 553	16	3	200	100.00	55 900
BPH Real Estate S.A.	Warsaw	Real estate	28 906	469	3 845	2 530	100.00	24 376
Centrum Usług Księgowych Sp. z o.o.	Cracow	Accountant services	190	70	488	16	100.00	50
PBK Property Sp. z o.o. /w likwidacji/	Warsaw	Real estate	13 859	144	-	488	100.00	6 998
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call centre	9 375	2 899	29 066	147	98.00	490
Total								**1 631 694**

(*) available data as at the reporting day

(**) consolidated data includes the subsidiaries data as at 31st December 2006

(in PLN thousand)

UniCredit Bank Ltd.) (ex. Bank Pekao (Ukraine) Ltd.)	Luck. Ukraine	Banking	294 046	135 793	19 439	(16 709)	97.57	182 889
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	2 098 595	1 728 207	340 981	150 008	100.00	181 716
Pekao Faktoring Sp. z o.o.	Lublin	Financial	424 690	363 784	36 425	10 600	100.00	50 268
Pekao Fundusz Kapitalowy Sp. z o.o.	Warsaw	Financial	51 168	489	1 363	1 576	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Financial	82 339	35 752	27 212	10 270	65.00	88 126
Pekao Financial Services Sp. z o.o	Warsaw	Financial services	27 203	4 912	35 947	10 648	100.00	4 500
Pekao Leasing Sp. z.o.o.	Warsaw	Leasing	1 010 660	928 388	76 394	11 050	100.00	84 658
Centrum Kart S.A.	Warsaw	Financial support	36 326	7 780	976	315	100.00	17 592
Pekao Access Sp. z o.o.	Warsaw	Business consulting	2 104	1 126	38	508	55.26	1 728
Drukbank Sp. z o.o.	Lublin	Not operating	13 502	-	21	4	100.00	8 193
SARL Pekao Immobilier	Paris. France	Real estate management	44	-	-	(5)	100.00	50
Total								**671 100**

(in PLN thousand)

Change in shares in subsidiaries

Balance as at 31.12.2006	**671 100**
a) increase	962 640
- purchase and increase of share capital	474 729
- acquired from BPH	487 911
b) decrease	(2 046)
- sale and decrease of share capital	(820)
- impairment in value of equity	(908)
- foreign exchange differences	(269)
- other	(49)
Balance as at 31.12.2007	**1 631 694**

Balance as at 31.12.2005	**514 666**
a) increase	158 005
- purchase and increase of share capital	156 242
- impairment in value of equity	1 762
- foreign exchange differences	1
b) decrease	(1 571)
- impairment in value of equity	(1 571)
Balance as at 31.12.2006	**671 100**

Investments in subsidiaries	31.12. 2007	31.12. 2006
- in banks	891 037	182 889
- in other financial institutions	700 550	478 240
- in other non-financial institutions	40 107	9 971
Total	**1 631 694**	**671 100**

(in PLN thousand)

32. Investments in associates

Selected data in associates

as at 31 December 2007

Company	Registered office	Core business	Total assets	Total liabilities	Revenues	Profit/Loss	Proportion of share capital held	Book value of shares
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing house	106 021	17 842	92 026	23 619	34.44	1 875
Pioneer Pekao Investment Management S.A.	Warsaw	Financial intermediary	269 585	22 688	138 252	207 315	49.00	14 995
Xelion Doradcy Finansowi Sp. z o.o.	Warsaw	Financial and insurance support	10 945	4 565	36 258	(13 140)	50.00	25 057
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Real estate management	133 776	44 451	92 135	52 672	25.00	8 858
CPF Management	Tortola. British Virgin Islands	Investment funds management – not operating	-	-	-	-	40.00	-
Cental Poland Fund LLC	Wilmington. Deleware. USA	Financial intermediary	1 746	-	-	(25)	53.19	933
Biuro Informcji Kredytowej S.A.	Warsaw	Credit information services	90 781	46 133	69 398	17 339	30.70	4 775
Bankowe Doradztwo Podatkowe Sp. z o.o.	Cracow	Tax advisory	632	197	910	162	74.00/48.68	37
Polish Banking System S.A. /w likwidacji/		In liquidation	n/d.	n/d.	n/d.	n/d.	48.90	-
PPP Budpress Sp. z o.o. /w likwidacji/		In liquidation	n/d.	n/d.	n/d.	n/d.	36.20	-
Total								**56 530**

(in PLN thousand)

as at 31 December 2006

Company	Registered office	Core business	Total assets	Total liabilities	Revenues	Profit/Loss	Proportion of share capital held	Book value of shares
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing house	106 951	18 651	86 696	21 985	22.96	1 250
Pioneer Pekao Investment Management S.A.	Warsaw	Financial intermediary	400 423	102 009	785 522	182 111	49.00	14 995
Xelion Doradcy Finansowi Sp. z o.o.	Warsaw	Financial and insurance support	24 746	5 227	17 730	(20 905)	50.00	25 057
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Real estate management	226 447	125 968	337 891	49 563	25.00	8 858
CPF Management	Tortola. British Virgin Islands	Investment funds management – not operating	-	-	-	-	40.00	-
Cental Poland Fund LLC	Wilmington. Deleware. USA	Financial intermediary	1 926	-	1	(35)	53.19	932
Total								**51 092**

(in PLN thousand)

Change in shares in associates

Balance as at 31.12.2006	**51 092**
a) increase	5 438
- merger of "Pekao 285"	3 112
- classified as non-current assets held for sale	2 325
- foreign exchange difference	1
b) decrease	-
Balance as at 31.12.2007	**56 530**

Balance as at 31.12.2005	**42 234**
a) increase	8 858
- classified as non-current assets held for sale	8 858
b) decrease	-
Balance as at 31.12.2006	**51 092**

Investments in associates	31.12. 2007	31.12. 2006
- in banks	-	-
- in other financial institutions	42 860	42 234
- in other non-financial institutions	13 670	8 858
Total	**56 530**	**51 092**

As at 31 December 2007 Bank did not have investments in joint ventures

33. Intangible assets

Intangible assets	31.12.2007	31.12.2006
a)intangible assets. including:	**616 508**	**597 050**
- development costs	14 428	27 625
- licenses	419 509	452 850
- itemes indualy the expenses on intangible assets and prepayments on intangible assets	177 819	111 853
- other	4 752	4 722
b) goodwill	**51 675**	**-**
Total	**668 183**	**597 050**

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

The goodwill transferred to Pekao S.A. represents a part of the goodwill that was created in effect of the purchase by Bank BPH S.A. of Pierwszy Komercyjny Bank S.A. (PKBL) w Lublinie and it referres just to those branches of the former PKBL. which have been transferred to the Bank in effect of the Integration of the Banks. The recognized goodwill related to PKBL amounts to 51 675.

(in PLN thousand)

2007	Development costs	Licenses	Other(*)	Total
Gross book value				
Opening balance	**82 578**	**994 820**	**142 257**	**1 219 655**
Additions. including:	985	123 807	86 038	210 830
Merger of "Pekao 285"	-	13 644	2 319	15 963
Acquisition	-	3	178 905	178 908
Other additions	-	-	15 959	15 959
Transfers from investments	985	110 160	(111 145)	-
Disposals. including:	(10 333)	(24 828)	(15 616)	(50 777)
Liquidation	(10 333)	(24 649)	(624)	(35 606)
Other disposals	-	(179)	(14 992)	(15 171)
Closing balance	**73 230**	**1 093 799**	**212 679**	**1 379 708**
Accumulated depreciation				
Opening balance	**54 953**	**541 970**	**14 721**	**611 644**
Merger of "Pekao 285"	-	13 353	2 319	15 672
Amortization	14 182	143 554	2 655	160 391
Liquidation	(10 333)	(24 534)	(571)	(35 438)
Other changes in value	-	(172)	23	(149)
Closing balance	**58 802**	**674 171**	**19 147**	**752 120**
Impairment write-offs				
Opening balance	**-**	**-**	**10 961**	**10 961**
Utworzenie odpisów	-	119	24	143
Other changes in value	-	-	(24)	(24)
Closing balance	**-**	**119**	**10 961**	**11 080**
Net book value				
Opening balance	**27 625**	**452 850**	**116 575**	**597 050**
Closing balance	**14 428**	**419 509**	**182 571**	**616 508**

* Other movements include in particular assets under construction

(in PLN thousand)

2006	Development costs	Licenses	Other(*)	Total
Gross book value				
Opening balance	**70 696**	**904 791**	**120 927**	**1 096 414**
Additions. including:	-	283	130 839	131 122
Acquisition	-	9	130 212	130 221
Other additions	-	274	627	901
Transfers from investments	11 882	93 291	(105 173)	-
Disposals. including:	-	(3 545)	(4 336)	(7 881)
Liquidation	-	(808)	(32)	(840)
Other disposals	-	(2 737)	(4 304)	(7 041)
Closing balance	**82 578**	**994 820**	**142 257**	**1 219 655**
Accumulated depreciation				
Opening balance	**37 925**	**412 833**	**9 608**	**460 366**
Amortization	17 028	132 665	5 241	154 934
Liquidation	-	(795)	(17)	(812)
Other changes in value	-	(2 733)	(111)	(2 844)
Closing balance	**54 953**	**541 970**	**14 721**	**611 644**
Impairment write-offs	-	-	-	
Opening balance	-	-	-	-
Other changes in value	-	-	10 961	10 961
Closing balance	**-**	**-**	**10 961**	**10 961**
Net book value				
Opening balance	**32 771**	**491 958**	**111 319**	**636 048**
Closing balance	**27 625**	**452 850**	**116 575**	**597 050**

* Other movements include in particular assets under construction

As at 31 December 2007 and as at 31 December 2006 Bank did not have amounts of intangible assets whose deed title is restricted.

34. Property. plant and equipment

	31.12.2007	31.12.2006
Property. plant and equipment :		
a) fixed assets. including:	**1 862 708**	**1 350 570**
Land and buildings	1 462 525	1 081 807
Machinery and equipment	345 157	236 754
Means of transport	29 166	19 272
Other property. plant and equipment	25 860	12 737
b) Capital work in progress and prepayments for capital work in progress	**45 716**	**49 234**
Total	**1 908 424**	**1 399 804**

(in PLN thousand)

Year ended 31 December 2007	Land and buildings	Machinery and equipment	Means of transport	Other property. plant and equipment	Total property. plant and equipment
Opening balance as at 1 January 2007	**1 589 500**	**985 469**	**35 749**	**284 302**	**2 895 020**
Increases. including:	703 862	410 234	32 353	103 962	1 250 411
Merger of "Pekao 285"	671 498	276 717	25 558	99 684	1 073 457
Acquisitions	21	-	1	5	27
Transfer from tangibles assets under construction	26 098	130 763	-	4 251	161 112
Other	6 245	2 754	6 794	22	15 815
Decreases. including:	(22 531)	(86 496)	(4 554)	(13 674)	(127 255)
Liquidation and sale	(2 034)	(81 129)	(4 547)	(13 287)	(100 997)
Transfer to non-current assets held for sale	(4 846)	(1 889)	-	(17)	(6 752)
Other	(15 651)	(3 478)	(7)	(370)	(19 506)
Closing balance	**2 270 831**	**1 309 207**	**63 548**	**374 590**	**4 018 176**
Depreciation					
Opening balance as at 1 January 2007	**504 949**	**748 365**	**16 477**	**271 565**	**1 541 356**
Increases. including:	309 697	292 801	18 669	90 431	711 598
Merger of "Pekao 285"	240 855	208 271	12 426	85 085	546 637
Depreciation of the period	60 837	81 630	6 243	5 240	153 950
Other	8 005	2 900	-	106	11 011
Decreases. including:	(8 687)	(85 773)	(4 432)	(13 878)	(112 770)
Liquidation and sale	(1 218)	(80 557)	(4 430)	(13 278)	(99 483)
Transfer to non-current assets held for sale	(2 182)	(1 643)	-	(14)	(3 839)
Other	(5 287)	(3 573)	(2)	(586)	(9 448)
Closing balance	**805 959**	**955 393**	**30 714**	**348 118**	**2 140 184**
Impairment write-downs					
Opening balance as at 1 January 2007	**2 744**	**350**	**-**	**-**	**3 094**
Increases. including:	30	8 713	3 668	612	13 023
Merger of "Pekao 285"	30	8 574	3 668	612	12 884
Decreases	(427)	(406)	-	-	(833)
Closing balance	**2 347**	**8 657**	**3 668**	**612**	**15 284**
Net value					
Opening balance	**1 081 807**	**236 754**	**19 272**	**12 737**	**1 350 570**
Closing balance	**1 462 525**	**345 157**	**29 166**	**25 860**	**1 862 708**

(in PLN thousand)

Year ended 31 December 2006	Land and buildings	Machinery and equipment	Means of transport	Other property. plant and equipment	Total property. plant and equipment
Opening balance as at 1 January 2006	**1 583 325**	**964 741**	**37 751**	**290 766**	**2 876 583**
Increases. including:	32 783	76 704	7 446	5 775	122 708
Acquisitions	27	-	117	111	255
Transfer from tangibles assets under construction	30 856	76 559	97	4 424	111 936
Other	1 900	145	7 232	1 240	10 517
Decreases. including:	(26 608)	(55 976)	(9 448)	(12 239)	(104 271)
Liquidation and sale	(12 266)	(54 265)	(9 447)	(11 446)	(87 424)
Transfer to non-current assets held for sale	(10 074)	(602)	-	(170)	(10 846)
Other	(4 268)	(1 109)	(1)	(623)	(6 001)
Closing balance	**1 589 500**	**985 469**	**35 749**	**284 302**	**2 895 020**
Depreciation					
Opening balance as at 1 January 2006	**454 236**	**726 232**	**19 762**	**275 775**	**1 476 005**
Increases. including:	59 619	76 171	5 788	7 983	149 561
Depreciation of the period	58 342	76 086	5 759	6 838	147 025
Other	1 277	85	29	1 145	2 536
Decreases. including:	(8 906)	(54 038)	(9 073)	(12 193)	(84 210)
Liquidation and sale	(5 507)	(52 620)	(9 073)	(11 413)	(78 613)
Transfer to non-current assets held for sale	(1 953)	(346)	-	(169)	(2 468)
Other	(1 446)	(1 072)	-	(611)	(3 129)
Closing balance	**504 949**	**748 365**	**16 477**	**271 565**	**1 541 356**
Impairment write-downs					
Opening balance as at 1 January 2006	**7 765**	**414**	**-**	**-**	**8 179**
Increases	382	-	-	-	382
Decreases	(5 403)	(64)	-	-	(5 467)
Closing balance	**2 744**	**350**	**-**	**-**	**3 094**
Net value					
Opening balance	**1 121 324**	**238 095**	**17 989**	**14 991**	**1 392 399**
Closing balance	**1 081 807**	**236 754**	**19 272**	**12 737**	**1 350 570**

As at 31 December 2007 assets under construction amounted to PLN 45 552 thousand (as at 31 December 2006 PLN 49 229 thousand).

The amount of damages received and recognized in the profit and loss in relation to fixed assets lost in 2007 was PLN 729 thousand (in 2006 PLN 1 315 thousand).

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

Agreement commitments

As at 31 December 2007 the Bank had agreements with its contractors for the future purchase of intangible assets in amount of PLN 66 104 thousand, including PLN 66 104 thousand in the 2008.

(in PLN thousand)

and of property. plant and equipment in amount of PLN 12 055 thousand. including PLN 12 055 thousand in the 2008 (till the 31 December 2007 the Bank had agreements with its contractors for the future purchase of intangible assets in amount of PLN 55 851 thousand. and of property, plant and equipment in amount of PLN 15 662 thousand).

35. Investment property

The Bank measures investment property using the cost model.

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

Changes in value of the investment property:

	31.12.2007	31.12.2006
Gross value		
Opening balance	**90 194**	**91 190**
Increase of balance	9 823	2 992
Acquisitions of real estate	145	-
Transfer from own real estate	9 047	1 863
Other changes	632	1 129
Decrease of balance	(4 638)	(3 988)
Transfer to assets hold to sale	-	(3 152)
Other changes	(4 639)	(836)
Closing balance	**95 379**	**90 194**
Depreciation write-offs		
Opening balance	**31 624**	**29 432**
Increase of balance	6 587	3 466
Transfer from own real estate	3 687	789
Other changes	546	295
Depreciation	2 354	2 382
Decrease of balance	(7 335)	(1 274)
Transfer to non-current assets held for sale	-	(1 007)
including depreciation	-	(12)
Other changes	(7 335)	(267)
Closing balance	**30 876**	**31 624**
Depreciation write-offs due to loss of value		
Opening balance	**8 654**	**3 588**
Increase	350	5 092
Transfer from own real estate	350	-
Other changes	-	5 092
Decrease	(231)	(26)
Differences in exchange rates	(231)	(26)
Closing balance	**8 773**	**8 654**
Net balance value		
Opening balance	**49 916**	**58 170**
Closing balance	**55 730**	**49 916**

Fair value of investment property as at 31 December 2007 amounted to PLN 66 799 thousand (as at 31 December 2006 amounted to PLN 63 743 thousand). Fair value was made on the basis of independent valuer who holds a recognized and relevant professional qualification.

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

	2007	2006
Income on rental of investment property	3 853	3 715
Direct operational expenses (including repair and maintenance) related to investment property bringing rental income	(802)	(1 004)
Direct operational expenses (including repair and maintenance) related to investment property not bringing rental income	(22)	(129)

(in PLN thousand)

36. Other assets

	31.12.2007	31.12.2006
Prepaid expenses	129 331	10 300
Perpetual usufruct rights	17 620	8 301
Accrued income	31 271	22 653
Other assets	1 695	1 919
Interbank and interbranch settlements	556 895	9 673
Other debtors	1 290 002	356 937
Total	**2 026 814**	**409 783**

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

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

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

The table below presents items of assets held to sale.

Item	31.12.2007	31.12.2006
Buildings	-	29
Means of transport	135	244
Other assets	1 560	6 796
Total	**1 695**	**7 069**

37. Assets used to pledge liabilities

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

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31.12.2007

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

(in PLN thousand)

31.12.2006

Type of transaction	Pledge instrument	Book value of the pledge instrument	Nominal value of the pledge instrument	Value of the liabilities pledged with the pledge instrument
Repo	bonds	716 644	680 368	716 693
Sell-buy-back	bonds	1 642 819	1 573 581	1 645 008
Loan from the Bank Guarantee Fund	bonds	132 356	140 000	-
Lombard Loan	bonds	1 545 547	1 500 000	-

38. Amounts due to Central Bank

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

39. Amounts due to other banks

	31.12.2007	31.12.2006
Current accounts	1 168 399	585 785
Bank deposits and other liabilities	3 299 635	1 100 564
Loans and advances	820 951	57 553
Due in transit	495 952	43 639
Repo transactions	1 083 127	134 896
Interest accrued	16 215	4 562
Total	**6 884 279**	**1 926 999**

The variable interest rate due to banks amounts to PLN 884 436 thousand (as at 31 December 2006: PLN 171 719 thousand). fixed interest rate due to banks amounts to PLN 5 487 675 thousand (as at 31 December 2006: PLN 1 707 079 thousand).

40. Financial liabilities held for trading

	31.12.2007	31.12.2006
Short position in securities	491 382	203 408
Total	**491 382**	**203 408**

(in PLN thousand)

41. Amounts due to customers

	31.12.2007	31.12.2006
Amounts due to corporate customers	**42 275 767**	**20 408 231**
Current accounts and overnight deposits	21 956 454	10 539 081
Time deposits and other liabilities	19 622 995	9 822 834
Due in transit	636 414	21 825
Interest accrued	59 904	24 491
Amounts due to budget entities	**8 465 130**	**4 030 292**
Current accounts and overnight deposits	6 260 322	2 373 512
Time deposits and other liabilities	2 187 383	1 651 664
Due in transit	6 713	1 165
Interest accrued	10 712	3 951
Amounts due to individuals	**35 712 058**	**25 145 968**
Current accounts and overnight deposits	18 061 507	11 474 293
Time deposits and other liabilities	17 569 942	13 610 861
Due in transit	2	4 600
Interest accrued	80 607	56 214
Repo transactions	**2 707 169**	**2 226 759**
Time transactions	2 703 862	2 222 960
Interest accrued	3 307	3 799
Total	**89 160 124**	**51 811 250**

Variable interest rate due to customers as at 31 December 2007 amounts to PLN 49 002 592 thousand (as at 31 December 2006 amounted to PLN 27 525 284 thousand). fixed rate amounts due to customers amounts to PLN 39 359 874 thousand (as at 31 December 2006 PLN 24 169 921 thousand).

42. Debt securities in issue

	31.12.2007	31.12.2006
Bonds convertible into shares	31 978	12
Certificates of deposit	2 049 587	-
Interest accrued	15 505	-
Total	**2 097 070**	**12**

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

Type of secutity	Issue currencyi	Nominal value in PLN ths	Maturity date	Interest terms
Certificates of deposit	EUR	5 215	2009-06-30	Synthetic structure dependent on DJ EuroStoxx
Certificates of deposit	EUR	34 799	2008-12-16	dependent on a basket of 3 crude materials (metals)
Certificates of deposit	EUR	28 663	2011-03-08	dependent on FTSE EPRA and FTSE EPRA Euro indices Zero. DJ EuroSTOXX. Nikkei225. S&P500. HSCE

(in PLN thousand)

Certificates of deposit	EUR	2 421	2011-03-08	Guaranteed interest (2%) + premium interest dependent on indices– FTSE EPRA and FTSE EPRA Euro Zero. DJ EuroSTOXX. Nikkei225. S&P500. HSCE
Type of secutity	**Issue currencyi**	**Nominal value in PLN ths**	**Maturity date**	**Interest terms**
Certificates of deposit	EUR	3 396	2010-09-27	Interest dependent on: DXAEP. SPGTAQUE. SPGTINFE. DJGTT
Certificates of deposit	EUR	23 022	2010-09-27	interest dependent on indices: DXAEP. SPGTAQUE. SPGTINFE. DJGTT
Certificates of deposit	EUR	6 842	2010-11-22	interest dependent on indices S&P 500. FTSE 100. Nikkei 225
Certificates of deposit	PLN	10 000	2008-03-31	interest dependent on: WIBOR 6M
Certificates of deposit	PLN	158 841	2009-01-16	dependent on: equities. basket of 3 asian indicies
Certificates of deposit	PLN	83 001	2009-06-18	dependent on: equities. basket of 3 asian indicies
Certificates of deposit	PLN	35 579	2009-01-16	dependent on: equities. basket of 3 asian indicies
Certificates of deposit	PLN	19 678	2009-06-18	dependent on: equities. basket of 3 asian indicies
Certificates of deposit	PLN	4 510	2009-06-30	dependent on: equities. basket of 3 asian indicies
Certificates of deposit	PLN	184 972	2009-05-18	structure dependent on DJ EuroStoxx 50 index
Certificates of deposit	PLN	144 497	2009-08-03	structure dependent on DJ EuroStoxx
Certificates of deposit	PLN	3 000	2009-05-18	interest dependent on indices: Dow Jones Euro Stoxx Select Dividend 30 Index and Dow Jones Euro Stoxx 50 Price Index
Certificates of deposit	PLN	197 561	2008-12-16	structure dependent on DJ EuroStoxx
Certificates of deposit	PLN	12 000	2008-03-04	dependent on a basket of 3 crude materials (metals)
Certificates of deposit	PLN	158 447	2011-03-08	interest dependent on: EPEU
Certificates of deposit	PLN	13 491	2011-03-08	interest dependent on FTSE EPRA and FTSE EPRA Euro Zero. DJ EuroSTOXX. Nikkei225. S&P500. HSCE
Certificates of deposit	PLN	7 900	2008-07-18	guaranteed interest (4%) + bonus interest dependent on indices – FTSE EPRA oraz FTSE EPRA Euro Zero. DJ EuroSTOXX. Nikkei225. S&P500. HSCE
Certificates of deposit	PLN	13 300	2008-01-28	Wibor 3M
Certificates of deposit	PLN	30 000	2008-10-24	Wibor 6M
Certificates of deposit	PLN	20 000	2008-03-27	Wibor 3M
Certificates of deposit	PLN	9 500	2008-08-22	Wibor 3M
Certificates of deposit	PLN	47 244	2010-09-27	Wibor 6M
Certificates of deposit	PLN	178 321	2010-09-27	interest dependent on: DXAEP. SPGTAQUE. SPGTINFE. DJGTT
Certificates of deposit	PLN	82 401	2010-11-22	interest dependent on: S&P 500. FTSE 100. Nikkei 225 indices
Certificates of deposit	PLN	5 000	2008-01-31	Bonus interest dependent on: WIBOR 6M
Certificates of deposit	PLN	182 151	2008-11-10	interest dependent on DJ EuroStoxx 50
Certificates of deposit	PLN	83 051	2008-12-15	interest dependent on DJ EuroStoxx 50
Certificates of deposit	USD	60 802	2009-01-16	interest dependent on: equities. a basket of 3 asian indices
Certificates of deposit	USD	22 731	2009-06-18	interest dependent on: equities. a basket of 3 asian indices
Certificates of deposit	USD	27 316	2009-01-16	interest dependent on: equities. a basket of 3 asian indices
Certificates of deposit	USD	7 595	2009-06-18	interest dependent on: equities. a basket of 3 asian indices
Certificates of deposit	USD	825	2009-06-30	interest dependent on DJ EuroStoxx 50

(in PLN thousand)

certificates of deposit	USD	56 278	2009-05-18	interest dependent on DJ EuroStoxx

Type of secutity	Issue currencyi	Nominal value in PLN ths	Maturity date	Interest terms
certificates of deposit	USD	29 980	2009-08-03	dependent on a basket of 3 crude materials (metals)
certificates of deposit	USD	56 611	2008-12-16	Dependent on: FTSE EPRA and FTSE EPRA Euro Zero. DJ EuroSTOXX. Nikkei225. S&P500. HSCE
certificates of deposit	USD	26 595	2011-03-08	Interest (guaranteed 4%) + bonus interest dewpendent on – FTSE EPRA and FTSE EPRA Euro Zero. DJ EuroSTOXX. Nikkei225. S&P500. HSCE
certificates of deposit	USD	4 807	2011-03-08	interest dependent on: DXAEP. SPGTAQUE. SPGTINFE. DJGTT
certificates of deposit	USD	7 549	2010-09-27	interest dependent on: DXAEP. SPGTAQUE. SPGTINFE. DJGTT
certificates of deposit	USD	26 683	2010-09-27	interest dependent on: DXAEP. SPGTAQUE. SPGTINFE. DJGTT
certificates of deposit	USD	17 379	2010-11-22	interest dependent on: S&P 500. FTSE 100. Nikkei 225
bonds	PLN	31 846	2008-11-03	Fixed 5.3 %
bonds convertible into shares	PLN	4	2008-01-15	
bonds convertible into shares	PLN	4	2008-12-30	

(in PLN thousand)

Debt securities in issue to maturities:

	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		undefined maturity	Total	
31 December 2007	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
- certificates of deposit	18 363	5.20	41 707	5.45	604 361	3.92	1 400 511	5.67	-			**2 064 942**	5.15
-bonds	4		-		32 124	5.30	-					**32 128**	5.30
Total	**18 367**	**5.20**	**41 707**	**5.45**	**636 485**	**3.99**	**1 400 511**	**5.67**	**-**			**2 097 070**	**5.16**
Including interest	107		-		13 210		2 188		-			**15 505**	

Debt securities in issue to maturities:

31 grudnia 2006	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
- certificates of deposit	-		-		-		-		-	-	-	**-**	-
-bonds	4		-		4		4	-	-		-	**12**	-
Total	**4**		**-**		**4**		**4**		**-**		**-**	**12**	**-**
Including interest	**-**		**-**		**-**		-		-		-	**-**	

(in PLN thousand)

43. Provisions

2007	Provisions for litigation and claims	Provisions for retirement benefits	Provisions for undrawn credit facilities and guarantees issued	Other provisions	Total
Balance as at 1 January 2007	**40 399**	**64 211**	**112 591**	**3 811**	**221 012**
Merger of "Pekao 285"	20 287	25 983	52 419	-	98 689
Provision charges	2 797	23 317	240 472	17 544	284 130
Provision utilization	(2 793)	-	-	-	(2 793)
Provision releases	(8 032)	-	(221 403)	-	(229 435)
Foreign exchange differences	1 731	-	2 082	-	3 813
Other changes	(418)	-	-	-	(418)
Balance as at 31 December 2007	**53 971**	**113 511**	**186 161**	**21 355**	**374 998**

2006	Restructuring provision	Provisions for litigation and claims	Provisions for retirement benefits	Provisions for undrawn credit facilities and guarantees issued	Other provisions	Total
Balance as at 1 January 2006	4 590	19 655	60 443	20 325	-	105 013
Provision charges	-	24 083	3 768	189 218	3 811	220 880
Provision utilization	-	(4 813)	-	-	-	(4 813)
Provision releases	-	(761)	-	(95 883)	-	(96 644)
Foreign exchange differences	-	(56)	-	(1 069)	-	(1 125)
Other changes	(4 590)	2 291	-	-	-	(2 299)
Balance as at 31 December 2006	**-**	**40 399**	**64 211**	**112 591**	**3 811**	**221 012**

44. Other liabilities

	31.12.2007	31.12.2006
Deferred income	166 920	94 875
Holiday pay accrual	49 739	32 304
Other accruals	231 979	184 208
Provision for administrative costs	104 467	50 616
Other costs to be paid	33 844	6 978
Other creditors	1 242 434	452 543
Liabilities due to settlement of merger with Pekao 285	594 765	-
Interbank and interbranch settlements	508 068	621 279
Total	**2 932 216**	**1 442 806**

45. Employee benefits

Bank Pekao S.A. employee share programs

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

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

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

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

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

<table>
<tr><th></th><th colspan="2">Program based on F-share issue</th><th colspan="2">Program based on G-share issue</th></tr>
<tr><td>Expiry date</td><td colspan="2">31 December 2010</td><td colspan="2">31 December 2012</td></tr>
<tr><td>Realization price (in PLN)</td><td colspan="2">108.37</td><td colspan="2">123.06</td></tr>
<tr><td>Number of options</td><td>415 000</td><td>415 000</td><td>415 000</td><td>415 000</td></tr>
<tr><td rowspan="2">Criteria to rights purchase</td><td colspan="2">1. Executive of individual purposes in confines of the MBO* program during the 2003 year.
2. Remaining under contract of employment within Bank's capital group employee as at the date of option rights exercised.</td><td colspan="2">1. Executive of individual purposes in confines of the MBO* program during the 2004 year.
2. Remaining under contract of employment within Bank's capital Group employee as at the date of option rights exercised.</td></tr>
<tr><td>3. Realization of assumed ROE for 2004</td><td>3. Realization of assumed ROE for 2005</td><td>3. Realization of assumed ROE for 2006</td><td>3. Realization of assumed ROE for 2007</td></tr>
<tr><td>Fair Value as at 31 December 2007 (in PLN thousand)</td><td>6 462</td><td>6 775</td><td>7 849</td><td>6 077</td></tr>
<tr><th colspan="5">Assumptions of the fair value model adopted on the day of granted rights:</th></tr>
<tr><td>Dividend rate (%)</td><td colspan="2">4.27</td><td colspan="2">5.12</td></tr>
<tr><td>Volatility index (%)</td><td colspan="2">31.75</td><td colspan="2">31.75</td></tr>
<tr><td>Risk-free interest rate (%)</td><td>5.33</td><td>5.41</td><td>6.66</td><td>6.70</td></tr>
<tr><td>Foreseen option validity period (in years)</td><td>4.76</td><td>5.26</td><td>6.18</td><td>6.68</td></tr>
<tr><td>Weighted average of stock price (in PLN)</td><td colspan="2">112.50</td><td colspan="2">125.00</td></tr>
</table>

(in PLN thousand)

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

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

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

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

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

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

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

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

(*)The right to execute the options is subject to fulfillment specific conditions in the future.

The UniCredit Group incentive program

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

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

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

(in PLN thousand)

- Effectively compete in the international employment market.

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

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

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

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

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

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

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

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

46. Operational lease

Operational lease receivables

Bank as a lessor

The Bank is an operating lease lessor of buildings being classified as investment properties.

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

	31.12.2007	31.12.2006
Below 1 year	4 352	5 895
From 1 to 5 years	4 502	6 214
Over 5 years	2 117	2 213
Total	**10 971**	**14 322**

The operating lease payments recognized as income in 2007 amounted to PLN 16 528 thousand. (in 2006 amounted to PLN 19 163 thousand).

(in PLN thousand)

Bank as a lessee

The Bank is an operating lease lessee of buildings.

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

	31.12.2007	31.12.2006
Below 1 year	398 095	64 373
Over 1 to 5 years	216 557	114 732
Over 5 years	112 439	55 368
Total	**727 091**	**234 473**

The operating lease payments recognized as expense in 2007 amounted to PLN 110 126 thousand. (in 2006 amounted to PLN 91 904 thousand).

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

Finance lease

The Bank has entered units as lessee on vehicles with a subsidiary entity Pekao Leasing Sp. z o.o. and BPH Auto Finance S.A. a subsidiary from BPH PBK Leasing S.A. . on vehicles.

The agreements give to the Bank an option to purchase the assets subject to the leases after the expiry of the lease.

The book value of assets a subject of finance leases as at 31 December 2007 was PLN 27 422 thausand and as at 31 December 2006 as at was PLN 15 339 thousand.

The amount of future minimum lease payments under non-cancelable finance leases can be summarized as follows:

	31.12.2007	31.12.2006
Below 1 year	10 985	5 290
Over 1 to 5 years	16 437	10 049
Over 5 years	-	-
Total	**27 422**	**15 339**

47. Contingent liabilities

Litigation

As at 31 December 2007 the number of the legal proceedings in courts. appropriate bodies of concerning the liabilities of the Bank was 715 the total value of them was PLN 777 189 thousand (as at 31 December 2006 there were 407 court proceedings amounting on PLN 970 538 thousand).

As at 31 December 2007 Bank made a reserve on contingent liabilities being under the court sentence due to the Bank. which in law's opinion are under the risk of funds outflow out of the obligation fulfillment. Amount of the reserves as at 31 December 2007 was PLN 53 971 thousand (as at 31 December 2006 PLN 40 399 thousand).

As regards all other significant proceedings in progress against the Bank as at 31 December 2007. the risk of cash outflow is remote.

Financial obligations granted

	31.12.2007	31.12.2006

Financial liabilities granted:	34 314 599	17 166 021
- towards financial entities	2 726 872	3 763 975
- towards non-financial entities	29 315 970	12 615 615
- towards the budget	2 271 757	786 431
Including: granted irrevocable contingent liabilities and commitments	33 470 402	16 948 460

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

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

Guarantees liabilities granted

	31.12.2007	31.12.2006
1) Liabilities granted towards financial entities:	267 553	43 430
- guarantees	245 265	32 213
- confirmed export letters of credit	22 288	11 217
2) Liabilities granted towards non-financial entities:	3 871 799	2 217 477
- guarantees	3 871 752	2 217 477
- sureties	47	-
3) Liabilities granted towards the budget:	193 884	41 638
- guarantees	193 884	38 488
	-	3 150
Total	**4 333 236**	**2 302 545**

Sub issue program

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

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

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

(in PLN thousand)

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

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

48. Share capital

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

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

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

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

(in PLN thousand)

49. Reserves. prior and current year profit

	31.12.2007	31.12.2006
Reserves:		
Supplementary capital	9 252 555	1 585 192
Share premium	9 063 248	1 395 885
Other	189 307	189 307
Revaluation reserve	(278 736)	(14 586)
Revaluation of the portfolio of financial assets available for sale	(280 829)	(18 051)
Deferred tax	52 810	2 910
Revaluation of the portfolio of hedging instruments	(61 776)	-
Deferred tax	11 737	-
Other	(678)	555
General banking risk fund	1 237 850	1 137 850
Brokerage activity fund	15 000	-
Other reserve capital	1 855 533	3 992 997
Bonds convertible on shares –capital item	27 715	23 365
Total reserves	**12 109 917**	**6 724 818**
Prior year profit (loss) attributable to equity holders of the Bank	-	-
Profit for the year attributable to equity holders of the Bank	2 006 600	1 728 539
Total other capital. reserves and profit for the period and for the year ended	**2 006 600**	**1 728 539**

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

50. Additional information for the cash flow statement

Cash and cash equivalents

Balance items	31.12.2007	31.12.2006
Cash. amounts due from Central Bank*	3 336 553	2 214 434
Receivables from banks up to 3 month	13 477 645	8 362 971
Financial resources and equivalents of financial resources presented in the cash flow statements	**16 814 198**	**10 577 405**

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

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

51. Transactions with related parties

The Bank is a parent entity of Capital Group of Bank Pekao S.A. UniCredito Italiano S.p.A. is a dominant entity.

Below all subsidiaries are listed in the following table:

(in PLN thousand)

Entity name	Registering body	Percentage participation in the capital	
		31.12.2007	31.12.2006
UniCredit Bank Ltd. (ex. Bank Pekao (Luck. Ukraine) Ltd.)	National Bank of Ukraine. National Bank Register. No. 265	100.00	97.57
Centralny Dom Maklerski Pekao S.A.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100.00	100.00
Pekao Fundusz Kapitałowy Sp. z o.o.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	100.00
Pekao Leasing Sp. z o.o.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100.00	100.00
Pekao Faktoring Sp. z o.o.	District Court for the city of Lublin. XI Commercial Department of the National Court Registry	100.00	100.00
Pekao Pionier Powszechne Towarzystwo Emerytalne S.A.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	65.00	65.00
Drukbank Sp. z o.o.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	100.00
Centrum Kart S.A.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	100.00
Pekao Financial Services Sp. z o.o.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100.00	100.00
Pekao Access Sp. z o.o.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	-	55.26
BPH Bank Hipoteczny S.A.	District Court for the capital city of Warsaw. XIX Commercial Department of the National Court Registry	100.00	-
BPH PBK Leasing S.A.	District Court for the capital city of Warsaw. XIX Commercial Department of the National Court Registry	80.10	-
Finanse plc	Rejestr Firm dla Anglii i Walii	100.00	-
Final Holding Sp. z o. o.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100.00	-
BPH Real Estate S. A.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	-
Centrum Usług Księgowych Sp. z o. o.	District Court for the capital city of Kraków-Śródmieście. XI Commercial Department of the National Court Registry	100.00	-
PBK Property Sp. z o. o. w likwidacji	District Court for the capital city of Warsaw. XVI Commercial Department of the National Court Registry	100.00	-
Centrum Bankowości Bezpośredniej Sp. z o. o.	District Court for the capital city of Kraków-Śródmieście. XI Commercial Department of the National Court Registry	98.00	-
SARL Pekao Immobilier	Chambre de commerce	-	100.00

Information on subsidiaries and related and associated entities is provided in Note 31 and 32.

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

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

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

Members of the Bank's Management and entities capitally and organize related thereto may use lending facilities offered by the Bank on standard terms and conditions applied by the Bank. In particular. the Bank may not offer such individuals or entities better interest rates for lending facilities.

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

Standard credit procedures are applied to entities associated with the Bank. and transaction decisions are made exclusively from the Bank's Head Office level.

(in PLN thousand)

Transactions with related entities as at 31.12.2007:

Entity name	Dues from loans and advances	Securities	Financial derivatives contracts	Other dues from	Dues to loans and advances	Financial derivatives contracts	Other dues to
Group parent company							
UniCredito Italiano S.p.A.	1 589 380	-	23 985	-	592 901	18 541	13 754
Entities of UniCredito Italiano Group's excluding entities of Pekao S.A. Group	2 360 425	-	397 440	283 162	2 081 909	83 316	637 161
Subsidiaries							
UniCredit Bank Ltd. (d. Bank Pekao (Ukraina) Ltd.)	881 099	-	-	149	1 204	-	224
Pekao Leasing Sp. z o.o.	884 569	-	77	736	88	122	15 781
Pekao Faktoring Sp. z o.o.	505 961	-	-	-	2 489	-	-
Centralny Dom Maklerski S.A.	-	-	-	26 804	803 495	-	3 928
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	-	64 966	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	175	14 578	-	-
Drukbank Sp. z o.o.	-	-	-	-	8 462	-	-
Centrum Kart S.A.	-	-	-	-	22 289	-	7 458
Pekao Financial Services Sp. z o.o.	-	-	-	-	9 484	-	-
BPH Bank Hipoteczny S.A.	183 835	211 664	746	-	10 939	28 386	-
BPH PBK Leasing S.A.	247 327	107 733	-	-	2 912	-	8 537
PBK Property Sp. z o.o.	-	-	-	-	3 112	-	-
Final Holding Sp. z o.o.	-	-	-	-	189	-	-
BPH Real Estate S.A.	-	-	-	-	38	-	-
Centrum Usług Księgowych Sp. z o.o.	-	-	-	-	32	-	-
Associates							
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	-	89 157	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	-	3 047	-	-
Pioneer Pekao Investment	-	-	-	-	214 999	-	-

(in PLN thousand)

Management S.A.							
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	26 162	-	-
Bankowe Doradztwo Podatkowe Sp. z o.o.	-	-	-	-	53	-	-
Key managing Staff of the Bank or it's Parent Company	**12 376**	**-**	**-**	**-**	**10 415**	**-**	**-**
Total	**6 664 972**	**319 397**	**422 248**	**311 026**	**3 962 921**	**130 365**	**686 843**

(in PLN thousand)

Transactions with related entities as at 31.12.2006

Entity name	Dues from loans and advances	Financial derivatives contracts	Other dues from	Dues to loans and advances	Financial derivatives contracts	Other dues to
Group parent company						
UniCredito Italiano S.p.A.	2 311 422	14 179	83	2 330	18 074	29 068
Entities of UniCredito Italiano Group's excluding entities of Pekao S.A. Group	931 397	12 252	45 666	163 592	28 070	573
Subsidiaries						
UniCredit Bank Ltd. (d. Bank Pekao (Ukraina) Ltd.)	114 740	-	-	-	-	158
Pekao Leasing Sp. z o.o.	876 740	20	-	914	13	12 834
Pekao Faktoring Sp. z o.o.	284 938	-	-	814	-	12
Centralny Dom Maklerski S.A.	-	70	10 871	1 326 364	-	19 708
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	41 618	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	355	11 507	-	-
Drukbank Sp. z o.o.	-	-	-	705	-	-
Centrum Kart S.A.	-	-	123	24 544	-	6 591
Pekao Financial Services Sp. z o.o.	-	-	-	9 037	-	-
Pekao Access Sp. z o.o.	-	-	-	97	-	-
Associates			**-**			**-**
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	121 908	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	16 576	-	-
Pioneer Pekao Investment Management S.A.	-	-	83	107 414	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	9	-	-
Key managing Staff of the Bank or it's Parent Company	**4 504**	**-**	**-**	**6 743**	**-**	**-**
Other	-		-	41	-	-
Total	**4 523 741**	**26 520**	**57 181**	**1 834 213**	**47 157**	**68 944**

(in PLN thousand)

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

Entity name	Income interest	Interest expense	Fee and commission income	Fee and commission expense	Other income	Other expense
Group parent company	**12 096**	**(155)**	**384**	**(1 452)**	**414**	**(11 864)**
Entities of UniCredito Italiano Group's excluding entities of Pekao S.A. Group	**39 741**	**(24 058)**	**599 397**	**(7 293)**	**58 834**	**(29 722)**
Entities of Pekao S.A. Group's Subsidiaries						
UniCredit Bank Ltd.	12 362	(28)	2 700	(376)	-	-
Centralny Dom Maklerski Pekao S.A.	1	(42 969)	3 549	(73)	3 850	(648)
Pekao Leasing Sp. z o. o.	43 678	(786)	122	-	332	(52)
Pekao Faktoring Sp. z o. o.	14 498	(14)	946	(1)	56	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(498)	3 028	-	65	-
Pekao Fundusz Kapitałowy Sp. z o. o.	-	(2 110)	3	-	15	-
Centrum Kart S.A.	-	(943)	24	-	1 196	(40 858)
Drukbank Sp. z o. o.	-	(286)	1	-	-	-
Pekao Financial Services Sp. z o. o.	-	(311)	8	(39)	-	-
Pekao Access Sp. z o. o.	-	(1)	2	-	-	-
BPH Bank Hipoteczny S.A./*	1 495	(7)	4	-	-	(1 020)
BPH PBK Leasing S.A./*	-	(1)	-	-	-	-
BPH Leasing S.A./*	953	(3)	14	-	163	-
BPH Auto Finance S.A./*	589	(5)	10	-	-	(51)
Centrum Bankowości Bezpośredniej Sp. z o.o./*	-	-	-	-	67	-
Metropolis Sp z o.o./*	-	-	-	-	4	-

*/ data since the spin-off day till 31.12.2007

(in PLN thousand)

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

Entity name	Income interest	Interest expense	Fee and commission income	Fee and commission expense	Other income	Other expense
Associates						
Pioneer Pekao Investment Management S.A.	-	(6 950)	1 138	-	-	-
Xelion Doradcy Finansowi Sp. z o. o.	-	(355)	34	(302)	116	-
Krajowa Izba Rozliczeniowa S.A.	-	(455)	6	-	-	(4 949)
Pirelli Pekao Real Estate Sp z o.o.	-	(3 442)	50	(5)	5	(1 325)
Bankowe Doradztwo Podatkowe Sp. z o.o./*	-	-	-	-	3	-
Total entities of Pekao S.A. Group's	**73 576**	**(59 164)**	**11 639**	**(796)**	**5 872**	**(48 903)**
Key managing Staff of the Bank or it's Parent Company	591	(203)	7	-	-	(24)
Total related entities	**126 004**	**(83 580)**	**611 427**	**(9 541)**	**65 120**	**(90 513)**

*/ data since the spin-off day till 31.12.2007

(in PLN thousand)

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

Entity name	Income interest	Interest expense	Fee and commission income	Fee and commission expense	Other income	Other expense
Group parent company	**4 368**	**(900)**	**249**	**(1 455)**	**925**	**(11 076)**
Entities of UniCredito Italiano Group's excluding entities of Pekao S.A. Group	**35 492**	**(7 985)**	**409 372**	**(143)**	**34 940**	**(31 395)**
Entities of Pekao S.A. Group's						
Subsidiaries						
UniCredit Bank Ltd. (d. Bank Pekao (Ukraina) Ltd.)	4 612	(81)	1 114	(871)	-	-
Centralny Dom Maklerski Pekao S.A.	7	(37 298)	3 245	(36)	3 363	(96)
Pekao Leasing Sp. z o. o.	32 011	(651)	198	-	328	(6)
Pekao Faktoring Sp. z o. o.	12 879	(4)	901	(1)	46	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(1 471)	2 753	-	5	-
Pekao Fundusz Kapitałowy Sp. z o. o.	-	(1 295)	2	-	15	-
Centrum Kart S.A.	-	(976)	24	-	1 218	(39 569)
Drukbank Sp. z o. o.	-	(21)	1	-	2	-
Pekao Financial Services Sp. z o. o.	-	(338)	14	(33)	-	-
Pekao Development Sp. z o. o.	267	(197)	5	(7)	1	(324)
Pekao Access Sp. z o. o.	-	(35)	6	-	-	-
Fabryka Maszyn w Janowie Lubelskim Sp. z o.o.	106	-	19	-	-	-

(in PLN thousand)

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

Entity name	Income interest	Interest expense	Fee and commission income	Fee and commission expense	Other income	Other expense
Associates						
Pioneer Pekao Investment Management S.A.	-	(2 599)	667	-	-	-
Xelion Doradcy Finansowi Sp. z o. o.	-	(1 054)	29	(229)	176	-
Hotel Jan III Sobieski Sp. z o. o.	6 395	(80)	46	-	6	(4 125)
Krajowa Izba Rozliczeniowa S.A.	-	(144)	4	-	-	(4 733)
Pirelli Pekao Real Estate Sp z o.o. (d. Pekao Development Sp. z o.o.)**	3 354	(1 080)	3 178	-	5	(1 127)
Fabryka Sprzętu Okrętowego MEBLOMOR S.A.	-	-	2	-	-	-
Total entities of Pekao S.A. Group's	**59 631**	**(47 324)**	**12 208**	**(1 177)**	**5 165**	**(49 980)**
Key managing Staff of the Bank or it's Parent Company	261	(63)	3	-	-	-
Total related entities	**99 752**	**(56 272)**	**421 832**	**(2 775)**	**41 030**	**(92 451)**

**/ data for II. III and IV quarter 2006

(in PLN thousand)

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

In 2007 an issue capital was increased for UniCredit Bank Ltd. (before Bank Pekao (Ukraine) Ltd.) for PLN 148 352 thousand.

Management Board and Supervisory Board Remuneration

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

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

(**) The value of Share-based payments was established as part of Payroll/Employee Expenses recognized by the Bank. according to IFRS 2 during the reporting period. representing the amortization of initial fair value of options (pre-emptive rights to take up the Bank's shares) pertaining to options granted to members of the Management Board of the Bank. Detailed information about the employee share program. including the method of the options fair value estimation are presented in the note 45 "Employee benefits".

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

52. Repo and reverse repo transactions

The Bank increases it's funds by sales transactions with the repurchase promise granted (repo and sell-buy back) at the same price increased by interests.
Securities treated as repo and sell-buy back transactions are not excluded from the balance sheet due to the fact that the Bank holds all the benefits and the risk deriving from these assets.

	31.12.2007		31.12.2006	
	Assets fair value	Balance value liabilities	Assets fair value	Balance value liabilities
Financial assets held for trading				
- up to 1 month	1 533 099	1 533 148	69 439	69 644
Total financial assets held for trading	**1 533 099**	**1 533 148**	**69 439**	**69 644**
Financial assets at fair value through profit or loss				
- up to 1 month	633 869	632 553	-	-
Total financial assets at fair value through profit or loss	**633 869**	**632 553**	**-**	**-**
Financial assets available for sale				

- up to 1 month	1 616 501	1 619 852	1 974 907	1 977 545
- between 1and 3 months	5 823	5 821	315 117	314 512
Total financial assets available for sale	**1 622 324**	**1 625 673**	**2 290 024**	**2 292 057**
Total	**3 789 292**	**3 791 374**	**2 359 463**	**2 361 701**

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

	31.12.2007		31.12.2006	
	Net value assets	Hedged assets fair value	Net value assets	Hedged assets fair value
Amounts due from banks				
- up to 1 month	2 567 132	2 556 340	506 373	527 238
Loans and receivables from customers				
- up to 1 month	733 467	732 053		
Total	**3 300 599**	**3 288 393**	**506 373**	**527 238**

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

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

The Social Benefits Fund Act of 4th March 1994. with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank employing over 20 staff have created the ZFŚŚ Funds and are making periodic charges to the ZFŚŚ Funds in amounts prescribed by the Act. Apart that. the Company contributed to the Fund in kind of fixed assets. The aim of the ZFŚŚ Funds is financing of social activity in benefit of the employees and subsidizing the social premises. The liabilities of the ZFŚŚ Funds represent the cumulated value of charges made by the Company towards the ZFŚŚ Funds decreased by the amount of non-returnable expenditures of the ZFŚŚ Funds.

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

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

	31.12.2007	31.12.2006
Advances to employees	41 626	38 940
Cash in the current account	7 829	1 489
Assets of ZFSS	**49 455**	**40 429**
Value of ZFSS	**49 455**	**40 429**

	2007	2006
Charges made towards the ZFSS	16 146	15 125

54. Events after the balance sheet date

The Bank's share capital increase

In January 2008. the share capital of the Bank was increased by the amount of PLN 237 993. through issue of 237 993 G series bearer shares. The share capital increase is an effect of embracing of the G series shares by the individuals entitled to that in the framework of the motivation program as described in the note.45

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

Agreement for sale of corporate business of CDM Pekao S.A.

On 28 January 2008, Centralny Dom Maklerski Pekao S.A. („CDM Pekao S.A."), a fully owned subsidiary of the Bank and UniCredit CA IB Polska S.A. signed a sale agreement of part of CDM Pekao S.A. enterprise offering brokerage services for institutional clients and investment banking services, for the amount of PLN 450 million. The sale price may be subject to an adjustment on the basis of audited results of the company for 2007. The organized part of enterprise subject to sale generates approximately 12% of the net profit of CDM Pekao S.A.

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

Increase of share capital of UniCredit Bank Ltd.

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

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

Signatures of all members of the Management Board

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