Report on the activities of the Bank Pekao S.A. Group for the year 2008

Warsaw, March 2009

1 Highlights

(PLN million)

	2008**	2007 combined data*	2007**	2006	2005
Income statement					
Total income	8,322.7	8,354.6	5,398.2	4,657.9	4,413.3
Costs	(3,787.7)	(3,821.8)	(2,753.6)	(2,347.0)	(2,346.4)
Operating income before provisions	4,535.0	4,532.8	2,644.6	2,310.9	2,066.9
Pre-tax profit	4,346.0	4,365.6	2,605.2	2,179.5	1,873.6
Net profit attributable to equity holders of the Company	3,528.0	3,547.2	2,155.5	1,787.5	1,537.7
Balance sheet					
Total assets	131,940.8	124,096.2	124,096.2	67,703.7	61,972.0
Loans and advances to customers***	82,512.0	69,698.5	69,698.5	32,747.3	28,975.7
Amounts due to customers	90,889.0	89,944.1	89,944.1	51,793.6	46,847.9
Shareholders' equity	16,036.4	14,747.3	14,747.3	8,892.6	8,422.7
Employment and network					
Total number of employees	21,992	22,926	22,926	15,647	15,942
Total number of outlets (Bank Pekao S.A. and UniCredit Bank Ltd.)	1,102	1,100	1,100	795	780
Total number of ATMs (Bank Pekao S.A. and UniCredit Bank Ltd.)	2,004	1,885	1,885	1,262	1,244
2008 Financial credibility ratings			Individual rating	Short-term rating	Long-term rating
Fitch Ratings			B/C	F1	A
Standard and Poor's				A-1	A
Moody's Investors Service Ltd.			BFSR: C	P-1	A2/Aa3

* In order to assure better comparability with 2008, selected data for 2007 income statement are presented as combined data of the Bank Pekao S.A. Group and Pekao285, i.e. the part of Bank BPH SA merged with Bank Pekao S.A. as a result of the Spin-off of Bank BPH SA as registered on November 29, 2007. The combined data were not audited.

** 2008 and 2007 data include continuing and discontinuing operations.

*** Including promissory notes eligible for rediscounting at the Central Bank and receivables under leasing to customers.

	2008**	2007 combined data*	2007**	2006	2005
Profitability ratios					
Return on average equity (ROE)	23.5%	24.7%	23.7%	21.1%	19.2%
Net interest margin***	4.3%	3.9%	4.1%	4.2%	4.4%
Non-interest income / total income	44.2%	48.0%	49.3%	48.7%	46.9%
Costs / income	45.5%	45.7%	51.0%	50.4%	53.2%
Balance sheet structure ratios					
Net loans / balance sheet total	62.5%	56.2%	56.2%	48.4%	46.8%
Debt securities / balance sheet total	17.1%	19.8%	19.8%	25.1%	30.3%
Deposits / balance sheet total	68.9%	72.5%	72.5%	76.5%	75.6%
Loans / deposits	90.8%	77.5%	77.5%	63.2%	61.9%
Equity / balance sheet total	12.2%	11.9%	11.9%	13.1%	13.6%
Capital adequacy ratio	**12.2%**	**12.1%**	**12.1%**	**16.5%**	**19.5%**

* In order to assure better comparability with 2008, the profitability ratios for 2007 based on combined data of the Bank Pekao S.A. Group and Pekao285, i.e. the part of Bank BPH SA merged with Bank Pekao S.A. as a result of the Spin-off of Bank BPH SA as registered on November 29, 2007. The combined data were not audited.

** 2008 and 2007 data include continuing and discontinuing operations.

*** Excluding buy-sell-back-and sell-buy-back transactions.

2 Summary

In order to provide better comparability, the financial results in respect of 2007 (hereafter referred to as „combined data” or „combined result”) are presented as a „combination” of the financial results of the Bank Pekao S.A. Group and Pekao285, i.e. that part of Bank BPH SA which was merged with Bank Pekao S.A. as a result of the Spin-off of Bank BPH SA as registered on November 29, 2007.

The Bank Pekao S.A. Group's net profit attributable to equity holders generated in 2008 amounted to PLN 3,528.0 million with operating income amounting to PLN 4,535.0 million, both on a similar level compared to 2007, when combined net profit and combined operating income amounted to PLN 3,547.2 million and PLN 4,532.8 million respectively.

Results achieved in 2008 confirm the high profitability of the Bank Pekao S.A. Group measured by return on average equity (ROE), which stood at 23.5% in 2008. The strength of the capital structure of the Bank Pekao S.A. Group is reflected by a capital adequacy ratio at the level of 12.2% at the end of 2008 in spite of a growth of loan volumes - it allows further sound and stable development of the Group's activity.

The positive results of 2008 were achieved in an environment where, since the beginning of the year, market conditions remained under pressure from the difficult situation in the international financial markets and on the Warsaw Stock Exchange, negatively impacting the valuation of mutual funds assets and redemptions of mutual funds units.

The Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA constitutes only 7.2% of total loans.

- In 2008, the total income amounted to PLN 8,322.7 million, slightly lower than combined income in 2007 (by PLN 31.9 million i.e. 0.4%), with net interest income amounting to PLN 4,642.4 million, growing by PLN 299.6 million (6.9%) compared to combined net interest income in 2007, partially offsetting the decrease in net fee and commission income.
- The net fee and commission income amounted to PLN 2,341.8 million in 2008, decreasing by PLN 633.0 million (21.3%) compared to combined income in 2007, affected by adverse market conditions impacting commissions on investment products and brokerage fees for ca. PLN 666.4 million, while net fee and commission income excluding commission on investment products and brokerage fees increased by PLN 33.4 million (1.8%).
- Total overhead costs (including depreciation) in 2008 amounted to PLN 3,787.7 million, PLN 34.1 million (0.9%) lower than combined overhead costs in 2007.
- Impairment losses on loans and advances amounted to PLN 293.7 million and were PLN 26.4 million (8.2%) lower than combined impairment losses on loans and advances in 2007 thanks to effective credit risk management. As a result of positive dynamic of loans volume and the sale of non-performing receivables transaction completed in September 2008, the ratio of impaired receivables to total receivables decreased from 7.7% to 5.5%.
- At the end of 2008, the total volume of liabilities to customers (including customer deposits, structured certificates of deposits, repo and sell-buy-back transactions) amounted to PLN 91,902.0 million, PLN 707.6 million (0.8%) higher than at the end of 2007.

  The total volume of deposits of retail customers and structured certificates of deposits amounted to PLN 42,893.8 million and was PLN 4,410.2 million (11.5%) higher than at the end of 2007. The total volume of corporate customer deposits and repo and sell buy back transactions amounted to PLN 49,008.2 million and were PLN 3,702.6 million lower than at the end of 2007. Of that, ca. PLN 2.3 billion was due to the budgetary sector and non-banking financial institutions.
- The volume of loans at the end of 2008 amounted to PLN 85,323.4 million, increasing by PLN 11,491.2 million (15.6%) since the beginning of the year thanks to both the retail and corporate segments. The total volume of retail loans amounted to PLN 26,876.1 million and the volume of corporate loans amounted to PLN 58,447.3 million at the end of 2008.

3 External Activity Conditions

Key Economic Trends

Poland's macroeconomic landscape in 2008 was under the influence of two opposing sets of factors – on the one hand the favourable business climate seen in 2007 and in the first half of 2008, and on the other – the global risk factors materialising in the second half of 2008. Driven by the consistently strong domestic demand and high level of investment in the first half of 2008, GDP growth remained fairly robust. With GDP growing at the rate of 4.8%, Poland was among Europe's fastest developing economies. However, the second half of 2008 and especially the fourth quarter of 2008 saw a marked deterioration in Poland's key economic indicators and its growth prospects, as the global financial crisis spilled over into real economy. Business activity suffered particularly from the severe slowdown affecting the eurozone, i.e. the countries that are Poland's major trade partners.

Although mid-term risks resulting from inflationary pressures and second-round effects were clearly intensifying in the first half of 2008, they noticeably receded as the economic outlook for Poland and for other countries darkened, with the falls in oil and commodity prices on the global markets contributing significantly to reducing those risks. Poland's current-account deficit in 2008 was progressively widening. Moreover, in the last months of the year, the share of direct investment inflows as a source of financing of the deficit materially decreased. As business activity was brisk, the health of the public finance sector remained unaffected, albeit the anticipated slowdown implies that consolidation of the state budget expenses at the assumed level may prove difficult.

The Polish financial market was highly volatile over 2008. In the first half of 2008, the zloty kept appreciating against the main currencies, following optimistic economic forecasts and the rising interest rates in Poland. However, as the financial crisis, which began on the U.S. mortgage market, intensified, the growing risk aversion worldwide drained the Polish market of long- and short-term investment capital. Fears of a deep economic slowdown combined with the easing of inflationary pressures towards the year's end persuaded the rate setters to embark on a rate-cutting cycle, which will be continued into 2009.

Economic Growth

According to preliminary estimates of the Polish Central Statistics Office (GUS), in 2008 the Gross Domestic Product (GDP) rose by 4.8%. Its growth was chiefly driven by private consumption and investment (which increased by 5.4% and 7.9%, respectively).

A strong growth in household incomes and corporate earnings in the first half of 2008, as well as an improvement in the budget position, were all fuelled by the robust GDP momentum in the period. The main engine of that growth in the first half of 2008, alongside high domestic demand, was an over 15% rise in investment. However, the third quarter of 2008 witnessed a marked slowdown in investment growth, which fell to 3.5%, as businesses became more reluctant to spend and the sales prospects(especially exports) worsened.

GDP momentum in the successive quarters of 2008 mirrored the overall economic downswing in Poland. In the first two quarters, GDP rose respectively by 6.0% and 5.8% year on year. However, in the second half of 2008, when the cyclical economic downturn was augmented by the impact of the global crisis, the pace of GDP growth significantly slackened to 4.8% year on year in the third quarter of 2008 and to less than 3% year on year in the fourth quarter of 2008.

Inflation and Interest Rates

The first half of 2008 saw a steady build-up of inflationary pressures, mainly on the back of the spiralling prices of food, oil and commodities, that was a world-wide phenomenon. Inflation in 2008 overshot the target range set by the National Bank of Poland, having peaked in August to the level of 4.8%. Consequently, the Monetary Policy Council continued the round of rate rises started in April 2007, which contributed to increasing the cost of credit by 100 basis points – the reference rate was raised from 5.0% at the year's beginning to 6.0% at the end of the first half of 2008.

As global commodity prices declined and the growth of food prices stalled, the inflationary pressures were gradually relieved. Concerns that the demand gap may quickly widen as a result of a more severe than expected economic slowdown in Poland and abroad, prompted the Monetary Policy Council to start implementing a rate-cutting cycle in November and December 2008. At the end of 2008, the reference rate stood again at 5.0%.

Less optimistic economic growth estimates coupled with a downward revision of the forecast of 2009 inflation give reason to expect that the National Bank of Poland will continue to cut rates. This caused a fall in the entire yield curve of treasury bonds in the fourth quarter of 2008, with a steeper decline in yields at the year's end. Expectations of further rate cuts in Poland added to downward pressure on the strength of the zloty against the main currencies.

Foreign Sector

In 2008, Poland's current-account deficit widened on the back of an aggravated foreign trade imbalance and income deficit. A substantial weakening of foreign demand was reflected in the balance of payments for October – December, when a decline in both imports and exports was recorded. Although in the entire 2008 year both imports and exports were growing at a rate exceeding 10% year on year, the difference between the annual import and export growth rates narrowed down relative to 2007 (from 6 pp to about 2 pp). In the coming months, exports will be under pressure, and imports may also significantly slacken due - among other things - to dramatically weaker demand for investment goods. Therefore in the mid term, we can expect that the commodities trade gap may narrow.

In 2008, Poland ran a current-account deficit of circa EUR 19.5 billion (compared with EUR 14.6 billion in 2007), which represented some 5.4% of GDP (compared with 4.7% of GDP a year earlier). From the viewpoint of an external equilibrium of Poland's economy, the relation of its C/A deficit to GDP remains at an acceptable level.

In 2008, the relation of foreign direct investment (FDI) to current-account deficit deteriorated, as FDI financed only approx. 57% of the deficit, relative to 114% a year earlier. Any further deterioration of FDI coverage of C/A deficit in 2009 may contribute to weakening of the zloty in the mid term.

In 2008, the level of foreign debt was still on the increase, although it was not growing as fast as in 2007. As the banking crisis in Europe became more acute, driving up the cost of financing, Polish banks also decided to severely tighten credit conditions, especially with respect to loans denominated in foreign currencies. If the stream of foreign direct investment partially dries up, the combination of the two factors may put a downward pressure on the level of reserves, which may further erode the strength of the zloty.

A bleaker macro outlook in the wake of the spreading financial crisis, as well as problems with raising capital and deepening risk aversion were reflected in an increase in the country risk premium. The 5Y CDS (instruments in which the market prices in the risk of a country's insolvency) rose in 2008 from 23 to 260 basis points, though they were still trading below the region's CDS (excluding Slovakia and the Czech Republic).

Capital Markets

2008 saw a sharp correction on the equity markets worldwide, including the Warsaw Stock Exchange (WSE). At the end of 2008, the WIG and the WIG 20 (blue-chip) indices closed, respectively, at 27,228.64 points (down by 51.1% over the year) and 1,789.73 points (down by 48.2%). The small and mid-cap indices did even worse, underperforming the overall market: mWIG40 shed 62.5% of its value, while sWIG80 plummeted by 57.0%.

The industry indices listed on the WSE suffered comparable losses, ranging from 44.8% (WIG-Banks) to 73.1% (WIG-Construction). Only the telecom index noticeably outperformed the market, having declined by 12.8% from the year's beginning.

The value of trades executed in the continuous and single-price auction trading systems in 2008 amounted to PLN 326,2 billion (down by 30% on the previous year), while the total value of trades fell by nearly 43% (to PLN 341,8 billion). The drop in the value of trades was accompanied by a nearly 37% decrease in the trading volume on the spot market. The correction on the spot market shifted investors' attention to the futures market, which translated into an approx. 28% rise in the volume of futures trading, from 9,732 thousand contracts in 2007 to almost 12,467 thousand contracts in 2008.

The negative performance of the stock-market indices contributed to a sharp decrease in the WSE capitalisation, which stood at PLN 465,2 billion as at the end of 2008 (having fallen by 57% relative to the end of 2007).

After 2007, which was a record-breaking year for the WSE with a total of 81 newly floated companies, in 2008 there were only 33 IPOs on the Warsaw floor, including 23 between January and June. The number of companies on the WSE listing roster at the end of 2008 was 374 (versus 351 at the end of 2007).

Losses sustained by the financial markets ate deeply into the value of net assets under the management of mutual funds. The annualised drop in the value of assets managed by mutual fund companies was PLN 60.8 billion (down by 45% on the figure recorded in December 2007). Due to adverse developments in the financial markets, mutual funds experienced a growing excess of cash outflows over inflows. In 2008, investors purchased units for PLN 92. billion and redeemed units worth PLN 121 billion, which translated into net redemptions of PLN -29 billion, compared with net subscriptions of PLN 31 billion posted in 2007 (with PLN 129 billion worth of subscriptions and PLN 98 billion worth of redemptions).

Banking Sector

The banking sector was influenced by the favourable macroeconomic conditions in the first half of 2008 and the impact of the global crisis which hit Poland's economy in the second half of 2008. According to preliminary data of the Polish Financial Supervision Authority, net earnings of the banking sector in 2008 reached PLN 14.7 billion (up by 7.9% on 2007), albeit in the fourth quarter of 2008 alone they declined by some 47% to the third quarter. The fourth quarter of 2008 performance was hurt by the heavy impairment losses which banks had to recognise following a deterioration in their clients' financial standing and the revaluation of currency derivatives connected with a higher level of credit risk.

Nevertheless, the banking sector's performance in the whole 2008 year showed an improvement, thanks primarily to a strong rise in business volumes.

Loans grew by 36.7% year on year. Household lending remained the main driver of that growth, having expanded by 44.6%. Housing loans, a material contributor to the overall growth in household loans, rose by 64.9%, with a 107.6% increase in foreign-currency loans, attributable largely to the weakening of the zloty.

The major driver of the growth of mortgage lending were foreign-currency loans (mainly CHF-denominated), which accounted for more than 90% of all newly advanced mortgages. This resulted from a considerable spread between interest rates in the Polish zloty and in the Swiss franc. However, the second half of the year brought home the fact that foreign-currency loans carried a genuine FX risk, as the weaker zloty significantly increased the interest burden to borrowers, while banks struggled to ensure financing, including Swiss franc financing.

As corporate investment continued to grow strongly, so did the corporate sector's debt with banks. In 2008, commercial lending grew at the rate of 29.0% (relative to 24.1% in the previous year). However, as the fourth quarter of 2008 ushered in the first signs of the slowdown, the value of the corporate loan portfolio increased chiefly on the back of the depreciation of the Polish currency.

The growth in deposits accelerated appreciably year on year. Total deposits rose by 20.5% in 2008, versus 14.4% reported in 2007.

In 2008, the strongest growth was seen in household deposits – they increased by 25.6%, compared with 10.2% in 2007, driven primarily by:

– a relatively high level of the official interest rates, resulting in favourable interest rates on bank deposits, in which surplus cash was held,
– falling stock-market indices, which discouraged investment in the capital market, with the funds fleeing the capital market being largely channelled to the banking system,
– revisions to regulations relating to banks' liquidity, which fuelled the banks' requirement for long-term deposits, driving up the prices of such deposits,
– rising interest rates on deposits, as competition between banks became more intense, spurred by a growing excess of loans over deposits.

A 4.7% growth in corporate deposits in 2008 represented a meaningful slowdown relative to the 14.0% growth in 2007. It was a consequence of a decrease in corporate earnings, which coincided with greater capital expenditure needs.

4 Important Events and Internal Circumstances

4.1 Integration with the Spun-off Part of Bank BPH SA

Introduction – Historical Background of the Merger

Almost three years on from the moment when the plan to combine the businesses of UniCredit Group and Bayerische HypoVereinsbank (HVB) was announced for the first time, May 2008 saw completion of the operational integration of Bank Pekao S.A. with the spun-off part of Bank BPH SA.

Bank Pekao S.A. and Bank BPH SA became members of the same banking group (UniCredit) following the acquisition by UniCredit S.p.A. (UCI) of a majority stake in HVB, which was the majority shareholder in Bank BPH SA through Bank Austria Creditanstalt Aktiengesellschaft (BACA).

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

May 22, 2006 witnessed the launch of the Integration Project for Bank Pekao S.A. and a part of BPH SA. The integration was overseen by the Steering Committee composed of representatives of UCI, Bank BPH SA and Bank Pekao S.A.

In October 2006, the amended Banking Law came into force. It permits the division of banks operating as joint-stock companies by way of a procedure provided for in the Commercial Companies Code.

Legal Merger and Offering of the Merger Shares

On November 29, 2007, the District Court for the Capital City of Warsaw, 12th Commercial Division, entered the following information in the National Court Register:

– information on the division of Bank BPH SA by way of transferring a part of its assets to Bank Pekao S.A.,
– information on an increase in Bank Pekao S.A.'s share capital by way of an issue of 94,763,559 Series I ordinary bearer shares with a par value of PLN 1 per share, to be acquired by the shareholders of Bank BPH SA (3.3 shares in Bank Pekao S.A. for 1 share in Bank BPH SA) in exchange for the part of Bank BPH SA's assets transferred to Bank Pekao S.A.,
– information on appropriate amendments to the Statute of Bank Pekao S.A.

The registration of the above information meant the conclusion of the legal merger of Bank Pekao S.A. with the spun-off part of Bank BPH SA's enterprise by way of transfer of a part of Bank BPH SA's assets, forming organised part of the bank's enterprise, to Bank Pekao S.A.

November 29, 2007 was the effective date of the division of Bank BPH SA in accordance with the procedure set forth in Art. 529.1.4 of the Commercial Companies Code (Division by Way of Spin-Off). Bank Pekao S.A. assumed, by operation of law, the rights and obligations of Bank BPH SA specified in the Spin-Off Plan for Bank BPH SA.

Upon receipt of the information on the above entries in the National Court Register, Bank Pekao S.A. proceeded to execute the offering of Merger Shares in accordance with the time frame announced by the Bank's Management Board on November 30, 2007. The offering was effected in December 2007 through allocation of the Merger Shares to the shareholders of Bank BPH SA, introduction of the shares to stock exchange trading as well as making appropriate settlements, through the Polish National Depository for Securities (KDPW), with the shareholders on account of cash payments related to the fractional shares allotted to them.

Mitigation of Integration-Related Risks

Prior to registering the merger with the court, Bank Pekao S.A. had secured all the approvals and permissions required by applicable laws to take over part of Bank BPH SA's assets and to effect the division of Bank BPH SA, including approvals required to continue the agreements with the clients taken over from Bank BPH SA.

The two banks entered into appropriate agreements necessary to ensure continuous and undisrupted client service, including an agreement for the provision of services throughout the so-called Transition Phase (i.e. the period between the legal merger and the full completion of the operational and IT integration of the acquired units of Bank BPH SA into Bank Pekao S.A.), and after the operational integration was completed.

Accordingly, no legal risks existed as at the merger date, as all the formal and legal prerequisites for the operational stability and maintenance of superior client service standards had been fulfilled.

In order to ensure high process efficiency and security, areas of operational risk inherent in the Bank's operations were identified, including risks related to the significantly higher number of clients served and transactions processed, the diversity of products offered, sales and service procedures applied, distribution networks and the IT systems supporting the operations. Multi-step analyses were conducted in cooperation with Bank BPH SA, focused on the best operational risk management methods. The analyses were designed to give as complete and as accurate picture as possible of all areas of operations material from the point of view of the operational risk that might pose a threat to correctness and security of the division of Bank BPH SA, as well as to develop an optimal operational risk management model, best-suited to the ongoing integration process, including procedures needed to monitor the process and support all its participants.

Based on the results of the analyses, a target operational risk management strategy was adopted, aimed primarily at ensuring continuous and undisrupted post-division client service, with a special emphasis on client service in the Transition Period, and at mitigating identified operational risks. The newly adopted strategy covered both the existing clients of Bank Pekao S.A. and the clients taken over following the division of Bank BPH SA.

The individual elements of the strategy designed to manage the integration-related operational risk, including the necessary support plans and procedures, were conceived and then implemented with the involvement of several institutions, including the National Clearing House, the Warsaw Stock Exchange and the National Depository for Securities. Thanks to those entities' involvement, the developed operational risk management model took into account the specifics of the Polish banking and financial systems, especially those relating to settlements and transactions executed by and for the account of clients.

To be able to identify and appropriately manage unexpected situations that might have been a source of operational risks, in the week preceding the Spin-Off Date, Bank Pekao S.A. put in place a system for ongoing and detailed monitoring of the Bank's operations, covering both the network of branches and the Head Office. In particular, it implemented a dedicated programme (known as the Secure Network) aimed at providing support to all outlets of Bank Pekao S.A., especially those transferred from Bank BPH SA. The Secure Network programme made it possible to identify all operational issues as they emerged and promptly develop appropriate solutions. As part of the programme, designated employees at each outlet of Bank Pekao S.A. underwent special training. They were assigned the task of collecting, on an ongoing basis, information about potential operational issues, resolving such issues and monitoring the process of their elimination.

At the two banks, oversight over compliance with relevant procedures during the Transition Period was delegated to dedicated monitoring teams, consisting of specialists in banking systems security and members of the internal audit staff.

Daily meetings devoted to operational risk management were held at the Head Office of Bank Pekao S.A., the purpose of which was to ensure effective monitoring of the current operational situation and – where needed – to take decisions regarding remedial measures.

Immediately after the Spin-Off Date, the monitoring process described above identified certain operational issues in the area of brokerage services, related to difficulties with logging into the web interfaces which provide clients with access to the brokerage accounts operated by Dom Maklerski Pekao (Pekao Brokerage House). The problems were relatively small-scale and in order to promptly resolve them the Bank provided clients with additional guidance instructions, while strengthening the direct on-line and call centre client support.

Operational Integration Model

The operational integration model adopted by the Bank was developed based on the following assumptions:

- the branches of Bank Pekao S.A. operating within its structure prior to the legal merger date continued to carry out their activities based on the existing operational platform, comprising an IT system, a set of procedures and internal regulations. The platform was updated and improved on a regular basis, with a view to ensuring an appropriate level of service for the existing clients of Bank Pekao S.A. and for the clients of Bank BPH SA transferred to Bank Pekao S.A. on the Spin-Off Date, whose detailed data were being gradually migrated to Bank Pekao S.A.'s IT platform. Such a solution was best-suited to the ongoing integration process, affording a high level of client service security.
- the branches (outlets) of Bank BPH SA transferred to Bank Pekao S.A. on the Spin-Off Date in line with the Plan of Division (Pekao285), in the Transition Phase (i.e. in the period from the legal merger to the completion of the data migration to Bank Pekao S.A.'s IT platform), carried out their activities based on the existing operational platform of Bank BPH SA made available to Bank Pekao S.A. To be able to ensure continuous and undisrupted client service throughout the Transition Period, Bank BPH SA and Bank Pekao S.A. concluded relevant agreements to outsource a part of Bank BPH SA's IT platform to Bank Pekao S.A., until the time when the details of the clients taken over from Bank BPH SA are migrated over to Bank Pekao S.A.'s system.

  Bank Pekao S.A. reviewed the operational procedures and processes used up to that point by Bank BPH SA with a view to properly modifying and adapting them to the operational environment of Bank Pekao S.A., taking into account the differences between both banks' organisational structures, branch networks and the scope of powers attached to the individual levels of authority. This facilitated efficient and seamless operation of the outlets taken over from Bank BPH SA (Pekao285).
- the Transition Phase procedures were put in place, enabling all the outlets of Bank Pekao S.A. to provide services to all the clients served through the IT systems of Bank BPH SA and through the IT systems of Bank Pekao S.A. Thanks to the procedures, all clients of Bank Pekao S.A., both the existing and taken over from Bank BPH SA, had access to the same range of Bank Pekao S.A.'s products after the legal merger date.
- the migration of clients' details and bank accounts was carried out on a roll-out basis, which means that data was being migrated gradually – one cluster of outlets at a time. In a few areas, migration of data to Bank Pekao S.A.'s IT platform was performed as a single-stage operation on the legal merger date.

Operational Integration Process

The single-stage migration of data to Bank Pekao S.A.'s IT systems at the legal merger date, covered the following areas:

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

From January to May 2008, intensive work was underway to migrate the accounts handled by the acquired outlets (Pekao285) and the details of their clients from the IT platform of Bank BPH SA to the IT platform of Bank Pekao S.A.

The migration was preceded by unification of procedures, installation of new terminals and set-up of applications comprising the operational and IT system, as well as intensive training of employees manning the Pekao285 outlets. Nearly seven thousand new employees of Bank Pekao S.A. received training aimed to prepare them to work with the new IT system.

The migration was completed as scheduled – within six months of the legal merger. The outlets serving retail clients and small-sized enterprises were integrated in twelve clusters, each numbering 20-30 outlets from individual regions. To minimise inconvenience for clients, the works were carried out on weekends; the details of corporate clients were migrated over a single weekend in April. The whole operational integration was completed, as planned, on May 29, 2008 – after the last cluster of outlets was successfully migrated over to Bank Pekao S.A.'s systems.

The operational integration between Bank Pekao S.A. and a part of Bank BPH SA was the largest project of this kind ever to have been undertaken on the Polish market, and one without precedent not only in the Polish banking system. The merged institutions had dissimilar organisational structures, offered diverse products ranges, and were supported by different IT systems. At the same time, a part of one of those institutions' business was excluded from the merger, remaining an independent competitive bank. All this posed a considerable challenge. The process required involvement of a very large team of employees, as well as close cooperation across the Bank's divisions. Thanks to the professionalism and commitment of the entire team, the project was completed as planned, while all issues were eliminated as they emerged.

In line with the adopted strategy, the operational risks were effectively managed throughout the migration process. The Competition and Consumer Protection Office (UOKiK) held an investigation into the division of Bank BPH SA and the transfer of part of its rights and obligations to Bank Pekao S.A. The investigation found no irregularities that would justify the instigation of proceedings for infringement of the collective interests of consumers. Bank Pekao S.A. honoured the agreements taken over from Bank BPH SA and adequately safeguarded the interests of its clients.

Conclusion

The completion of the operational merger was the final stage of an exceptionally complex and unique process, as part of which Bank Pekao S.A. – with the help and under the supervision of the regulatory bodies – undertook an unprecedented legal and operational challenge.

The Bank used its best endeavours to ensure that the integration was implemented in a smooth and transparent manner, both in the formal and operational sense, in compliance with applicable laws and with due regard to the clients' rights and interests. All the available measures were employed for the process to culminate in a full operational integration, while removing all differences in the way the existing and new clients were served.

This exceptional managerial, operational and business effort was achieved side by side with the conduct of regular business activities. The adopted merger strategy and the consistent efforts undertaken by the Bank proved successful in helping it to accomplish the assumed goals.

4.2 Developmental Directions of the Bank and the Group

Bank Pekao S.A. is the leading bank in Poland and one of the leading financial institutions in the CEE banking sector. The bank offers a superior client service platform for Polish and international clients supported by best practice management systems.

Bank Pekao S.A. offers its customers superior outlets and ATM network, with convenient access countrywide and both the professional call centre and internet banking platform for retail, corporate and SME customers as well.

Bank Pekao S.A. offers a segment-based service model.

Market priorities

Individual customers

In 2009, our priorities will focus on various activities aiming an increasing the quality of service and the satisfaction of individual customers.

Bank Pekao S.A. intends to continue the growth in consumer lending thanks to the sale of Pozyczka Ekspresowa (Express Loan). For customers with the housing loans needs, the Bank will offer mortgage loans denominated in Polish zloty (including also the subsidised housing loan in the framework of government programme “Family in their Own Home”).

In the area of the individual accounts, the Bank will continue the policy of customizing the services to the needs of different customers’ groups. This policy will be supported by a newly implemented offer of individual accounts, adapted to the needs of all customer segments.

Moreover, the Bank will expand its saving products offer, concentrating on the promotion of the concept of regular and long-term of saving plans. We will offer products both, developed by the Bank and in co-operation with our partners as well.

Affluent customers

In affluent customer segment we will concentrate on ensuring the best service and satisfaction thanks to the development of servicing model and the support of innovation on product offer side. In 2009, the new and exclusive offer of Eurokonto package will be launched for the affluent customers. It enables the access to electronic channels and includes additional service package.

SME customers

In 2009, in SME customer segment the main goal will be to focus on enlarging the scale of relations with the key and prospective customers, increasing the efficiency of service of micro enterprises and expanding of outlets offering the entire service through Relationship Managers. We will continue the work to simplify the loan granting process and further improvement of products. We intend to promote the electronic channels sharing, in particular IT platform - PekaoFIRMA24. We will further develop the co-operation with the Bank’s subsidiaries in order to make the most of synergies within the Group.

Corporate customers

For corporate customers, the Bank has a comprehensive product offer and service based on individual account manager supported by a team of product experts thus enabling to match the service profile with the customers individual needs and expectations.

The Bank's strategy in this segment is to further strengthen its leading position on the market and employ rational capital management at the same time. This goal will be realized through building individual cross-selling strategies and selected acquiring focused on the most prospective customers. The goal will be reached through a further development of the Bank's offer, in particular related to transactional service (trade finance, cash management, electronic banking services) and other activities driving to increase the customer satisfaction.

Organisational Changes

The organisational changes introduced following the legal merger with the spun-off part of Bank BPH SA were implemented gradually throughout 2008 in order to better adapt the organisational structure to the scale and profile of the new Bank's operations.

The most profound changes at the Bank's Head Office concerned the Corporate Banking, Markets and Investment Banking Division. The scope of the changes resulted from the considerable expansion of the Division's operational scale after the merger with the entire corporate banking business of BPH SA, and the need to integrate it with the Pekao S.A.'s structures.

In order to enhance management in corporate banking, cooperation with large corporate clients representing particular industries was concentrated in specialised industry service offices at the Department of Large Corporates. Likewise, the Commercial Property Finance Department was established with a view to ensuring efficient management of transactions related to the financing of commercial real estate.

Given the number and geographical location of the Regional Corporate Centres, their supervision at the level of the Bank's Head Office was divided between two parallel regional departments, i.e. Corporate Banking Department for Western Poland and Corporate Banking Department for Central Poland. Regional Corporate Centres, which perform operational functions and make up a network of the so-called specialised branches providing services to medium-sized corporates, were entered into the Register of Entrepreneurs of the National Court Register.

In the Risk Management Division, the powers and responsibilities were split between the retail and corporate banking risk management areas. The split was reflected in the Division's organisational structure, in which the following departments were separated: Corporate Credit Risk Department, Retail Credit Risk Department, Department of Corporate Loans Management and Monitoring, Department of Retail Loans Monitoring and Collection, and Corporate Workout Department.

In the Finance Division, the issues and expertise concerning capital allocation as well as assets and liabilities management are currently centralised in one department, namely the Department of Capital Allocation and Assets and Liabilities Management (competence centre).

All the Bank's activities involving the management of customer satisfaction were centralised thanks to the establishment of the Customer Satisfaction Management Department. The Department focuses, in particular, on seeking clients' opinions and undertaking corrective measures intended to improve the quality of customer service.

Those activities of the Legal Department which consist in ensuring that the Bank's operations are compliant with the applicable laws, the Bank's internal regulations, recommendations of the regulators, good practices and ethical standards, were transferred to the newly established independent Office for Compliance Risk Management. The Office reports directly to the President of the Management Board.

The following changes in the Bank's organisational structure had been prepared throughout 2008 and implemented in January 2009:

- establishment of a new Retail Banking Division by way of combining the existing Retail Banking Division with the Individual and Business Banking Division,
- establishment of a separate Private Banking Division,
- establishment of a Household Financing Division.

The objectives behind the changes introduced in the Retail Banking Division were to improve management process focusing on the entire retail banking market, boost commercial efficiency and capitalise on synergies in managing customer relations in three segments (retail, affluent and SME clients).

The establishment of the Private Banking Division is substantiated by the need to place a sharper focus on the reinforcement of relations with the market segment comprising the most affluent and demanding clients, and concentrate on the development and application of banking products and services targeted at this client group.

The establishment of the Household Financing Division, responsible for the development of mortgage products and consumer loans, is viewed as a strategic move. With this change, the Bank's structure was adapted, with regard to this particular field, to the framework solutions implemented by UniCredit Group. The change is aimed at creating an even more specialised unit by focusing on business development in the area of financing for households, creation of customer-friendly lending procedures, and effective management of customer relations with a view to improving the Bank's position on the Polish retail market in this area.

4.3 Changes within the Group

The Group's structure is presented in Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended December 31, 2008.

In 2008, the portfolio of companies was reorganised following the merger with a spun-off part of Bank BPH SA. The key developments regarding the Group's organisation are discussed below.

The Sale of the Companies

In August 2008, the Bank sold its entire holding in Bankowe Doradztwo Podatkowe Sp. z o.o. for the benefit of a natural person (a shareholder of the company). The selling price amounted to PLN 37.4 thousand and equalled the company's value as posted in the Bank's books.

In November 2008, the Bank sold 100 shares in Centrum Uslug Ksiegowych Sp. z o.o., representing 100% of the company's share capital and conferring the right to 100% of the total vote at its General Shareholders Meeting, for the benefit of Korycka, Budziak & Audytorzy Sp. z o.o. The selling price amounted to PLN 105 thousand, and the value of the shares as posted in the Bank's books was PLN 50 thousand.

Towards the end of December 2008, Final Holding Sp. z o.o., the Bank's subsidiary, disposed of 55,365,308 shares in Final S.A. of Dabrowa Gornicza, with a par value of PLN 1 per share, representing 99.82% of the company's share capital and conferring the right to 99.84% of the total vote at its General Shareholders Meeting. The selling price of the shares amounted to PLN 62 million, and their value as disclosed in the books of Final Holding Sp.z o.o. was PLN 45.4 million.

Other Changes

In January 2008 – in line with the adopted strategy whereby Bank Pekao S.A. was to focus on retail brokerage as part of the integrated service mix offered by the Bank to its retail clients – Centralny Dom Maklerski Pekao S.A. (Central Brokerage House Pekao S.A. – CDM) and UniCredit CA IB Polska S.A. signed an agreement for the sale of part of CDM's enterprise engaged in the provision of brokerage services to institutional clients and investment banking services, for the amount of PLN 444 million.

In May 2008, the Bank signed an agreement with HVB Direkt for the purchase of 2% of shares (20 shares with a par value of PLN 500) in Centrum Bankowosci Bezposredniej Sp. z o.o. The purchase price amounted to PLN 180 thousand. As at December 31, 2008 the Bank holds 100% shares of this company.

Share Capital Increases

In February 2008, the National Bank of Ukraine registered amendments to the Articles of Association of UniCredit Bank Ltd., including an amendment reflecting an increase in the share capital of UniCredit Bank Ltd. from UAH 543.7 million to UAH 653.5 million, i.e. by UAH 109.8 million (or PLN 52.3 million).
The share capital increase at UniCredit Bank Ltd. followed from a merger of UniCredit Bank Ltd. and JSCB HVB Bank Ukraine (wholly-owned subsidiaries of Bank Pekao S.A.) and from the acquisition of the new shares in UniCredit Bank Ltd. by the Bank.

At present, Bank Pekao S.A. holds shares in UniCredit Bank Ltd. with the total par value of UAH 653.5 million, representing 100% of the share capital and conferring the right to 100% of the total vote at the General Shareholders Meeting of UniCredit Bank Ltd.
In June 2008, the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register, registered a PLN 4 million increase in the share capital of Xelion. Doradcy Finansowi Sp. z o.o. (the Bank's associated company). On May 15, 2008, the Extraordinary General Shareholders Meeting of Xelion. Doradcy Finansowi Sp. z o.o. adopted a resolution on a PLN 4 million increase in the company's share capital.

As part of the share capital increase, the Bank acquired 4,000 new shares with a par value of PLN 500 per share, i.e. with the total par value of PLN 2 million, at the issue price of PLN 5 million, or PLN 1,250 per share. Upon registration by the Court, the share capital of Xelion. Doradcy Finansowi Sp. z o.o. was increased from PLN 50 million to PLN 54 million.

As at December 31, 2008 Bank Pekao S.A. held 54,050 shares in Xelion. Doradcy Finansowi Sp. z o.o., with the total par value of PLN 27 million, representing 50% of the company's share capital and conferring the right to 50% of the total vote at its General Shareholders Meeting.

Changes to Company Names

In 2008, the following changes to company names were registered by the court:

- BPH PBK Leasing SA was changed to Pekao Leasing Holding S.A.,
- BPH Auto Finanse SA was changed to Pekao Auto Finanse S.A.,
- BPH Leasing SA was changed to Pekao Leasing i Finanse S.A.,
- BPH Bank Hipoteczny S.A. was changed to Pekao Bank Hipoteczny S.A.,
- Drukbank Sp. z o.o. was changed to Pekao Telecentrum Sp. z o.o.,
- BPH Real Estate S.A. was changed to Pekao Property S.A.

Mergers of Leasing Companies

In line with the plan of merger submitted with the Registry Court in December 2008, the process of merging Bank's leasing subsidiaries, i.e. Pekao Leasing i Finanse S.A. and Pekao Auto Finanse S.A. with Pekao Leasing Sp. z o.o. will be continued in 2009. It is planned that the merger will be effected under Art. 492.1.1) of the Commercial Companies Code, i.e. through the transfer of all assets of Pekao Leasing i Finanse S.A. and Pekao Auto Finanse S.A. to the acquiring company, Pekao Leasing Sp. z o.o. (merger through acquisition).

4.4 Changes in the Statutory Bodies of the Bank

Supervisory Board

In 2008, the composition of the Supervisory Board of Bank Pekao S.A. remained unchanged.

Composition of the Supervisory Board

31.12.2008	31.12.2007
Jerzy Woznicki Chairman of the Supervisory Board	Jerzy Woznicki Chairman of the Supervisory Board
Paolo Fiorentino Deputy Chairman, Secretary of the Supervisory Board	Paolo Fiorentino Deputy Chairman, Secretary of the Supervisory Board
Federico Ghizzoni Deputy Chairman of the Supervisory Board	Federico Ghizzoni Deputy Chairman of the Supervisory Board
Pawel Dangel Member of the Supervisory Board	Pawel Dangel Member of the Supervisory Board
Fausto Galmarini Member of the Supervisory Board	Fausto Galmarini Member of the Supervisory Board
Oliver Greene Member of the Supervisory Board	Oliver Greene Member of the Supervisory Board
Enrico Pavoni Member of the Supervisory Board	Enrico Pavoni Member of the Supervisory Board
Leszek Pawlowicz Member of the Supervisory Board	Leszek Pawlowicz Member of the Supervisory Board
Krzysztof Pawlowski Member of the Supervisory Board	Krzysztof Pawlowski Member of the Supervisory Board

Management Board

Przemyslaw Gdanski, Vice-President of the Bank's Management Board tendered his resignation from membership on the Management Board, effective May 9, 2008.

At its meeting held on June 4, 2008, the Supervisory Board appointed Andrzej Kopyrski as Vice-President of the Management Board. At the same meeting, Christopher Kosmider resigned from the position of Vice-President of the Bank's Management Board, with effect from June 4, 2008.

On December 11, 2008, the Supervisory Board appointed Diego Biondo and Marco Iannaccone as Vice-Presidents of the Bank's Management Board for the current joint term of office of the Management Board.

Paolo Iannone tendered his resignation from the post of Vice-President of the Bank's Management Board, effective January 1, 2009.

Composition of the Management Board

At the date of yearly report	31.12.2008	31.12.2007
Jan Krzysztof Bielecki President of the Management Board, CEO	Jan Krzysztof Bielecki President of the Management Board, CEO	Jan Krzysztof Bielecki President of the Management Board, CEO
Luigi Lovaglio First Vice President of the Management Board, General Manager	Luigi Lovaglio First Vice President of the Management Board, General Manager	Luigi Lovaglio First Vice President of the Management Board, General Manager
Diego Biondo Vice President of the Management Board	Diego Biondo Vice President of the Management Board	Przemyslaw Gdanski Vice President of the Management Board
Marco Iannaccone Vice President of the Management Board	Marco Iannaccone Vice President of the Management Board	Paolo Iannone Vice President of the Management Board
Andrzej Kopyrski Vice President of the Management Board	Paolo Iannone Vice President of the Management Board	Christopher Kosmider Vice President of the Management Board
Katarzyna Niezgoda Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board	Katarzyna Niezgoda Vice President of the Management Board
Grzegorz Piwowar Vice President of the Management Board	Katarzyna Niezgoda Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Marian Wazynski Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board	Marian Wazynski Vice President of the Management Board
	Marian Wazynski Vice President of the Management Board	

The scope of powers and duties of the Management Board members is as follows:

- Jan Krzysztof Bielecki, President of the Management Board and CEO, supervises the internal audit, legal, compliance risk management, macroeconomic analysis and corporate communication units, as well as the President's Office.
- Luigi Lovaglio, First Vice-President of the Management Board and General Manager:
  - coordinates the operations of the following divisions: Retail Banking, Corporate Banking, Markets and Investment Banking, Finance, Risk Management, Human Resources, Logistics and Procurement,
  - supervises the functioning of the following divisions: Consumer Loans and Mortgage Lending, Private Banking, Organisation and IT, as well as the Marketing Communication and Customer Satisfaction Management Departments, and units responsible for investor relations, Rocket Project, special and development projects.
- Diego Biondo, Vice-President of the Management Board, supervises the Risk Management Division.
- Marco Iannaccone, Vice-President of the Management Board, supervises the Financial Division.
- Andrzej Kopyrski, Vice-President of the Management Board, supervises the Corporate Banking, Markets and Investment Banking Division.

- Katarzyna Niezgoda, Vice-President of the Management Board, supervises the Human Resources Division.
- Grzegorz Piwowar, Vice-President of the Management Board, supervises the Retail Banking Division.
- Marian Wazynski, Vice-President of the Management Board, supervises the Logistics and Procurement Division.

Members of the Bank's Management Board are appointed for a joint three-year term of office.

Management Board members are appointed and removed from office by the Supervisory Board. Vice-presidents and members of the Management Board are appointed and removed from office on the motion of the President of the Management Board. Appointment of two members of the Management Board, including its President, is subject to approval by the Financial Supervision Authority; the body which applies for the approval is the Supervisory Board.

The scope of powers and duties of the Management Board members is defined by the Bank's Statute, Commercial Companies Code and the Rules of Procedure of the Management Board. The scope of powers of the Bank's Management Board includes all matters which, pursuant to the provisions of applicable laws or the Bank's Statute, do not fall within the scope of competence of other governing bodies of the Bank.

4.5 The Bank's Shareholding Structure

As at December 31, 2008 the share capital of Bank Pekao S.A. amounts to PLN 262,212,629 and is divided into 262,212,629 shares of the following series:

- 137,650,000 Series A bearer shares with a par value of PLN 1 per share
- 7,690,000 Series B bearer shares with a par value of PLN 1 per share
- 10,630,632 Series C bearer shares with a par value of PLN 1 per share
- 9,777,571 Series D bearer shares with a par value of PLN 1 per share
- 373,644 Series E bearer shares with a par value of PLN 1 per share
- 621,411 Series F bearer shares with a par value of PLN 1 per share
- 345,972 Series G bearer shares with a par value of PLN 1 per share
- 359,840 Series H bearer shares with a par value of PLN 1 per share
- 94,763,559 Series I bearer shares with a par value of PLN 1 per share.

All the existing shares are ordinary bearer shares. There are no special preferences or limitations connected with the shares, or differences in the rights attached to them. The rights and obligations related to the shares are defined by the provisions of the Polish Commercial Companies Code and other applicable laws.

The shareholders of Bank Pekao S.A. owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the General Meeting of Bank Pekao S.A. are as follows:

Shareholder's name	# of shares and votes at the General Meeting	Share in share capital and total number of votes at the General Meeting	# of shares and votes at the General Meeting	Share in share capital and total number of votes at the General Meeting
	December 31, 2008		December 31, 2007	
UniCredit S.p.A.	155,433,755	59.28%	155,433,755	59.36%
Other shareholders	106,778,874	40.72%	106,432,902	40.64%
Total	**262,212,629**	**100.00%**	**261,866,657**	**100.00%**

In 2008, share capital of the Bank has been increased by PLN 345,972 as a result of the issue of 345,972 series G ordinary bearer shares which have been taken up by participants of the share option programme.

The share of UniCredit S.p.A. in the share capital and the total number of votes at the General Meeting amounts to 59.28% while the share of other shareholders amounts to 40.72%

4.6 Assessment of the Financial Credibility of Bank Pekao S.A.

Credit Ratings

Bank Pekao S.A. is rated by three agencies: Fitch Ratings, Standard and Poor's, and Moody's Investors Service. In the case of the first two, the ratings are commissioned by the Bank on the basis of relevant agreements. With respect to Moody's Investors Service, their ratings are issued based on information available within the public domain.

All of the agencies maintained their high credit ratings of the Bank. The ratings assigned by Fitch and Standard and Poor's in relation to the Bank's obligations denominated in foreign currencies are better than Poland's sovereign ratings. The individual rating from Fitch - B/C, and the financial strength rating from Moody's – C, are the highest among those assigned to the Polish banking sector institutions.

As at December 31, 2008, the credit ratings assigned to the Bank were as follows:

Fitch Ratings	**Pekao S.A.**	**Poland**
Long-term rating (IDR)	A	A-
Short-term rating	F1	F2
Individual rating	B/C	-
Support rating	1	-
Rating outlook	Negative	Stable

Standard and Poor's	**Pekao S.A.**	**Poland**
Long-term rating	A	A-
Short-term rating	A-1	A-2
Rating outlook	Stable	Positive

Moody's Investors Service Ltd. (unsolicited rating)	**Pekao S.A.**	**Poland**
Long-term foreign-currency deposit rating	A2	A2
Long-term local-currency deposit rating	Aa3	Aa1
Short-term deposit rating	Prime-1	Prime-1
Financial strength	C	C-*
Rating outlook	Stable	Negative*

* Average for the local banking sector.

Investor Relations

In the area of investor relations, the Bank focuses mainly on ensuring active and transparent communication with the market through operative cooperation with investors, analysts and rating agencies, and fulfilment of the disclosure requirements in accordance with the applicable laws.

The Bank holds regular individual meetings with investors, both in Poland and abroad, participates in most regional and industry-specific investor conferences, and responds to the on-going inquiries of the market. Each quarter, we present the Bank Pekao S.A. Group's financial figures, which are simultaneously webcast over the internet. The scale of the Bank's investor relations activities is significant, with over 300 meetings with investors held every year.

The Bank fulfils its disclosure requirements on an on-going basis by providing the market with periodic and current reports. In 2008, the Bank published 113 current reports. The Bank strives to meet the needs of investors by ensuring that the Bank's website is updated and supplemented with new content on a regular basis.

The main objective of our endeavours is to provide investors with constant access to information on the Bank's performance and the strategy adopted for its individual business divisions, and to present the situation in Poland in comparison with other countries, especially from the region, in the context of macroeconomic environment and the financial standing of the banking sector.

Performance of Bank Pekao S.A. Stock on the WSE

Bank Pekao S.A. shares rank among most liquid equities on the markets of Central and Eastern Europe. As at December 31, 2008, the Bank's total market capitalisation stood at PLN 33.1 billon, ranking Bank Pekao S.A. among the top companies in the region. Due to the high liquidity and large capitalisation, the Bank shares are a component of many major stock indices.

In 2008, transactions in the Bank's stock accounted for 11.48% of the total turnover on the WSE, which corresponds to an average daily traded volume of 447 thousand shares. The value of trades in the Bank shares in 2008 amounted to PLN 36.8 billion. In 2008, the closing price of Bank Pekao S.A. stock ranged from PLN 100.5 to PLN 224.9. The large volatility of the stock was due mainly to the general condition of the global markets.

In 2008, the Polish capital market came under pressure from foreign markets. The global downtrend which became apparent in mid 2007 continued on the back of further alarming news from major global economies. Despite the fact that Poland was viewed positively as an economy with solid growth dynamics and relatively small risk exposure, the weakening sentiment prevailing in most countries affected also the Polish market, triggering waves of sell-offs by both domestic and foreign investors.

In 2008, the stock price of Bank Pekao S.A. fell by approx. 43% (from PLN 220 on January 2, 2008 to PLN 126.2 on December 31, 2008), performing largely in line with the WIG Banki index, but much better than the stocks of smaller banks listed on the WSE. Despite the significant decrease in its stock price, the Bank's valuation in terms of major multiples remains strong: P/E08: 8.2 and P/BV08: 1.9, which attests to the Bank's strong fundamentals.

4.7 Awards and Distinctions

In 2008, Bank Pekao S.A. received numerous domestic and foreign awards and distinctions. Below we present an overview of the most noteworthy ones.

The Banker: Bank Pekao S.A. named Bank of the Year in Poland

The Banker magazine honoured Bank Pekao S.A. with the title of Bank of the Year for 2008. In the grounds for its decision, the judging panel emphasised that the award was given to the Bank not only in recognition of its impressive financial performance and consistent development of the product portfolio but, first and foremost, in appreciation of the strategic measures taken to complete the merger with a part of Bank BPH SA, which would permanently change the structure of the Polish banking sector.

The Banker magazine's awards, which recognise leaders of the banking sector in over 140 countries, were presented for the ninth consecutive time. Almost 500 banks from around the world, a few Polish ones amongst them, were put on the list of candidates in the last year's edition. Winners were picked by a panel of judges that included market experts, former CEOs of global banks, and editors-in-chief of the magazine. The Banker, one of the most respected magazines devoted to the world of banking, has been published uninterruptedly since 1926.

Euromoney: Bank Pekao S.A. named Best Bank in Poland

The Euromoney magazine also distinguished Bank Pekao S.A. as the Best Bank in Poland in 2008. The awards presented uninterruptedly since 1992 by Euromoney, a magazine devoted to the financial markets, set standards of excellence in banking service in over 100 countries around the globe. The awards for best banks in individual countries are based on a number of criteria: financial performance, quality of the customer service, innovation, and the extent of influence on the standards of banking services in individual countries. Bank Pekao S.A. received also accolades for the successful completion of the complex process of its merger with a part of Bank BPH SA.

The announcement of the award winners took place during a ceremony held in Vienna. Apart from Bank Pekao S.A., other UniCredit Group's banks have also been recognised as best banks in their respective countries (Bulbank, UniCredit Bank Slovakia and UniCredit Bank Hungary).

Awards of the Global Finance Monthly for Bank Pekao S.A.

The Global Finance Monthly honoured Bank Pekao S.A. with the titles of Best Foreign Exchange Provider 2008 and Best Trade Finance Provider Poland 2008.

Every year, Global Finance presents its awards to financial institutions operating in Central and Eastern Europe based on the opinion of analysts, senior managers and bank consultants. The following criteria are taken into consideration: asset growth, earnings, strategic relations with key stakeholders from the bank's environment, product and service portfolio, product innovation, and service prices.

Financial Times: Bank Pekao S.A. Ranked Among Top 500 Global Companies

Bank Pekao S.A. was included in the list of 500 largest companies in the world compiled by the Financial Times, securing a position higher than any other Polish company in the ranking. The Bank was ranked 400th in terms of market value.

Every year, Financial Times conducts a survey and compiles a list of the top 500 companies from around the globe, assuming key financial indicators as the selection criteria. Global 500 is one of the most prestigious surveys of this type in the world of business.

Newsweek and A.T. Kearney: Bank Pekao S.A. Most Valuable Company in Poland

Bank Pekao S.A. secured the first position in the 100 Most Valuable Companies in Poland in 2007 ranking published in April 2008 by Newsweek Polska and A.T.Kearney.

Bank Pekao S.A. Shortlisted for European Business Awards 2008

Bank Pekao S.A. was the only Polish name shortlisted for the international European Business Awards 2008 competition in the Business of the Year, Marketing Strategy of the Year and Employer of the Year categories.

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

Ruban d'Honneur for Bank Pekao S.A.

Bank Pekao S.A., as the only Polish company, received in 2008 the accolade of Ruban d'Honneur in The CMS Business of the Year category.

Ruban d'Honneur in The CMS Business of the Year category is awarded to leading institutions from around Europe which stand out with their excellent financial performance, ongoing improvement and innovation, and which are undisputable leaders in their respective sectors.

EUROPRODUKT 2008 for PekaoFIRMA24

PekaoFIRMA24 – an online banking service provided by Bank Pekao S.A. to small and medium-sized enterprises – was awarded the title of EUROPRODUKT 2008 in the 13th edition of the competition.

EUROPRODUKT is a prestigious competition of a national scope, held annually under the honorary patronage of the Ministry of Economy and the Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiebiorczosci) to recognise products, services and initiatives able to compete on the European market in terms of quality, innovation and professionalism. The online banking service that received the accolades was made available to the clients in June 2008, and currently it supports the operations of almost 100 thousand enterprises. The PekaoFIRMA24 service is available in Polish and English.

Bank Pekao S.A. Named Entrepreneur-Friendly Bank

Bank Pekao S.A. was awarded the Promotional Emblem in the 10th edition of the Entrepreneur-Friendly Bank competition. The award is conferred by the Polish-American Foundation for Counselling Small Business, together with the Polish Chamber of Commerce. It is intended to honour institutions which stand out for their professional and efficient approach and understanding of the specific needs of small businesses, as well as those institutions which put effort into building strong relations with the SME sector, e.g. by using modern technologies**.**

Kredyt Mieszkaniowy Banku Pekao S.A. in Top Position

The Bank’s mortgage loan, Kredyt Mieszkaniowy Banku Pekao S.A., topped the ranking prepared by the Gazeta Prawna daily and Comperia.pl. The product was rated as the most attractive zloty-denominated loan among those offered on the market.

In addition to awards granted to the Bank, the members of the Bank’s and the UniCredit Group’s management were also winners of prestigious awards in 2008.

Luigi Lovaglio – Commander of the Order of the Star of the Italian Solidarity

In March 2008, Luigi Lovaglio, First Vice-President and General Manager of the Bank, has been awarded the decoration of Commander of the Order of the Star of the Italian Solidarity. The title was bestowed on Mr Lovaglio by virtue of a decree by the President of Italy in recognition of his generous contribution to the development of economic cooperation between Poland and Italy. The Order of the Star of the Italian Solidarity is bestowed on Italians and non-Italians who contributed essentially to enhancing the prestige of the Italian Republic.

Jan Krzysztof Bielecki - Named Man of the Year 2008 in Finance

In February 2009, Gazeta Finansowa honored Jan Krzysztof Bielecki, President of the Management Board of Bank Pekao S.A., the title of Man of the Year 2008 in Finance. Gazeta Finansowa appreciated the fact, that Jan Krzysztof Bielecki, as the one of the first economic authorities, had predicted an economic crisis. As a justification for the distinction of President of the Management Board of Bank Pekao S.A. his far-sightedness was emphasized. Gazeta Finansowa recalled also that in 2006 the President exhorted to prudence in credit policy and stressed that some trends are impossible to be continued endlessly.

Alessandro Profumo - Named Man of the Year 2008 in Finance

In September 2008, the Rzeczpospolita daily presented Alessandro Profumo, CEO of UniCredit Group, with a special Orzel (Eagle) award and the title of Man of the Year 2008 in Finance as a tribute to his work towards the creation of the largest bank operating on the Polish market and a recognition for introducing the most valuable company to trading on the Warsaw Stock Exchange. UniCredit, the largest financial institution in Central and Eastern Europe, made its debut on the Warsaw Stock Exchange in December 2007 r. under dual-listing arrangements.

Rzeczpospolita presented Alessandro Profumo with the award to honour his contribution to the development of the banking sector in Poland and Europe. He was the principal architect of the success enjoyed by the Group, which, over the span of six years, managed to transform itself from an organisation operating locally in Italy into a large-scale European bank with subsidiaries in 20 European countries.

The Orzel annual awards were presented for the tenth consecutive time as a gesture of recognition and appreciation to individuals and companies that significantly contributed to the development of entrepreneurship in Poland. Winners are distinguished by an innovative approach to doing business; their actions exert a long-lasting influence on particular sectors of the economy, while their companies boast a potential for sustainable and balanced growth.

5 Activity of the Bank Pekao S.A. Group

5.1 Important Factors influencing Group’s Activities and Results

The main factors with a bearing on the Group’s activities and performance in 2008 included:
- completion of the operational integration process,
- continued tight control of overhead costs,
- difficult situation in the international financial markets and on the Warsaw Stock Exchange,
- effective credit risk management,
- lower risk costs,
- sale of a part of Centralny Dom Maklerski Pekao S.A.’s operations,
- sale of non-performing receivables.

Completion of the Operational Integration Process

November 29, 2007 saw completion of the legal merger of Bank Pekao S.A. and Bank BPH SA by way of transfer of a part of Bank BPH SA's assets, forming an organised part of its enterprise, to Bank Pekao S.A.

Since the beginning of 2008, the Bank worked intensely on the migration of accounts and data of the customers serviced by Pekao285 branches from the IT systems of Bank BPH SA to the IT systems of Bank Pekao S.A. The operational integration was successfully completed in May.

Continued Tight Control of Overhead Costs

Total overhead costs (including depreciation) in 2008 amounted to PLN 3,787.7 million, PLN 34.1 million (0.9%) lower than combined overhead costs in 2007.

The overhead costs were kept under control despite additional expenses incurred as a result of the integration.

In 2008, the cost / income ratio improved and stood at 45.5%, against 45,7% in 2007.

Difficult Situation in the International Financial Markets and on the Warsaw Stock Exchange

The positive results of 2008 were achieved in an environment where, since the beginning of the year, market conditions remained under pressure from the difficult situation in the international financial markets and on the Warsaw Stock Exchange, negatively impacting the valuation of mutual funds assets and redemptions of mutual funds units.

Lower Risk Costs

Impairment losses on loans and advances amounted to PLN 293.7 million and were PLN 26.4 million (8.2%) lower than combined impairment losses on loans and advances in 2007 thanks to effective credit risk management. As a result of positive dynamic of loans volume and the sale of non-performing receivables transaction completed in September 2008, the ratio of impaired receivables to total receivables decreased from 7.7% to 5.5%.

Sale of a Part of Centralny Dom Maklerski Pekao S.A. (CDM)'s Operations

In 2008, the sale of part of the enterprise of CDM responsible for conducting corporate brokerage and investment banking services impacted on the Group's profit. The impact of the transaction on the Pre-tax profit of the Group is PLN 436.2 million and on the Net profit of the Group is PLN 352.8 million.

Sale of Non-performing Receivables

The Group's results for 2008 were influenced by the sale of non-performing receivables, completed in September 2008, with an impact on the Bank's net profit of PLN 72.7 million. As a result of this transaction the volume of gross loans, almost fully covered with provisions, has decreased in the amount of ca. PLN 955 million.

5.2 Factors which will affect the Results of the Group

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

According to preliminary estimates by the Central Statistics Office, in 2008 the Gross Domestic Product (GDP) rose by 4.8%. The main drivers of the GDP growth were individual consumption and investments (up by 5.4% and 7.9% respectively). However, the fourth quarter of 2008 brought a significant economic slowdown in Poland. Forecasts show that the trend will continue into 2009. The GDP growth rate is expected to decrease, albeit to a lesser extent than in other EU countries – our major trade partners. The anticipated deceleration is likely to be brought about by lower dynamics of exports, investments and individual consumption.

Falling foreign demand will be the major factor responsible for a deterioration of economic activity in the domestic company sector. Lower expectations regarding the demand side as well as constrained access to credit markets will be chiefly responsible for falling investment in 2009.

The main risk factors determining individual consumption dynamics in the forthcoming year will be a reduction in employment and greater constraints in access to credit for households. Individual consumption will be positively affected by the reduced PIT rate, anti-crisis measures declared by the government and facilitating the procedures of granting EU funds and thus should contribute to the strengthening of domestic demand.

The banking sector was influenced by limits to the scale of transactions on the inter-bank market in the last moths of 2008. A considerable fall in the inter-bank market and disproportion in liquidity among financial institutions resulted in credit rationing and simultaneously household deposits have been accumulated. Concerns about the liquidity structure of the financial sector and the performance of the real economy will have unfavorable effects on the banking sector's performance.

Worsened economic perspectives have pushed the key central banks to lower credit costs significantly. A faster than expected deterioration in the prospect for Polish economic growth and weaker inflation pressures have caused the Monetary Policy Council (MPC) to lower interest rates for the first time since 2006. Further cuts are expected to be made in the forthcoming year.

In the first three quarters of 2008 Ukrainian economy was growing strongly driven by booming domestic demand and favourable external conditions.

At the end of 2008 there was significant slowdown of Ukrainian economy as a result of steep fall in domestic and external demand due to the slump of global commodity prices, sharp economic slowdown in major trading partners, frozen credit activity and UAH depreciation. Real GDP growth decreased, industrial production shrunk and UAH exchange rate depreciated significantly against US dollar.

Two international organizations, the International Monetary Fund and the European Bank for Reconstruction and Development participated in the support aimed to restore the financial and macroeconomic stability of Ukraine struck by the global financial crisis.

5.3 Description of Major Sources of Risk and Threats

Economic Factors

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

Risk Management

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

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

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

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

The rules of managing each of the risks are defined in internal procedures and are subject to the assumptions of the credit and investment policies adopted annually by the Management Board and approved by the Supervisory Board. The rules of managing operational risk are determined by the objectives specified in the Operational Risk Management Strategy. Credit and market risks reports analyzing details of their development are provided the Management Board, Audit Committee and Supervisory Board.

Credit Risk

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

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

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

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

Credit Risk Concentration Limits

In accordance with the Banking Law, a bank's exposure to a single entity or to entities linked by equity or organisational connections may not exceed 20% of the bank's equity if any of such entities is a related party of the bank, or otherwise 25% of the bank's equity. Moreover, the aggregate amount of the bank's exposures equal or in excess of 10% of its equity may not exceed the large exposure limit which is 800% of the bank's equity. In 2008, the Bank did not exceed the maximum exposure limits defined in the Banking Law.

Sector Exposure Concentration

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

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

The rules for proceedings on residential mortgage secured loans

Bank Pekao S.A. holds documented rules for proceedings on residential mortgage secured loans in case of material and adverse changes at the real estate market or the negative macroeconomic scenarios are to realize. This is a ground for prompt reaction of the Bank when such events occur at the real estate market in Poland.

Credit risk management in the Subsidiaries located outside Republic of Poland

The process of credit risk management in UniCredit Bank Ltd. is consistent with the Credit Policy of the Bank Pekao S.A. Group and adopted to local environment in Ukraine. Since 2003 such a credit policy is annually approved by the statutory bodies of UniCredit Bank Ltd. and issued in the form of internal regulation bounding within UniCredit Bank Ltd.

Bank Pekao S.A. is exercising strict supervision and control over underwriting process in Unicredit Bank Ltd. All credit decisions are taken by the Management Board of Unicredit Bank Ltd., however for credits or total exposures above USD 5 million (or its equivalent in other currencies), only upon positive opinion of Bank Pekao S.A. The credit underwriting scheme is compliant with the standards of credit risk management that are currently enforced in Bank Pekao S.A.

Majority of the credit portfolio is attributable to corporate clients which include the largest companies in Ukraine. Lending activity in corporate is driven by working capital and investment loans.

Liquidity and Market Risks

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

The Asset, Liability and Risk Committee supports the Management Board in advising and recommending the appropriate action assuring proper realization of risk management policy. The Asset, Liability and Risk Committee is responsible, among the other things, for structural risk management of the Bank's balance sheet resulting from the liquidity gap between assets and liabilities, interest rate and exchange rate, market risk management, financial investment risk, operational risk and Pillar II (Basel II) risk. The Asset, Liability and Risk Committee decides on the process of assets and liabilities management, interest rate and investment policy management, and it controls the compliance of the risk exposures with internal limits and regulations.

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

Pursuant to KNB Resolution No 9 of March 13, 2007 on fixing liquidity norms binding for banks, from January 2008 the Bank started calculating regulatory liquidity norms on a daily basis.

As at December 31, 2008, liquidity norms were within the recommended limits.

Liquidity Risk

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

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

In accordance with to the Banking Supervisory Authority recommendations, the Bank introduced internal liquidity indicators that define the ratios of total adjusted maturing assets to total adjusted maturing liabilities.

In addition, the Bank employs contingency procedures to protect against a liquidity risk increase and against any substantial deterioration of the Bank's financial liquidity. The contingency 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 the sources specified in this plan are subject to periodic verification.

Market Risk

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

The main tool applied in the Group for market risk measurement is Value at Risk (VaR).

In normal market conditions VaR reflects level of one-day loss which won't be achieved with 99% degree of probability. Model is statistically verified on a current basis by comparison between VaR and daily profit or loss. Analysis for 2007 and also for 2008 confirmed model's adequacy.

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Interest rate risk

The classification of assets and liabilities according to their exposure to interest rate risk is the following:

– 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.
– 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.
– assets and financial liabilities not directly exposed to the interest rate risk: equity securities.

The Group is exposed to interest rate risk also 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, the Group aims to maximize the economic value of capital employed and achieving the planned interest result within the accepted limits. The financial position of the Group in relation to changing interest rates is monitored through the interest rate gap (revaluation gap) duration analysis simulation analysis and stress testing.

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. 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.

Business Risk

Business risk is defined as adverse, unexpected changes in business volume and/or margins that are not due to credit, market or operational risks.

Earnings at Risk concept is used in business risk calculation. This concept enables the calculation of unexpected negative deviation in the realised financial result from the level assumed in the financial plan. In compliance with the approach assumed by the UniCredit Group, EaR is assessed in one-year time horizon at 99.97% confidence level.

Real Estate Risk

Real estate risk results from volatility of the market value of real estates owned by the Bank. It covers the real estate portfolio of the Bank as well as capital holdings in which the Bank has its shares. The risk does not cover real estates acquired through enforcement or those constituting collateral.

Real estate risk is calculated in one-year time horizon with VaR under the variance-covariance method and at the assumed confidence level of 99.97%.

Financial Investment Risk

Financial investment risk stems from the Bank's banking book equity holdings in companies.

The main risk factor that impacts financial investment risk is changes in value of equity shares in subsidiaries, associates, other directly dependent companies and indirectly dependent ones, which are not consolidated within the Group.

Financial investment risk is assessed based on Value-at-Risk method in one-year time horizon and at the assumed confidence level of 99.97%.

Operational Risk

Operational risk management is based on internal procedures approved by the Bank's Management Board. These procedures are consistent with Recommendation M of the Banking Supervisory Commission, as well as the Banking Supervision Commission's Resolution No. 1/2007 dated March 13, 2007. The system of control over operational risk management covers the Bank and its subsidiaries.

The Supervisory Board supervises the control over the system of operational risk management and evaluation of adequacy and efficiency. Audit Committee supports The Supervisory Board in defining the directions of internal and periodic control, verification of adequacy and efficiency. It also helps to assure the appropriate identification and management of the risks, periodic reports analysis and evaluation of the entities responsible for the risk management.

The procedures define the system of operational risk management, evaluation, monitoring, control/mitigation, reporting, outsourcing and classification of operations.

Operational risk reports, including an analysis of operating events broken down by types of events and regions, a review of risk ratios, and an analysis of capital necessary to cover the operational risk, are provided to the Management Board, Supervisory Board and Audit Committee.

For the purpose of operational risk mitigation, the Bank pursues its security policy procedures, including:

– money laundering prevention,
– security of the Bank's facilities,
– business continuity,
– protection of banking secrecy,
– personal data protection,
– rules for the Bank units' cooperation with third parties.

Other operational risk mitigation measures include contingency plans, internal audit controls, requirement of information on operational events to Operational Risk Management Department (the necessity of disclosure results in enhancement of functional control in the Bank's entities and self-control among the employees), insurance schemes, ongoing enhancement of the process quality and the monitoring of areas on which the bank suffered loss. Moreover, in the event that any irregularities are identified, guidance is immediately provided concerning the scope, method and frequency of functional controls in the specific area of the Bank's operations.

Ongoing contacts between the employees of Operational Risk Management Department with the persons in charge of operational risk in the Bank contribute to raise the awareness of operational risk.

Compliance Risk

Compliance risk management aims at assurance of compliance of the Bank activities and its employees with the binding norms, in particular with the laws, the Bank's internal procedures, the regulations of the supervisory and control authorities, corporate governance and ethical norms. The Bank's activities must be also compliant with the directives of the UniCredit Group, providing they are consistent with the Polish law. Compliance risk management covers especially banking service area, financial service area and securities related area. The implementation and operating an effective compliance function play a vital role to maintain the Bank's goodwill, to strengthen a reputation and a confidence in the Bank's activities and its position.

The Compliance Office is responsible for the assurance of compliance of the Bank activities and its employees with the binding norms. The scope of tasks assigned to Compliance Office includes monitoring, identification, elimination and prevention of compliance risk.

In 2008, the Bank adopted the UniCredit Group guidance programme of compliance risk assessment method (CAM & CAP) for counteracting the money laundering and the financing of terrorism. The method incorporates practice guidance to assist the Bank in determination of the priorities which are crucial for key banking activities under risk compliance assessment and evaluation of currently existing processes and regulations in terms of selected banking activity areas. The method of risk assessment enables to evaluate the risk using applied risk map which project the connection between a respective risk category and determined divisions and operational functions within the Bank.

5.4 New Capital Accord – Basel II

2008 was the first year when Bank Pekao S.A. applied the Basel II guidelines developed by the Basel Committee for the purpose of computing capital adequacy requirements and capital adequacy ratio. The guidelines were introduced in EU Member States by virtue of Directives 2006/48/EC and 2006/49/EC, and in the Republic of Poland by virtue of Resolution No. 1 of the Banking Supervision Commission dated March 13, 2007, and subsequent regulations issued by Polish supervisory authorities.

Given regulatory requirements and the strategic nature of the changes to risk management and the methods of estimating our regulatory and economic capital following from the New Capital Accord, responsibility for the direct supervision over compliance with the New Capital Accord's requirements rests with the Bank's Management Board. The Board is periodically informed of all new projects connected with the implementation of the New Capital Accord and their results. The Management Board's opinion on questions related the introduction of changes resulting from the implementation of the New Capital Accord is submitted to the Supervisory Board for approval.

The Master Plan for the implementation of the New Capital Accord, drafted and approved in 2005, assumes the alignment of our operations with all three Pillars of the New Capital Accord, i.e. Pillar I (Minimum Capital Requirements), Pillar II (Supervisory Review), and Pillar III (Market Discipline).

In accordance with the adopted schedule, Bank Pekao S.A. computes capital adequacy requirements for credit and operational risk purposes under the Standardised Approach, remaining fully compliant with Pillar I requirements. In 2008, it also prepared and approved the Internal Capital Adequacy Assessment Process - the basic constituent of Pillar II. The disclosure requirements under Pillar III were met as at December 31, 2007.

The Master Plan was prepared in close cooperation with banking supervision authorities and under specific guidelines of UniCredit Group. The Plan constitutes an integral part of the UniCredit Group's scheme for phased implementation of the Advanced Approach, approved by the Italian regulator in March 2008. As a result of the approval, three out of four major companies of UniCredit Group have been applying the Advanced IRB Approach for the purposes of capital adequacy since 2008. A modified implementation scheme adopted for Bank Pekao S.A. assumes the application of the Advanced IRB Approach for credit risk as of mid 2010 and the AMA Approach for operational risk as of the beginning of 2010.

The process of achieving compliance with the New Capital Accord also involves meeting stringent organisational and IT requirements. Throughout the process, the Bank is supported by a reputable consulting firm and Kamakura Co., an IT system provider. The KRM system (Kamakura Risk Management) is fully compliant with the Standardised Approach requirements, its efficiency is above reproach, and its high effectiveness ensures the processing of 99.997% of the credit transactions volume each month. Presently, we are working, in cooperation with the system provider and the consulting firm, on the alignment of the IT system as well as our other systems with the requirements of the Advanced IRB Approach.

The general implementation framework of the capital adequacy system, embracing the chief elements of the Bank's internal capital management, the organisational structure, and the responsibility for the process, has been adopted by the Management Board and subsequently approved by the Supervisory Board. The Bank's detailed internal procedures concerning the estimation of regulatory and internal capital, capital management, and capital planning have also been approved.

Completion of the abovementioned tasks means that since January 2008, the Bank has been effectively in compliance with the Resolutions of the Banking Supervision Commission introducing the Basel II requirements set by the Basel Committee on Banking Supervision.

5.5 Capital Adequacy

A basic measure of capital adequacy is the capital adequacy ratio (CAR). The minimum capital adequacy ratio required by law equals to 8%. At the end of 2008 CAR for the Group amounted to 12,22 %, which is by 4,22 p.p. higher than minimum value. Group's CAR meets also the recommendations of the Polish Financial Supervision Authority, which recommended to take firm and effective actions which would guarantee maintenance of capital adequacy ratio at a safe level, not lower than 10%.

Regulatory capital requirements calculation as at December 31, 2007 and December 31, 2008 is based on Resolution No. 1 of the Commission for Banking Supervision of March 13, 2007. At the end of 2007 calculation was performed taking into consideration the specificity of the transition period, which was used by Bank Pekao S.A.; this means – among others – that the operational risk capital requirement was not taken into account in the total capital requirement.

The table below presents the basic data concerning Group capital adequacy as at December 31, 2008 and December 31, 2007.

(PLN Thousand)

Capital requirement	31.12.2008	31.12.2007
Credit risk	6,928,574	6,737,089
Exceeding large exposure limits	0	0
Market risk	217,082	465,777
Delivery and contractor risk	301,510	66,931
Exceeding exposure concentration limit	0	0
Operational risk	1,122,349	
Total capital requirement	**8,569,515**	**7,269,797**
Capital for capital adequacy ratio calculation		
Tier 1 capital	13,094,233	11,015,037
Tier 2 capital	0	0
Capital for capital adequacy ratio calculation	**13,094,233**	**11,015,037**
Capital adequacy ratio (%)	**12.22%**	**12.12%***

The level of CAR as at the end of 2008 is higher than as at the end of 2007 despite it includes the additional capital requirement concerning operational risk.

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

5.6.1 Retail Banking

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

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

Holders of the Eurokonto account are issued with an international, worldwide accepted, Maestro payment card. Maestro cards can also be used as ATM cards to make cash withdrawals from ATMs marked with the Maestro and Cirrus symbols both in Poland and abroad.

A wholly new line of personal accounts is being prepared for 2009, designed for each client segment: from an account for children, through an internet account, to accounts featuring a wide range of value-added services (like insurance, free of charge internet payment orders) for the most demanding clients.

The Assistance insurance will continue to be offered with the accounts, but with a much wider package of services, simplified procedure of taking out the insurance cover, and an option to purchase additional insurance.

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

In 2009, the Bank plans to expand the Express Loan offering to include such products as PEX dla Seniorow (Express Loan for Senior Clients) and PEX Konsolidacja (Express Consolidation Loan).

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

5.6.2 Affluent Customers

Affluent customers, who expect an individualised approach and non-standard solutions, are served in the VIP Advisory Centres model.

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

As part of the comprehensive dedicated product and service package, affluent clients are offered the Eurokonto VIP account bundled with a wide-ranging assistance insurance cover (Pakiet Pomocny), which protects its holders against the consequences of unforeseen adverse events. Additionally, the account comes with a free accident insurance. Its holders can also place standing orders free of charge and access the Pekao24 service, through which they have free access to their accounts through the internet, fixed-line or mobile telephone.

The most affluent clients of Bank Pekao S.A. are offered private banking services. Our private banking model guarantees top-class comprehensive and customized service. A personal banking adviser assists clients in choosing optimum strategies for investing their money both on the Polish financial market and abroad. Moreover, without compromising the stability and security of the investment, the adviser seeks to provide clients with significant and continuing financial benefits. In addition to the services falling within the standard offer for all retail clients, the Bank's portfolio includes tailor-made products and services to match the requirements and expectations of private banking clients.

Payment Cards

Retail clients can take advantage of our range of debit, credit and charge cards (MasterCard and Visa), suited to meet their needs. In the case of selected groups of clients (housing loan borrowers, Express Loan borrowers or clients using overdraft facility in the Eurokonto account) the Bank applies special terms of card credit based on the creditworthiness assessment made when the client applied for a loan facility.

The offering for affluent clients is complemented with a wide selection of payment cards, including platinum, gold and silver MasterCard and Visa credit cards, with a variety of value added services, such as insurance, loyalty programmes and affinity programmes.

The cards offer additional functionalities, such as the PIN change option, online credit card service including transfers from the card account, and transaction alerts in the form of text messages.

The second half of 2008 was a period of intensive work on migrating debit and credit cards to a new platform as well as on card parameterisation in the new card system which will ultimately support all payment cards issued by Bank Pekao S.A.

In 2009, development of the payment cards offering will focus on the activities leading to a strengthening of the Bank's competitive advantage in the following card's area: new functionality of cards, financial conditions and security. These activities will be supported by a new IT platform servicing all the Bank's cards.

The implementation of microprocessor technology in EMV standard will assure the strengthening of the security.

Saving Products

In 2008, the Bank enhanced its product range with structured certificates of deposits, thus presenting its clients with new attractive investment opportunities.

The first subscription of the certificates was closed in June 2008. Investors who subscribed for the Four Indices Certificates (Certyfikaty Czterech Indeksow) gained exposure to the following underlying assets: gold, agricultural produce, and Euro Zone and CEE equity indices, while enjoying guaranteed 100% capital protection on the redemption date. The Bank estimates that the subscription was one of the largest subscriptions of structured products on the Polish market in 2008.

As part of two further issues, taking place between July and August 2008, clients were offered European Emerging Market Certificates – Polish Companies, and European Emerging Market Certificates – Russian Companies, providing for greater portfolio diversification in terms of both available asset classes and geographical zones, again with a guarantee of 100% capital protection on the redemption date.

The Bank also expanded its insurance product range. In cooperation with TU Alianz Zycie Polska S.A. it introduced Alianz Polisa Lokacyjna, which is a life and endowment insurance. The product is an opportunity to invest money on terms similar to those available for a fixed-rate bank deposit, but offers the benefit of exemption from tax on capital gains, inheritance and donations.

In October 2008, the portfolio of saving products was supplemented with a new deposit product, namely the Dobry Zysk (Good Profit) savings account.

Dobry Zysk is available to all our existing and new clients. It is a free-of-charge account auxiliary to the Eurokonto package. Interest on the funds standing to the credit of the account is accrued in a way most favourable to clients: the interest rate assigned to a given amount is applied to the entire balance. Interest is compounded at month end and once a month the client may withdraw any amount from the account free of charge. Dobry Zysk is also available via Pekao24, our electronic banking platform.

This product, combining bank account functionalities with attractive interest rates, enjoys strong client interest. By the end of the year the clients accumulated almost PLN 2.1 billion is their saving accounts. During only three months from the launch of the product, almost 49 thousand accounts were opened. Likewise, we can boast a very high average value of deposits in the Dobry Zysk accounts: at the end of 2008 it was over PLN 42 thousand, and even as much as ca. PLN 66 thousand in the affluent clients segment.

Moreover, clients with surplus cash can choose from a wide spectrum of investment products such as more than 20 Pioneer Pekao TFI funds. In 2008, as part of its cooperation with TFI Pioneer, Bank Pekao S.A. added new funds to its existing offering.

In June 2008, a specialised SUPER BASKET investment plan was introduced. It enables clients to systematically invest in units of several Pioneer funds, comprising a so-called Funds Portfolio. Under the SUPER BASKET investment plan, clients can currently choose from among six Funds Portfolios, using diverse investment strategies. These include:

- Portfel Zrownowazony Rynkow Wschodzacych (Emerging Markets Balanced Portfolio),
- Portfel Wzrostowy Europejski (European Growth Portfolio),
- Portfel Wzrostowy Globalny (Global Growth Portfolio),
- Portfel Zrownowazony Rynku Polskiego (Polish Market Balanced Portfolio),
- Portfel Dluzny (Debt Portfolio),
- Portfel Wzrostowy Rynku Polskiego (Polish Market Growth Portfolio).

The plan has been designed so as to enable clients to phase the beginning of their investments over time.

Other saving products are also available: PAK PRO and PAK JUNIOR saving programmes, Indywidualne Konto Emerytalne (Individual Retirement Account), Otwarty Fundusz Emerytalny Pekao (open-end pension fund), and Prosperita, an insurance and investment programme.

Dom Maklerski Pekao (Dom Maklerski)

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

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

The 2008 operations of Dom Maklerski concentrated on the implementation of brokerage products and services within the structures of Bank Pekao S.A. The efforts were designed to facilitate access to investment products at the Bank's branches, with particular focus on strengthening the relations with clients transferred from Bank BPH SA.

Dom Maklerski clients were migrated into the IT systems of Bank Pekao S.A. The Pekao24Makler internet system was combined with the Pekao24 internet platform. Currently, by using the same login and password, the brokerage services clients of Bank Pekao S.A. can have automatic access to both their bank and brokerage accounts.

As part of the efforts designed to develop the network and support the distribution of banking investment products at Bank Pekao S.A. branches, almost 480 limited-service Dom Maklerski Order Acceptance Points were opened to handle subscriptions for structured certificates of deposit issued by Bank Pekao S.A.

Dom Maklerski engaged chiefly in the intermediation in transactions for individual clients on the secondary market of the Warsaw Stock Exchange, and on CeTO (over-the-counter market). In 2008, Dom Maklerski's share in stock exchange trading remained stable, at nearly 1% on the stock market and 2.2% on the futures market.

As at December 31, 2008, Dom Maklerski kept almost 157 thousand brokerage accounts. The value of client assets in the accounts, including the structured certificates of deposit, amounted to almost PLN 4.5 billion.

5.6.3 Business Customers (Small and Micro Enterprises)

Business clients are offered a wide spectrum of products and services, including bank accounts, term deposits, payment cards, loans, guarantees in domestic and international transactions, foreign trade finance, and packages of comprehensive business banking services.

In June 2008, the Bank launched a new family of Moj Biznes (My Business) packages, dedicated to small and medium-sized enterprises. The packages are specially designed sets of banking services and products, offered jointly for a single monthly fee and under a single contract. The packages are addressed to corporate clients at various stages of business development and tailored to suit their specific requirements. The My Business Packages family includes:

- Moj Biznes Startowy – for companies in the initial phase of operations,
- Moj Biznes – basic functionalities for the widest group of firms,
- Moj Biznes Dynamiczny – for firms carrying out numerous transactions,
- Moj Biznes FX – for firms active in international trade,
- Moj Biznes Premium – the package encompassing the largest number of functionalities.

The packages feature the best solutions available on the market, including a dedicated modern internet banking service called PekaoFIRMA24, the winner of the EUROPRODUKT title. On top of standard functionalities like money transfers, access to information on the account balance and the history of executed or planned transactions, or stopping a lost payment card, the system has a unique solution called Wielopodpis (Multi-Signature), by means of which internet payments may be accepted jointly by more than one person. Another new feature is internet autodealing, a system enabling its user to receive currency exchange rates directly through the internet.

In 2008, the packages were awarded the title of Roza bez kolcow (Rose without Thorns) by Home & Market in the category of the best business accounts.

In the second half of 2008, Bank Pekao S.A. conducted two advertising campaigns:

- for the Moj Biznes package, with customisation as the key theme,

- Otwarty kredyt dla Firm (Open Credit for Businesses), a campaign promoting short-term loans for small and medium-sized companies; its purpose was to promote the idea that when running your business it is good to have an access to an open credit facility at Bank Pekao S.A.

5.6.4 Corporate Banking

We are the market leader in the provision of banking services to large and medium-sized enterprises. Our corporate product mix is among the most comprehensive ones available on the market. The Corporate Banking, Markets and Investment Banking Division is responsible for overall service for corporations, institutions and public sector clients, starting from the concept for and organisation of the sales network, service processes, development of the product and services portfolio, to tailor-made solutions.

With quality of service for corporate clients in mind, the Bank keeps enhancing its products and services and implements tools aimed at facilitating their sale.

Bank Pekao S.A. has business relations with more than 40% of the companies which meet our criteria for qualifying as corporate clients.

The leading position of the Bank in the corporate client segment is also confirmed by research made by GfK Polonia, an independent research agency, on a sample of 1,000 enterprises with annual sales of PLN 10 million or more.

Our service model for corporate clients is based on the key role of a dedicated account manager responsible for identifying the client's needs and selecting suitable products and services. The account managers are assisted by product specialists.

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

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

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

We also provide other financial services, including guarantees and sureties issued in domestic and foreign transactions and through factoring and leasing subsidiaries. We are a leading arranger of project financing, M&A financing and debt security issues. Our clients have access to a full suite of transactional products, as well as a wide range of money market and FX products, to be used either in day-to-day operations or to build long-term risk hedging structures with respect to currency or interest-rate risk.

Management of the Sales Process and Customer Relations

Focus CRM System

The Focus CRM system is a sophisticated tool designed to comprehensively manage the sales process, marketing activities, and corporate customer relations. As a single aggregated resource of key information indispensable for managing customer relations, it is the Bank's major platform for the distribution network. The system reflects the business model underpinning the Bank's Corporate Banking Division. It has been continually upgraded and expanded with new functionalities, resulting in enhanced client service standards and new individualised business strategies for clients.

BusinessLine

The operating scope of the Bank's BusinessLine service includes primarily full support of corporate clients in sale-related issues, post-sale, information and complaint processes. The service also comes as a useful tool supporting marketing actions. Clients may communicate with BusinessLine both through electronic mail and by phone.

In 2008, BusinessLine was one of the main communications channels and contact points for corporate clients, as well as advisers, during the migration to the Bank's systems of the clients taken over from the part of BPH SA integrated into Bank Pekao S.A. in 2007. Clients were able to access information on individual functionalities and log-in procedures as well as to report concerns and lodge complaints, if any.

As at the end of 2008, the BusinessLine service supported almost 15,000 corporate clients, which makes it the largest customer service centre for corporate clients in Poland.

Bank Accounts

In 2008, we finalised the development of the Pekao Integrated Agreement, that is the standard documentation of a current account and account-related services. The Pekao Integrated Agreement is a unique product on the financial market, supporting access to the entire portfolio of financial services connected with a bank account, as well as the handling of documentation, all based on a single document. Now the Bank's client signs one agreement and is able to order all chosen products and services at any time, without additional formalities. The Pekao Integrated Agreement covers bank accounts, term deposits, the PekaoPlace service, internet banking system PekaoBiznes24, payment cards, bank-teller and derivative transactions, payment orders, Autowyplata (auto-withdrawal – management of a client's mass cash liabilities) and Pekao Collect (supporting mass payments with the simultaneous identification of the payer).

Transactional Services

Our Transactional Services are geared to offer corporate clients modern solutions in the area of transactional products, trade finance, internet and electronic banking.

In the first half of 2008, we completed the migration of clients from Bank BPH SA's IT systems to Bank Pekao S.A.'s IT platform after the merger with the separated part of BPH SA in 2007. The paramount objective of the process was to maintain the scope of functionalities available to the clients at Bank BPH SA on the one hand, and to leverage both banks' expertise to offer new comprehensive solutions on the other.

PekaoTemida

In 2008, PekaoTemida, a service for courts, was implemented. This tool, interoperating with the PekaoBiznes24 system, enormously facilitates transactions performed by courts, which are obliged to manage interest on deposits made by individuals or institutions in connection with pending court proceedings.

eFinancing

eFinancing is a package of unique programmes supporting the financing of current trade receivables and used by the Bank to buy out and/or finance invoices issued in the course of commercial relations between suppliers and customers. The product may be flexibly customised and supports buy-out/financing under one of six financing models, depending on the client's needs and expectations. eFinancing is fully integrated with the PekaoBiznes24 internet platform, thus ensuring electronic service of orders, reporting and ongoing monitoring.

PekaoTrade

PekaoTrade enables comprehensive handling of documentary products: letters of credit and documentary collection. Integrated with the PekaoBiznes24 internet platform, it supports clients in managing trade transactions, from order preparation to transaction settlement, and offers unlimited access to complete information on both current and completed transactions. In 2008, over 70% of all transactions were submitted electronically.

SEPA Transfers

On December 8, 2008, Bank Pekao S.A. joined the SEPA project (Single Euro Payment Area), which has enabled the clients to receive euro transfers from each country of the Single Payment Area on the same simple terms and within a guaranteed short time.

Direct Debit

In 2008, the Bank significantly developed the direct debit payment on the Polish market. It was possible thanks to the launch of the e-Zgoda (e-consent) service, which supports creditors' access to information concerning electronic activation and inactivation of direct debit orders in the Pekao24 system. In 2008, the Bank handled around one million direct debit transactions.

Payment Cards

The Bank's offering includes a broad range of payment cards in the MasterCard and VISA systems.

In 2008, the offering for corporate clients was enhanced with deferred payment charge cards. A client may choose among the six offered settlement cycles in order to select the optimum payment deadline, determine an additional grace period, and choose the form of debt repayment.

The fourth quarter of 2008 saw the completion of work designed to enhance the Bank's product portfolio with a new debit card VISA Corporate Debit Pekao, supporting remote transactions, for instance purchases via the internet or by phone.

In 2008, the total number of the issued cards exceeded 23 thousand.

Electronic and Internet Banking

PekaoBiznes24

PekaoBiznes24 is a state-of-the-art internet banking system for corporate clients. The system facilitates the management of funds, as it supports, during business hours, online settlements between clients holding bank accounts with Bank Pekao S.A., and ensures short times of settlements with business partners holding their accounts with other banks.

PekaoBiznes24 is the most popular internet banking system for corporate clients, currently supporting over 12 thousand active users. Bank Pekao S.A.'s leading position in this market segment is reflected in the Bank's over 20% share in total transfers ordered by corporate clients via the internet.

In 2008, the PekaoBiznes24 system was upgraded to support new products, including automated international transfers with an option to negotiate/ accept the exchange rate, cash supplies management (PekaoCash), postal orders (PekaoPrzekaz), trans-border orders EuropeanGate and GAITS, eFinancing, PekaoTrade and PekaoPlace. Furthermore, the system can now be used to open term deposits and submit applications online. Numerous improvements were made to further the integration of PekaoBiznes24 with financial and accounting systems: multiple new data import and export formats were made available, and the system security was enhanced through the introduction of a new log-in procedure, additional control parameters and qualified certificates.

Within the existing PekaoBiznes24 functionalities, changes were made with respect to presenting information, availability of electronic applications, and the scope of data accessible in the transaction history and bank statements.

For 2009, we plan further projects designed to improve the functionality of the PekaoBiznes24 system. We intend to continue work on ensuring the highest security standards, developing new innovative products, including the autodealing module for currency market transactions and deposits, a leasing module, mobile access and new types of trans-border transactions. Particular stress will also be placed on the development of new alternative communication channels connecting the clients' financial and accounting systems with the Bank.

Proffice

Proffice is an e-banking platform dedicated to corporate clients. Via the platform, they can effectively manage their accounts, which includes a possibility of effecting domestic and international transfers, download account statements, generate reports and communicate with the Bank regarding transmission of data.

In 2008, the Proffice system was upgraded to enable online/VPN communication and the processing of SORBNET orders. In 2008, the system processed a total of over 12 million orders.

Investment Banking and Structured Finance

In 2008, our position at the helm of the Polish market of structured debt products was further reinforced, as confirmed by the record number of 50 structured transactions executed with the Bank's participation. The Bank acted as the arranger or co-arranger in 14 transactions with an aggregate nominal value of approximately PLN 3 billion.

A large number of new structured transactions involved financing of leveraged buyouts and M&A deals. In 2008, the Bank arranged nine such loans totalling more than PLN 1 billion. A significant proportion of the leveraged buyouts were executed with the participation of leading European private equity funds, which attests to the competitiveness of the Bank's solutions on the international market.

In 2008, the Bank came first in the ranking of syndicated loans, organised by Rzeczpospolita daily. It topped the tables in terms of both the number of transactions and the total commitment under syndicate agreements.

Commercial Real Estate

In 2008, the Bank bolstered its position as leader in the commercial property finance sector. During the downturn on the residential property market, we acted more selectively and chose the best and most secure structured transactions in this market segment.

We had applied a conservative approach in property finance even before the turmoil that reached the Polish market in the second half of 2008, therefore, we did not have to dramatically tighten our credit policy and could continue to finance good commercial real estate projects. We can boast a diversified and stable portfolio of commercial property.

Our off-balance-sheet liabilities in the commercial real estate sector are close to PLN 10 billion and the on-balance-sheet credit exposure amounts to approx. PLN 5 billion.

We were involved in numerous high-profile transactions executed on the commercial real estate market, both as a Syndicate Agent and member of bank syndicates.

Financial Market

In 2008, Bank Pekao S.A. was the leading market maker in all segments of the Polish interbank market, which is attested to by the numerous titles and awards we were granted. The prestigious Global Finance magazine named Bank Pekao S.A. Number 1 on the FX spot market in the PLN category. The Ministry of Finance awarded the Bank the title of Treasury Securities Dealer; in the contest, the Bank ranked second. Despite the crisis on the financial markets and liquidity constraints in the banking sector, the Bank remained active, executing transactions for both its trading and banking books.

Cooperation with Clients with Respect to Issues of Commercial Paper

Notwithstanding the crisis that hit the financial market in the second half of 2008, we continued in the lead of the commercial paper market segment, with a nearly 22% market share, outperforming the runner-up by almost 5 p.p. In 2008, Bank Pekao S.A.:

– arranged or co-arranged 14 deals (or 50% of all deals executed in Poland in 2008), valued at nearly PLN 11 billion and representing over 60% of the total amount of the transactions on the Polish market,

– executed the two largest issues of medium-term paper in Poland, for two of the Bank's clients (PLN 500 million and PLN 350 million),

– executed nearly 60% of all issues of corporate medium-term debt securities on the Polish market in 2008, totalling in excess of PLN 1 billion,

– participated in all major transactions on the Polish market.

As at the end of 2008, Bank Pekao S.A. ran over 60 active commercial paper programmes, with the value of debt securities issued through its agency totalling nearly PLN 10 billion.

Custodial Activities

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

In 2008, the Bank continued to provide domestic and foreign financial institutions with custodial services in the territory of Poland, securities lending to ensure liquidity of their settlements, and settlement of derivatives market transactions. In the same period, the Bank won new clients, including foreign custodian banks and brokerage firms operating as remote members of the WSE, for which it acts as the clearing agent. Furthermore, we held on to our market leader position in depositary receipt programmes, handling more than 50% of such programmes.

Comprehensive Services for the Public Finance Sector

In 2008, the Bank successfully expanded the cooperation with municipal entities, thus increasing our commitment and improving the profitability of the business. The Bank won numerous tenders to provide financing to Poland's major cities and provinces, including Wroclaw, Lublin, Lodz, Krakow and Torun, and the provinces of Lublin and Warsaw. We also provide ongoing support to municipal budgets (accounts and settlements handling) for the cities of Krakow, Szczecin, Lublin, Olsztyn and Rzeszow.

2008 was also devoted to intensive development and implementation of innovative project finance structures for local public sector organisations. The huge infrastructure needs and the approaching Euro 2012 football championships, combined with tighter budgetary restrictions faced by local governments and the obligations concerning the absorption of EU aid funds, mean that currently a far larger number of investment projects need to be financed through off-balance-sheet arrangements. As a result of our efforts, we secured mandates to arrange financing for multiple investment projects, including those co-financed by the EU and implemented by municipal companies and public-private partnerships.

5.6.5 Cooperation with International and Domestic Financial Institutions

Bank Pekao S.A. maintains correspondent relations with over 2,400 foreign and Polish banks. It has 88 nostro accounts held with 64 foreign banks, five currency accounts at two Polish banks (for the purpose of settling pension and retirement benefits with the Social Insurance Institution) and four accounts for custodial transactions. The Bank maintains 232 loro accounts for 203 foreign banks and other financial institutions, and 50 currency accounts for 16 Polish banks, while also executing transactions for the benefit of clients of other Polish banks. In addition, Bank Pekao S.A. provides services consisting in purchase and sale of foreign means of payment for a few dozen Polish banks or Polish branches of foreign banks.

In 2008, the Bank concluded new framework agreements with foreign banks whereby they undertook to recommend Pekao S.A.'s corporate offer to their clients. On mutual terms, our corporate clients receive similar support abroad.

Our cooperation with international financial institutions was expanded to include such organisations as the European Investment Bank and Kreditanstalt für Wiederaufbau. Credit and guarantee facilities broadened our capabilities with regard to long-term financing of small and medium-sized enterprises as well as public sector entities. We also benefit from European Commission grants awarded to banks within the framework of such programmes as SME Finance Facility, SME Guarantee Facility, Municipal Finance Facility and Municipal Infrastructure Facility.

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

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

In 2008, we organised a series of conferences targeted at businesspeople and companies representing the SME sector. The conferences, held under the auspices of the Ministry of Regional Development and Fundusze Europejskie (European Funds) magazine, attracted more than 2,800 entrepreneurs and 400 bank advisers. Conference sessions were conducted by banking experts and representatives of Marshall Offices, who presented the potential of European funds and offered practical advice on the drafting of applications and the application process.

The Bank continues to develop and update the internet search engine for information about the EU funds – a completely innovative project in Poland. Developed by the Bank's experts, the tool enables its users to find information about the possibilities offered as part of individual EU funds. Both the search engine and the EU newsletter devoted to current legislative changes and UE programmes to be launched are available on the Bank's website.

5.6.7 Distribution Network for Products and Services

Bank Pekao S.A. is a universal commercial bank providing a full range of banking services to individual and institutional clients, both in Poland and abroad. The Bank Pekao S.A. Group comprises financial institutions operating on the banking, asset management and pension funds markets and providing brokerage, leasing and factoring services.

We offer our clients a broad distribution network with ATMs and outlets conveniently located throughout Poland. The network is supported by Client Adviser teams and Private Banking outlets.

	31.12. 2008	31.12.2007
Total number of outlets	1,041	1,058
Total number of own ATMs	1,891	1,885

The number of clients taking advantage of our alternative distribution channels, i.e. the call centre and the internet banking platform, is constantly growing. The Pekao24, PekaoBiznes24, and PekaoFIRMA24 systems, dedicated to retail clients, corporate clients and SME segment clients, respectively, facilitate the management of financial assets, and the scope of their functionalities is gradually expanded.

As at the end of 2008, the Bank kept 4,337.6 thousand PLN-denominated current accounts, 180.4 thousand mortgage loan accounts, and 618.3 thousand of customers hold a consumer loan accounts.

	31.12. 2008	31.12. 2007
Number of PLN-denominated current accounts (in thousand) *	4,337.6	4,179.7
of which packages (in thousand)	3,228.6	3,205.1
Number of mortgage loan accounts (in thousand) **	180.4	181.0
of which PLN-denominated (in thousand)	123.8	117.1
Number of clients holding a consumer loan account (in thousand) ***	618.3	605.3

* Number of accounts including pre-paid card accounts.
** Retail clients' accounts.
*** Including Pozyczka Ekspresowa (Express Loan).

The services offered via alternative channels include all banking services provided via fixed-line and mobile telephones and the internet.

Alternative Distribution Channels of Bank Pekao S.A. services

Pekao24

The Pekao24 system supports all banking services provided over fixed-line telephone, mobile telephone and the internet. It comes as an integral part of the Eurokonto package offered at our traditional outlets to retail clients, affluent clients, private banking clients, as well as clients representing the segment of small and micro enterprises.

With Pekao24 our clients obtain access to their accounts through the following three services:

– TelePekao – access to an account via telephone, with either automated transaction execution (using telephone keys) or a consultant's assistance;

– PekaoSMS – access to an account via an SMS sent from a mobile phone;

– PekaoInternet – access to an account via the internet.

The scope of functionalities offered by Pekao24 includes access to information on balances and transactions in the account, execution of transactions such as transfers to domestic and foreign banks, mobile phone top-up, opening of term deposits, mutual fund service, and execution of secure online payments for goods and services directly from a bank account (as part of the Pekao24Przelew service).

The Pekao24 system also supports the management of brokerage accounts maintained by Dom Maklerski Pekao and Centralny Dom Maklerski Pekao S.A.

The solutions we implemented translate directly into measurable benefits to our clients, in the form of cost savings and shortened execution times for individual instructions; however, the clients may still place their instructions at the Bank's branches. The system enables our clients to monitor their funds accumulated at the Bank on an ongoing basis. The possibility of checking the account balance at any time, and flexibility in administering funds gives them a feeling of security, while regular monitoring of credits and debits to the account facilitates the planning of future expenditure.

The scope of transactions supported by the Pekao24 system is continually expanded. In 2008, the following functionalities were added:

– termination of term deposits opened through Pekao24 or at a Bank's branch,
– two new payment forms: Polecenie zaplaty (Direct Debit) and Pekao Zlecenie, facilitating timely settlements of invoices,
– possibility of placing instructions which previously could only be placed with the assistance of a TelePekao consultant, including an instruction to change the transactional monthly limit; to ensure security of this service, before the instruction is executed, it is confirmed by calling back the client,
– transfers from credit cards to the client's own accounts, thanks to which credit card limits may be used not only to pay for goods purchased at shops, but also to settle any invoices,
– the scope of SMS transaction alerts within the Pekao24 system was enhanced with information on debit card transactions, including cash withdrawals, payments, and checking the account balance,
– the PekaoInternet service and TelePekao consultants now accept applications for credit cards handled in the Cams system (Pekao MasterCard Credit Gold, Pekao MasterCard Credit Silver, Pekao MasterdCard Credit, Pekao MasterCard Maltanska, Pekao MasterCard Fundacja Na Ratunek Dzieciom, Pekao Visa Credit Gold, Pekao Visa Credit Silver and Pekao Visa Credit TOPR),
– a specialised Super Basket investment plan may be opened as part of the functionality supporting investing in units of Pioneer funds through the Pekao internet service or with the assistance of a TelePekao consultant,
– foreign-currency transfers to domestic and foreign banks,
– a new, enhanced SSL security certificate issued by VeriSign, which ensures unambiguous identification of the entity for which the certificate has been issued,
– on-line statements for payment cards and closed deposits,
– the clients of Bank Pekao S.A. and Dom Maklerski Pekao were offered a possibility of linking their bank account and investment account; this functionality enables quick transfers of funds from a selected current account at the Bank to a specified brokerage account,
– the scope of transactions connected with the Pekao24 service and executable at the Bank's branch was extended to include: cancellation of future-date transfers, suspension or resumption of cyclical transfers or cyclical mobile top-ups, change in address data, activation of a single-use code card when no card is active,

– simplified process of Pekao24 activation at a branch, thanks to a new software application for the Bank's employees supporting the service management.

As at the end of 2008, the total number of the Bank's retail clients who can use the Pekao24 system as part of their Eurokonto packages exceeded 2 million, including 841 thousand clients who logged in to the system through electronic services at least once. Over 42 thousand clients from the segment of small and micro enterprises have entered into agreements for active use of the Pekao24 system; of that number, over 39 thousand clients logged in to the system at least once.

PekaoFIRMA24

The PekaoFIRMA24 system, dedicated to small and medium-sized enterprises, supports internet-based transactional services and comprehensive funds management, all up to the highest security standards.

The system, launched in June 2008, had been developed in response to the needs of SMEs. The system is available as part of the Moj Biznes package or as a separate service.

PekaoFIRMA24 offers a number of solutions particularly valuable to the clients for whom it was designed, including:

– quick preparation of a company's payments thanks to data exchange (file import and export) between PekaoFIRMA24 and a company's other systems,
– generation of financial reports tailored to a user's requirements, based on either Bank-provided templates or forms defined by the client,
– optional approval of a payment by more than one person; defining groups of business partners,
– order bundling option,
– autodealing, a functionality supporting foreign transfers executed at preferential exchange rates.

The PekaoFIRMA24 system was first offered exclusively to the clients migrated from BPH SA's Sez@m system. After the migration was completed, in June 2008 the system was also offered to new clients of Bank Pekao S.A.

As at the end of 2008, PekaoFIRMA24 was used by nearly 93 thousand companies.

5.7 Major Areas of the Group's Activities

Bank Pekao S.A. is a leading provider of banking services, which groups together a number of financial institutions active in the asset management, pension funds, brokerage services, leasing and factoring markets. Below are described the key areas of operations of the Group companies from the financial sector.

5.7.1 Banking Activity

UniCredit Bank Ltd.

UniCredit Bank Ltd. in Ukraine operates in Ukrainian market as 100% subsidiary of Bank Pekao S.A. It pursues its activity through a network of 61 branches developed as a “green field project” over last three years, providing services for 139.9 thousand individual customers and almost 2.3 thousand corporate clients. UniCredit Bank Ltd. in 2008 achieved net profit on the level of 35.2 million PLN with positive evolution of revenues and tight cost control. The bank keeps a sound capital structure with capital adequacy ratio at the level of 13.06% at the end of 2008.

Since first signals of the market deterioration in Ukraine, strict internal control measures were put in place in order to ensure the effective supervision over the lending and operating activities of UCB, especially in the risk management area.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In 2008, Pekao Bank Hipoteczny, as a specialised mortgage bank, continued to pursue its strategy focused on the creation of a secure loan portfolio, by advancing housing loans to individuals, as well as loans for purchase, construction, refurbishment and modernisation of commercial property. Additionally, the Bank's offering included refinancing of loans taken out from other banks or refinancing of downpayments invested in real property.

In 2008, in order to mitigate its exposure to foreign exchange fluctuations, the company reduced lending in foreign currencies (especially in CHF), in line with the recommendations issued by the Polish Financial Supervision Authority and the policy followed by the Bank Pekao S.A. Group.

Pekao Bank Hipoteczny has finished to expand its domestic distribution network, comprising outlets located in Gdansk, Krakow, Poznan, Warsaw and Wroclaw. Currently, its distribution network spans Poland's five most attractive local markets.

5.7.2 Brokerage Services

Centralny Dom Maklerski Pekao S.A. - CDM

CDM is a brokerage house with the longest presence on the Polish capital market. It offers a full range of services related to intermediation in aftermarket trading in securities, from the opening of an investment account to the execution of trades. The same scope of services is offered on the futures and derivatives markets. The main strength of CDM lies in its professionalism and comprehensive offering.

As at the end of 2008, CDM maintained 156.9 thousand investment accounts and its market share was 15.3%. CDM offers on-line access to investment accounts, allowing its clients to buy and sell all instruments listed on the Warsaw Stock Exchange and on the OTC market (CeTO) via the internet. As at December 31, 2008, the company handled 31.0 thousand on-line accounts, 4.6 thousand more than at the end of 2007.

At the end of 2008, CDM cooperated with twelve investment fund companies and three transfer agents, distributing at its Client Service Points units of 64 mutual funds, of which 13 were umbrella funds comprising 111 sub-funds.

In line with its strategy whereby Bank Pekao S.A. focuses on retail brokerage as part of the integrated service mix offered by the Bank to its retail clients, on January 28, 2008 Centralny Dom Maklerski Pekao S.A. and UniCredit CA IB Polska S.A. signed an agreement providing for the sale of part of CDM's business engaged in the provision of brokerage services to institutional clients and investment banking services.

Secondary Market Services

2008 was an exceptionally bad year for the brokerage industry. The value of equity trades executed on the Warsaw Stock Exchange in 2008 amounted to PLN 321 billion, compared with PLN 461 billion in 2007 (a decline of 30%). Since July 2007, the WIG stock-exchange index has been steadily sliding, from the historical high of 67,568 points recorded in that month, to 27,427 points as at the end of 2008 (down by a staggering 59%).

In 2008, the company's share in the transactions executed on the Warsaw Stock Exchange was as follows:

– 20.4% share in the value of trading on the bonds market,
– 2.9% share in the value of trading on the equity market,
– 4.2% share in the value of trading on the futures market.

5.7.3 Assets Management

Pioneer Pekao Investment Management S.A. – PPIM

Under a management agreement, PPIM manages the assets of mutual funds comprising Pioneer Pekao TFI, an investment fund company. PPIM's service offering includes also management of private clients' portfolios on a fee basis.

As at December 31, 2008, the company had 1,065 thousand open accounts, which represents a decrease of over 205 thousand since the beginning of 2008. At the end of 2008, the value of net assets of mutual funds managed by Pioneer Pekao TFI S.A., a company managed by Pioneer Pekao Investment Management S.A. (in which Bank Pekao S.A. holds a 49% equity interest), amounted to PLN 12,308.4 million and was lower by PLN 16,409.1 million relative to the end of 2007. The value of assets declined due to unfavourable market conditions, which depressed the prices of equities and other securities, prompting clients to withdraw their funds. The negative effect of the revaluation amounted to approx. PLN 8,359.7 million.

The value of net assets of mutual funds managed by Pioneer Pekao TFI S.A. is presented in the table below.

(PLN million)

	31.12.2008	31.12.2007
Net Asset Value	**12,308.4**	**28,717.5**
- bond and money market funds	3,526.1	4,550.5
- equity funds	3,101.6	10,564.7
- balanced funds	5,680.7	13,602.3

As at December 31, 2008, the net value of assets of mutual funds managed by Pioneer Pekao TFI S.A. acquired through the agency of Bank Pekao S.A., CDM Pekao S.A. and Xelion. Doradcy Finansowi Sp. z o.o. amounted to PLN 11,075.9 million (90.0% of total assets).

Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. - Pekao Pioneer PTE

Pekao Pioneer PTE is the management company of an open-end pension fund (OFE), in which pension contributions are pooled and invested with the aim of their distribution to unit holders after they have reached retirement age.

As at December 31, 2008, the number of open-end pension fund accounts was 351.7 thousand and was 59.9 thousand higher compared to December 31, 2007. The number of persons with at least one contribution credited to their accounts was 324.2 thousand.

As at the end of 2008, the value of the pension fund's net assets was PLN 2,218 million, which represents a decline of nearly PLN 27 million from the end of 2007. As at the end of 2008, PTE held a 1.6% share in the market of open-end pension funds, with no year-on-year change.

In the period September 2005 – September 2008, Pekao Pioneer PTE achieved the highest rate of return on investment among all pension funds.

5.7.4 Leasing Activity

Pekao Leasing Sp. z o.o. – Pekao Leasing

Pekao Leasing provides financial services supporting purchases and sale of fixed assets, i.e. vehicles, plant and equipment, and office space, primarily in the form of operating and finance leases.

In 2008, the company concluded 5,014 new agreements. The value of leased assets stood at PLN 833.6 million. 58% of the leased assets were vehicles and 29% were plant and equipment.

Under an arrangement providing for mutual cooperation between the company and Bank Pekao S.A. in the area of sale, the value of assets leased via the Bank's branches amounted to PLN 397.2 million, which accounts for 48% of the company's total sales.

Pekao Leasing Holding S.A. – Pekao Leasing Holding

Pekao Leasing Holding is a holding company with indirect subsidiaries:

- Pekao Leasing i Finanse S.A, providing financial services supporting purchases of fixed assets in the form of operating and finance leases,
- Pekao Auto Finanse S.A, established to provide services related to vehicle leasing, including lease of car fleets with a management option.

In 2008, the company concluded 6,093 new agreements. The value of leased assets was PLN 1,027.8 million, 63.19% of the leased assets were vehicles and 36.81% were plant and equipment.

The value of assets leased via the Bank's branches amounted to PLN 411.8 million.

5.7.5 Other Financial Services

Pekao Fundusz Kapitalowy Sp. z o.o. – PFK

PFK exercises ongoing corporate supervision and actively searches for investors interested in acquisition of shares in its portfolio companies.

Pekao Faktoring Sp. z o.o. - Pekao Faktoring

Apart from factoring services (recourse and non-recourse factoring), the company offers related assistance, such as collecting information on debtors' standing, payments collection, debt recovery, settlements accounting and monitoring of payments on an ongoing basis. Additionally, the company offers settlement of mass transactions, financial advisory and consulting services regarding choice of business financing methods, as well as extends factoring-related loans. The company cooperates with Bank Pekao S.A. in developing new sales channels and enhancing sales through the existing ones.

Pekao Financial Services Sp. z o.o. – PFS

The company acts as a transfer agent for all participants of the asset management market, i.e. mutual funds, pension funds, employee pension plans and insurance firms.

In 2008, PFS continued its strategy designed to strengthen its leadership position on the market of transfer agents in Poland. The number of investment and pension fund accounts handled by PFS reached 2.6 million, a 2.2% decrease on the end of 2007.

Xelion. Doradcy Finansowi Sp. z o.o. – Xelion

The company focuses on serving affluent clients, who require a highly individualised approach.

In 2008, the company continued to develop a comprehensive offering, taking into account the challenging conditions prevailing on the equity market. As part of this effort, it launched a number of regular savings and capital protection products, while extending its offering to include new domestic and foreign funds.

As at December 31, 2008, Xelion's offering included in particular access to 139 domestic and 151 foreign funds, 16 asset management investment strategies and 57 unit linked bancassurance products, property and life insurance and individual retirement accounts. As at the end of 2008, the value of clients' assets under Xelion's management exceeded PLN 1.0 billion.

Centrum Kart S.A. - CK S.A.

The company's comprehensive services include in particular support of payment card management, authorisation of transactions and card personalisation.

The company's activities in 2008 were focused on the provision of services to Bank Pekao S.A. Additionally, it was completing the preparation of the IT systems to handle a higher volume of cards, following the merger between Bank Pekao S.A. and a spun-off part of Bank BPH SA, and was involved in the construction of a new IT platform designed to handle payment cards.

6 Balance Sheet and Financial Results

6.1 Structure of the Consolidated Balance Sheet

The balance sheet of Bank Pekao S.A. determines the balance-sheet total and the structure of the Group's assets and liabilities. As at the end of 2008, the ratio of Bank Pekao S.A.'s balance-sheet total to the Group's balance-sheet total was 97.0%.

The table below presents the Group's balance sheet:

Assets	31.12.2008		31.12.2007	
	PLN million	Structure	PLN million	Structure
Cash and balances with the Central Bank	9,933.6	7.5%	5,121.2	4.1%
Amounts due from banks*	7,912.8	6.0%	16,964.5	13.7%
Loans and advances to customers**	82,512.0	62.5%	69,698.5	56.2%
Securities***	22,586.4	17.1%	24,563.3	19.8%
Investments in associates	308.8	0.2%	388.2	0.3%
Tangible and intangible assets	2,651.7	2.0%	2,709.6	2.2%
Other assets	6,035.5	4.6%	4,650.9	3.7%
Total assets	**131,940.8**	**100.0%**	**124,096.2**	**100.0%**

* Including receivables under leasing to banks.
** Including promissory notes eligible for rediscounting at the Central Bank and receivables under leasing to customers.
*** Including financial assets held for trading and other financial instruments measured at fair value through profit or loss.

Liabilities and equity	31.12.2008		31.12.2007	
	PLN million	Structure	PLN million	Structure
Amounts due to the Central Bank	4,817.5	3.7%	1,485.9	1.2%
Amounts due to banks	10,175.5	7.7%	8,456.2	6.8%
Amounts due to customers	90,889.0	68.9%	89,944.1	72.5%
Liabilities under securities in issue	2,470.7	1.9%	3,716.8	3.0%
Other liabilities	7,551.7	5.7%	5,745.9	4.6%
Total shareholders' equity, including	16,036.4	12.1%	14,747.3	11.9%
minority interests	89.1	0.1%	80.5	0.1%
Total liabilities and equity	**131,940.8**	**100.0%**	**124,096.2**	**100.0%**

6.1.1 Assets

Changes in the Structure of Assets

Loans and advances to customers and securities represent items of the largest value under assets. As at the end of 2008, they accounted for 62.5% and 17.1% of the balance-sheet total, respectively, while as at the end of 2007, the respective figures were 56.2% and 19.8%.

Cash and Balances with the Central Bank

	31.12.2008	31.12.2007	Change
	PLN million		
Cash and balances with the Central Bank, including:	**9,933.6**	**5,121.2**	**94.0%**
Cash	3,157.7	2,570.9	22.8%
Current account	5,006.7	802.4	524.0%
NBP bonds	1,686.7	1,687.2	0.0%
Other	82.5	60.7	35.9%

Loans and Advances

Loan Portfolio by Customer Segment

	31.12.2008	31.12.2007	Change
	PLN million		
Loans and advances at nominal value	**86,771.6**	**74,626.2**	**16.3%**
Loans*	85,323.4	73,832.2	15.6%
retail	26,876.1	24,236.3	10.9%
corporate	58,447.3	49,595.9	17.8%
Non-quoted securities	1,388.4	61.0	23 times
Reverse Repo transactions	59.8	733.0	(91.8%)
Other	319.5	281.2	13.6%
Nominal value adjustment	(465.5)	(353.4)	31.7%
Impairment losses	**(4,113.6)**	**(4,855.5)**	**(15.3%)**
Net loans and advances to customers	**82,512.0**	**69,698.5**	**18.4%**

* Including promissory notes eligible for rediscounting at the Central Bank, leasing receivables, non-quoted securities, reverse repo and buy-sell-back transactions.

The volume of loans at the end of 2008 amounted to PLN 85,323.4 million, increasing by PLN 11,491.2 million (15.6%) since the beginning of the year thanks to both the retail and corporate segments. Excluding the impact of the sale of the non-performing receivables portfolio completed in September 2008, that decreased the volume of gross loans in the amount of ca PLN 955 million, the growth dynamics would stand at 16.9%.

The total volume of retail loans amounted to PLN 26,876.1 million and the volume of corporate loans amounted to PLN 58,447.3 million at the end of 2008.

Furthermore, a part of the securities portfolio was reclassified, which involved transfer of certain debt securities from financial assets available for sale to non-quoted debt securities.

Loans and Impairment Losses

(PLN million)

	31.12.2008	31.12.2007	Change
	PLN million		
Gross receivables *	86,322.4	74,334.9	16.1%
not impaired	81,605.1	68,574.4	19.0%
impaired	4,717.3	5,760.5	(18.1%)
Impairment losses	(4,113.6)	(4,855.5)	(15.3%)
Interest	303.2	219.1	38.4%
Total value	**82,512.0**	**69,698.5**	**18.4%**

* Including promissory notes eligible for rediscounting at the Central Bank, leasing receivables, non-quoted securities, reverse repo and buy-sell-back transactions.

At the end of 2008, the ratio of impaired receivables to total receivables amounted to 5.5% compared to 7.7% at the end of 2007. The ratio decreased due to the increased volume of total loans, a reduced volume of impaired loans, and also as a result of the sale of non-performing receivables transaction completed in September 2008.

The balance sheet value of impairment losses provisions at the end of 2008 amounted to PLN 4,113.6 million of which PLN 716.6 million was attributed to the impairment losses resulting from incurred but not recognised losses (IBNR).

Amounts due from Customers by Currency*

	31.12.2008		31.12.2007	
	PLN million	Structure	PLN million	Structure
- denominated in PLN	61,488.0	71.0%	55,452.0	74.4%
- denominated in foreign currencies**	25,137.6	29.0%	19,102.0	25.6%
Total	**86,625.6**	**100.0%**	**74,554.0**	**100.0%**
Impairment losses	(4,113.6)	x	(4,855.5)	x
Total value	**82,512.0**	**x**	**69,698.5**	**x**

* Including interest and amounts due in transit.
** Including indexed loans.

The currency structure of amounts due from customers is dominated by amounts expressed in the Polish zloty; as at the end of 2008, their share was 71.0%. The largest portion of foreign currency amounts due were represented by amounts due denominated in EUR (50.5%), CHF (30.5%) and USD (16.8%).

Amounts due from Customers by Maturity

	31.12.2008		31.12.2007	
	PLN million	Structure	PLN million	%
Current and up to 1 month	13,574.6	15.7%	13,598.8	18.2%
1 to 3 months	2,366.8	2.7%	2,780.2	3.7%
3 months to 1 year	10,340.1	11.9%	6,966.9	9.4%
1 to 5 years	27,208.7	31.4%	22,846.1	30.6%
Over 5 years	32,816.0	37.9%	28,080.8	37.7%
Other	319.5	0.4%	281.2	0.4%
Total	**86,625.6**	**100.0%**	**74,554.0**	**100.0%**
Impairment losses	(4,113.6)	x	(4,855.5)	x
Total value	**82,512.0**	**x**	**69,698.5**	**x**

A 37.9% of amounts due is made up of amounts due in over 5 years (primarily mortgage loans, loans classified as past due, and a large loan for a central state investment project).

Information on loan concentration is included in Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended December 31, 2008.

6.1.2 Liabilities

Changes in the Structure of Liabilities

Amounts due to customers were the main item under the Group's liabilities. As at the end of 2008, amounts due to customers totalled PLN 90,889.0 million, and their share in the balance-sheet total was 68.9%, compared with 72.5% as at the end of 2007.

External Sources of Financing

	31.12.2008	31.12.2007	Change
	PLN million		
Amounts due to the Central Bank	4,817.5	1,485.9	224.2%
Amounts due to banks	10,175.5	8,456.2	20.3%
Amounts due to customers	90,889.0	89,944.1	1.1%
Liabilities under securities in issue	2,470.7	3,716.8	(33.5%)
Total external sources of financing	**108,352.7**	**103,603.0**	**4.6%**

In addition to customers deposits and funds borrowed on the interbank market, Bank Pekao S.A. also has a refinancing loan taken out from the National Bank of Poland for the financing of a credit facility granted to fund a central state investment project. Additionally, as at the end of 2008, Bank Pekao S.A. had a liability towards the National Bank of Poland under open market transactions.

Bank Pekao S.A. acquires deposits mainly in Poland. As at the end of 2008, the geographical structure of deposits acquired through the Bank's domestic branches was as follows (% of total deposits):

Region	%
Warszawski	36.2%
Malopolski	16.8%
Centralny	9.3%
Mazowiecki	9.0%
Poludniowo-wschodni	9.0%
Wielkopolski	6.1%
Zachodni	4.9%
Pomorski	4.4%
Dolnoslaski	4.3%
Total	**100.0%**

As at the end of 2008, the deposits borrowed on the Ukrainian market by UniCredit Bank Ltd. amounted to 0.7% of the total volume of the Group's deposits. As at the end of 2008, the total deposits of UniCredit Bank Ltd. amounted to PLN 584.9 million, therein the total volume of deposits of retail customers amounted to PLN 104.3 million and the total volume of corporate customer deposits amounted to PLN 480.6 million.

The Group's deposit base is well diversified, with the majority of the deposits sourced from retail and corporate customers. The Group is not dependent on any single customer or group of customers.

Total Customers Savings

	31.12.2008	31.12.2007	Change
	PLN million		
Corporate customers deposits	**47,284.8**	**50,006.9**	**(5.4%)**
non-financial institutions	36,847.8	37,309.9	(1.2%)
financial non-banking institutions	3,602.3	4,249.1	(15.2%)
budgetary institutions	6,834.7	8,447.9	(19.1%)
Retail deposits	**41,176.9**	**36,434.0**	**13.0%**
Repo transactions	1,723.4	2,703.9	(36.3%)
Other	703.9	799.3	(11.9%)
Amounts due to customers	**90,889.0**	**89,944.1**	**1.1%**
Structured certificates of deposit (SCD)	**1,716.9**	**2,049.6**	**(16.2%)**
Total amounts due to customers (including SCD, repo and sell-buy-back transactions)*	**91,902.0**	**91,194.4**	**0.8%**
Mutual funds managed by PPIM	**12,308.4**	**28,717.5**	**(57.1%)**
incl. distributed through the Group's network	11,075.9	27,000.3	(59.0%)

* Excluding interest and amounts due in transit.

At the end of 2008, the total volume of liabilities to customers (including customer deposits, structured certificates of deposits, repo and sell-buy-back transactions) amounted to PLN 91,902.0 million, PLN 707.6 million (0.8%) higher than at the end of 2007.

The total volume of deposits of retail customers and structured certificates of deposits amounted to PLN 42,893.8 million and was PLN 4,410.2 million (11.5%) higher than at the end of 2007. The total volume of corporate customer deposits and repo and sell buy back transactions amounted to PLN 49,008.2 million and were PLN 3,702.6 million lower than at the end of 2007. Of that, ca. PLN 2.3 billion was due to the budgetary sector and non-banking financial institutions.

As at the end of 2008, the value of net assets of mutual funds managed by Pioneer Pekao TFI S.A. stood at PLN 12,308.4 million and was lower by PLN 16,409.1 million than as at the end of 2007. The drop was driven by unfavourable market conditions, which caused sharp falls in the prices of equities and other securities, and this translated into lower valuation of the assets under management. The negative impact of the valuation in the reporting period was approx. PLN 8,359.7 million.

Amounts due to Customers by Currency*

	31.12. 2008		31.12. 2007	
	PLN million	Structure	PLN million	Structure %
- denominated in PLN	75,903.5	83.5%	72,513.1	80.6%
- denominated in foreign currencies	14,985.5	16.5%	17,431.2	19.4%
Nominal value adjustment	0.0	x	(0.2)	x
Total	**90,889.0**	**100.0%**	**89,944.1**	**100.0%**

* Including interest and amounts due in transit.

The bulk of the amounts due to customers are denominated in the Polish currency. Their share as at the end of 2008 amounted to 83.5%. As far as the amounts due denominated in foreign currencies are concerned, the majority were denominated in EUR (57.7%) and USD (36.3%).

Amounts due to Customers by Maturity

	31.12. 2008		31.12. 2007	
	PLN million	Structure	PLN million	Structure
Demand deposits	38,231.0	42.4%	46,519.6	52.2%
Term deposits:	51,954.1	57.6%	42,625.1	47.8%
Total deposits	**90,185.1**	**100.0%**	**89,144.7**	**100.0%**
Interest accrued	300.9	x	156.4	x
Amounts due in transit	403.0	x	643.2	x
Nominal value adjustment	0.0	x	(0.2)	x
Total amounts due to customers	**90,889.0**	**x**	**89,944.1**	**x**

6.1.3 Off-balance Sheet Items

Statement of Off-balance Sheet Items

(PLN million)

	31.12.2008	31.12.2007
Contingent liabilities granted and received	50,815.7	61,325.0
Liabilities granted:	36,558.4	38,716.8
Financial	31,193.6	34,264.6
Guarantees	5,364.8	4,452.2
Liabilities received:	14,257.3	22,608.2
Financial	1,960.0	2,199.5
Guarantees	12,297.3	20,408.7
Financial derivatives	250,161.4	298,579.7
FX transactions	106,028.5	109,653.5
Interest rate transactions	138,361.5	188,215.7
Securities transactions	5,771.4	710.5
Other	23,503.2	17,663.0
Total off-balance sheet items	**324,480.3**	**377,567.7**

More detailed information on off-balance-sheet items is included in Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended December 31, 2008.

6.2 Net profit Structure

In order to provide better comparability, the financial results in respect of 2007 (hereafter referred to as ”combined data” or ”combined result”) are presented as a ”combination” of the financial results of the Bank Pekao S.A. Group and Pekao285, i.e. that part of Bank BPH SA which was merged with Bank Pekao S.A. as a result of the Spin-off of Bank BPH SA as registered on November 29, 2007.

It should be noted that the combined data were not audited.

The structure of the Group's net profit is shown in the following table:

(PLN million)

	2008	2007 combined data
Net profit of Bank Pekao S.A.	3,345.8	3,381.8
Entities consolidated under the full method		
Centralny Dom Maklerski Pekao S.A.*	418.9	182.0
Pekao Leasing Holding S.A.**	36.1	41.8
UniCredit Bank Ltd.***	35.2	(17.7)
Pekao Leasing Sp. z o.o.	24.8	17.1
Pekao Bank Hipoteczny S.A. (formerly BPH Bank Hipoteczny S.A)	18.9	16.8
Pekao Pioneer PTE S.A.	16.5	13.6
Final Holding Sp. z o.o.	15.8	0.0
Pekao Financial Services Sp. z o.o.	15.2	15.3
Pekao Faktoring Sp. z o.o.	9.3	8.0
Centrum Kart S.A.	7.0	4.3
Pekao Fundusz Kapitalowy Sp. z o.o.****	3.7	20.4
Pekao Telecentrum Sp. z o. o. (formerly Drukbank Sp. z o.o.)	0.3	0.2
Finanse plc. (formerly BPH Finance plc.)	(0.1)	0.9
Pekao Access Sp. z o.o.	-	(0.1)
Entities consolidated under the equity method		
Pioneer Pekao Investment Management S.A.	95.4	138.9
Krajowa Izba Rozliczeniowa S.A.*****	12.7	5.4
Pirelli Pekao Real Estate Sp. z o.o.	4.0	13.2
Biuro Informacji Kredytowej	-	0.6
Central Poland Fund LLC	(0.3)	0.0
Xelion. Doradcy Finansowi Sp. z o.o.	(7.6)	(6.6)
Consolidation eliminations and adjustments****	(523.6)	(288.7)
Net profit (loss) of the Group attributable to equity holders	**3,528.0**	**3,547.2**

* The 2008 net profit includes the effect of the sale of the company's corporate business.

** The net profit includes the net profits (losses) of its subsidiaries: Pekao Leasing i Finanse S.A. and Pekao Auto Finanse S.A.

*** The 2007 net profit does not include the net result of Commercial Bank HVB Ukraina S.A. for the first quarter of 2007.

**** The 2007 net profit includes the effect of the sale of shares in Anica System S.A.

***** The Bank's share in the company's net profit amounted to 22.96% until November 29, 2007, and increased to 34.44% from November 30, 2007.

****** The item includes intra-Group transactions, including dividends from subordinated entities for the previous year and net profit attributable to minority interests.

Financial Results of Bank Pekao S.A.

The main items from the profit and loss account of the Bank for 2008 and combined data for 2007 are as follows:

(PLN million)

	2008	2007 combined	Change
Net interest income*	4,250.1	4,002.2	6.2%
Non-interest income	3,421.9	3,852.8	(11.2%)
Total income	**7,672.0**	**7,855.0**	**(2.3%)**
Overhead costs (including depreciation)	**(3,430.2)**	**(3,487.3)**	**(1.6%)**
Operating income	**4,241.8**	**4,367.7**	**(2.9%)**
Impairment losses on loans and advances	(212.2)	(242.6)	(12.5%)
Pre-tax profit	**4,029.6**	**4,125.1**	**(2.3%)**
Net profit	**3,345.8**	**3,381.8**	**(1.1%)**

* Including income on SWAP operations.

Total income of the Bank at the end of 2008 in comparison with combined data for 2007 was lower by PLN 183.0 million and was impacted by the following:

- an increase in net interest income of PLN 247.9 million,
- a decrease in non-interest income by PLN 430.9 million, therein a decrease of fee and commission income by PLN 487.5 million, mainly due to unfavorable market conditions impacting income on investment products and fees on brokerage activity.

The Bank's combined results for 2007 were influenced by the sale of shares in Commercial Union PTE with an impact of transaction on pre-tax profit of PLN 178.0 million and on net profit of PLN 144.2 million. The Bank's results for 2008 were influenced by the sale of non-performing receivables with an impact on the Bank's net profit of PLN 72.7 million.

At the same time operating costs were kept under control despite the integration cost incurred and impairment losses on loans and advances has decreased at the end of 2008.

The main items of the Bank's balance sheet as at the end of 2008 in comparison with the end of 2007 are presented in the table below:

	31.12.2008	31.12.2007	Change
Total gross loans (PLN million)*	77,594.0	67,701.6	14.6%
Impaired receivables to total receivables (%)	5.4	7.7	(2.3 p.p.)
Total deposits (PLN million)*	88,025.5	85,658.8	2.8%
Structured certificates of deposit (PLN million)	1,716.9	2,049.6	(16.2%)
Repo and sell-buy-back transactions (PLN million)	1,723.4	2,703.9	(36.3%)
Balance-sheet total (PLN million)	127,978.5	119,568.6	7.1%
Mutual funds distributed through the Bank's network (PLN million)	9,926.3	24,153.9	(58.9%)
Capital adequacy ratio (%)	11.6	11.1	(0.8 p.p.)

* Nominal value.

The volume of customer loans at the end of 2008 amounted to PLN 77,594.0 million, increasing by PLN 10,847.4 million since the beginning of the year thanks to both the retail and corporate segments. This excludes the impact of the sale of the non-performing receivables portfolio completed in September 2008, that decreased the volume of gross loans in the amount of ca PLN 955 million. The total volume of retail loans amounted to PLN 25,454.6 million and volume of corporate loans amounted to PLN 52,139.4 million at the end of 2008.

At the end of 2008, the total volume of liabilities to Bank's customers (including customer deposits, structured certificates of deposits, repo and sell-buy-back transactions) amounted to PLN 91,465.8 million and was PLN 1,053.5 million (1.2%) higher than at the end of 2007.

Results of the Key Related Subsidiaries

Centralny Dom Maklerski Pekao S.A. (CDM)

In 2008, CDM generated a net profit of PLN 418.9 million, relative to PLN 182.0 million posted in 2007. The 2008 amount is attributable mainly to a transaction consummated in January 2008 which involved the sale of part of CDM's business engaged in the provision of brokerage services to institutional clients and investment banking services. The effect of the transaction on the net profit PLN 352.8 million. Income from brokerage fees and mutual fund commissions was lower than a year earlier, chiefly due to unfavourable market conditions.

Pioneer Pekao Investment Management S.A. (PPIM)

In 2008, the company's consolidated net profit amounted to PLN 194.9 million, which means a 31.1% drop year on year. The Bank's share in the company's profit was PLN 95.4 million. This material year-on-year decline in net profit was caused by a wave of mutual fund redemptions, which lasted all year long, as well as by lower valuation of clients' assets resulting from adverse market conditions.

Pekao Leasing Holding S.A. (Pekao Leasing Holding)

In 2008, the company posted a consolidated net profit of PLN 36.1 miilion, compared with PLN 41.8 million as at the end of 2007.

Assets leased in 2008 were valued at PLN 1,027.8 million, down by 21.9% relative to 2007.

UniCredit Bank Ltd. – UniCredit Bank

In 2008, the company reported a net profit of PLN 35.2 million, compared with a loss of PLN 17.7 million in 2007. The positive result were achieved thanks to an increasing revenues also due to the growing loan portfolio, the enlargement of the Bank's sales network and enhanced efficiency supported by tight cost control. The bank keeps a sound capital structure with capital adequacy ratio at the level of 13.06% at the end of 2008.

Pekao Leasing Sp. z o.o. (Pekao Leasing)

In 2008, the company posted a net profit of PLN 24.8 million, compared with PLN 17.1 million in 2007. The profit growth was achieved through an increase in interest income, driven by an expansion of the leasing portfolio in 2008. Pekao Leasing recorded a 20.0% appreciation in the value of net receivables from clients on account of lease transactions.

The value of assets leased in 2008 was PLN 833.6m, down by 9.7% compared with 2007.

Pekao Bank Hipoteczny S.A.

In 2008, the company generated a net profit of PLN 18.9 million, relative to PLN 16.8 million as at the end of 2007. The stronger net result stemmed from the growth of the loan portfolio and lower impairment losses on loans and advances.

Xelion. Doradcy Finansowi Sp. z o.o.- Xelion

In 2008, the company reported a net loss of PLN 15.2 million (the Bank's share equalled PLN -7.6 million), compared with the net loss of PLN 13.1 million in 2007. The weaker result may be attributed to lower fee and commission income, caused mainly by unfavourable conditions on stock-exchange markets.

6.3 Consolidated Income Statement

In order to ensure better comparability of data, the 2007 financial results were presented as "combined data" (hereinafter referred to as "combined data" or "combined result") of the Bank Pekao S.A. Group and Pekao285, i.e. the part of Bank BPH SA merged with Bank Pekao S.A. as a result of the spin-off of Bank BPH SA registered on November 29, 2007.

It should be noted that the combined data were not audited.

The Bank Pekao S.A. Group's net profit attributable to equity holders generated in 2008 amounted to PLN 3,528.0 million with operating income amounting to PLN 4,535.0 million, both on a similar level compared to 2007, when combined net profit and combined operating income amounted to PLN 3,547.2 million and PLN 4,532.8 million respectively.

Results achieved in 2008 confirm the high profitability of the Bank Pekao S.A. Group measured by return on average equity (ROE), which stood at 23.5% in 2008. The strength of the capital structure of the Bank Pekao S.A. Group is reflected by a capital adequacy ratio at the level of 12.2% at the end of 2008 in spite of a growth of loan volumes - it allows further sound and stable development of the Group's activity.

The positive results of 2008 were achieved in an environment where, since the beginning of the year, market conditions remained under pressure from the difficult situation in the international financial markets and on the Warsaw Stock Exchange, negatively impacting the valuation of mutual funds assets and redemptions of mutual funds units.

The Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA constitutes only 7.2% of total loans.

The figures posted in the 2008 and 2007 income statements were affected by non-recurring events, including:

– 2008: sale of part of CDM's business engaged in the provision of brokerage services to institutional clients and investment banking services; the effect of the transaction on the pre-tax profit was PLN 436.2 million, and on the net profit PLN 352.8 million,

– 2008: sale of non-performing receivables; the effect of the transaction on the Group's net profit was PLN 72.7 million,

– 2007: sale of shares in Commercial Union PTE; the effect of the transaction on the pre-tax profit was PLN 178.0 million, and on the net profit PLN 144.2 million.

Consolidated income statement for 2008 and combined data for 2007 are shown in the table below:

(PLN million)

	2008	2007 combined data	Change
Net interest income*	4,642.4	4,342.8	6.9%
Fee and commission income	2,341.8	2,974.8	(21.3%)
Dividend income	5.4	5.0	8.0%
Trading income / FX gains	588.6	916.0	(35.7%)
Other operating income / cost net	308.3	116.0	165.8%
Gain on sale of discontinued operations	436.2	0.0	x
Total income	**8,322.7**	**8,354.6**	**(0.4%)**
Overhead costs (including depreciation)	**(3,787.7)**	**(3,821.8)**	**(0.9%)**
Operating income	**4,535.0**	**4,532.8**	**0.0%**
Impairment losses on loans and advances	(293.7)	(320.1)	(8.2%)
Share in net profit (loss) of the associates	104.7	152.9	(31.5%)
Pre-tax profit	**4,346.0**	**4,365.6**	**(0.4%)**
Tax charge	(805.1)	(805.4)	(0.0%)
Net profit	**3,540.9**	**3,560.2**	**(0.5%)**
attributable to equity holders of the Company	**3,528.0**	**3,547.2**	**(0.5%)**
attributable to minority interests	12.9	13.0	(0.8%)

* Including income from SWAP transactions.

Total Income of the Group

In 2008, the total income amounted to PLN 8,322.7 million, slightly lower than combined income in 2007 (by PLN 31.9 million i.e. 0.4%), with net interest income amounting to PLN 4,642.4 million, growing by PLN 299.6 million (6.9%) compared to combined net interest income in 2007, partially offsetting the decrease in net fee and commission income.

The net fee and commission income amounted to PLN 2,341.8 million in 2008, decreasing by PLN 633.0 million (21.3%) compared to combined income in 2007, affected by adverse market conditions impacting commissions on investment products and brokerage fees for ca. PLN 666.4 million, while net fee and commission income excluding commission on investment products and brokerage fees increased by PLN 33.4 million (1.8%).

Overhead Costs (Including depreciation)

Total overhead costs (including depreciation) in 2008 amounted to PLN 3,787.7 million, PLN 34.1 million (0.9%) lower than combined overhead costs in 2007.

(PLN million)

	2008	2007 combined data	Change
Overhead costs (including depreciation)	**(3,787.7)**	**(3,821.8)**	**(0.9%)**
Personnel*	(1,852.7)	(1,932.7)	(4.1%)
Non-personnel	(1,522.0)	(1,496.1)	1.7%
Depreciation	(413.0)	(393.0)	5.1%

* Including social security charges and excluding training costs.

Overhead costs were kept under control despite the additional integration-related expenses.

The 2008 cost / income ratio improved from 45.7% in 2007 to 45.5%.

As at the end of 2008, the Group's employee headcount was 21,992 compared with 22,926 as at the end of 2007.

Impairment Losses on Loans and Advances

Impairment losses on loans and advances amounted to PLN 293.7 million and were PLN 26.4 million (8.2%) lower than combined impairment losses on loans and advances in 2007 thanks to effective credit risk management. As a result of positive dynamic of loans volume and the sale of non-performing receivables transaction completed in September 2008, the ratio of impaired receivables to total receivables decreased from 7.7% to 5.5%.

Write-offs for revaluation of assets

(PLN million)

	2008	2007*
Total	**(293.7)**	**(192.3)**
for loan receivables and other financial assets	(349.2)	(161.1)
for off-balance sheet liabilities	50.5	(19.3)
other	5.0	(11.9)

* Since the date of the merger with the spun-off part of Bank BPH SA, the Group's data has included the results reported by the merged entity and the integrated companies, according to the data published in 2007.

Adjustments for Provisions, Deferred tax Asset and Liability

(PLN million)

	31.12.2008	31.12.2007
Total provisions	**306.7**	**379.8**
of which:		
provisions for off-balance sheet liabilities	140.6	186.2
provisions for liabilities to employees	132.0	123.6
other provisions	34.1	70.0
Provision for deferred tax	**2.5**	**0.3**
Deferred tax asset	**383.7**	**419.0**

7 Post Balance Sheet Events

On January 30, 2009 the District Court for the Capital City of Warsaw, XIII Business Branch of the Domestic Registry Court registered the increase of share capital of Xelion.Doradcy Fianansowi Sp. z o.o. (Bank's affiliated company) by the amount of PLN 6,000,000.

On January 9, 2009, the Extraordinary General Meeting of Xelion. Doradcy Finansowi Sp. z o.o. adopted a resolution on increasing the share capital of Xelion. Doradcy Finansowi Sp. z o.o. by the amount of PLN 6,000,000.

The increase in the share capital of Xelion. Doradcy Finansowi Sp. z o.o. was a consequence of acquisition by Bank Pekao SA of 6,000 newly created shares in Xelion. Doradcy Finansowi Sp. z o.o. with the par value of PLN 500 per share in the share capital of Xelion. Doradcy Finansowi Sp. z o.o. totalling PLN 3,000,000 nominal value which issue price was PLN 7,500,000 i.e. PLN 1,250 per share as well as take-up by UniCredit S.p.A. of 6,000 newly created shares in Xelion. Doradcy Finansowi Sp. z o.o. with the par value of PLN 500 per share in the share capital of Xelion. Doradcy Finansowi Sp. z o.o. totalling PLN 3,000,000 nominal value which issue price was PLN 7,500,000 i.e. PLN 1,250 per share.

Upon registration by the District Court of capital increase, the share capital of Xelion. Doradcy Finansowi Sp. z o.o. has been increased from PLN 54,050,000 to the amount of PLN 60,050,000.

Bank Pekao S.A. currently holds 60,050 shares of Xelion. Doradcy Finansowi Sp. z o.o. worth the total of PLN 30,025,000 of nominal value, comprising 50% of share capital of Xelion. Doradcy Finansowi Sp. z o.o., carrying 50% of votes at the General Meeting of Shareholders in Xelion. Doradcy Finansowi Sp. z o.o.

8 Investing in Human Capital

Trends in Personnel Policy

The principles of our personnel policy reflect the Bank's mission and the key values of its corporate culture. In 2008, the Bank followed the key principle of its personnel policy, which states that it is the people that are the most valuable asset of the Bank. The statement became particularly salient in 2008 – the first year following the merger of Bank Pekao S.A. with a spun-off part of Bank BPH SA.

The prevailing trend in the human resources management was a focus on the professional development of employees by creating an environment conducive to the fulfilment of their true potential.

Once the merger was completed, an important objective to be pursued was offering all employees equal chances to contribute towards achievement of the Bank's commercial goals. The actions were focused on retention of key personnel by means of effective incentives, on efficient talent spotting within the organisation, and on integration of the employees.

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

Workforce in Numbers

At the end of 2008 the headcount at the Bank Pekao S.A. Group (including companies consolidated with the full method) totalled 21,992, as compared with 22,926 employees as at the end of 2007. The decrease in the staffing level by 934 employees was a result of the Bank's policy of workforce optimisation.

The Bank employed 19,718 people (less by 918 as compared with the end of 2007).

The Bank's employees are young – on average 41 years of age (as at the end of 2007: 40) – and well educated. 55% of the employees are university graduates. Women represent 81% of the total workforce.

Remuneration Policy

The underlying objective of Bank Pekao S.A.'s remuneration policy is to create a system of remuneration supporting the implementation of the Bank's mission and strategy, as well as to acquire and retain the best candidates for positions at the Bank by offering each of them equal chances and appropriate remuneration adequate to their individual performance. The implementation of the remuneration policy also reflects other factors such as work efficiency and trends present on the banking market. Effective management of the employees' remuneration makes it possible to apply those principles while maintaining a high level of competitiveness of the benefits offered by the Bank.

An additional factor influencing the implementation of the remuneration policy in 2008 was the unification of the existing tools with respect to the workforce of Pekao800 and Pekao285. Employees transferred from the spun-off part of Bank BPH SA entered into the Collective Labour Agreement adopted at Bank Pekao S.A. and were included in the Bank's MBO System.

The main remuneration policy tools include:

– MBO Incentive System,

– quarterly bonuses,

- campaigns, contests and conventions for employees,
- additional benefits for employees.

Additional benefits available to the employees vary according to the position and the nature of a particular person's work. The Bank offers all employees a free package covering a wide range of banking and healthcare services.

The Bank also co-finances group accident insurance. A selected group of employees have business mobile telephones, laptops and cars at their disposal. The management staff benefit from additional insurance and business cars.

Retention Plans

In 2008, there were four main retention schemes existing within the Bank:

- Long-Term Incentive Plans for the years 2007 and 2008 (with the effective rights in 2010-2012) – addressed to the top management staff. In 2008, similarly to 2007, the Long-Term Incentive Plan had uniform rules across the UniCredit Group and was administered centrally.
- Five-Year Loyalty Plan – addressed to employees of key significance for achieving the Bank's business goals and to most promising employees selected under the Talent Management scheme.
- Top Managers 2 Plan – addressed to key managers with influence on the Bank's business performance. Payment of additional financial benefits under the Plan is directly contingent on achieving superior results.
- Operational Merger Plan – designed to retain employees of key significance for completing the operational integration of the Bank.

Incentive Systems

The main incentive tool at Bank Pekao S.A. is a system based on the Management by Objectives (MBO). Introduced in 2000, the system covers employees in the front-office sales jobs and in jobs which play a vital role in achieving the Bank's defined commercial goals. In 2008, in connection with the Bank's operational integration the number of the system participants increased by more than 30%. The employees covered by the MBO system are tasked with individual projects, whose successful completion makes them eligible to receive a specific amount of annual bonus.

Furthermore, the Bank organises sales campaigns and contests dedicated for front-office employees. They have the form of actions designed to boost sales, and for their participants they create an opportunity to obtain valuable prizes and very attractive trips to a convention. Conventions are held within business divisions and at the level of the UniCredit Group.

Training and Professional Development

The Bank's strategy in 2008 was based on consistent pursuit of a goal defined as supporting the organisation by means of promoting employee professional advancement and building competitive advantage on the organisation's most valuable asset, which is its human capital.

The directions of employee professional advancement were based on:

- development programmes,
- operational programmes,
- assessment of employees,
- competence management.

These were further supported by other non-training-based forms of promoting professional development.

The training activities were focused on employee professional advancement by means of creating an environment conducive to the fulfilment of their true potential and offering all employees equal chances to contribute towards achievement of the Bank's commercial goals.

In 2008, nearly 105,9 thousand participants took part in some form of training (the training covered approximately 88% of all Bank's employees).

At the same time, thanks to continuous technological and strategic upgrading of the knowledge-sharing platform which spans the whole organisation, employees had more complete and more common access to customised instruments of training and professional development.

Trainings Offered to Employees in Connection with the Integration Process

Following the merger of Bank Pekao S.A. with a part of Bank BPH SA's business, special focus in the area of employee training was put on training connected with the integration. An extensive programme was carried out, which covered a total of 9,285 participants. The integration-related training, dealing in particular with the IT systems as well as internal processes and procedures, were carried out on e-learning or in-company basis.

In 2008, work was started on developing a common corporate culture of the new Bank based on the Group's values, by organising a series of training sessions as part of the Forum Kultury UniQalni programme. Some 500 employees of the Bank took part in the training.

Operational Training

The bulk of the operational training content was based on the in-house programmes provided in the form of classroom-based courses and e-learning courses, in which 70.2 thousand persons participated. The programmes were a tool to ensure steady expansion of the employees' professional knowledge and expertise in the area of the Bank's operations.

Management Staff Training and Development Training

35.7 thousand participants took part in training courses targeted at the management staff and in development training. The main objective of the programmes was to improve competence and promote greater commitment among the Bank's managers and employees, resulting in better effectiveness of staff in the performance of their tasks.

The purpose of the development programmes for managers was to build strong leadership within the organisation by improving the knowledge of business management and promoting such attitudes among the management staff which are beneficial for the Bank.

Development programmes for employees supported their comprehensive professional development aligned with the Bank's strategy and corporate culture. Their content reflected the current needs of the organization.

Development Programmes at the UniCredit Group Level

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

– Executive Development Program – dedicated for management board members and executive officers,
– Talents Management Program – aimed at identifying persons with the highest potential and assisting them in their professional advancement through various forms of education,

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

The total number of persons participating in these projects in 2008 was 300.

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

Traineeship and Internship Programmes

The Bank offers four development programmes for students and graduates, including two traineeship programmes (UniStart and UniSummerStart), targeting students in their second, third and fourth academic year, and two internship programmes (UniBanker and UniChallenge), dedicated for graduates and students in their final academic years. In total, 122 students and graduates participated in the programmes organised in 2008.

Enhancing Internal Processes Related to Human Resources Management

At Bank Pekao S.A., the internal processes related to human resources management are being developed on an ongoing basis. In 2008, the main objective in this area was to standardise the processes following the merger of the Bank with the spun-off part of Bank BPH SA. 83 standardised procedures related to human resources management were created and implemented at the Company; their efficiency is subject to ongoing improvement.

To provide internal clients with the highest level of service, an HR service model and a Service Level Agreement were developed, and an SAP HR system was implemented to ensure maximum operating efficiency. The SAP system automates and enhances administrative and payroll processes to a large extent, thus contributing to an active and effective management of human resources. The system allows the Bank an easy access to information about its employees, thanks to a functionality enabling quick generation of reports with data presented according to various parameters, using consistent data from a single source.

Internal Communications

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

The relations between superiors and their direct subordinates constitute the hub of internal communications, as confirmed by the employee opinion survey. Another important element of internal communications are meetings of the Bank's management staff with managers and employees of branches in the Regions. During such meetings, its participants can make direct contact with one another and exchange information about future development directions of the Bank and the Group, the Bank's business strategy and methods of achieving its commercial goals.

The process of internal communication is significantly facilitated by *Zycie Zubra (Bison's Life)***,** an in-house newsletter covering all important events in the Bank's development. The newsletter, which enjoys great popularity among the Bank's employees, helps them keep in touch with decisions of the Bank's governing bodies, its development plans, new product additions, technologies and procedures deployed in various areas of the Bank's business, projects implemented at the Bank, new training blocks or milestones in the banking community's life. In addition to that, it serves as a platform for exchanging experiences, voicing opinions and featuring individual achievements and career progress.

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

In 2008, in order to enhance the activities falling within the domain of internal communications, a survey questionnaire Assessment of Internal Communication Channels at Bank Pekao was conducted among the employees and a website called Employees Forum was launched. These two tools play a tremendous role in staff integration, as well as ideas and views sharing between the employees of the Bank.

A dialogue with staff underpins the periodic (annual) performance review system and employee opinion surveys carried out within the Bank and its subsidiaries.

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

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

Opinion surveys are a strategic management tool, designed to improve those areas of operation which enhance the sense of affiliation with and commitment to the organisation, and encourage employees to achieve ever improving business results.

The overall participation in the opinion survey conducted at Bank Pekao S.A in January 2008 was 94.8%, the highest result in the entire UniCredit Group. The follow-up report was presented to the Board and the management staff during dedicated workshops, which were designed to prepare ground for the development of Action Plans. The results of the survey and the Action Plans were communicated to all the Bank's employees via the intranet of the Bank and OneGate portal of UniCredit Group.

Relations with Trade Unions

In 2008, the interaction between the Bank as an employer and trade unions representatives, which consisted in consultations, bargaining and seeking consensus on various issues, was conducted in accordance with the labour law provisions, with due regard to the interests of all parties and the principles of social dialogue. In line with the procedure set out in the labour law, new regulations of the Company's Social Benefits Fund were implemented.

Relations with Works Council

Since July 2006, the Works Council, composed of members elected by the eligible trade unions active at Bank Pekao S.A., has operated at the Bank. The Works Council is a representative of the employees, authorised to obtain information for and hold consultations with staff within the scope defined in the Act on Employee Information and Consultation, dated April 7, 2006.

In 2008, the Bank held a number of consultation meeting with the Works Council, regarding the matters provided for in the applicable regulations. The parties cooperated with due respect to each other's rights.

Integrity Charter of UniCredit Group

Shared Values as the Basis of the Group Identity

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

In order to establish foundations for the cultural integration of a multi-thousand community of employees in 20 countries in Europe, all companies within the UniCredit Group have adopted the UniCredit Integrity Charter – a code of fundamental values and rules of conduct based on integrity, considered to be the guarantee of durable transformation of profits earned by a company into value for all its stakeholders. The Integrity Charter is a tool helping to reconcile the pursuit of profits – a condition for every entrepreneur's development and independence – with the respect for interests of all social partners.

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

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

Integrity Charter Implementation

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

As a practical supplement to the existing code of values respected by the UniCredit Group, i.e. the Integrity Charter, in September 2007 the Bank implemented a project named Justice with the Integrity Charter. It is based on the idea of restorative justice, i.e. reconciliation of conflicting parties and mutual compensation with the assistance of the Integrity Charter ombudsmen. The task of the ombudsmen is to help in solving problems which may threaten the values enshrined in the Integrity Charter. At Bank Pekao S.A., such ombudsmen have been selected from among retired managers with many years experience of working for the Bank, whose high ethical standards found recognition among their colleagues.

On September 24, 2008, the Bank celebrated the Integrity Charter Day, an event held throughout the UniCredit Group. The outcome of numerous workshop meetings was an Integrity Charter matrix developed by the Bank's individual units to foster employees' approach and behavior compliant with the Charter.

Integrity Charter and Relations with Stakeholders

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

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

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

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

In relations with our shareholders and investors we adopt rules of behavior in line with corporate values and the professional ethics required by the market's highest standards.

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

9 Other Information

The position of the Management Board regarding the possibility of achieving forecasts

On August 1, 2008 Management Board of Bank Pekao S.A. published in the current report no 69/2008 the forecast of Bank Pekao S.A.'s financial results in years 2008-2010.

Given the high volatility of the macroeconomic scenario, influenced by the global financial crisis, the Management Board of Bank Pekao S.A. has decided to refrain for the time being from the forecast's evaluation of the Bank's results for years 2008-2010. Once the macroeconomic situation stabilizes the Bank's Strategic Plan assumptions will be reassessed.

Management Board and Supervisory Board Remuneration

Total value of salaries, rewards and benefits (in cash, nature and in kind) paid or due to Management Board Members in 2008 (PLN thousand)

No	Name	2008 base salary and bonus paid or due in 2008	Other benefits 2008	Total	Bonuses paid in 2008 (for 2007)	Comments
1	Jan Krzysztof Bielecki	2,167	597	2,764	1,700	
2	Diego Biondo (1)	53	16	69		Management Board Member since December 11, 2008
3	Przemyslaw Gdanski (2)	421	609	1,030		Management Board Member till May 18, 2008
4	Marco Iannaccone (3)	107		107		Management Board Member since December 11, 2008
5	Paolo Iannone (4)	1,638	293	1,931	508	
6	Andrzej Kopyrski	518	42	560		Management Board Member since June 4, 2008
7	Christopher Kosmider (5)	659	2,364	3,023		Management Board Member till June 4, 2008
8	Luigi Lovaglio (6)	2,986		2,986	3,101	
9	Katarzyna Niezgoda	1,256	78	1,334		
10	Grzegorz Piwowar	1,280	83	1,363		
11	Marian Wazynski	1,140	33	1,173	800	
	Accruals for bonus 2008(7)	5, 427		5,427		
	Total	**17, 652**	**4,115**	**21,767**	**6,109**	

1) In the amount reported for Diego Biondo it is included the amount of 66 thousand PLN which was paid by UniCredit S.p.A. and was refunded by the Bank.

2) Amount of "Other 2008" for Przemyslaw Gdanski includes non-competition compensation.

3) In the amount reported for Marco Iannaccone it is included the amount of PLN 102 thousand which was paid by UniCredit S.p.A. and was refunded by the Bank.

4) In the amount reported for Paolo Iannone it is included the amount of PLN 1,953 thousand which was paid by UniCredit S.p.A. and was refunded by the Bank.

5) Amount of "Other 2008" for Christopher Kosmider includes severance pay resulting from employment termination agreement and non-competition compensation.

6) In the amount reported for Luigi Lovaglio it is included the amount of PLN 5,795 thousand which was paid by UniCredit S.p.A. and was refunded by the Bank.

7) 2008 Provisions consist of provisions for bonuses and Long Term Incentive Program – deferred bonus 2006.

A decision on bonuses for 2008 for Management Board Members has not yet been taken by the Supervisory Board, however a provision in amount of PLN 4,785 thousand has been created for that purpose.

In 2008 the cost of Long Term Incentive Program – deferred bonus 2006, for Managements Board Members amounted to PLN 642 thousands.

In 2008 the expense for the stock option programs that may be executed by Management Board Members in the period between 2009 and 2012 (subject to fulfillment of given conditions) amounted to PLN 1,065 thousand.

In 2008 Management Board Members were granted 574 964 stock options of UniCredit S.p.A. and 160 578 performance shares within the framework of Motivation Program LTIP 2008.

For stock options programs refer to Description Notes of financial statement of the Bank Pekao SA Group for fiscal year ending December 31, 2008.

In 2008, Management Board Members have not received any compensation - in any form, and they do not have any receivables by that title from subsidiaries, jointly controlled companies, and associated companies.

Total value of remuneration paid to Supervisory Board Members in 2008

No	Name	Amount in PLN thousand
1	Woznicki Jerzy	134
2	Dangel Pawel	90
3	Greene Oliver	90
4	Pavoni Enrico	90
5	Pawlowicz Leszek	90
6	Pawlowski Krzysztof	90
7	**Total**	**584**

In 2008, Supervisory Board Members have not received any compensation - in any form, and they do not have any receivables by that title from subsidiaries, jointly controlled companies, and associated companies

Share the Bank and related entities held by the Bank's Directors

According to information available to the Bank as at the date of submitting of this report, the members of the Bank's management and supervisory bodies held 87,946 shares of Bank Pekao S.A. with face value of PLN 87,946. The table below presents the number of shares held by the Management Board Members:

	31.12.2008	31.12.2007	Change
Jan Krzysztof Bielecki	25,000	10,000	15,000
Diego Biondo	9,500	n/a*	n/a*
Luigi Lovaglio	40,357	65,357	(25,000)
Marian Wazynski	13,089	13,089	0
Total	**87,946**	**88,446**	**x**

* On December 11, 2008 the Supervisory Board of Bank Pekao S.A appointed Mr. Diego Biondo to the positions of Vice President of the Management Board.

Moreover, as at December 31, 2008 UniCredit shares were held by: Mr. Luigi Lovaglio – 122,839 shares with face value EUR 61,419.50, Mr. Diego Biondo – 7,124 shares with face value EUR 3,562.00 Mr. Fausto Galmarini – 39,986 shares with face value EUR 19,993.00, Mr.

Federico Ghizzoni – 59,000 shares with face value EUR 29,500.00, Mr. Paolo Iannone – 1,986 shares with face value EUR 993.00, Mr. Paolo Fiorentino – 382,355 shares with face value EUR 191,177.50.

Information regarding contracts for post termination benefits

The management contracts concluded by the Bank with Management Board Members provide the compensation equal to 18 times the base salary for the last month of work upon lapse of the term of office without re-appointment for another term of office or revocation, prejudiced only by dismissal pursuant to Art. 52 or Art. 53 of the Labor Code or improper performance of duties, or breach of the Pekao Charter, or Management Board or Supervisory Board resolutions for the following Management Board Members:

- Jan Krzysztof Bielecki, President of the Management Board,
- Katarzyna Niezgoda, Vice President of the Management Board,
- Andrzej Kopyrski, Vice President of the Management Board,
- Grzegorz Piwowar, Vice President of the Management Board,
- Marian Wazynski, Vice President of the Management Board.

With regard to the other Management Board Members there no such compensations included in binding management contracts.

Agreements with a companies entitled to auditing of financial reports

On the basis of the agreement concluded on June 16, 2008, KPMG Audyt sp. z o.o. is the company entitled to auditing and reviewing of financial report of Bank Pekao S.A. and the Bank Pekao S.A. Group for 2008 – 2009.

Audit remuneration for the services on benefit of the Bank Pekao S.A. Group

(PLN thousand)

	2008	2007
Audit fees in relation to the Parent Company	4,782	6,047
Audit fees in relation to Subsidiaries	1,787	1,714
Audit related fees	140	391

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

Average interest rates in Bank Pekao S.A. in December 2008

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

PLN retail deposits	3.4% p.a.
PLN corporate clients deposits	5.1% p.a.
Total foreign currency deposits in USD	0.2% p.a.
Total foreign currency deposits in EUR	0.7% p.a.

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

Total retail loans	10.0% p.a.
mortgage	7.7% p.a.
consumption	13.7% p.a.
other	11.9% p.a.
Corporate loans	7.2% p.a.

Number and value of titles of execution and value of collaterals

The 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 Group. The Group emphasis the importance of this in relation to the effective implementation of Basel II therein.

The collateral used by the Bank to hedge against risks related to its lending activities includes: bank guarantees, sureties under the Civil Code, blank promissory note, endorsement on bill, transfer of debt, mortgages, registered pledge, pledge, assignment as collateral, appropriation of assets in bank accounts, deposits.

For corporate clients, the total value of the collateral for impaired transactions as at December 31, 2008 amounted to PLN 2,103.2 million. In 2008, 347 titles of execution were issued on behalf of the Bank in the total amount of PLN 130.0 million.

For retail clients, the total value of the collateral for impaired transactions as at December 31, 2008 amounted to PLN 507.4 million. In 2008, 3,488 titles of execution were issued on behalf of the Bank in the total amount of PLN 42.8 million.

Stock option programme

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

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

The execution of the pre-emptive rights to take up G series shares can be exercised in respect of D series bonds from January 1, 2009 to December 31, 2012.

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

D series bonds could have been purchased from the Trustee agent by eligible persons until December 30, 2008.

On January 27, 2009 the Bank redeemed 117,234 series D bonds.

The Bank has also joined the UniCredit Group incentive program based on offering the stock options and shares of UniCredit S.p.A. to the selected key managers and employees of the UniCredit Group. As at December 31, 2008, 48 employees of the Bank Pekao S.A. Group, including 5 members of the Management Board, are participating in Long-Term Incentive Plan 2007 programme. A 69 employees of the Bank Pekao S.A. Group, including 5 members of the Management Board, are participating in Long-Term Incentive Plan 2008 programme.

Transactions with related entities

Transactions with related entities are described in the Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended on December 31, 2008.

The Sale of the Banks own Series I Shares

On November 13, 2008 the Bank sold in the series of stock exchange transactions 5,010 pieces of its own shares of series I (The Spin-off Issue Shares) of nominal value of PLN 1 each share, which were not allocated to the shareholders of Bank BPH following the Bank BPH SA spin-off and was purchased by the Bank in 2007.

The total amount of the transaction amounted to PLN 561 thousand with the average sell price equal to PLN 111.93 per one share.

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.

The shares sold constitute 0.0019% the share capital of Bank and represent 0.0019% votes at the General Meeting. The Bank was not eligible to execute the voting rights on those shares.

Information on the agreement with the Central Bank

Bank Pekao S.A. uses a refinancing loan from the National Bank of Poland for financing a loan contracted for a central state investment, which starting from the beginning of 1999 is being repaid quarterly and the final repayment date of the loan is December 30, 2012. The loan contracted for a central state investment is guaranteed by the State Treasury.

Information on Derivative Financial Instruments and Hedge Accounting

Information on derivative financial instruments and hedge accounting is included in Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended December 31, 2008.

Accounting principles adopted in the preparation of the Consolidated Financial Statements

Accounting principles adopted in the preparation of the Financial Statements are described in the Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended on December 31, 2008.

10 Representations of the Bank's Management Board

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

- the consolidated annual financial statements and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner the Bank Pekao S.A. Group financial position and its results,
- the consolidated annual Report on the activities for 2008 provides the true picture of the Bank Pekao S.A. Group development, achievements and situation, including the main risks and threats.

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

11 Application of corporate governance standards set forth in the document "Best Practices of WSE Listed Companies" by Bank Pekao S.A. in 2008.

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

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

In 2008 Bank Pekao S.A. applied corporate governance standards set forth in the document "Best Practices of WSE Listed Companies" which became effective on January 1, 2008 except for two which were not fully applied.

1. Part I: Recommendations for Best Practice of Listed Companies

   Point no. 1.

   "A company should pursue a transparent and effective information policy using both traditional methods and modern technologies ensuring fast, secure and broad access to information. Using such communication methods to the broadest extent possible, a company should ensure adequate communication with investors and analysts, enable on-line broadcasts of General Meetings over the internet, record General Meetings, and publish the recordings on the company's website"

The rule presented in point no. 1 was not applied in 2008 in terms of on-line broadcasts of General Meetings over the internet as well as in terms of publishing the recordings on the company's website.

Justification: The General Meetings of the Company are attended by the eligible persons. All the necessary information is made available in the relevant reports. The existing law regulations, including the Ordinance of the Minister of Finance dated October 19, 2005 concerning current and periodic reports passed by issuers of securities, sufficiently regulate the compliance with information obligations imposed on public companies in terms of public availability and transparency of issues covered by debates of the General Meetings. In case of questions concerning General Meetings addressed to the Company by representatives of mass media, the company provides relevant answers without delay. In 2008, there were technical reasons that the rule, in the above mentioned range, was not applied. In 2009 the rule will be implemented.

2. Part II: Best Practices for Management Boards of Listed Companies

   Point no. 1.
   "A company should operate a corporate website and publish:
   (p. 1.7) *shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions*."

The rule presented in point no. 1 was not applied in 2008 in terms of publishing the shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions (point no. 1.7).

Justification: There were technical reasons that the rule in 2008 was not applied. The course of debates was recorded in the relevant minutes which were available to the eligible interested parties in accordance with the rules defined by law regulations. In 2009 the rule will be implemented by the Bank.

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

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

The competences of the General Meeting of Shareholders include:

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

While determining the date of the General Meeting of Shareholders the Management Board of the Bank bears in mind that the date of the General Meeting of Shareholders should allow as many shareholders as possible to participate in the General Meeting.
The drafts of resolutions proposed to be adopted by the General Meeting of Shareholders, including their justification, shall be provided to the shareholders at the latest 14 days before the General Meeting. Copies of the Bank's Management Board report on the Bank's operations and the financial statement, including the copy of the Supervisory Board's report as well as

opinion of the expert auditor shall be issued to the shareholders upon their request at the latest fifteen days before the General Meeting.

All matters submitted to the General Meeting of Shareholders shall be provided with recommendation of the Supervisory Board. In accordance with §9 of the Statute, Bank's Management Board is obliged to submit matters to be submitted to the General Meeting of Shareholders to the Supervisory Board for consideration.

Members of Supervisory Board and Management Board shall be present at the General Meeting of Shareholders. Certified auditor shall be present at the Ordinary General Meeting of Shareholders and also at the Extraordinary General Meeting of Shareholders, if the company's financial matters are to be the subject of such meeting.

In the case where, due to some important reasons, participation of a Member of the Bank's Management Board or Bank's Supervisory Board in the General Meeting of Shareholders is not possible, reasons of the absence shall be presented to the General Meeting of Shareholders.
Bank's Management Board, as a body providing legal service for the General Meeting of Shareholders shall make every effort to ensure that the resolutions are formulated in a clear and lucid way.

Rules of the General Meeting of Shareholders shall include provisions (§13 sections 10-17) pertaining to elections to the Supervisory Board by voting in separate groups.
All amendments to the Rules of the General Meeting of Shareholders shall become effective starting from the next General Meeting.

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

1. Shareholders representing at least 1/10 of the share capital may put forward a motion to the Bank's Management Board for convening Extraordinary General Meeting of Shareholders and also require including specific matters in the agenda of the next General Meeting.
2. Shareholders may participate in the General Meeting of Shareholders in person or through their attorneys.
3. Upon request of the shareholders having one tenth of the share capital represented at the General Meeting of Shareholders, the list of presence should be checked by a commission specially appointed for this purpose, consisting of at least three persons. The requestors shall have the right to appoint one member of such commission.
4. The General Meeting of Shareholders may not adopt a resolution on removing from the agenda or on abandoning consideration of a matter included in the agenda upon shareholders' request, without consent of the shareholders.
5. Any ordered breaks in the sittings of the General Meeting, cannot be aimed at hindering the exercise of the shareholders' rights.
6. Each participant of the General Meeting of Shareholders shall have the right to propose one or several candidates for members of the Bank's Supervisory Board.
7. Upon request of the shareholders representing at least one fifth of the share capital, elections to the Supervisory Board should be performed by voting in separate groups. A relevant request should be submitted to the Bank's Management Board in writing, within a time-limit allowing the request to be included in the agenda of the General Meeting of Shareholders.
8. Shareholders may review the book of minutes and also require issuing copies of the resolutions authenticated by the Management Board.
9. Chairman of the General Meeting of Shareholders is obliged to ensure that rights of minority shareholders are respected.
10. A party objecting to a resolution must have an opportunity to concisely present the reasons for its objection.
11. Upon request of a participant in the general meeting, his written statement shall be recorded in the minutes.

Bank's bodies as part of the tasks they are entrusted with, shall make sure the accomplishment of the majority shareholders' interests does not negatively affect the interests of the minority shareholders. Among other means, this principle is implemented via the appointment of appropriate composition of the Supervisory Board, i.e. members of the Board are the representatives of both majority as well as minority shareholders, which accounts for the fact that the supervision function comprises the interests of all groups of Bank's shareholders The expression of the principle of the rule of majority is §10 section 2 of the Bank's Charter, pursuant to which the General Meeting is authorised to take up resolutions, whenever there are 50% plus one stock represented at it. The aim of this provision is to guarantee that the General Meeting take up resolutions related to the most vital issues for the Bank and the shareholders by the shareholders representing in total the absolute majority share of the capital. If a GM resolution does not get passed due to lack of quorum required by the Bank's Charter, during the next General Meeting of Shareholders, with the same agenda as the General Meeting of Shareholders, which did not pass the resolution due to lack of quorum, required shall be the presence of the shareholders representing at least 20% of the shares.

The Chairman of the General Meeting makes sure the meeting goes smoothly and the rights and interests of all shareholders are duly respected; in particular he or she also prevents any abuse by the meeting participants of their rights and ensures the rights of the minority shareholders be respected.

The members of the Supervisory and Management Boards, as well as the Bank's chartered accountant, within the scope of their respective authorisations necessary for them to be able to decide on the issues discussed at the meeting, shall provide the explanations and information related to the Bank to all meeting participants.

Voting on the agenda-related issues during the General Meeting may be related only to the issues connected with conducting the meeting. This procedure may not be used to put resolutions to a vote which may affect the shareholders in terms of the possibility to freely execute their rights.

Removal from the agenda or resignation from putting under debate of an issue present on the agenda per the shareholders' motion requires a resolution to be passed by ¾ of the GM votes, having first obtained consent from all the present shareholders who had filed the motion in question.

III. Composition and procedures to be followed by governing and supervisory bodies of a company and their committees in 2008.

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

As of January 1, 2008 the composition of the Management Board of Bank Pekao S.A. was as follows:

Jan Krzysztof Bielecki - President of the Management Board, CEO,

Luigi Lovaglio - First Vice President of the Management Board, General Manager,

Przemyslaw Gdanski - Vice President of the Management Board,

Paolo Iannone - Vice President of the Management Board,

Christopher Kosmider - Vice President of the Management Board,

Katarzyna Niezgoda - Vice President of the Management Board,

Grzegorz Piwowar - Vice President of the Management Board,

Marian Wazynski - Vice President of the Management Board.

On May 9, 2008, Mr Przemyslaw Gdanski tendered his resignation from the position of Vice President and Member of the Management Board. As a result of that resignation, the Supervisory Board, at the meeting on June 4, 2008, appointed Mr Andrzej Kopyrski to the position of Vice President of Bank Pekao S.A. for the current joint term of office of the Management Board.

Moreover, on June 4, 2008 Mr Christopher Kosmider tendered his resignation from the position of Vice President and Member of the Management Board.

Subsequently, the Supervisory Board at the meeting on December 11, 2008 appointed Messrs Diego Biondo and Marco Iannaccone to the position of Vice Presidents of the Management Board of Bank Pekao S.A. for the current joint term of office of the Management Board.

During the above mentioned meeting Mr. Paolo Iannone resigned from the position of Vice President and Member of the Management Board of Bank effective January 1, 2009.
As of December 31, 2008 the composition of the Management Board of Bank Pekao S.A. was as follows:

Jan Krzysztof Bielecki - President of the Management Board, CEO;

Luigi Lovaglio - First Vice President of the Management Board, General Manager;

Diego Biondo - Vice President of the Management Board;

Marco Iannaccone - Vice President of the Management Board;

Paolo Iannone – Vice President of the Management Board (till 1st January 2009),

Andrzej Kopyrski - Vice President of the Management Board;

Katarzyna Niezgoda - Vice President of the Management Board;

Grzegorz Piwowar - Vice President of the Management Board;

Marian Wazynski - Vice President of the Management Board.

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

In accordance with the Rules referred to above, the Management Board develops the strategy of the Bank's further development and is responsible for its implementation and observance. The Supervisory Board passes its opinions on the long-term and annual financial plans for the Bank developed by the Management Board. Moreover, the Supervisory Board, via the especially appointed committees, monitors the degree of performance of the Bank's development strategy implementation. On the other hand, the Management Board takes care of the transparency and effectiveness of the management system and manages the Bank's policy in accordance with the legal regulations and Good Practices. The basic foundation of managing the Bank is professionalism, reliability and confidentiality. Relationships with customers are based on soundness and honesty and respect for the prevailing laws, including the laws related to money laundering prevention. The above mentioned values are the components of the Code of Professional Ethics prevailing in the Bank.

The mission of the Bank is to ensure to the shareholders constant and attractive growth of the Bank's worth. While effecting the principle of efficient and prudent management, the Management Board is responsible for initiation and implementation of programmes aimed at increasing the Bank's worth, shareholder return on investments and protection of long-term interests of the employees. While taking its decisions, the Bank's Management Board shall make every effort to ensure the accomplishment of the interests of the shareholders, creditors, employees and other entities cooperating with the Bank in its business activity.

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

Composition of the Supervisory Board of Bank Pekao S.A. in 2008

Jerzy Woznicki – Supervisory Board Chairman,

Paolo Fiorentino – Vice Chairman, Supervisory Board Secretary,

Federico Ghizzoni – Supervisory Board Vice Chairman,

Pawel Dangel – Supervisory Board Member,

Fausto Galmarini - Supervisory Board Member,

Oliver Greene - Supervisory Board Member,

Enrico Pavoni - Supervisory Board Member,

Leszek Pawlowicz - Supervisory Board Member,

Krzysztof Pawlowski - Supervisory Board Member.

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

The role of the Supervisory Board is to execute supervision in a manner that ensures Bank's achievement of assumed financial results. To do so, the Bank Management Board shall cooperate with the Supervisory Board and shall provide it with exhaustive information concerning all major issues related to Bank's operations.

When electing the Supervisory Board members the Bank shall stress the morals of the candidates, which remains compliant with the Bank's overall principle of conducting operations which says that when performing its operations the Bank observes high ethical standards. The procedure to elect the Supervisory Board, included in Par. 13 of the Rules of the General Meeting, requires that the person submitting a candidacy for the Supervisory Board member present the curriculum vitae, which will allow the participants of the General Meeting to better assess the candidacy.

The principle applied so far, which says that at least half of the Supervisory Board should be composed of independent members, was observed by the Bank in 2008. The criteria for the Supervisory Board members' independence have been specified in Par. 14 section 5 of the Bank's Statute. An independent member of the Supervisory Board shall be the Audit Team Manager.

In their actions, the Supervisory Board Members are driven by the Bank's interest and undertake all actions to ensure efficient functioning of the Supervisory Board.
The Supervisory Board prepares and provides the General Meeting with a consistent assessment of the Bank's situation as well as the assessment of the Supervisory Board work in accordance with the “Best Practices of WSE Listed Companies. The assessment of the Bank's

situation prepared by the Supervisory Board shall be provided to the shareholders prior to the General Meeting.

The Bank has a procedure for obtaining, from the Supervisory Board members, of information related to personal, factual and organisational relations of the Board member. Information about the Supervisory Board member's relations are published in current and periodic reports according to valid legal regulations.

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

Compositions of committees established in 2008 were as follows:

Audit Committee

Oliver Greene - Committee Chairman,

Paolo Fiorentino - Committee Member,

Federico Ghizzoni - Committee Member,

Leszek Pawlowicz - Committee Member,

Jerzy Woznicki - Committee Member.

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

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

The Audit Committee consists of five members elected from among the Supervisory Board members, at least three of whom are independent members of the Supervisory Board. The Audit Committee Chairman shall be an independent member of the Supervisory Board.

The Audit Committee meetings shall be held as required, though at least four times a year, and dates of these meetings shall be corresponding to critical quarterly dates of the Bank's reporting cycle and the analysis of the annual audit plan presented by the Internal Audit Department Director.

Remuneration Team

Paolo Fiorentino – Committee Chairman

Jerzy Woznicki

Federico Ghizzoni

Enrico Pavoni

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

Finance Team

Paolo Fiorentino
Federico Ghizzoni
Enrico Pavoni

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

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

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

The Internal Audit System in the process of preparing financial statements is to ensure diligence, completeness and correctness of presentation of all economic transactions in the analysed period.

The accounting policy adopted by the Bank, compliant with the International Financial Reporting Standards, the chart of accounts and reporting databases take into consideration the format and the detail level of financial data presented in the financial statements, in compliance with requirements and rules of the dominant entity. The Bank maintains accounting books in IT systems in the form of separated IT resources according to the adopted business structure. The IT systems ensure clear and centralised data, separately for each system, which confirms records in accounting books and enables control of continuity of the records and transfer of account activity and balances as well as drawing up of financial statements.

Accounting books must be reconciled against reporting databases.
Drawing up of the financial statements, periodic financial reports and ensuring management information is a responsibility of the Financial Division supervised by the Bank Management Board Vice President.

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

Signatures of all Members of the Bank's Management Board

Date	First Name / Family Name	Position / Function	Signature
	Jan Krzysztof Bielecki	*President, CEO*	
	Luigi Lovaglio	*First Vice President, General Manager*	
	Diego Biondo	*Vice President*	
	Marco Iannaccone	*Vice President*	
	Andrzej Kopyrski	*Vice President*	
	Katarzyna Niezgoda	*Vice President*	
	Grzegorz Piwowar	*Vice President*	
	Marian Wazynski	*Vice President*	