

Bank Pekao S.A. Group

Report supplementing
the auditor's opinion
on the consolidated financial
statements

Financial Year ended
31 December 2007

KPMG Audyt Sp. z o.o.
The report supplementing the auditor's opinion
contains 16 pages
Report supplementing the auditor's opinion
on the consolidated financial statements
for the financial year ended
31 December 2007

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation

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1 General

1.1 Identification of the Group

1.1.1 Name of the Group

Bank Pekao S.A. Group (hereinafter 'Group') is a member of UniCredito Italiano S.p.A. Group, registered in Genua.

1.1.2 Registered office of the Parent Company of the Group

Ul. Grzybowska 53/57
00-950 Warszawa
Poland

1.1.3 Registration of the Parent Company in the National Court Register

Registration court: District Court for the Capital City Warsaw in Warsaw, XII Commercial
Department of the National Court Register
Date: 2 July 2001
Registration number: KRS 0000014843

1.1.4 Registration of the Parent Company in the Tax Office and Statistical Office

NIP number: 526-00-06-841
REGON: 000010205

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2007, the following companies were consolidated by the Group:

Parent Company:

- Bank Pekao S.A.

Subsidiaries consolidated on the full consolidation basis:

- UniCredit Bank Ltd. (ex Bank Pekao (Ukraine) Ltd. – Luck, Ukraine,
- Centralny Dom Maklerski Pekao S.A. – Warsaw,
- Pekao Fundusz Kapitałowy Sp. z o. o. – Warsaw,
- Pekao Leasing Sp. z o.o. – Warsaw,
- Pekao Faktoring Sp. z o.o. – Lublin,
- Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A. – Warsaw,
- Drukbank Sp z o.o. – Zamosc,
- Centrum Kart S.A. – Warsaw,
- Pekao Financial Services Sp. z o.o. – Warsaw,
- BDK – Consulting Sp z o.o. – Luck, Ukraine,
- BPH PBK Leasing S.A. – Warsaw (including subsidiaries of BPH PBK Leasing S.A.: BPH Leasing S.A. – Warsaw and BPH Auto Finanse S.A. – Warsaw),
- Bank BPH Hipoteczny S.A. – Warsaw,

TRANSLATION

- Pekao Access Sp. z o.o. – Warsaw (consolidated to the date control over the entity ceased, i.e. 13 September 2007)

The following subsidiaries were consolidated for the first time during the year ended 31 December 2007, as a result of the Parent Company acquiring a controlling interest:

- BPH PBK Leasing S.A. (including subsidiaries of BPH PBK Leasing S.A.: BPH Leasing S.A. and BPH Auto Finanse S.A.) – subject to consolidation for the period from 29 November 2007 to 31 December 2007.
- Bank BPH Hipoteczny S.A. – subject to consolidation for the period from 29 November 2007 to 31 December 2007.

The following subsidiaries were consolidated until the date control by the Parent ceased:

- Pekao Access Sp. z o.o. – subject to consolidation for the period from 1 January 2007 to 31 December 2007.

1.2.2 Entities excluded from consolidation

As at 31 December 2007, due to immateriality of financial data, the following subsidiaries of the Group were not consolidated:

- Final Holding Sp. z o.o.,
- BPH Real Estate Sp. z o.o.,
- Centrum Usług Księgowych,
- PBK Property Sp. z o.o. (in liquidation),
- Centrum Bankowości Bezpośredniej Sp. z o.o.,
- PBKL S.A. (in liquidation),
- Final S.A.,
- FBP Media Sp. z o.o.,
- Metropolis Sp. z o.o.,
- Jana Kazimierza Development Sp. z o.o.

Financial data of the above mentioned companies are not material for the Group's consolidated financial statements. In Bank's opinion economic decisions made by users based on the consolidated financial statements would not be altered, if these companies would be consolidated.

1.3 Auditor information

Name: KPMG Audyt Sp. z o.o.
Registered office: Warszawa,
Address: Ul. Chłodna 51, 00-867 Warszawa
Registration number.: KRS 0000104753
Registration court: District Court for the Capital City Warsaw in Warsaw,
XII Commercial Department of the National Court Register;
Share capital: PLN 125,000
NIP number: 526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

1.4 Legal status

1.4.1 Share capital

The Parent Company was established for an indefinite period under the terms of Notarial Deed dated 18 October 1929.

The share capital of the Parent Company amounted to PLN 261 866 657 as at 31 December 2007 divided into 261 866 657 ordinary shares with a nominal value of PLN 1 each.

As at 31 December 2007, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (in %)	Book value of shares PLN'000	Percentage of share capital (in %)
UniCredito Italiano S.p.A.	155 433 755	59.36%	155 434	59.36%
Minority interest	106 427 892	40.64%	106 428	40.64%
	5 010	Do not participate	5	0%
Bank Pekao S.A.				
Total	261 866 657	100.0%	261 867	100.0%

On 29 November 2007 the relevant Registry Court recorded the following entries into the National Court Register:

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

The decision of the Registry Court completed the legal merger of Bank Pekao S.A. with an organized part of Bank BPH S.A. As a result, Bank Pekao S.A. acquired assets of Bank BPH S.A. separated in the Spin-off process.

As the result of the issue of Bank Pekao series I shares UniCredito Italiano held 155 433 755 shares of Bank Pekao S.A., 59.36% of Bank Pekao S.A. share capital as at 31 December 2007.

Before the above mentioned transaction UniCredito Italiano held 88 121 725 shares of the Bank, comprising 52.73% of total share capital.

1.4.2 Management of the Parent Company

The Management Board is responsible for management of the Bank.

At 31 December 2007, the Management Board of the Bank comprised the following members:

- Jan Krzysztof Bielecki – President of the Board, CEO
- Luigi Lovaglio – First Vice-President of the Board, General Director
- Przemysław Gdański – Vice-President of the Board
- Paolo Iannone – Vice-President of the Board
- Christopher Kosmider – Vice-President of the Board
- Katarzyna Niezgoda – Vice-President of the Board
- Grzegorz Piwowar – Vice-President of the Board
- Marian Ważyński – Vice-President of the Board

At 31 December 2006, the Management Board of the Bank comprised the following members:

- Jan Krzysztof Bielecki – President of the Board, CEO
- Luigi Lovaglio – Vice-President of the Board, COO
- Sabina Olton – Vice-President of the Board, Chief Accountant
- Przemysław Figarski – Board Member
- Irene Grzybowski – Board Member
- Paolo Iannone – Board Member
- Christopher Kosmider – Board Member
- Marian Ważyński – Board Member

During the period covered with the financial statements and till the date of this report the following changes in composition of the Management Board took place:

Mandates of Mrs. Sabina Olton, Mr. Przemysław Figarski, and Mrs. Irene Grzybowski expired On 26 April 2007.

On 14 November 2007 the Supervisory Board of Bank Pekao S.A. appointed Mr. Przemysław Gdański, Mrs. Katarzyna Niezgoda and Mr. Grzegorz Piwowar as Vice-Presidents of the Management Board, the appointment being effective the day Bank BPH S.A. spin-off registration in the National Court Register, no later than at that date their mandates in the Management Board of Bank BPH S.A. will expire.

1.4.3 Scope of activities

The Parent Entity is a universal commercial bank offering a wide range of banking services to private individual and corporate customers in accordance with the scope of services described in the Bank's Statutes of Association. The Bank is conducting transactions in both Polish zloty and foreign currency in Poland as well as abroad. The Bank actively participates in trading on the domestic and foreign financial markets. Moreover, the Group runs brokerage, leasing, factoring and other financial activities through the operations of its subsidiaries.

On 10 October 2007 Bank Pekao S.A. received approval from the Polish Financial Supervision Authority to conduct brokerage activity. On 29 November 2007 appropriate changes in Bank's Statute relating to brokerage activity were entered in National Court Register. This change related to the merger of Bank Pekao S.A. with an organized part of Bank BPH S.A..

1.5 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2006 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Shareholders' Meeting on 26 April 2007.

The closing balances as at 31 December 2006 have been properly recorded as the opening balances of the audited year.

The consolidated financial statements were submitted to the Registry Court on 10 May 2007 and were published in Monitor Polski B No. 1743 on 5 November 2007.

1.6 Audit scope and responsibilities

This report was prepared for the General Shareholders' Meeting of Bank Pekao S.A. seated in Warszawa, Ul. Grzybowska 53/57, 00-950 Warszawa and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2007, with total assets and total liabilities and equity of PLN 124 096 151 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 2 162 477 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 5 854 668 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 5 624 978 thousand, and the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The Parent Entity prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of General Shareholders' Meeting dated 5 April 2005.

The consolidated financial statements have been audited in accordance with the contract dated 14 December 2007, concluded on the basis of the resolution of General Shareholders' Meeting dated 26 April 2007 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Company's head office and branches till 20 March 2008.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the financial statements.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the consolidated financial statements fulfil independence requirements from the companies included in the Group. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

1.7 Information on audits of the financial statements of the consolidated companies

1.7.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2007 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

1.7.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
UniCredit Bank Ltd. (ex Bank Pekao (Ukraina) Ltd.)	CJSC KPMG Audyt, Kiev, Ukraine	31-12-2007	audit in progress
Centralny Dom Maklerski Pekao S.A.	KPMG Audyt Sp. z o.o.	31-12-2007	unqualified
Pekao Fundusz Kapitałowy Sp. z o.o.	KPMG Audyt Sp. z o.o.	31-12-2007	unqualified
Pekao Leasing Sp. z o.o.	KPMG Audyt Sp. z o.o.	31-12-2007	unqualified
Pekao Faktoring Sp. z o.o.	KPMG Audyt Sp. z o.o.	31-12-2007	unqualified
Pekao Pioneer PTE S.A.	KPMG Audyt Sp. z o.o.	31-12-2007	unqualified
Centrum Kart S.A.	KPMG Audyt Sp. z o.o.	31-12-2007	unqualified
Pekao Financial Services Sp. z o.o.	KPMG Audyt Sp. z o.o.	31-12-2007	unqualified
Bank BPH Hipoteczny S.A.	KPMG Audyt Sp. z o.o.	31-12-2007	unqualified
BPH PBK Leasing S.A.	KPMG Audyt Sp. z o.o.	31-12-2007	unqualified
Drukbank Sp z o.o.	Not subjected to statutory audit requirement	31-12-2007	-

The financial statements of UniCredit Bank Ltd. subsidiary included in the consolidated financial statements were audited by certified auditors other than KPMG Audyt Sp. z o.o., i.e. by company CJSC KPMG Audyt, Kijev, Ukraine. The total assets presented in the financial statements of these entities as at 31 December 2007 amount to 2.25 % of the total consolidated assets of the Group before consolidation eliminations and the revenues of these entities for the financial year ended 31 December 2007 amount to 2.87 % of the consolidated revenues of the Group, before eliminations of intercompany transactions.

The financial statements of other entities in the Group were not required to be audited for the financial year ended 31 December 2007.

Financial analysis of the Group

1.8 Summary of the consolidated financial statements

1.8.1 Consolidated balance sheet

ASSETS	31.12.2007 PLN '000	31.12.2006 PLN '000
Cash, due from Central Bank	5 121 210	3 577 924
Bills eligible for rediscounting in Central Bank	1 108	2 519
Loans and advances to banks	16 960 034	10 512 877
Financial assets held for trading	3 165 113	2 391 371
Derivative financial instruments	1 922 958	526 642
Other financial instruments at fair value through profit and loss	3 777 729	1 613 196
Loans and advances to customers	66 658 037	31 778 127
Finance leases	3 043 768	966 607
Hedging instruments	40 672	-
Investment securities	17 620 419	13 000 067
- <i>available for sale</i>	17 033 529	12 574 657
- <i>held to maturity</i>	586 890	425 410
Non-current assets held for sale	65 068	8 784
Investments in subsidiaries	388 169	207 254
Intangible assets	688 559	608 884
Tangible assets	2 021 052	1 445 460
Investment properties	58 559	52 670
Tax assets	421 486	305 885
Other assets	2 142 210	705 421
TOTAL ASSETS	124 096 151	67 703 688



EQUITY AND LIABILITIES	31.12.2007	31.12.2006
	PLN '000	PLN '000
Liabilities		
Due to Central Bank	1 485 921	2 045 278
Due to other banks	8 456 191	2 009 976
Financial liabilities held for trading	491 382	211 373
Derivative financial instruments	1 661 282	504 200
Due to customers	89 944 078	51 793 583
Hedging instruments	28 965	-
Debt securities issued	3 716 778	3
Liabilities related to assets held for sale	55 291	-
Current tax liability	53 169	202 148
Deferred tax provision	324	-
Provisions	379 828	223 943
Other liabilities	3 075 647	1 820 557
Total liabilities	109 348 856	58 811 061
Shareholders' Equity		
Share capital	261 867	166 808
Reserves	12 393 624	7 028 137
Prior and current year profits	2 011 297	1 680 938
Total Shareholders' equity	14 666 788	8 875 883
Minority interest	80 507	16 744
Total equity	14 747 295	8 892 627
TOTAL EQUITY AND LIABILITIES	124 096 151	67 703 688

1.8.2 Consolidated profit and loss account

	01.01.2007 - 31.12.2007 PLN '000	01.01.2006 - 31.12.2006 PLN '000
<u>Continuing operations</u>		
Interest income	4 671 639	3 846 525
Interest expense	(1 953 537)	(1 467 207)
Net interest income	2 718 102	2 379 318
Fee and commission income	2 471 332	2 072 909
Fee and commission expense	(309 924)	(216 999)
Net fee and commission income	2 161 408	1 855 910
Dividend income	237	1 653
Result on financial instruments at fair value through profit and loss	21 547	36 456
Result on investment securities	37 958	86 224
Foreign exchange result	329 857	255 569
Other operating income	180 606	169 933
Other operating expense	(91 804)	(127 146)
Net other operating income	88 802	42 787
Net impairment losses on loans and advances	(192 346)	(222 293)
General and administrative costs	(2 736 513)	(2 347 007)
Operating profit	2 429 052	2 088 617
Share in profits (losses) of subordinated entities	152 876	90 859
Profit from continuing operations before income tax	2 581 928	2 179 476
Income tax expense	(437 563)	(408 881)
Net profit from continuing operations	2 144 365	1 770 595
<u>Discontinued operations</u>		
Net profit on discontinued operations	18 112	19 102
<u>Net profit for the period from continuing and discontinued operations:</u>	2 162 477	1 789 697
- Attributable to equity holders of the Bank	2 155 478	1 787 506
- Attributable to minority interest shareholders	6 999	2 191

1.9 Selected financial ratios

	2007	2006
Total assets (PLN '000)	124 096 151	67 703 688
Gross profit from continuing operations (PLN' 000)	2 581 928	2 179 476
Net profit from continuing and discontinued operations (PLN '000)	2 162 477	1 789 697
Shareholders' equity (PLN '000)*	12 584 818	7 102 930
Return on equity*	17.2%	25.2%
Capital adequacy ratio	12.1%	16.5%
Receivables to total assets	67.4%	62.5%
Income generating assets to total assets	95.7%	95.4%
Interest bearing liabilities to total liabilities	96.7%	96.2%

* excluding current-year net profit

1.10 Interpretation of selected financial ratios

Total assets increased by 83.3% as compared to prior year. The increase in total assets resulted mainly from merger with organized part of Bank BPH S.A..

The most significant growth on the assets' side was due to an increase in amounts due from banks and customers. On the liabilities' side, the increase was mainly driven by an increase in amounts due to customers.

The 2007 net income of the Group was 20.8% higher as compared to prior year. The increase was mainly driven by an increase in the interest income and net fee and commission income.

2 Detailed report

2.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

The financial statements of the entities included in the consolidated financial statements were prepared at the same balance sheet date as the financial statements of the Parent Company.

2.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Bank Pekao S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements of the Decree of the Ministry of Finance dated 12 December 2001 regarding the consolidated financial statements of banks and consolidated financial statements of financial holding companies (Official Journal from 2001, No.152, item 1728).

2.3 Method of consolidation

The method of consolidation is described in note 7.3 of the notes to the consolidated financial statements.

2.4 Consolidation of equity and calculation of minority interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Minority interests in subsidiaries included in the consolidated financial statements were determined based on the minority shareholders' share in the subsidiaries' equity as at the balance sheet date.

2.5 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Bank Pekao (or subsidiary entities) and agreed with information received from the subsidiaries.

2.6 Compliance with banking regulations

Base on our audit we have not identified any significant deviations in the Parent Company compliance with the banking regulatory norm pertaining among other to loan concentration, obligatory reserve and capital adequacy ratio.

2.7 Audit materiality

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free of material misstatements.

2.8 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the consolidated financial statements taken as a whole.

2.9 Report of the Management Board of the Parent Company on the Group's activities

The Report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the consolidated financial statements.

2.10 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2007, we have issued an unqualified opinion.

Signed on the Polish original

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Certified Auditor No. 796/1670
Bogdan Dębicki,
Member of the Management Board

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 796/1670
Bogdan Dębicki,
Member of the Management Board

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Stacy Ligas, Partner

Warsaw, 20 March 2008