Letter from the President of the PKO Bank Polski Management Board

It is a pleasure for me to summarise PKO BP's activities in 2005. This year there were many reasons to be satisfied. Our shareholders are pleased with the Bank's excellent performance and high dividends they received, our customers are satisfied with an increased quality of service and an attractive product offer, while the Bank takes pride in meeting its ambitious targets.

In 2005 the Bank again reported a record financial performance. For the first time in our history the pre-tax profit exceeded a threshold of PLN 2bn and was 15.4 % higher than in the previous year. The net profit grew by 15.7 % to the level of PLN 1.68bn. Additionally, the balance-sheet total increased and a substantial rise in the portfolio of deposits and loans was noted.

The year 2005 ended a 3-year period of the Bank's modernisation. During that time PKO BP was significantly transformed. It became a publicly held company quoted on the Warsaw Stock Exchange, reorganized its internal structure, substantially improved and updated its management system. All these provided a fertile ground for further intensive development.

In the last year PKO BP entered a decisive phase in the implementation of state-of-the-art IT solutions. In November the first branch of the Bank was connected to the Integrated IT System network. The new IT system is planned to be introduced in all the branches by 2007. After this process is finished, the Bank will have complete and up-to-date management information at its disposal and will respond more effectively and faster to customers' needs.

Despite the large market competition, PKO BP maintained its leading position and even enhanced it in some segments by extending the offer in line with customers' expectations. Within a year from the introduction of *PKO Inteligo* e-banking, the Bank already opened a million accounts with the Internet and telephone access and became the market leader in Poland. PKO BP also exceeded other thresholds – namely, six million payment cards and half a million credit cards were issued and the number of accounts held by the Bank is approaching 6 million. The sale of housing loans generated record volumes. The Bank introduced new products, such as *Visa Infinite and MasterCard Platinum* prestige credit cards for private banking customers, electronic money for local government units and innovative credit products. PKO BP is actively involved on the corporate banking market, in particular in the range of syndicated loans and service connected with the issue of securities. It remained the unquestioned leader among the arrangers of municipal bond issues.

In 2005 PKO BP continued to consolidate the position of the Capital Group companies existing on the Polish and foreign markets and providing services related, *inter alia*, to pension and investment funds, leasing, developer activity or electronic payment services. The Bank's subsidiaries recorded high growth as a result of their activity and will continue their market expansion. Furthermore, the Bank is involved in the extension of its Ukrainian presence by other countries in the region.

At the end of the year the Bank announced its new 2006-2008 strategy, called the Innovation Strategy. It is intended to intensify operations on new markets, add a new quality to the product offer and customer service based on modern management solutions, in particular in regards to the corporate culture of the organization. This will contribute to the Bank's new image.

All the results of our 2005 operations stem from the excellent work of PKO BP staff, whose involvement and creativity allow the Bank to meet its targets and bring further development opportunities. On behalf of the Management Board I would like to thank all the employees. I also wish to express my gratitude to the Supervisory Board for the professional support of our activities.

Andrzej Podsiadło
President of the PKO BP Management Board

Warsaw, March 2006

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THE FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA FOR 2005

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SECURITIES AND EXCHANGE COMMISSION

The R 2005 Annual Report

(in accordance with § 86 par. 2 point 3 of the Decree of Minister of Finance dated 19 October 2005 - Journal of Laws No. 209, item. 1744)

(for banks)

for the year 2005 covering period from 2005-01-01 to 2005-12-31

containing financial statements prepared in accordance with International Accounting Standards

currency PLN

date of submission: 2006-03-28

Data relating to financial statements	in PLN thousands		in EUR thousands	
SELECTED FINANCIAL DATA	**Period from 01.01.2005 to 31.12.2005**	**Period from 01.01.2004 to 31.12.2004 (comparative data)**	**Period from 01.01.2005 to 31.12.2005**	**Period from 01.01.2004 to 31.12.2004 (comparative data)**
Net interest income	3 473 829	3 471 947	874 271	768 436
Net fees and commission income	1 169 839	1 581 055	290 766	349 930
Operating result	2 073 310	1 798 180	515 970	398 030
Profit before taxation	2 073 310	1 798 180	515 970	398 030
Net profit	1 676 798	1 447 850	416 453	320 493
Total equity	8 780 394	8 907 047	2 275 285	2 183 684
Net cash flow from operating activities	(3 410 059)	(1 982 221)	(867 840)	(447 943)
Net cash flow from investing activities	1 747 257	5 874 480	434 285	1 300 181
Net cash flow from financing activities	(952 237)	70 688	(236 681)	15 645
Total net cash flow	(2 615 039)	3 962 947	(670 236)	867 884
Basic earnings per share	1.68	1.45	0.42	0.32
Diluted earnings per share	1.68	1.45	0.42	0.32

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PKO BP SA in PLN thousands

THE FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA FOR THE YEAR ENDED 31 DECEMBER 2005

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2005 and 31 December 2004

	Note	01.01 - 31.12.2005	01.01 - 31.12.2004 comparative data
Interest income	8	5 515 887	5 244 964
Interest expense	8	(2 042 058)	(1 773 017)
Net interest income		**3 473 829**	**3 471 947**
Fees and commission income	9	1 502 668	1 865 208
Fees and commission expense	9	(332 829)	(284 153)
Net fees and commission income		**1 169 839**	**1 581 055**
Dividend income	10	28 881	22 291
Result from financial instruments at fair value	11	30579	(45 976)
Result from investment securities	12	276 724	(21 028)
Foreign exchange result	13	613 715	434 934
Other operating income	14	259 690	229 837
Other operating expenses	14	(49 723)	(96 370)
Net other operating income		**209 967**	**133 467**
Impairment losses	16	(98 900)	(133 274)
General administrative expenses	15	(3 631 324)	(3 645 236)
Operating profit		**2 073 310**	**1 798 180**
Profit (loss) before taxation		**2 073 310**	**1 798 180**
Income tax expense	18	(396 512)	(350 330)
Net profit (loss)		**1 676 798**	**1 447 850**
Earnings per share:			
– Basic earnings per share		1.68	1.45
– Diluted earnings per share		1.68	1.45

PKO BP SA in PLN thousands

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BALANCE SHEET
as at 31 December 2005 and 31 December 2004

	Note	31.12.2005	31.12.2004 comparative data
ASSETS			
Cash and amounts due from the Central Bank	20	3 832 695	3 490 505
Amounts due from banks	21	12 631 446	13 146 115
Financial assets held for trading	22	841 914	346 131
Derivative financial instruments	23	1 137 227	1 362 379
Other financial instruments valued at fair value through profit or loss	24	20 034 160	-
Loans and advances to customers	25	46 051 847	39 577 723
Investment securities	26	1 857 578	23 498 314
1. Available for sale		1 857 578	21 605 297
2. Held to maturity		-	1 893 017
Shares in subsidiaries, associates and jointly controlled entities	27	899 932	764 865
Intangible assets	28	525 306	384 045
Tangible fixed assets	29	2 201 163	2 218 233
Receivable from income tax	18	-	20 153
Deferred tax asset	18	-	-
Other assets	30	314 248	303 133
TOTAL ASSETS		**90 327 516**	**85 111 596**

LIABILITIES AND EQUITY	Note	31.12.2005	31.12.2004 comparative data
Liabilities			
Amounts due to the Central Bank	32	766	144
Amounts due to other banks	33	1 943 035	800 403
Derivative financial instruments	23	1 257 384	793 739
Amounts due to customers	35	75 886 880	72 576 273
Liabilities arising from securities issued	36	-	-
Other liabilities	37	1 666 180	1 243 604
Liabilities from income tax	18	436 494	
Deferred tax liability	18	31 351	583 353
Provisions	38	325 032	207 033
TOTAL LIABILITIES		**81 547 122**	**76 204 549**
Equity			
Share capital	42	1 000 000	1 000 000
Other capital items	43	5 672 620	5 900 933
Retained earnings	43	430 976	558 264
Net profit for the period		1 676 798	1 447 850
TOTAL EQUITY		**8 780 394**	**8 907 047**
TOTAL LIABILITIES AND EQUITY		**90 327 516**	**85 111 596**

Capital adequacy ratio		**14.06**	**18.70**

Capital adequacy ratio as at 31 December 2004 was calculated on the basis of comparative data which were restated in order to comply with the changes in accounting principles. In accordance with the approved financial statements of the Bank as at 31 December 2004, the capital adequacy ratio amounted to 16.77%.

PKO BP SA in PLN thousands

OFF-BALANCE SHEET ITEMS
as at 31 December 2005 and 31 December 2004

	Note	31.12.2005	31.12.2004 comparable data
Off-balance sheet contingent liabilities granted	41	**10 533 845**	**7 148 458**
1. financial		9 025 801	6 290 493
2. guarantee		1 508 044	857 965
Liabilities arising from purchase/sale transactions		**279 032 527**	**170 088 351**
Other, of which:		**11 422 181**	**12 368 143**
- irrevocable liabilities	41	8 519 942	9 504 544
- collaterals received		2 902 239	2 863 599
Total off-balance sheet items		**300 988 553**	**189 604 952**

PKO BP SA in PLN thousands

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STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2005

	Share capital	Other capital items				Retained earnings	Net profit (loss) for the period	Total Equity
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves			
Balance as at 1 January 2005 in accordance with IAS	**1 000 000**	**2 789 765**	**160 611**	**1 000 000**	**1 370 000**	**500 441**	**1 447 850**	**8 268 867**
Transfer of net profit	-	-	-	-	-	1 447 850	(1 447 850)	-
Transfer from net profit to reserve capital	-	507 315	-	-	10 000	(517 315)	-	-
Transfer from net profit to dividends	-	-	-	-	-	(1 000 000)	-	(1 000 000)
Net profit (loss) for the period	-	-	-	-	-	-	1 676 798	1 676 798
Movement in available-for-sale investments adjusted deferred tax	-	-	(165 071)	-	-	-	-	(165 071)
Balance as at 31 December 2005 in accordance with IAS	**1 000 000**	**3 297 080**	**(4 460)**	**1 000 000**	**1 380 000**	**430 976**	**1 676 798**	**8 780 394**

The accompanying notes to the financial statements presented on pages 12-115 are an integral part of these financial statements.

in PLN thousands

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For the year ended 31 December 2004 (comparative data)

	Share capital	Other capital items				Retained earnings	Net profit (loss) for the period	Total Equity
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves			
Balance as at 1 January 2004 in accordance with IAS	**1 000 000**	**1 771 771**	**69 199**	**1 333 530**	**1 360 000**	**593 553**	**1 192 706**	**7 320 758**
Issue of securities	-	-	-	-	-	-	-	-
Transfer of net profit	-	-	-	-	-	1 192 706	(1 192 506)	-
Transfer from net profit to reserve capital	-	1 017 994	-	200 000	10 000	(1 228 194)	-	-
Payment of dividends	-	-	-	-	-	-	-	-
Movement in available-for-sale investments less deferred tax	-	-	172 006	-	-	-	-	172 006
Utilisation of provision for general risk	-	-	-	(33 567)	-	-	-	(33 567)
Net profit (loss) for the period	-	-	-	-	-	-	1 447 850	1 447 850
Balance as at 31 December 2004 in accordance with IAS	**1 000 000**	**2 789 765**	**241 205**	**1 499 963**	**1 370 000**	**558 265**	**1 447 850**	**8 907 047**

The accompanying notes to the financial statements presented on pages 12-115 are an integral part of these financial statements.

PKO BP SA in PLN thousands

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CASH FLOW STATEMENT
for the years ended 31 December 2005 and 31 December 2004

	Note	01.01 - 31.12.2005	01.01- 31.12.2004 comparative data
Cash flow from operating activities			
Net profit (loss)		1 676 798	1 447 850
Adjustments:		(5 086 857)	(3 430 071)
Depreciation		419 287	471 396
Foreign exchange differences		-	-
(Profit) loss from investing activities	44	14 980	41 551
Interest and dividends	44	(899 268)	(2 078 191)
Change in loans and advances to banks	44	(2 442 130)	(918 465)
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss	44	(576 203)	528 906
Change in derivative financial instruments (asset)		225 152	(1 100 926)
Change in loans and advances to customers	44	(7 080 628)	(2 110 252)
Change in securities available for sale		-	-
Change in other assets		9 038	100 386
Change in amounts due to banks	44	1 143 254	(275 281)
Change in derivative financial instruments (liability) and other financial liabilities at fair value		463 645	567 332
Change in amounts due to customers	44	3 266 807	928 487
Change in provisions		(592 544)	52 563
Change in other liabilities		1 036 175	85 794
Income tax paid		(368 606)	(319 871)
Current tax expense		396 512	362 687
Other adjustments	44	(102 328)	233 813
Net cash from operating activities		**(3 410 059)**	**(1 982 221)**
Cash flow from investing activities			
Inflows from investing activities		**2 449 820**	**6 736 964**
Sale of shares in a subsidiary		-	-
Sale of shares in a jointly controlled entity		-	-
Sale of shares in associates		200	-
Redemption of investment securities		2 409 738	6 694 515
Sale of intangible assets and tangible fixed assets		11 026	20 165
Other investing inflows		28 856	22 284
Outflows from investing activities		**(702 563)**	**(862 484)**
Purchase of a subsidiary, net of cash acquired		(89 940)	(137 587)
Purchase of shares in jointly controlled entities		(17 498)	-
Purchase of shares in associates		-	(146 500)
Purchase of investment securities		-	-
Purchase of intangible assets and tangible fixed assets		(595 125)	(578 397)
Other investing outflows		-	-
Net cash used in investing activities		**1 747 257**	**5 874 480**

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PKO BP SA in PLN thousands

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	Note	01.01-31.12.2005	01.01-31.12.2004 comparative data
Cash flow from financing activities			
Issue of shares		-	-
Issue of debt securities		-	-
Redemption of debt securities		-	-
Dividends paid to shareholders		(1 000 000)	-
Dividends paid to minority shareholders		-	-
Long-term loans taken out		-	-
Long-term loans repaid		-	-
Other financing inflows / outflows		47 763	70 688
Net cash generated from / (used in) financing activities		**(952 237)**	**70 688**
Net increase (decrease) in cash and cash equivalents	44	**(2 615 039)**	**3 962 947**
Cash and cash equivalents at the beginning of the period		13 819 675	9 856 728
Cash and cash equivalents at the end of the period		**11 204 636**	**13 819 675**
- include those with limited disposal		2 479	2 911

The accompanying notes to the financial statements presented on pages 12-115 are an integral part of these financial statements.

PKO BP SA in PLN thousands

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NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2005

1. Basic information

The financial statements of Powszechna Kasa Oszczędności Bank Polski SA ("PKO BP SA", "the Bank") have been prepared for the year ended 31 December 2005 and include comparative data for the year ended 31 December 2004.

The Bank was established on the basis of the Decree of the Council of Ministers dated 18 January 2000 on the transformation of the state-owned bank, Powszechna Kasa Oszczędności bank państwowy, into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (Journal of Laws of 2000, No. 5, item 55) with its registered office in Warsaw, ul. Puławska 15.

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski SA was entered in the Trade Register kept by the District Court for the Capital City of Warsaw, Business Court XVI Registration Department. Currently the Bank is registered with the District Court for the Capital City of Warsaw, XVI Economic Department of the National Court Register, Entry no. KRS 0000026438. The Bank's share capital amounts to PLN 1,000,000 thousand. The Bank's REGON statistical number is 016298263, and was granted on 18 April 2000.

As at 31 December 2005, the Bank's shareholding structure was as follows:

Name	Number of shares	Number of votes %	Nominal value of 1 share	Percentage of share capital
State Treasury	515 711 446	51.57	PLN 1	51.57
Other shareholders	48 288 554	48.43	PLN 1	48.43
Total	1 000 000 000	100.00	-	100.00

PKO BP SA is quoted on the Warsaw Stock Exchange. According to Warsaw Stock Exchange bulletin (*Ceduła Giełdowa*), the Bank is classified to the macro-sector "Finance", sector "Banks".

Bank's business activities

The activities described in detail in the subsequent parts of this document correspond to the following activities set forth in the Polish Classification of Activities (PKD):

- other banking services – PKD 65.12.A,
- insurance and pension funds supporting activities – PKD 67.20.Z,
- brokerage activities and fund management – PKD 67.12.Z,
- other financial intermediation services, not classified elsewhere – PKD 65.23.Z,
- supporting financial activities, not classified elsewhere – PKD 67.13.Z,
- purchase and sale of foreign currencies – PKD 65.12.A,
- intermediation in foreign money transfers initiated by residents and domestic settlements with non-residents – PKD 65.12.B.

PKO BP SA is a universal commercial bank offering services to both retail and corporate, domestic and foreign clients. PKO BP SA has the right to keep foreign exchange and to trade in foreign exchange, as well as to perform foreign currency and foreign exchange operations, open and hold bank accounts abroad and to place foreign exchange on these accounts.

According to the Articles of Association of PKO BP SA, the Bank's main activities include:

- accepting call (demand) or term deposits and keeping deposit accounts,
- keeping other types of bank accounts,
- extending loans,
- extending cash advances,

- extending and confirming bank guarantees and opening and confirming letters of credit,
- performing bank settlements in the forms recognized in both domestic and foreign banking environment,
- operations including cheques and bills of exchange,
- issuing bank securities,
- issuing payment cards and performing operations using such cards,
- conducting forward transactions with domestic and foreign banks and other financial institutions,
- purchase and disposal of debts,
- issuing electronic money instruments,
- performing operations relating to the issue of securities,
- safe-keeping of valuables and securities, and provision of safe deposit facilities,
- performing banking activities on behalf of other banks,
- conducting the Building Society operations,
- purchase and sale of foreign exchange,
- intermediation in money transfers and settlements in foreign exchange trade,
- granting and confirming sureties.

Additionally, the Bank's scope of activities includes:

- servicing the State Treasury loans and bonds,
- taking out loans and cash advances,
- accepting guarantees and securities,
- brokerage activities based on rules set in separate regulations,
- rendering financial services in connection with canvassing activities, as defined in the Act on the organization and operation of pension funds,
- rendering custodial services on the basis of the Act on the organization and operation of pension funds,
- trading in domestic and foreign securities in compliance with separate regulations and the custody of these,
- operating schools' savings units ("*szkolna kasa oszczędności*")
- rendering custodial services,
- rendering intermediation services within the scope set out in the Act on insurance activity,
- financial consulting and advisory services,
- organizing transport services for valuables,
- finance lease services,
- purchase and disposal of shares and debts on its own account and rendering factoring services.

In addition, the Bank can:

- take up or acquire shares and related rights, in other legal entities and participation units of trust funds,
- invest in domestic and foreign securities,
- acquire and dispose of real property and movables and rent or lease them,
- provide financial, settlement and consultancy services in respect of financial instruments, and
- trade in securities.

The Bank conducts its activities on the following markets:

- currency market,
- money market,
- market of securities, including debt securities issued by the State Treasury and NBP,
- market of corporate clients and sole traders, irrespective of the size of performed activities,
- market of retail clients.

Going concern

The financial statements of PKO BP SA have been prepared on the basis that the Bank will continue as a going concern during a period of 12 months from the balance sheet date, i.e. 31 December 2005. As at the date of signing the financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Bank in the twelve months following the balance sheet date due to an intended or compulsory withdrawal or limitation of its activities.

Reporting periods covered by the financial statements

The financial statements of the Bank have been prepared for the year ended 31 December 2005 and include comparative financial data for the year ended 31 December 2004. The financial data is presented in PLN thousands.

Information on members of the Management and Supervisory Boards of the Bank

As at 31 December 2005, the Bank's Management Board consisted of:

- Andrzej Podsiadło - Board President
- Kazimierz Małecki - Vice-President and First Deputy President
- Danuta Demianiuk - Vice-President
- Sławomir Skrzypek - Vice-President
- Piotr Kamiński - Board Member
- Jacek Obłękowski - Board Member
- Krystyna Szewczyk - Board Member

On 8 December 2005, the Supervisory Board of the Bank passed a resolution appointing Sławomir Skrzypek to the position of Vice-President of the Bank's Management Board as of 20 December 2005.

As at 31 December 2005, the Bank's Supervisory Board consisted of:

- Bazyl Samojlik - Chairman
- Urszula Pałaszek - Vice-Chairman
- Krzysztof Zdanowski - Secretary
- Ryszard Kokoszczyński - Member
- Stanisław Kasiewicz - Member
- Andrzej Giryn - Member
- Jerzy Osiatyński - Member
- Czesława Siwek - Member
- Władysław Szymański - Member

On 13 April 2005, Arkadiusz Kamiński resigned from the position of the Secretary of the Supervisory Board.

On 19 May 2005, the Annual General Meeting of PKO BP SA appointed the following persons to the Supervisory Board:

- Urszula Pałaszek
- Krzysztof Zdanowski
- Czesława Siwek

Internal organisational units of PKO BP SA

The financial statements of PKO BP SA, comprising financial data for the year ended 31 December 2005 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which it performs its activities. As at 31 December 2005, these organizational units included: the Bank's Head Office in Warsaw, BDM - Bankowy Dom Maklerski, COK - Centrum Operacji Kartowych, CBE – Centrum Bankowości Elektronicznej Inteligo, 6 specialized units, 12 regional retail braches, 13 regional corporate branches, 537 independent branches, 619 offices (subordinated branches), 13 corporate client teams, 57 corporate centres and 2,510 agencies. Except for BDM, none of the organizational units listed above prepares separate financial statements.

PKO BP SA in PLN thousands

Indication whether the Bank is a holding company or a significant investor or whether it prepares consolidated financial statements

PKO BP SA is the holding company of the PKO BP SA Group and a significant investor for subsidiaries, jointly controlled entities and associates together with their affiliates. Accordingly, the Bank prepares consolidated financial statements for the Capital Group, which include the financial data of these entities.

Structure of the PKO BP SA Group

No.	Name	Registered office	Activity	Percentage of issued share capital (%)	
				31.12.2005	31.12.2004
PKO BP SA Group					
Holding company					
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna				
Direct subsidiaries					
2	Powszechne Towarzystwo Emerytalne BANKOWY S.A.	Warsaw	Pension fund management	100.00	100.00
3	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Construction and use of business premises	100.00	100.00
4	Kredobank S.A. *	Lvov, Ukraine	Financial services	69.018	66.651
5	PKO Inwestycje Sp. z o.o.	Warsaw	Trading in real estate	100.00	100.00
6	Inteligo Financial Services S.A.	Warsaw	Financial services	100.00	100.00
7	Centrum Elektronicznych Usług Płatniczych eService S.A.	Warsaw	Monetary agency services	100.00	100.00
8	Bankowy Fundusz Leasingowy S.A.	Łódź	Leasing	100.00	100.00
9	Bankowe Towarzystwo Kapitałowe S.A.	Warsaw	Other intermediary financial services	100.00	100.00
Indirect subsidiaries					
	Subsidiaries of PKO Inwestycje Sp. z o.o.				
10	Fort Mokotów Sp. z o.o.	Warsaw	Construction	51.00	51.00
11	POMERANKA Sp. z o.o.	Warsaw	Construction	100.00	-
12	Wilanów Investments Sp. z o.o.	Warsaw	Construction	100.00	51.00
13	UKRPOLINWESTYCJE Sp. z o.o.	Kiev, Ukraine	Construction	55.00	-
	Subsidiary of PTE BANKOWY S.A.				
14	Finanse Agent Transferowy Sp. z o.o.	Warsaw	Financial intermediary services	100.00	100.00

*Until 22 December 2005, it operated under the name of Kredyt Bank (Ukraina) S.A.

PKO BP SA in PLN thousands

Jointly controlled entities

No.	Name	Registered Office	Activity	Percentage of issued share capital (%)	
				31.12.2005	31.12.2004
1	Centrum Obsługi Biznesu Sp. z o.o.	Poznań	Hotel services	41.44	-
2	PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	Investment fund management	50.00	50.00
3	WAWEL Hotel Development Sp. z o.o.	Kraków	Hotel services	35.40	35.40

Associates

No.	Name	Registered Office	Activity	Percentage of issued share capital (%)	
				31.12.2005	31.12.2004
1	Bank Pocztowy S.A.	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynicka S.A.	Krynica	Construction and operation of cable railway	37.83	37.83
3	Ekogips S.A. – in bankruptcy	Warsaw	Production of construction elements	60.26	60.26
4	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Sureties in accordance with civil law and bill of exchange law	33.33	33.33
5	Hotel Jan III Sobieski Sp. z o.o.	Warsaw	Construction and operation of Jan III Sobieski Hotel	32.50	32.50
6	Agencja Inwestycyjna CORP S.A.	Warsaw	Production on the market of construction projects	22.31	22.31
An associate of Bank owe Towarzystwo Kapitałowe SA					
7	FINDER Sp. z o.o.	Warsaw	Car location and fleet management services	42.31	-

Approval of financial statements

These financial statements have been approved for publication by the Management Board of the Bank on 21 March 2006.

Consolidated financial statements of PKO BP S.A. Group were also approved on 21 March 2006 together with the financial statements of PKO BP S.A.

2. Accounting Policies

Basis for preparation of financial statements and declaration of compliance with accounting standards

In accordance with the Accounting Act of 29 September 1994 with subsequent amendments ("Accounting Act"), as of 1 January 2005 the Bank may prepare financial statements in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and their interpretations promulgated in the form of European Commission regulations. On the basis of Resolution no. 28/2005 of 19 May 2005, the Annual General Meeting decided that the Bank will prepare its financial statements in accordance with IAS/IFRS from 1 January 2005. At present, taking into account the process of implementation of IFRS in the European Union and the Bank's activities, there are no differences between IFRSs and the IFRSs endorsed by the European Union as regards the accounting policies applied by the Bank.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and, in particular, in accordance with International Accounting Standard 1 and all regarding the Bank International Financial Reporting Standards approved by EU

The Bank's financial statements as of 31 December 2005 are prepared for the first time in accordance with International Financial Reporting Standards. For the purpose these financial statements, 1 January 2004 was the date of transition to IAS date. The last financial statements prepared in accordance with Polish Accounting Standards ("PAS") were financial statements for the year ended 31 December 2004.

Reconciliation of the equity and net profit for the year ended 31 December 2004 (as well as the equity, net profit and significant adjustments to the cash flow statement as at 1 January 2005) and the equity as at 1 January 2004, prepared in accordance with PAS and IAS, are presented in Note 47.

The Bank applied IFRS being in force as at 31 December 2005. The Bank applied the same accounting policies in preparing the opening balance sheet according to IAS as at 1 January 2004 and for all periods presented in these financial statements. All changes in accounting policies were applied retrospectively, except for the following exemptions allowed by IASs, which the Bank decided to apply:

- Fair value or revaluation to deemed cost (IFRS 1.16-19)

On the basis of the exemption allowed by IFRS 1, the Bank has measured the selected items of tangible fixed assets at fair value as of the transition date, and used that fair value as deemed cost at that date.

- Designation of previously recognized financial instruments (IFRS 1.25A)

The Bank designated financial instruments reported at fair value through profit and loss or as available for sale at the transition date, i.e. in the case of IAS 39 – as at 1 January 2005 (see note below).

- Share-based payment transactions (IFRS 1.25B)

In accordance with IFRS 1, the first-time IFRS adopter is recommended – but not required – to apply the provisions of IFRS 2 *Share-based payment* with respect to equity instruments that were granted on or before 7 November 2002 or were granted after 7 November 2002 and vested before 1 January 2005. Accordingly, the Bank took advantage of the exemptions of IFRS 1 and did not apply the IFRS 2 requirements to the granted employee shares.

Additionally, the Bank used the exemption from the requirement to restate comparatives relating to IAS 39 and IAS 39. Transactions, assets and liabilities covered by those standards for the periods starting from 1 January 2004 and ended 31 December 2004 or earlier were presented in accordance with Polish Accounting Standards.

<u>New IFRS/IAS introduction.</u>

As at 31 December 2005, the European Commission adopted, with the effective date subsequent to 31 December 2005, new standards and amendments to certain standards and their interpretations in force, New standards and amendments to the standards which could have impact on the Bank's financial statements are as follows:

- IFRS 7 *Financial Instruments Disclosures* – this standard is effective since 1 January 2007, however earlier application is permitted. IFRS 7 replaces IAS 30 *Disclosure in the Financial Statements of Banks and Similar Financial Institutions* and disclosure requirements of IAS 32 *Financial Instruments Disclosure and Presentation* binding as at the balance sheet date. IFRS 7 extends the quantitative and qualitative disclosure requirements for financial instruments risk management: credit risk, liquidity risk and market risk. The Bank assess that mainly the disclosures for market risk sensitivity will require additional information and disclosures.

- IAS 1 *Presentation of Financial Statements* – these amendments to the standard are effective from 1 January 2007, however earlier application is permitted. Amended IAS 1 requires additional disclosures related to shareholders' equity management. The Bank expects that disclosures related to shareholders' equity management would require certain additional information in the financial statements.
- IAS 39 Financial *Instruments: Recognition and Measurement – Fair Value Option* with resulting amendments in IFRS 1. 1 January 2006 is the effective date of these amendments, however earlier application is permitted. However, if the Bank had applied the amendments earlier, i.e. before December 2005, it would not be able to apply the option of measurement at fair value of assets and liabilities other than those measured at fair value on this date.

In the financial statements for the year ended 31 December 2005 the Bank applied the amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and to IFRS 4 *Insurance contracts* as to financial guarantees issued by Council of International Accounting Standards and approved by European Union on 11 January 2006.

The Polish Zloty is the functional currency and presentation currency in the Bank's financial statements.

Principal accounting policies and methods applied by PKO BP SA

In these financial statements, all items were recognized at historical cost, except for financial assets recognized at fair value through profit or loss, financial assets available for sale and derivatives, which are stated at fair value.

The principal accounting policies and methods applied by PKO BP SA during the period from 1 January to 31 December 2005 are as follows:

a) Estimates

In preparing financial statements in accordance with IAS, the Bank makes certain estimates and assumptions, which have a direct influence on the financial statements presented and the amounts presented in the financial statements and in the notes to the financial statements.

The estimates that were made at the transition date, i.e. 1 January 2004, and at each balance sheet date, reflect the conditions that existed at these dates (e.g. market prices, interest rates, exchange rates etc.). In spite of the fact that the estimates are based one the best understanding of the current situation and the activities that will be undertaken by the Bank, the actual results may differ from those estimates.

The main assumptions about the future that were used by the Bank in performing estimates include first of all the following areas:

- Impairment of financial assets

At each balance sheet date, the Bank assesses whether there is any objective evidence that the value of a given financial asset or a group of financial assets is impaired.. Evidence indicating impairment or events or groups of events which occurred after the date of the initial recognition of the asset and which indicate that the expected future cash flows to be derived from the given asset or group of assets made have decreased. When evidence of impairment is found, the Bank estimates the amounts of write-offs due to impairment.

The Bank uses three methods for the estimation of impairment:

a) For loans which were found to be individually impaired and which are considered individually significant, impairment is estimated on the basis of an analysis of the future cash flows expected for each asset,
b) For loans which were found to be individually impaired and which are not considered individually significant, impairment is estimated for the individual types of exposures, on the basis of the expected average cash flows generated by the particular loan portfolios,
c) For loans which were not found to be individually impaired, but for which it was found that they may have given rise to incurred but not reported losses, impairment write-offs are estimated on the basis of the expected time when the losses will be identified, the probability of the losses being identified and the expected amount of the loss at the moment when it is identified.

The Bank expects that the methodology used for estimating impairment write-offs in 2005 will be developed in line with the increasing possibilities of acquiring impairment data from the existing and implemented information systems and applications. As a consequence the improvement of a data quality may have a significant influence on the level of impairment allowance in future.

- Impairment of investments in subsidiaries, associates and jointly controlled entities

At each balance sheet date, the Bank makes an assessment whether there are any indicators of impairment of the value of investments made in subsidiaries, associates and jointly controlled entities. If any such indicators exist, the Bank estimates the value in use of the investment or the fair value of the investment less costs of disposal, depending on which of these values is lower. The projection for the value in use requires making assumptions, e.g. about the future cash flows that the Bank may receive from dividends or the cash inflows from the potential disposal of the investment, less the costs of disposal. The adoption of other assumptions with reference to the projected cash flows might affect the carrying amount of certain investments.

- Impairment of other non-current assets

At each balance sheet date, the Bank makes an assessment whether there are any indicators of impairment of any of its non-current assets (or cash generating units). If any such indicators exist, the Bank estimates the recoverable amount and the value in use of the given non-current asset (or cash generating unit). In order to estimate these values, it is necessary to adopt certain assumptions, e.g. about the expected future cash flows that the Bank may receive from the continued use or disposal of the non-current asset (or cash generating unit). The adoption of other assumptions with reference to future cash flows may affect the carrying amount of certain non-current assets.

- Valuation of derivatives and unquoted debt securities available for sale

The fair value of non-option derivatives and debt securities available for sale not listed on an active market is determined using valuation models based on discounted cash flows that may be received from the given financial instrument. Options are valued using option pricing models. The variables and assumptions used in valuation include any available data derived from observable markets. In the valuation of unquoted debentures available for sale, assumptions are also made about the contractor's credit risk, which may have an impact on the pricing of the instruments. Any change in these assumptions might affect the valuation of the above-mentioned instruments.

- Calculation of provision for retirement benefits

The provision for retirement benefits and jubilee bonuses is created individually for each employee on the basis of the anticipated level of these obligations according to the Collective Labour Agreement ("*Zakładowy Układ Zbiorowy Pracy*") being in force at the Bank. The calculation of the provision includes all bonuses and retirement benefits that may be paid in the future. The provision was created on the basis of a list including all the necessary details of the employees, in particular the length of their service, age and gender. The technical interest rate was adopted at the level of 0.5%.

b) Cash and cash equivalents

"Cash and cash equivalents" consist of cash on hand, at *nostro* account with the National Bank of Poland, current amounts due from other banks, and other cash due within up to three months and stated at nominal value.

c) Financial assets

The Bank classifies financial assets into the following categories: financial assets valued at fair value through profit or loss, financial assets available for sale, loans and other receivables, financial assets held to maturity.

The Bank determines the classification of the financial asset at the moment of its initial recognition.

- Financial assets at fair value through profit or loss

This category includes: financial assets held for trading and financial assets designated at the moment of initial recognition as financial assets at fair value through profit or loss.

Financial assets held for trading comprise: debt securities and equity securities, loans and receivables which were acquired or classified into this category with an intention to sell them in a short period of time. Derivative instruments are also included in this category.

Equity instruments

The equity instruments managed by Bankowy Dom Maklerski PKO BP SA ("BDM") are classified into financial assets at fair value through profit or loss, where the fair value is measured as follows:

1) for those equity instruments for which there is an active market – with reference to market value,
2) for those equity instruments for which there is no active market – with reference to the price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance sheet date there were significant changes in market conditions which might affect the price.

Debt instruments

Debt securities are classified into the category of financial assets at fair value through profit or loss, where the fair value is measured as follows:

1) for those debt instruments for which there is an active market – with reference to market value,
2) for those debt instruments for which there is no active market – with reference to other value accepted as fair value and determined using one of the following methods:
   a) reference asset value method,
   b) the yield curve method based on market interest rates,
   c) the price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance sheet date there were significant changes in market conditions which might affect the price.

The effects of changes in fair value are recorded as income or expense from financial instruments stated at fair value through profit or loss.

Derivative instruments

Speculative derivative financial instruments are recognised at fair value at the date of transaction and are subsequently stated at fair value as of the balance sheet date. In the case where the estimated fair value is lower or higher than the fair value as of the preceding balance sheet date (for transactions concluded in the reporting period – acquisition cost or the sale price of the instrument), the difference is charged respectively to the result on financial assets and liabilities stated at fair value through profit or loss or foreign exchange result (FX swap, FX forward and CIRS transactions), in correspondence with receivables or liabilities arising from derivative financial instruments, as appropriate.

The result of the ultimate settlement of derivative instrument transactions is reflected in the result from financial assets and liabilities stated at fair value through profit and loss or in the foreign exchange result. The nominal value of the underlying instruments is presented in the off-balance sheet items from the date of origination the transaction until maturity. Off-balance sheet items denominated in foreign currencies are revalued at the end of each day according to the average NBP exchange rate.

The fair value of financial instruments which are traded on the market is their market price, less the costs of transaction. In other cases, fair value is calculated on the basis of a valuation model based on data derived from an active market.

Embedded derivative instruments

Bank has embedded derivative instruments, which are the components of financial and non-financial contracts, whereby all or part of the cash flows relating to such contracts vary in a similar way to the stand-alone derivative.

Embedded derivative instruments separated from host contracts and recognised separately in the accounting records are valued at fair value. Valuation is presented in the balance sheet under "Derivative Financial Instruments". Changes in fair value of derivative instruments are recorded in the profit and loss account under "Result from financial assets and financial liabilities valued at fair value".

Embedded derivative instrument is recognised separately from the host contract, if all of the following conditions are met:

- the financial instrument from which the embedded derivative instrument is separated is not classified as held for trading or available-for-sale, and the effects of revaluation of such instrument are charged to income or cost of financial operations of the current financial period,
- the characteristics and risks of the embedded derivative instrument are not closely related to the characteristics and risks of the host contract,
- a separate instrument with the same characteristics as the embedded derivative would meet the definition of a derivative,
- it is possible to reliably determine the fair value of the embedded derivative.

In the case of contracts which are not financial instruments and which include an instrument which fulfils the above conditions, embedded derivatives are classified into financial assets valued at fair value through profit and loss or financial liabilities and are valued at fair value, with changes in fair value recorded in profit and loss account.

The fair value of financial instruments which are traded on the markets is their market price, less the costs of transaction. In other cases, fair value is calculated on the basis of a valuation model based on data derived from an active market. The techniques used are based – among others – on the discounted cash flow models, option models and yield curves.

- Financial assets available for sale

These are financial assets for which the holding period is not defined, and they are classified neither into the portfolio of assets valued at fair value through profit and loss nor into assets held to maturity. This portfolio includes: debt securities and equity securities, and loans and receivables that were not included into other categories. Interest on assets available for sale is calculated using the effective interest rate method and is charged to profit and loss account under “Interest income”.

Financial assets available for sale are valued at fair value, and gains and losses arising from changes in fair value compared with valuation using amortized cost are taken to revaluation reserve. The item included in revaluation reserve is taken to the profit and loss account at the moment the asset is sold or found to be impaired. If an asset classified as available-for-sale is found to be impaired, the increases in the value of the asset that were previously recognised on its revaluation to fair value reduce the amount of the “Revaluation reserve”. If the amount of the previous increases in value is not sufficient to cover the impairment, the difference is charged to the profit and loss account.

Dividends from equity instruments are recorded in the profit and loss account when the entity’s right to receive the payment has been established.

Equity instruments

Equity instruments classified as available for sale are stated at fair value. The fair value is determined as follows:

1) For equity instruments for which an active market exists – with reference to market value,
2) For equity instruments for which there is no active market:
   a) as current bid offer,
   b) valuation performed by a specialised external entity providing this kind of services.

If it is not possible to determine fair value, equity instruments are stated at acquisition cost less impairment losses.

The effects of changes in the fair value of equity instruments classified as available-for-sale are taken to revaluation reserve, except for impairment losses, which are charged to profit and loss account.

Debt instruments

Debt instruments classified as available-for-sale are stated at fair value. The fair value is determined as follows:

1) For those debt instruments for which there is an active market – with reference to market price,
2) For those debt instruments for which there is no active market – with reference to other value accepted as the fair value and determined using one of the following methods:
   a) reference asset value method,

b) the yield curve method based on market interest rates, adjusted for risk margin equal to the margin determined in the terms of the issue.

The results of changes in fair value in relation to the carrying amount of an instrument stated at amortized cost are taken to revaluation reserve, except for impairment losses, which are charged to profit and loss account.

Interest income and discounts calculated using the effective interest rate are presented as financial income, and the gain or loss recorded in the revaluation reserve is the difference between the fair value determined at the balance sheet date and the value of these assets at amortized cost.

- Loans, advances and other receivables

Loans and receivables comprise financial assets that are not quoted on an active market, which are featured with fixed or determinable payments, and which are not derivative instruments. This category includes debt securities acquired from the issuer for which there is no active market, loans, advances and other receivables acquired and allowed. Loans and receivables are valued at amortized cost using the effective interest rate, with an allowance for impairment losses.

Loans and advances are valued at amortized cost. Amortized cost is the amount at which the loan was measured at the date of initial recognition, less principal repayments, and increased or decreased by the cumulative amortisation of any difference between that initial amount and the amount at maturity, and decreased by any impairment losses. Valuation at amortized cost is performed using the effective interest rate – the rate that discounts the expected future cash flow to the net present value over the period to maturity or the date of the next market valuation, and which is the internal rate of return of the asset for the given period; the calculation of this rate includes the payments received by the Bank which influence the financial characteristics of the instrument. Commissions and fees, which are an integral part of the effective return on a loan, adjust their carrying amounts and are included in the calculation of the effective interest rate.

Loans and advances with unspecified repayment dates are valued at nominal value, increased by the amount of interest receivable and decreased by any impairment losses.

Receivables from services performed by the Bank to contractors are valued at nominal value, increased by the amount of interest receivable and decreased by any impairment losses.

- Financial assets held to maturity

These are financial assets with fixed or determinable payments and maturity dates, which were acquired in order to be held and the Bank is able to hold them to maturity.

Financial assets in this category are valued at amortised cost using the effective interest rate. The cost amortization is recorded in the profit and loss account under “Interest income”.

Debt instruments quoted on an active market and held to maturity are presented at acquisition cost, adjusted by accrued interest, discount and premium (calculated using the effective interest rate), with an allowance for any impairment losses.

d) Accounting for transactions

Financial assets and financial liabilities, including forward transactions giving rise to an obligation or a right to acquire or sell in the future a given number of specified financial instruments at a given price, are recognised in the books of account under the date on which the contract was entered into, irrespective of the settlement date provided in the contract.

e) Sale and repurchase contracts

Repo and reverse-repo transactions and sell-buy back, buy-sell back transactions are transactions for the sale or purchase of securities with a commitment to buy or sell back the security at an agreed date and price.

Repo transactions are recognised at the date of the transaction under amounts due to other banks or amounts due to customers in respect of deposits, depending on the contractor. Reverse-repo securities are recognised under amounts due from banks or loans extended to customers, depending on the contractor.

The difference between the sale price and the repurchase price is recognised as interest expense/income, as appropriate, and is amortised over the term of the contract using the effective interest rate.

Sell-buy back and buy-sell back transactions are recognised and valued using the method described in the paragraph on derivative instruments.

f) Impairment of financial assets

At each balance sheet date, the Bank makes an assessment whether there is objective evidence that a given financial asset is impaired. If such evidence exists, the Bank determines the amounts of impairment losses. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset and have an impact on the expected future cash flows to be derived from the financial asset or group of financial assets, and these cash flows are reliably measurable.

The following are considered by the Bank as loss events:

1) significant financial difficulties of an issuer or debtor;
2) an actual breach of contract, such as a default or delinquency in interest or principal payments;
3) granting by the lender to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, of a concession that the lender would not otherwise consider;
4) a high probability of bankruptcy or other financial reorganization of the issuer or debtor;
5) the disappearance of an active market for that financial asset due to financial difficulties of the issuer or debtor,
6) evidence that there is a measurable decrease in the estimated future cash flows from a group of financial assets, including the collectability of these cash flows.

The Bank first assesses impairment on an individual basis. If, for a given financial asset assessed individually, there are no objective indications of impairment, the asset is included in a group of financial assets with similar characteristics, which are subsequently assessed for impairment on a collective basis.

The Bank classifies loan receivables on the basis of the amount of exposure into the individual and group portfolios.

In the individual portfolio, each individual loan exposure is tested for impairment. If the exposure is found to be impaired, an allowance is recognised against the amount of the receivable. If there is no objective evidence of impairment for a given exposure, this exposure is included in the portfolio of loans that are assessed on a collective basis.

Within the group portfolio, groups with similar credit risk characteristics are identified, which are then assessed for impairment on a collective basis.

If there is objective evidence for the impairment of financial assets classified as loans and receivables or investments held to maturity, the amount of the impairment allowance is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future losses on loans, which have not been incurred) discounted using the effective interest rate from the date on which the financial asset was found to be impaired.

The carrying amount of an asset is decreased by impairment allowances, and the amount of impairment losses is charged to profit and loss account.

The calculation of the present value of estimated cash flows relating to a financial asset for which the Bank holds collateral takes into account the cash flows arising from the seizure of the collateral, less costs to seize and sell.

Future cash flows from a group of financial assets assessed for impairment on a collective basis are estimated on the basis of cash flows generated from contracts and historical parameters of recoveries generated from assets with similar risk characteristics.

Historical recovery parameters are adjusted on the basis of data from current observations, so as to take into account the impact of current conditions and exclude the factors that had impact in the past but no longer exist.

If, in the subsequent period, the amount of impairment loss is reduced because of an event that took place after the impairment was recognised (e.g. improvement in debtor's credit rating), then the impairment loss that was previously recognised is reversed by making an appropriate adjustment to the balance of impairment allowances. The amount of the reversal is recorded in the profit and loss account.

In the case of impairment of a financial asset classified as available for sale, the amount of the impairment loss is charged to the profit and loss account, which results in the necessity to transfer the effects of its "downwards"

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The only binding version is the original Polish version.

valuation from the revaluation reserve to the profit and loss account. Impairment losses recognised against unquoted equity instruments are not reversed through profit and loss account.

No impairment losses are recognised against financial assets at fair value through profit or loss.

g) Derecognition of financial instruments

Financial instruments are derecognised when the Bank looses control over the contractual rights comprising the given financial instrument. This situation usually takes place when the instrument is sold or when all the cash flows assigned to the instrument are transferred to an independent third party.

In particular, the Bank derecognises a loan or part of a loan, when it looses control over the rights arising from that loan or part of loan. The Bank looses control, if the rights pertaining to the loan agreement expire, or the Bank waives those rights or sells the loan. Usually the Bank derecognises loans when they have been forgiven, when the period of limitation expired or when the loan is not recoverable.

Loans and other amounts due are written off against the impairment allowances that were recognised for these accounts. In the case where no allowances were recognised against the account or the amount of the allowance is less than the amount of the loan or other receivable, before the loan or receivable is written off, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognised to date.

h) Tangible fixed assets, intangible assets

Items of tangible fixed assets are stated at the balance sheet date at acquisition cost or cost of production, less accumulated depreciation and impairment losses. This method is also applied to property covered by the revaluation performed in 1995, which were stated at fair value at the transition date. Depreciation is charged on all assets whose value decreases due to usage or passage of time, using the straight-line method over the estimated useful life of the given asset. The adopted depreciation periods and depreciation rates are subject to periodic verification. If there were any events or circumstances indicating that the carrying amount of tangible fixed assets may not be recoverable, then these assets are reviewed for impairment. Depreciation charges and impairment losses are expensed directly to the profit and loss account for the current period.

Intangible assets are stated at acquisition cost or cost of production, less amortisation and impairment losses.

Amortisation is charged using the straight-line method over the estimated useful life of the given asset. Intangible assets with indefinite useful life are not amortised.

Intangible assets with indefinite useful life are subject to review for impairment. Other intangible assets are reviewed for impairment when there were events or circumstances indicating that their carrying amount may not be recoverable.

Amortisation charges and impairment losses are expensed directly to the profit and loss account for the current period. The adopted amortisation periods and amortisation rates are subject to periodic verification.

The acquisition cost and the cost of production of tangible fixed assets, assets under construction and intangible assets comprises aggregate costs directly related to bringing the asset to a condition allowing normal usage, incurred by the entity during the period of construction, assembly, adaptation or improvement up to the balance sheet date or the date of accepting the asset for use, including:

1) non-deductible VAT and excise tax;

2) borrowing costs related to liabilities incurred in order to finance the acquisition or production of such assets - if they are related to the acquisition, construction or production of a “qualifying asset” i.e. an asset that requires a considerable amount of time in order to be prepared for the intended use or disposal, as well as foreign exchange gains or losses, if they are considered to adjust interest costs;

3) estimated costs of dismantling and removal of an asset and the costs of renovation of the place where the asset was located, when there is an obligation to incur such costs and the present value of the estimated future costs is considerable when compared to the acquisition cost or the cost of construction of the asset.

Costs relating to acquisition or construction of buildings are allocated to significant components of the building, when such components have different useful lives or when each of the components generates benefits for the Bank in a different manner. Each component of the building is depreciated separately.

Depreciation of tangible fixed assets and amortisation of intangible assets commences on the first day of the month following the month in which the asset is brought to use, and ends no later than at the time when:

1) the amount of depreciation or amortization charges becomes equal to the initial cost of the asset, or
2) the asset is designated for liquidation, or
3) the asset is sold, or
4) the asset is found to be missing, or
5) it is found – as a result of verification – that the expected residual value of the asset exceeds its (net) carrying amount,

with an allowance for the residual value of the asset expected at liquidation, i.e. the net amount that the Bank expects to obtain at the end of the useful life, net of the expected costs of disposal, if the present value of the residual value expected at liquidation is considerable when compared with the cost of acquisition or production of the asset.

For intangible assets it is assumed that the residual value is nil, unless there is an obligation of a third party to buy back the asset, or if there is an active market which will continue to exist at the end of the asset's period of use and it is possible to determine the value the asset on this market.

The residual values and the adopted useful lives of tangible fixed assets and intangible assets are subject to verification for correctness depending on changes in the expected useful life of the asset. Such verification should be made at least at the end of each financial year, at a date that allows the Bank to make any potential adjustments starting from the first month of the following financial year.

Depreciation periods used for the main categories of tangible fixed assets in PKO BP SA are as follows:

Tangible fixed assets	**Periods**
Buildings, premises, cooperative rights to premises	9-67 years
Leasehold improvements (buildings, premises)	10 years*
Plant and machinery	5-22 years
Computer hardware	1.5-3 years
Motor vehicles	4-7 years

* For leasehold improvements, useful lives depend on the term of the contract. For leasehold improvements in buildings and premises subject to rental contracts concluded for an undefined period of time, the Bank applies useful lives of 10 years.

Amortisation periods used by PKO BP SA for intangible assets are as follows:

Intangible assets	**Periods**
Licences for computer software	2 years
Copyright, including rights to computer software	2 years
Other intangible assets	2-5 years

i) Investment property

Initially, investment property is measured at its cost, which includes transaction costs. After initial recognition, investment property is stated at fair value. Investment property is de-recognized when disposed of or permanently withdrawn from use and no future benefits are expected from its disposal. Gains or losses on derecognition of investment property are recognized in the income statement for the year in which such derecognition took place.

j) Investments in subsidiaries, associates and jointly controlled entities

Investments in subsidiaries, associates and jointly controlled entities are stated at acquisition cost less impairment losses.

k) Non-current assets held for sale

Non-current assets held for sale include assets whose carrying amount is to be recovered as a result of resale and not due to continued use. Such assets only include assets available for immediate sale in the current condition, the sale of which is highly probable, i.e. the entity decided to fulfil the plan for the sale of the asset, and started to actively seek for the buyer in order to complete the sale plan. In addition, such assets are offered for sale at a price which is reasonable with respect to their current fair value and it is expected that the sale will be recognised as completed within one year from the date of classification of the asset into this category.

PKO BP SA in PLN thousands

Non-current assets held for sale are stated at the lower of their carrying amount and fair value less the costs of disposal. No depreciation is charged on assets classified into this category. Impairment charges of non-current assets held for sale are recognized in the profit and loss account for a period in which this impairment charges were made.

l) Valuation of items denominated in foreign currencies and foreign exchange result

The balance sheet and off-balance sheet assets and liabilities in foreign currency are translated into Polish zloty using the average NBP rate prevailing for a given currency as at the balance sheet date. Provisions for the impairment of loan exposures and other receivables denominated in foreign currencies, which are created in Polish zloty, are updated in line with a change in the valuation of the assets in foreign currencies for which these provisions are created. Realised and unrealised foreign exchange differences are recorded in the profit and loss account.

m) Exchange rates used in preparing financial statements

For translation of balance sheet and off-balance sheet items as at 31 December 2005 into euro, the Bank used the rate of 3.8598 PLN/EUR, which is the average NBP rate at the balance sheet date, whereas for translation of the balance sheet and off-balance-sheet items as at 31 December 2004 into euro, the Bank used the rate of 4.0790 PLN/EUR, which was the average NBP rate at the balance sheet date.

The main items of the income statement and cash flow statement for 2005 have been translated into euro using the rate of 4.0233 PLN/EUR, which is the arithmetical mean of the average NBP rates at the last day of each month covered by the financial statements. The financial data concerning the income statement and cash flow statement for 2004 have been translated into euro using the rate of 4.5182 PLN/EUR, which was the arithmetical mean of the average NBP rates at the last day of each month covered by the comparative financial data.

EUR	**01.01. – 31.12.2005**	**01.01. – 31.12.2004** **(comparative data)**
Rate prevailing on the last day of the period	3.8598	4.0790
Rate representing the arithmetical mean of the rates prevailing on the last days of each month of the period	4.0233	4.5182
The highest rate in the period	4.2756	4.9149
The lowest rate in the period	3.8223	4.0518

n) Off-balance sheet liabilities granted

Within its operations, the Bank enters into transactions, which, at the time of their conclusion, are not recognized in the balance sheet as assets or liabilities, however they result in contingent liabilities. A contingent liability is:

- A possible obligation depending on whether some future event occurs, whose existence will be confirmed only at the time of the occurrence or non-occurrence of one or more uncertain future events not fully controlled by the Bank,
- A present obligation resulting from past events, but not recognized in the balance sheet, as it is not probable that the outflow of cash or other assets in order to fulfill the obligation is necessary, or the obligation amount cannot be determined reliably.

Granted credit lines and guaranteed are the most significant items of off-balance sheet liabilities granted.

For off-balance sheet liabilities granted which carry default risk of the commissioning party provisions are made in accordance with IAS 37 and IAS 39.

o) Deferred income tax

Due to timing differences between the moment income is recognised as earned and cost as incurred according to the Accounting Act and to tax regulations, the Bank recognises deferred tax liabilities (provisions) and deferred tax assets. The amount of deferred tax is determined, using the balance sheet method, as a change in the balance of the following items – deferred tax assets and deferred tax liabilities. The Bank may offset the deferred tax asset and deferred tax liability if it has a legally enforceable right to set off and when the deferred tax assets and liabilities relate to income tax levied by the same taxation authority. The change in the balance of a deferred tax liability or a deferred tax asset is included in taxation charge, except for the effects of valuation of financial assets recognised in revaluation reserve, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with revaluation reserve. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all a part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity are recognized in equity and not in the profit and loss account

p) Financial liabilities at fair value

Financial liabilities at fair value through profit or loss include derivatives valued in accordance with point c) of these notes.

q) Financial liabilities at amortized cost

Financial liabilities are valued at amortized cost using the effective interest rate. If it is not possible to determine the cash flow projection for a financial liability and, therefore, to reliably determine the effective interest rate, such a liability is recorded at the amount due

r) Accruals and deferred income

This item mainly comprises commission recognised using the straight-line method and other income received in advance, which will be recognised in the profit and loss account in the future reporting periods.

Accruals include: accruals for costs of services performed for the Bank by contractors, which will be recognised in the following periods, and accruals for amounts due to employees (e.g. bonuses, rewards and unused holiday payments).

Accruals and deferred income are stated in the balance sheet under “Other liabilities”.

s) Prepayments and deferred costs

Prepayments and deferred costs include particular kinds of expenses which will be recognised in the profit and loss account in the future reporting periods. Prepayments and deferred costs are presented in the balance sheet under “Other assets”.

t) Provisions

Provisions are liabilities of uncertain timing or amount.

In accordance with the Collective Labour Agreement (*Zakładowy Układ Zbiorowy*), all employees of PKO BP SA are entitled to jubilee bonuses after completing a specified number of years in service and to retirement benefits upon retirement. The Bank periodically performs an actuarial valuation of its future liabilities to employees.

The Bank creates an accrual for the future liabilities of the Bank relating to unused annual leave, taking into account all outstanding unused holiday days, as well as for the costs of the current period which will be incurred in the following periods.

u) Financial result

Bank recognises all significant costs and income in accordance with the following principles: accrual basis, matching principle, principles for recognition and valuation of assets and liabilities, principles for recognition of impairment losses.

- Interest income and interest expense

Interest income and interest expense includes interest, together with discounts and bonuses, recognized in accordance with the accruals principle based on the effective interest rate method.

Interest income also includes fees and commission received, which are part of the internal rate of return of the financial instrument.

- Fees and commission income and expense

Fees and commission income is generally recognised on an accruals basis at the moment when the service is performed. Fees and commission income includes one-off amounts charged by the Bank for services not related to the internal rate of return on loans and other receivables, as well as amounts charged by the Bank for services performed over a period exceeding 3 months. Fees and commission expense comprises mainly amounts of commission paid to agents, including commission on loans, that where not included in the calculation of the effective rate due to immateriality.

Fees and commission income also includes fees and commission recognised on a straight-line basis, received on loans with unspecified repayment dates.

- Foreign exchange result

Foreign exchange result comprises foreign exchange gains and losses, both realised and unrealised, resulting from daily revaluation of assets and liabilities denominated in foreign currency translated using the average NBP exchange rates and from the fair value valuation of outstanding derivatives (FX forward, FX swap, CIRS).

- Other operating income and expense

Other operating income and expense include income and costs not related directly to banking activity. Other operating income mostly includes income from sale or liquidation of non-current assets and assets seized in exchange for debts, recovered bad debts, received compensation, fines and penalties, income from lease/rental of properties and released provisions for amounts in dispute and assets seized in exchange for debts.

Other operating expense mostly includes costs of sale or liquidation of non-current assets, including assets seized in exchange for debts, costs of collecting debts, costs of provisions for amounts in dispute and donations.

v) Income tax

Corporate income tax is calculated on the basis of gross profit adjusted for non-taxable income, taxable income that does not constitute accounting income, non-tax deductible expenses and tax costs which are not accounting costs, in accordance with Polish tax regulations. These items mainly include income and expenses relating to accrued interest payable and receivable and provisions for receivables, off-balance sheet liabilities and other assets.

In calculating taxable income, the Bank took into account the provisions of the Decree of the Minister of Finance dated 28 March 2003 on the extension of deadlines for payment of corporate income tax advances by banks granting housing loans from Mortgage Fund (Journal of Laws No. 58, item 511).

w) Shareholders' equity

Shareholders' equity comprises share capital and reserves created by the Bank in accordance with binding legal regulations and the Bank's Articles of Association. Shareholders' equity also includes accumulated profits and losses from previous years.

- Share capital is stated at nominal value, in accordance with the amount included in Articles of Association and entered in the Register of Entrepreneurs.
- Reserve capital is created in accordance with the Bank's Articles of Association, from the appropriation of net profits and from share premium and is assigned to coves balance losses which can a result of the Banks' activities. Decisions to use reserve capital are taken by the General Shareholders' Meeting.
- Revaluation reserve comprises the effects of re-measurement of financial assets available for sale and the amount of the deferred tax. In the balance sheet, the revaluation reserve is presented net.
- Reserves used for the purposes described in the Articles of Association are created from the appropriation of net profits in the amount set by General Shareholders' Meeting,
- General banking risk fund in PKO BP SA is created from profit after taxation according to the Banking Law dated 29 of August 1997. In the comparative data, this item also includes general banking risk provision, as described in Note 47.

Shareholders' equity also includes:
- Net profit (loss) under the approval process, decreased by planned dividends,
- Dividends declared and not paid.

The net profit (loss) for the period is the result derived from the profit and loss account, adjusted by corporate income tax expense.

x) Social Fund [*Zakładowy Fundusz Świadczeń Socjalnych*]

According to the Social Fund Act dated 4 March 1994, with subsequent amendments, the Bank established a Social Fund. The aim of this Fund is to finance social activities on behalf of employees and to subsidise the Bank's social facilities. The Fund's liabilities consist of accumulated contributions made by the Bank to the Social Fund, reduced by non-refundable expenditures from the Social Fund.

In the balance sheet, the Bank compensated the Fund's assets and liabilities due to the fact that the assets of the Social Fund are not controlled by the Bank.

3. Principles and objectives relating to financial risk management

The main types of risks arising from the Bank's financial instruments include credit risk, interest rate risk, liquidity risk and currency risk. The Bank verifies and sets objectives and principles of management of each kind of risk – these principles are shortly discussed below. The Bank also monitors the risk of changes in market prices of all of its financial instruments. The accounting policies of PKO BP SA relating to derivatives are discussed in point 2 under "Principal accounting policies and methods used by PKO BP SA".

Credit risk

The main objective of credit risk management is to create an efficient system of credit risk management in the Bank which would increase the safety and profitability of banking services.

In the process of credit risk management, the Bank follows the following principles:

- each loan transaction requires a comprehensive credit risk assessment using the internal rating or scoring assessment,
- measurement of credit risk of potential or executed loan transactions is performed on a regular basis taking into account changes in external conditions and changes in the financial situation of the borrowers,
- credit risk assessment is subject to additional verification by credit risk assessment forces independent of the business forces,
- credit risk is diversified geographically, by industry, by product and by clients,
- credit decisions may be taken only by authorized persons,
- the Bank hedges against credit risk by creating specific provisions for the impairment of loan exposures.

Concentration of credit risk

The Banking Law specifies maximum concentration limits for the bank. According to Article 71.1 of the Banking Law, the total value of Bank's exposures together with contingent liabilities granted related to one entity or to a group of entities related by capital or management, cannot exceed 20% of the Bank's own funds if the entity is related to the bank or 25% of the Bank's own funds if the entity is not related to the Bank.

Furthermore, according to Article 71.2 of the Banking Law, the total exposure of the bank towards entities in which the Bank's current exposure exceeds 10% of the bank's own funds, cannot exceed 800% of the Bank's own funds.

As at 31 December 2005, the exposure of PKO BP SA towards two entities amounted respectively to: PLN 4,502,699 thousand (balance and balance sheet) and PLN 1,744,825 thousand (balance sheet). According to Article 71.3 of the Banking Law, concentration limits do not apply to these exposures.

PKO BP SA in PLN thousands

a) Concentration of credit risk by borrowers:

As at 31 December 2005

Exposure of the Bank towards 10 biggest borrowers			
No.	**Borrower**	**Total exposure***	**Percentage of the Bank's loan portfolio****
1	Borrower 1	2 408 699	4.94%
2	Borrower 2	1 744 825	3.58%
3	Borrower 3	753 278	1.55%
4	Borrower 4	495 965	1.02%
5	Borrower 5	397 612	0.82%
6	Borrower 6	387 400	0.80%
7	Borrower 7	222 229	0.46%
8	Borrower 8	204 517	0.42%
9	Borrower 9	199 942	0.41%
10	Borrower 10	198 556	0.41%

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and interest receivable.
**The value of the loan portfolio does not include off-balance and capital exposures.

As at 31 December 2005, the two biggest exposures towards 10 biggest borrowers amounted to 4.94% and 3.58%, respectively. The risks related to these exposures corresponded to the State Treasury risk.

The other exposures resulted from transactions concluded with:

- Entities effectively controlled by the Bank – 1.02%,
- Local authorities – 1.55%,
- Large corporate clients – 2.90%,
- Private individuals – 0.41%.

Due to the fact that the level of the risk related to the two entities with the biggest exposure corresponds to the State Treasury risk, this concentration does not result in an increase of the Bank's credit risk.

As at 31 December 2004
(comparative date)

Exposure of the Bank towards 10 biggest borrowers			
No.	**Borrower**	**Total exposure***	**Percentage of the Bank's loan portfolio****
1	Borrower 2	2 504 664	6.09%
2	Borrower 1	1 676 880	4.08%
3	Borrower 3	856 854	2.08%
4	Borrower 5	435 883	1.06%
5	Borrower 4	361 600	0.88%
6	Borrower 8	236 004	0.57%
7	Borrower 9	219 022	0.53%
8	Borrower 11	201 416	0.49%
9	Borrower 12	190 286	0.46%
10	Borrower 13	176 649	0.43%

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and interest receivable.
**The value of the loan portfolio does not include off-balance and capital exposures.

In the total amount of exposure towards the 10 biggest borrowers, the two biggest exposures amounted respectively to 6.09% and 4.08%. The risks related to these exposures corresponded to the State Treasury risk.

The other exposures resulted from transactions concluded with:

- Entities effectively controlled by the Bank – 0.88%,
- Local authorities – 2.54%,
- Large corporate clients – 3.08%,

PKO BP SA in PLN thousands

- Private individuals – 0%.

Due to the fact that the level of the risk related to the two entities with the biggest exposure corresponds to the State Treasury risk, this concentration does not result in an increase of the Bank's credit risk.

b) Concentration of credit risk by capital groups

As at 31 December 2005

Total exposure towards 5 biggest capital groups that are the Bank's clients	Percentage of the Bank's loan portfolio*
Group 1	1.39%
Group 2	1.07%
Group 3	1.04%
Group 4	0.90%
Group 5	0.88%
Total	**5.28%**

*The value of the loan portfolio does not include off-balance and capital exposures.

Out of the total amount of exposure towards the groups listed above, 46.4% share of the total exposure was valued according to IAS 39. Based on the Bank methodology, none of these exposures is individually impaired. For all of them - there is an evidence of collective impairment, and an impairment allowance has been determined on a collective basis.

As at 31 December 2004
(comparative data)

Total exposure towards 5 biggest groups that are the Bank's clients	Percentage of the Bank's loan portfolio*
Group 1	2.77%
Group 2	1.35%
Group 3	1.14%
Group 4	1.03%
Group 5	0.75%
Total	**7.04%**

*The value of the loan portfolio does not include off-balance and capital exposures.

Out of the total amount of the exposure towards the groups listed above, 67.41% exposures were classified as "normal", 31.57% were classified as "watch", 0.98% were classified as "sub-standard" and 0.04% were classified as "doubtful", according to the regulations being in force in 2004.

c) Concentration of credit risk by industry

In order to mitigate credit risk related to excessive concentration of exposures to individual industries, the Bank developed a system for the structuring of exposures to particular industries.

The following table presents the structure of loan exposures by industry sectors:

Section	Description	Share in loan portfolio	
		31.12.2005	31.12.2004 comparative data
D	Manufacturing	18.20%	14.80%
E	Electricity, gas and water supply	10.30%	9.40%
F	Construction	2.60%	2.70%
G	Trade (wholesale and retail), repairs of cars, motorbikes and household and personal goods	11.90%	10.80%
K	Real estate activities, renting, and business-related services	7.80%	7.10%
L	Public administration and national defence, obligatory social security and public health insurance	38.00%	45.40%
	Other exposures	11.20%	9.80%
	Total	**100.0%**	**100.0%**

Market risk

Market risk includes: interest rate risk, currency risk, capital adequacy risk, equity price risk in trading book, derivatives risk, risk of financial institutions, as well as short and long-term liquidity risk.

Market risk management is subject to constant evaluation and development in order to adopt it to changing market circumstances. The process of risk management includes the following:

1) identification of risk factors,
2) risk measurement,
3) system risk management,
4) risk monitoring,
5) risk reporting.

The market risk reporting system, as described in Management Board resolutions, is based on the following reports:

1) daily and weekly – prepared for operational purposes,
2) monthly - considered during the meetings of Assets and Liabilities Management Committee,
3) quarterly - considered during Management Board meetings,
4) half-yearly - considered during Supervisory Board meetings.

Interest rate risk

The objective of the interest rate risk management is to identify interest rate risk areas and to shape the balance sheet and off-balance sheet liabilities' structure in order to maximize the value of the net assets and interest result of the Bank.

In the process of interest rate risk management, the Bank measures risk based on the internal Value at Risk model (VaR), price sensitivity, interest income sensitivity and other methods.

The main tools used in interest rate risk management include:

1) internal procedures for interest rate risk management,
2) limits and thresholds for interest rate risk, and
3) defining allowable transactions for interest rates.

The Bank has set limits and thresholds for interest rate risk including: price volatility, interest income sensitivity, loss limits and limits for instruments that are subject to interest rate risk. They were set separately for each of the Bank's portfolios.

Currency risk

The objective of currency risk management is to identify currency risk areas and to take measures to reduce the currency risk to the levels accepted by the Bank's Management Board. As part of currency risk management, the Management Board sets an adequate currency risk profile of the Bank in line with the accepted financial plan of the Bank concerning the result from currency transactions.

The Bank adopted the Value at Risk model to measure currency risk. Every day, the model is back-tested in order to verify the assumptions used.

Currency risk management is conducted by means of setting limits and thresholds for this risk. The values to which the limits apply include: currency position, Value at Risk calculated for 10-day time horizon and loss from speculative transactions on currency market.

The main tools used in currency risk management are as follows:

1) internal procedures for currency risk management,
2) limits and thresholds set for currency risk,
3) defining acceptable currency transactions and adopted currency exchange rates,
4) defining data used for the purpose of risk measurement.

Derivative instruments risk

The objective of derivative risk management is to monitor the use of derivative instruments and to keep derivative risk in the range defined by the general risk profile of the Bank. Derivative risk management in the Bank is entirely integrated with the management of other risks, such as: interest rate, currency, liquidity and credit risk. The principles of derivative risk management in the Bank define the risks related to derivative transactions and the tasks for individual organizational units in the process of derivative risk management.

The Bank uses the Value at Risk model to measure the risk related to derivative instruments (VaR).

The main tools used in derivative risk management are as follows:
1) internal procedures related to derivative risk management,
2) derivatives profiles,
3) limits and thresholds set for the risk related to derivative instruments,
4) framework agreements (ISDA, ZBP) specifying, among others, settlement mechanisms.

Derivative risk management is realised by imposing limits on individual derivative instruments included in the Bank's trading and banking portfolios, monitoring limits observation and reporting risk level.

Framework agreements concluded by the Bank with the main counterparties on the basis of the framework agreement of the Polish Banks Association (*Związek Banków Polskich - ZBP*) for domestic banks and of ISDA for foreign banks play a significant role in the process of limiting the risk related to derivative instruments. Due to the complexity of these agreements and their significance for the Bank, the Bank implemented an internal procedure for concluding and managing such agreements.

Capital adequacy risk

The objective of capital adequacy risk management is to ensure that the Bank follows prudence regulations concerning capital adequacy requirements due to risk exposure, expressed as capital adequacy ratio.

The main tools used in capital adequacy management are as follows:

1) selection of optimum measures for capital adequacy requirements for specific types of risk, according to Resolution No. 4/2004 of the Banking Supervision dated 8 September 2004,
2) internal procedures for capital adequacy defining: classification of new transactions to trading portfolio or banking portfolio, determining original positions for transactions classified to trading portfolio, determining the market result realized on original positions, determining the loss realized on original positions classified to banking portfolio, application of price estimation techniques used for the calculation of market results realized on positions classified to trading portfolio.

The Bank calculates capital requirements relating to the following market risks:
1) currency risk for banking and trading books jointly,
2) equity securities price risk for the trading book (general and specific risk),
3) general interest rate risk for the trading book,
4) specific risk related to the prices of debt securities in the trading book,
5) underwriting risk for the trading book,
6) counterparty risk and delivery/settlement risk for the trading book.

Price risk of equity securities in the trading portfolio

The objective of equity securities price risk management is to shape the Bank's balance sheet structure to ensure the adequacy of the Bank's price profile to the nature of its business activities and to reduce the impact of unfavourable changes in share prices on the Bank's financial result.
Limits for equity price risk are set separately for particular sub-portfolios of the trading book. The values that are subject to limits are open positions, daily losses and options' sensitivity.

PKO BP SA in PLN thousands

Liquidity risk

The objective of liquidity risk management is to shape the Bank's balance sheet and off-balance sheet liabilities' structure to ensure the continuous solvency of the Bank taking into account the nature of its activities or requirements which may occur due to changes in market environment.

The Bank's policy concerning liquidity is based on a portfolio of market securities and stable deposits. In its liquidity risk management policy, the Bank also uses money market instruments, including NBP open market operations.

The Bank uses the following tools for liquidity risk measurement:

1) the "contractual liquidity gap" method and the "liquidity gap in real terms" method,
2) the "surplus liquidity" method,
3) analysis of stability of deposit and loan portfolios,
4) stress testing.

The main liquidity risk management tools include:

1) internal procedures for liquidity risk management,
2) limits and thresholds reducing liquidity risk,
3) deposit and investment transactions, including structural currency transactions and securities purchase and sale transactions,
4) cash management.

To ensure adequate liquidity level, the Bank sets limits and thresholds for liquidity risk. The limits and thresholds are used to measure both the current liquidity (up to 1 month) and the medium and long-term liquidity.

31 December 2005

Interest rate risk*

Financial assets and financial liabilities subject to interest rate risk[1]

	31.12.2005
Debt securities	21 797 873
Loans and advances based on fixed interest rates	572 690
Deposits from customers based on fixed interest rates	(16 123 514)
Inter-bank and negotiable deposits	(14 029 005)
Inter-bank and negotiable receivables	12 730 534
TOTAL	**4 948 578**

Financial assets and financial liabilities subject to cash flow risk connected with interest rate[1]

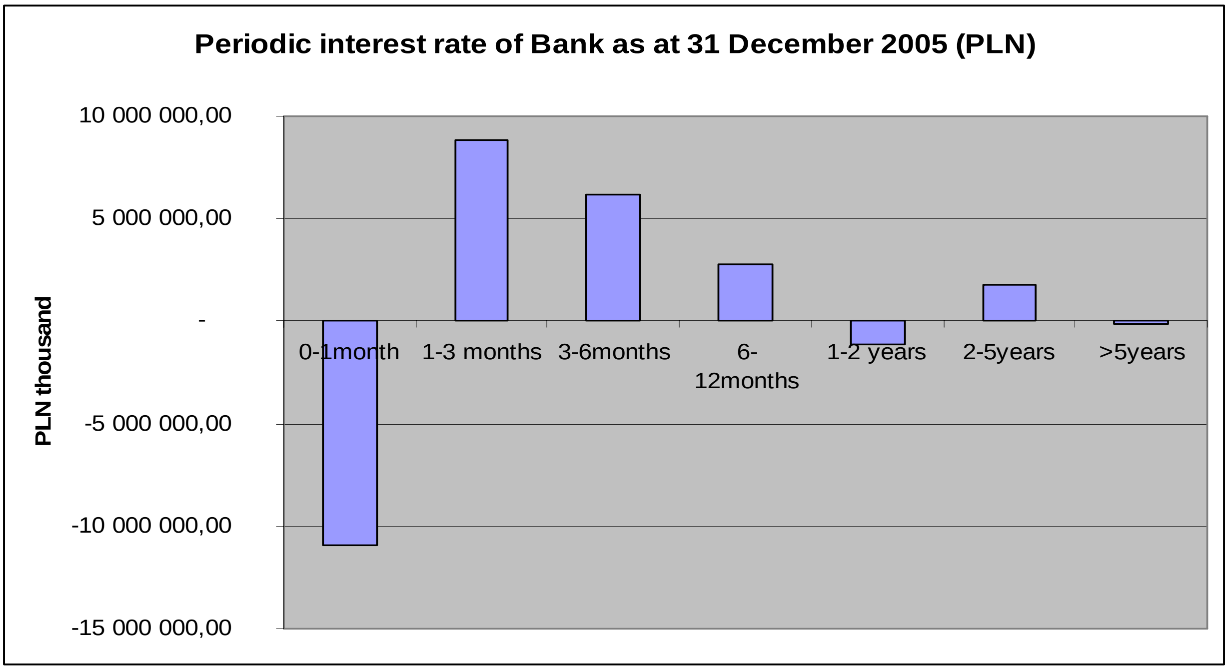
	31.12.2005
Loans and advances based on variable interest rates	48 007 343
Deposits from customers based on variable interest rates	(46 318 895)
TOTAL	**1 688 448**

Off-balance sheet transactions – fair value[1]

	31.12.2005
Derivatives	(126 795)

* Amounts included in the interest rate risk model of the Bank
[1] Total for all currencies.

PLN Repricing Gap	0-1 month	1 - 3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	(10 910 303)	8 810 966	6 163 358	2 740 066	(1 100 302)	1 812 781	(115 177)	7 401 388
Cumulative gap	(10 910 303)	(2 099 337)	4 064 021	6 804 087	5 703 784	7 516 565	7 401 388	x



At the end of 2005, the Bank reported negative cumulative PLN gap in a time horizon up to 3 months and a positive cumulative gap for longer horizons.

USD Repricing Gap (USD thousands)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	(579 563)	85 884	201 295	249 475	-	-	10 402	(32 507)
Cumulative gap	(579 563)	(493 679)	(292 384)	(42 909)	(42 909)	(42 909)	(32 507)	x

EUR Repricing Gap (EUR thousands)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	(339 915)	399 937	(14 350)	(28 312)	-	65	3 818	21 243
Cumulative gap	(339 915)	60 022	45 672	17 359	17 359	17 425	21 243	X

CHF Repricing Gap (in CHF thousand)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	1 739 315	(1 690 895)	(200)	(204)	-	-	-	48 016
Cumulative gap	1 739 315	48 420	48 220	48 016	48 016	48 016	48 016	X

The exposure of the Bank to the interest rate risk remained at an acceptable level. The Bank was mainly exposed to the PLN interest rate, which generated approximately 73% of risk in this area (VaR).

The interest rate risk in PKO BP SA remained at a low level. As at 31 December 2005, the interest rate VaR in the 10-days' time horizon (10-days VaR) amounted to PLN 27,164 thousand, which is about 0.45% of the

PKO BP SA in PLN thousands

Bank's capital. The interest rate risk was generated mainly by the risk of assets' and liabilities' changes of interest's mismatch.

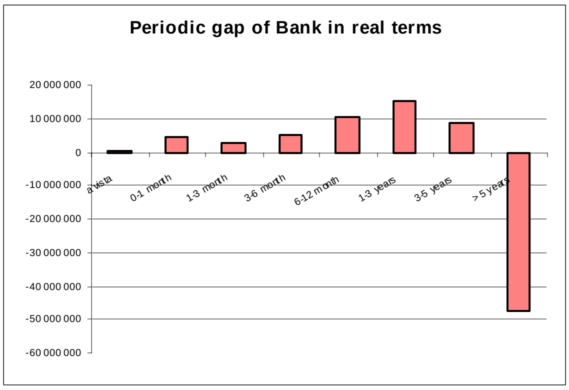
Effective interest rate (for the Bank)

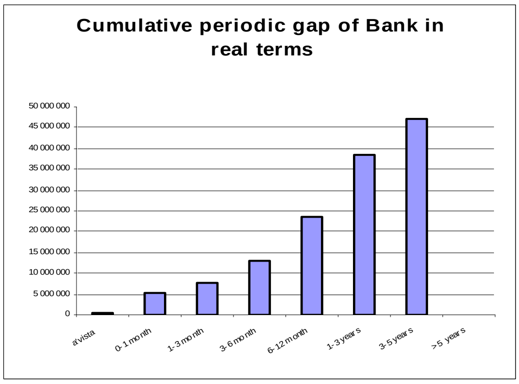
Loans	PLN	EUR	USD	GBP	CHF
Total	**8.34**	**5.63**	**7.13**	**0.00**	**3.67**
Housing loans	6.62	6.22	7.42	0.00	4.37
Corporate loans	2.81	1.61	1.78	0.00	3.06
Consumer loans	13.43	10.51	12.96	0.00	9.45
Loans small and medium enterprises	4.38	1.64	2.05	0.00	3.79
Interbank deposits	4.51	2.32	4.26	4.58	1.44

Deposits	PLN	EUR	USD	GBP	CHF
Total	**2.36**	**1.16**	**1.41**	**1.20**	**0.26**
Deposits from private individuals	2.19	0.99	1.05	0.93	0.16
Corporate deposits	3.01	1.67	3.81	3.33	0.73
Individual current accounts	0.25	0.30	0.15	0.15	0.10
Individual deposit accounts	2.99	1.29	1.42	1.60	0.23
IKE deposits	4.32	0.00	0.00	0.00	0.00
Deposits from entrepreneurs	2.90	1.54	3.85	3.33	0.73
Interbank deposits	4.64	2.41	4.26	-	-

Liquidity risk for PKO BP SA

Liquidity Gap	a'vista	0-1 month	1-3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years
Periodic gap in real terms	432 997	4 700 737	2 787 318	4 876 571	10 659 508	15 083 781	8 736 540	(47 277 452)
Cumulative periodic gap in real terms	432 997	5 133 734	7 921 052	12 797 623	23 457 131	38 540 912	47 277 452	-





In all time horizons, the Bank's cumulative periodic liquidity gap stated in real terms was positive. This means the surplus of assets receivable over liabilities payable.

PKO BP SA in PLN thousands

This document is a translation of the document originally issued in Polish.
The only binding version is the original Polish version.

Assets and liabilities of the Bank as at 31 December 2005, by maturity								
Balance sheet items	**1 month or less**	**1 – 3 months**	**3 months - 1 year**	**1 - 5 years**	**Over 5 years**	**With no maturity stated**	**Impairment allowances**	**Total**
Assets:								
Cash and balances with the Central Bank	3 832 695	-	-	-	-	-	-	**3 832 695**
Amounts due from banks	5 950 756	1447 808	5 014 234	173 115	47 288		(1 755)	**12 631 446**
Financial assets held for trading	28 243	72 234	88 700	633 304	18 351	1 082	-	**841 914**
Other financial instruments at fair value through profit or loss	2 024 230	1 030 895	5 094 257	7 304 861	4 579 917	-	-	**20 034 160**
Loans and advances to customers	9 511 847	1 518 805	6 402 255	15 834 160	15 652 326	-	(2 867 546)	**46 051 847**
Securities available for sale	191 278	269 636	122 951	1 054 505	260 072	-	(40 864)	**1 857 578**
Securities held to maturity	-	-	-	-	-	-	-	**-**
Other	128 080	90 621	88 262	67 112	75 214	4 818 447	(189 860)	**5 077 876**
Total assets:	**21 677 129**	**4 429 999**	**16 810 659**	**25 067 057**	**20 633 168**	**4 819 529**	**(3 100 025)**	**90 327 516**
Liabilities:								**-**
Amounts due to the Central Bank	766	-	-	-	-	-	-	**766**
Amounts due to banks	1 082 776	505 502	179 722	175 035	-	-	-	**1 943 035**
Amounts due to customers	46 316 130	12 797 824	15 361 153	1 399 046	12 727	-	-	**75 886 880**
Liabilities arising from debt securities issued	-	-	-	-	-	-	-	**-**
Other liabilities	548 875	546 221	432 581	173 963	437 632	1 577 169	-	**3 716 441**
Total liabilities:	47 948 547	13 849 547	15 973 456	1 748 044	450 359	1 577 169	-	**81 547 122**
Equity:	-	-	-	-	8 780 394	-	-	**8 780 394**
Total	**47 948 547**	**13 849 547**	**15 973 456**	**1 748 044**	**9 230 753**	**1 577 169**	**-**	**90 327 516**
Liquidity gap	**(26 281 418)**	**(9 419 548)**	**837 203**	**23 319 013**	**11 402 415**	**3 242 360**	**(3 100 025)**	**-**

PKO BP SA in PLN thousands

Currency risk

In 2005, currency risk remained at a low level. The tables below present currency exposure broken by separate types of assets, liabilities and off-balance sheet liabilities.

	Currency translated to PLN – 31.12.2005				
Assets, of which:	**PLN**	**EUR**	**CHF**	**Other**	**Total**
Cash and balances with the Central Bank	3 593 948	53 763	2 865	182 119	**3 832 695**
Loans and advances and other amounts due from financial sector	5 945 166	1 104 879	195 190	6 197 640	**13 442 875**
Loans and advances to non-financial sector	31 247 848	2 255 385	7 167 838	689 427	**41 360 498**
Loans and advances to public sector	6 730 661	12 861	114	5 585	**6 749 221**
Securities	20 501 151	1 371 147	-	902 218	**22 774 516**
Non-current assets	6 940 039	-	-	-	**6 940 039**
Other assets and derivatives	1 407 185	82 575	22 028	40 260	**1 552 048**
TOTAL GROSS ASSETS	76 363 998	4 880 610	7 388 035	8 017 249	**96 651 892**
DEPRECIATION/ IMPAIRMENT	(6 242 505)	(64 192)	(14 039)	(3 640)	**(6 324 376)**
TOTAL NET ASSETS	70 123 493	4 816 418	7 373 996	8 013 609	**90 327 516**
LIABILITIES, of which:					
Balances with the Central Bank	766	-	-	-	**766**
Amounts due to financial sector	288 146	419 049	2	1 431 872	**2 139 069**
Amounts due to non-financial sector	66 386 122	2 812 056	59 217	3 247 213	**72 504 608**
Amounts due to public sector	3 147 710	34 683	-	3 845	**3 186 238**
Liabilities arising from securities issued	-	-	-	-	**-**
Provisions	324 974	58	-	-	**325 032**
Other liabilities and derivatives and deferred tax liability	3 216 771	155 405	8 121	11 112	**3 391 409**
Equity	8 780 394	-	-	-	**8 780 394**
TOTAL LIABILITIES	**82 144 883**	**3 421 251**	**67 340**	**4 694 042**	**90 327 516**
OFF-BALANCE SHEET LIABILITIES GRANTED	**16 418 604**	**824 415**	**666 397**	**1 144 371**	**19 053 787**

PKO BP SA in PLN thousands

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31 December 2004
(comparative data)

Interest rate risk*

Financial assets and financial liabilities subject to interest rate risk[2]

	31.12.2004 comparative data
Debt securities	24 201 086
Loans and advances based on fixed interest rate	442 935
Deposits from customers based on fixed interest rate	(13 471 593)
Inter-bank and negotiable deposits	(15 011 284)
Inter-bank and negotiable deposits	12 969 101
TOTAL	**9 130 249**

Financial assets and financial liabilities subject to cash flow risk connected with interest rate[2]

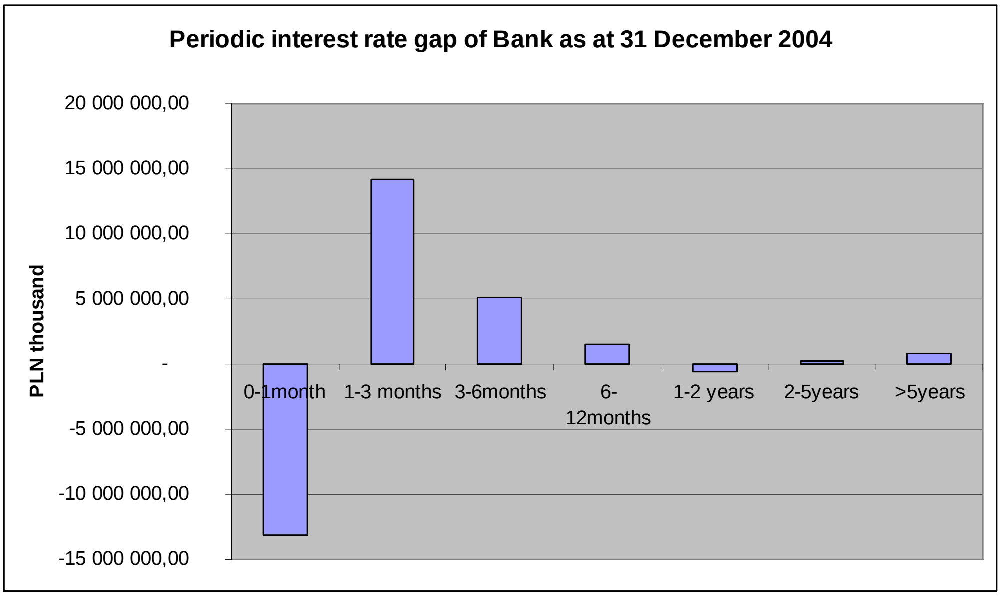
	31.12.2004 comparative data
Loans and advances based on variable interest rate	33 156 888
Deposits from customers based on variable interest rate	(37 754 237)
TOTAL	**(4 597 349)**

Off- balance sheet transactions – fair value : [2]

	31.12.2004 comparative data
Derivatives	(3 518 902)

PLN Valuation Gap	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1- 2 years**	**2– 5 years**	**> 5 years**	**Total**
Periodic gap	(13 152 116)	14 231 609	5 100 638	1 538 575	(570 148)	281 493	858 696	8 288 747
Cumulative gap	(13 152 116)	1 079 492	6 180 130	7 718 706	7 148 558	7 430 051	8 288 746	x

[2] Total for all currencies.
* Amounts included in the interest rate risk model of the Bank.



At the end of 2004, the Bank had a negative cumulative PLN gap in a time horizon up to 1 month, and a positive cumulative gap for longer horizons.

USD Repricing Gap (in USD thousands)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	(159 131)	(37 945)	(91 088)	15 637	25 016	15 037	(82 926)	(315 400)
Cumulative gap	(159 131)	(197 076)	(288 163)	(272 526)	(247 511)	(232 473)	(315 400)	x

EUR Repricing Gap (in EUR thousands)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	200 642	14 492	(52 094)	(30 242)	(30)	(17)	(86 935)	45 816
Cumulative gap	200 642	215 134	163 040	132 798	132 767	132 750	45 816	x

CHF Repricing Gap (in CHF thousands)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Periodic gap	1 100 797	19 525	(2 424)	(602 627)	(6)	(5)	-	515 261
Cumulative gap	1 100 797	1 120 323	1 117 899	515 272	515 266	515 261	515 261	x

The Bank's interest rate risk exposure did not exceed approved limits. The Bank was mainly exposed to the PLN interest rate risk, which constituted ca. 96% of the Bank's Value at Risk (VaR).
The interest rate risk in the Bank was on a low level. As at 31 of December 2004, the interest rate VaR for the holding period of 10 days amounted to PLN 18,375 thousand, which constituted ca. 0.34% of the Bank's capital. The interest rate risk was generated mainly by the risk of assets' and liabilities' changes of interests' mismatch.

Effective interest rate

In 2004, the Bank did not apply the effective interest rate for the calculation of the result on assets and liabilities.

PKO BP SA in PLN thousands

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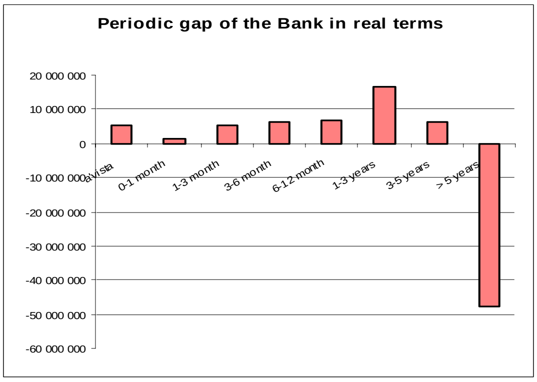
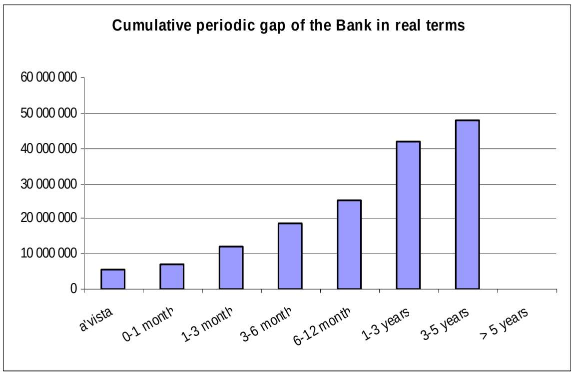
Liquidity risk

Liquidity gap	a'vista	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years
Periodic gap in real terms	5 439 369	1 429 331	5 353 529	6 258 913	6 890 575	16 354 387	6 035 309	(47 761 413)
Cumulative periodic gap in real terms	5 439 369	6 868 699	12 222 228	18 481 141	25 371 716	41 726 103	47 761 413	X





In all time horizons, the cumulative liquidity gap of the Bank in real terms was positive. This indicates a surplus of assets receivable over liabilities payable.

PKO BP SA in PLN thousands

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Assets and liabilities of the Bank as at 31 December 2004, by maturity (comparative data)								
Balance sheet items	**1 month or less**	**1 - 3 months**	**3 months - 1 year**	**1 -5 years**	**Over 5 years**	**With no maturity stated**	**Impairment allowances**	**Total**
Assets:								
Cash and balances with the Central Bank	3 490 505	-	-	-	-	-	-	**3 490 505**
Amounts due from banks	6 724 103	3 637 463	2 786 304	-	-	-	(1 755)	**13 146 115**
Financial assets held for trading	259	61 131	93 592	181 460	4 675	5 014	-	**346 131**
Other financial instruments at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Loans and advances to customers	8 382 319	1 222 050	6 030 501	14 231 666	12 237 804	79 862	(2 606 479)	**39 577 723**
Securities available for sale	1 603 365	1 937 771	4 339 696	8 852 147	4 493 485	416 940	(38 107)	**21 605 297**
Securities held to maturity	-	124 080	1 768 937	-	-	-	-	**1 893 017**
Other	850 811	-	-	-	-	4 459 691	(257 694)	**5 052 808**
Total assets:	**21 051 362**	**6 982 495**	**15 019 030**	**23 265 273**	**16 735 964**	**4 961 507**	**(2 904 035)**	**85 111 596**
Liabilities:								
Amounts due to the Central Bank	144	-	-	-	-	-	-	**144**
Amounts due to banks	485 823	-	233 000	81 580	-	-	-	**800 403**
Amounts due to customers	41 555 380	11 169 049	18 285 906	1 513 951	51 987	-	-	**72 576 273**
Liabilities arising from debt securities issued	-	-	-	-	-	-	-	**-**
Other liabilities	1 162 118	-	111 823	335 981	216 834	1 000 772	-	**2 827 528**
Total liabilities:	**43 203 465**	**11 169 049**	**18 630 729**	**1 931 512**	**268 821**	**1 000 772**	**-**	**76 204 348**
Equity:	-	-	-	-	8 907 248	-	-	**8 907 248**
Total:	**43 203 465**	**11 169 049**	**18 630 729**	**1 931 512**	**9 176 069**	**1 000 772**	-	**85 111 596**
								-
Liquidity gap:	**(22 152 103)**	**(4 186 554)**	**(3 611 699)**	**21 333 761**	**7 559 895**	**3 960 735**	**(2 904 035)**	**-**

PKO BP SA in PLN thousands

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Currency risk

	Currency expressed in PLN – 31.12.2004				
ASSSETS, of which:	**PLN**	**EUR**	**CHF**	**Other**	**Total**
Cash and balances with the Central Bank	3 281 053	105 250	7 852	96 350	**3 490 505**
Loans and advances and other amounts due from financial sector	5 020 530	442 640	231 965	8 068 672	**13 763 807**
Loans and advances to non-financial sector	27 518 909	2 573 300	3 041 799	820 398	**33 954 406**
Loans and advances to public sector	7 584 307	23 237	136	6 178	**7 613 858**
Securities	23 124 785	355 874	-	401 893	**23 882 552**
Non-current assets	6 593 212	-	-	-	**6 593 312**
Other assets and derivatives	759 040	33 208	40 886	962 137	**1 795 271**
TOTAL (GROSS) ASSETS	73 881 836	3 533 509	3 322 638	10 355 628	**91 093 611**
DEPRECIATION/ IMPAIRMENT	(5 896 479)	(74 368)	(6 051)	(5 117)	**(5 982 015)**
TOTAL (NET) ASSETS	67 985 357	3 459 141	3 316 587	10 350 511	**85 111 596**
LIABILITIES, of which:					
Balances with the Central Bank	144	-	-	-	**144**
Amounts due to financial sector	499 372	173 863	5	237 802	**911 042**
Amounts due to non-financial sector	62 127 247	2 296 636	48 410	2 623 802	**67 096 095**
Amounts due to public sector	5 347 592	20 497	-	1 450	**5 369 539**
Liabilities arising from securities issued	-	-	-	-	**-**
Provisions	206 683	314	-	36	**207 033**
Other liabilities and derivatives and deferred tax liability	2 561 963	39 631	151	18 751	**2 620 496**
Equity	8 907 247	-	-	-	**8 907 247**
TOTAL LIABILITIES	**79 650 248**	**2 530 941**	**48 566**	**2 881 841**	85 111 596
OFF-BALANCE SHEET LIABILITIES GRANTED	**14 036 175**	**389 123**	**448 425**	**1 779 279**	16 653 002

PKO BP SA in PLN thousand

Exposure to risk

The table below presents the exposure of the Bank to credit risk as well as individual types of market risk. The amounts have been calculated on the basis of Resolution No. 4/2004 of the Commission for Banking Supervision dated 8 September 2004.

In the case of credit risk of balance sheet receivables, the risk weighted value is calculated as the product of the carrying amount and the risk weight appropriate to the given client and type of collateral.

For derivatives, the risk weighted value of credit risk exposure is obtained by calculating the balance sheet equivalent of a derivative using the original exposure method for transactions in the banking portfolio.

In the case of the other off-balance-sheet liabilities, the credit risk exposure is calculated as the product of balance-sheet equivalent (being the product of the nominal value of off-balance sheet liability and percentage risk weight) and appropriate risk weight for the given client and type of collateral.

Capital requirements resulting from credit risk are calculated as the sum total of risk weighted assets and off-balance-sheet liabilities in the banking portfolio multiplied by 8%.

In the case of instruments classified to trading portfolio, capital requirements are calculated for the individual types of market risk.

Credit and market risk as at 31 December 2005:

Balance sheet instruments		
Instrument type	**Carrying amount**	**Risk weighted value**
Cash	1 204 370	-
Receivables	58 692 611	34 795 427
Debt securities	20 388 738	157 549
Other securities, shares	887 735	347 750
Non-current assets	2 201 175	2 201 175
Other	4 823 988	2 800 140
Total banking portfolio	**88 198 617**	**40 302 041**
Debt securities	2 327 378	855 569
Reverse repo transactions	2 189	2 189
Total trading portfolio	**2 329 567**	**857 758**
Total balance sheet instruments	**90 528 184**	**41 159 799**

PKO BP SA in PLN thousand

Off-balance sheet instruments			
Instrument type	**Replacement cost**	**Credit equivalent**	**Risk weighted value**
Derivatives			
Interest rate instruments:	*124 439 805*	*1 112 964*	*222 592*
FRA	61 900 000	151 912	30 382
IRS	62 539 805	961 052	192 210
Foreign currency instruments:	*14 400 104*	*892 114*	*179 588*
Currency forwards	217 724	8 430	2 400
Forwards – embedded derivatives	5 060	1 280	640
Swaps	6 578 198	219 677	43 935
CIRS	7 400 016	638 261	127 652
FX futures	5 119	326	65
Options (delta equivalent – purchase of options)	193 987	24 140	4 896
Other instruments:	*939 996*	*94 000*	*18 800*
SBB	939 996	94 000	18 800
Other	-	-	-
Total derivatives	**139 779 905**	**2 099 078**	**420 980**
of which: banking portfolio	33 068 551	1 019 986	204 380
trading portfolio	106 711 354	1 079 092	216 600

Other off-balance sheet instruments			
Instrument type	**Off-balance sheet amount**	**Credit equivalent**	**Risk weighted value**
Lines of credit	18 736 943	2 503 823	1 406 107
Guarantees issued	288 847	184 824	174 792
Letters of credit	155 642	45 592	45 592
Other	2 113 804	418 628	144 093
Total banking portfolio	**21 295 236**	**3 152 867**	**1 770 584**
Underwriting guarantees	670 118	489 596	489 596
Total trading portfolio	**670 118**	**489 596**	**489 596**

	Carrying amount and off-balance-sheet amount	**Risk weighted value**	**Capital requirement**
Total banking portfolio (credit risk)	**142 562 404**	**42 277 005**	**3 382 160**

Capital requirements for trading portfolio (market risk)	**Capital requirement**
Market risk	**108 522**
of which:	
Currency risk	-
Commodity price risk	-
Equity securities price risk	249
Debt instruments specific risk	66 863
Interest rate general risk	41 410
Other:	
Settlement risk – delivery and contractor	15 474
Underwriting risk	-
Other	-
Total capital requirement (credit and market risk)	**3 506 156**

Credit and market risk as at 31 December 2004 (comparative data)

PKO BP SA in PLN thousand

Balance sheet instruments		
Instrument type	**Carrying amount**	**Risk weighted value**
Cash	1 203 637	-
Receivables	52 723 838	28 481 078
Debt securities	22 606 501	21 021
Other securities, shares	1 224 175	694 856
Tangible fixed assets	2 602 278	2 218 233
Other	3 212 954	1 704 562
Total banking portfolio	**83 573 383**	**33 119 750**
Debt securities	1 533 199	651 887
Equity securities held for trading classified to trading portfolio	5 014	5 014
Total trading portfolio	**1 538 213**	**656 901**
Total balance sheet instruments	**85 111 596**	**33 776 651**

Off-balance sheet instruments			
Instrument type	**Replacement cost**	**Credit equivalent**	**Risk weighted value**
Derivatives			
Interest rate instruments:	*68 605 182*	*264 925*	*52 986*
FRA	23 670 000	51 954	10 391
IRS	44 935 182	212 971	42 595
Foreign currency instruments:	*12 278 404*	*999 937*	*200 385*
Currency forwards	87 062	2 243	689
Forwards – embedded derivatives	10 029	523	262
Swaps	9 054 509	784 328	156 865
CIRS	498	3 570	714
FX futures	3 120 350	208 973	41 795
Options (delta equivalent – purchase of options)	5 956	300	60
Other instruments:	*1 291 222*	*129 670*	*25 934*
SBB	1 291 222	129 670	25 934
Other	-	-	-
Total derivatives	**82 174 808**	**1 394 532**	**279 305**
Of which: banking portfolio	29 158 026	1 089 601	218 077
trading portfolio	53 016 782	304 931	61 228

Other off-balance sheet instruments			
Instrument type	**Off-balance sheet value**	**Credit equivalent**	**Risk weighted value**
Lines of credit	16 472 672	1 161 685	797 814
Guarantees issued	207 420	149 448	148 696
Letters of credit	28 784	14 321	14 321
Other	3 602 239	714 341	164 626
Total banking portfolio	**20 311 115**	**2 039 795**	**1 125 457**
Underwriting guarantees	275 147	275 147	142 017
Total trading portfolio	**275 147**	**275 147**	**142 017**

	Carrying amount and off-balance-sheet amount	**Risk weighted value**	**Capital requirement**
Total banking portfolio (credit risk)	**133 042 524**	**34 463 284**	**2 757 063**

Capital requirements for trading portfolio (market risk)	**Capital requirement**
Market risk	**66 765**
of which:	

Currency risk	-
Commodity price risk	-
Securities price risk	586
Debt instruments specific risk	50 506
Interest rate general risk	15 673
Other:	
Settlement risk – delivery and contractor	4 489
Underwriting risk	1 913
Other	-
Total capital requirement	**2 830 230**

Credit and market risk were calculated according to Resolution No. 4/2004 of the Commission for Banking Supervision dated 8 September 2004.

4. Objectives and principles of operational risk management

The purpose of operating risk management is to optimise operational efficiency by reducing operating losses, costs streamlining and improving response time and adequacy.

As part of its operational risk management policy, the Bank uses the following instruments and solutions:

- operational risk management rules and procedures, cover a full scope of the Bank's activities,
- defined responsibilities and reporting lines in the area of operational risk management at various decision-taking levels,
- defined operational risk identification and assessment processes for all major areas of the Bank's activities,
- regular monitoring of operational transactions in excess of specified threshold and communicating them to the Management Board,
- operational risk management is performed at the level of comprehensive system solutions and day-to-day risk management activities,
- delegating comprehensive operational risk management to selected Head Office units and specialized organizational units, which are responsible for detailed targets definition,
- operational risk management process is coordinated by the Bank's Credit and Operational Risk Department.

5. Fair value of financial assets and liabilities

The table below presents the fair values of balance-sheet financial instruments, which have not been valued at fair value at the balance sheet date. The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Since for many financial instruments there is no available market value, the presented fair values have been estimated on the basis of various valuation methods, including estimation of the present value of future cash flows.

The market quotations applied for valuation of securities held to maturity do not include any potential adjustments resulting from limited market liquidity or transaction costs.

For certain categories of financial assets valued at the amount due with an allowance for impairment losses, it has been assumed that their fair value equals their carrying amount. This applies, in particular, to cash and cash equivalents, current receivables from and liabilities to customers, as well as other assets and liabilities. Majority of placements on the inter-bank market are short-term placements. The share of fixed interest rate loans and customer deposits in total loans and total deposits is immaterial. Majority of such loans and deposits are of short-term nature.

It has been assumed that the estimated fair value floating interest rates' loans and receivables originated by the Bank equals their carrying amount. Fixed interest rate loans account for a relatively small share of all loans granted and do not affect the fair value of this group of assets.

As at 31 December 2005

ASSETS, of which:	Carrying amount	Fair value
Cash and balances with the Central Bank	3 832 695	3 832 695

PKO BP SA in PLN thousand

Amounts due from banks	12 631 446	12 887 535
Financial assets held for trading	841 914	841 914
Derivative financial instruments	1 337 227	1 337 227
Other financial instruments at fair value through profit or loss	20 034 160	20 034 160
Amounts due from customers	46 051 847	46 051 847
Investment securities	1 857 578	1 857 578
Available for sale	1 857 578	1 857 578
Held to maturity		
Investments in subsidiaries, associates and jointly controlled entities	899 932	899 932
LIABILITIES, of which:		
Amounts due to the Central Bank	766	766
Amounts due to other banks	1 943 035	1 943 035
Derivative financial instruments	1 257 384	1 257 384
Amounts due to customers	75 886 880	75 886 880
Liabilities arising from debt securities issued	-	-

As at 31 December 2004

(comparative data)

ASSETS, of which:	**Carrying amount**	**Fair value**
Cash and balances with the Central Bank	3 490 505	3 490 505
Amounts due from banks	13 146 115	13 037 092
Financial assets held for trading	346 131	346 131
Derivative financial instruments	1 362 379	1 362 379
Amounts due from customers	39 577 723	39 577 723
Investment securities	23 498 314	23 489 059
Available for sale	21 605 297	21 605 297
Held to maturity	1 893 017	1 883 762
Investments in subsidiaries, associates and jointly controlled entities	764 865	764 865
LIABILITIES, of which:		
Amounts due to the Central Bank	144	144
Amounts due to other banks	800 403	800 403
Derivative financial instruments	793 739	793 739
Amounts due to customers	72 576 273	72 576 273
Liabilities arising from debt securities issued	-	

6. Custodial activities

The Bank is a direct participant of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych). As at 31 December 2005, the Bank kept 10,769 securities accounts (one security account kept for an individual as at 31 December 2004). The Bank also services customer investments accounts on foreign markets using depositary services of the State Street Bank GmbH.

Apart from operating activities, the Bank actively participates in the work of Council of Depository Banks *(Rada Banków Depozytariuszy)* operating as part of the Polish Banks Association *(Związek Banków Polskich),* which guarantees its participation in creation of market standards and influence on the general trends in the development of custodial services.

PKO BP SA in PLN thousand

7. Assets' securitization

On 7 October 2005, an agreement was signed for sale of part of retail receivables to a securitization fund. About 73,000 retail receivables (debit balances, cash loans, renewable loans, non-cash loans granted for the purchase of materials, non-cash loans for the purchase of motor vehicles, housing loans) have been sold to the securitization fund, with a total value (capital, interest, costs) of about PLN 660,000 thousand. The receivables sold derived from both the balance sheet and off-balance sheet records.

According to the signed agreement, the selling price of the receivables – set as a certain percentage of the sold portfolio – has been allocated to the repayment of the individual components of the receivables (costs, interest repayment, capital repayment). On 20 October 2005, the acquirer of the receivables made a payment to PKO BP SA's account for the receivables sold by the Bank.
According to the agreed rules for allocating the price of the sold receivables portfolio, the amount of approximately PLN 47,710 thousand has been assigned to capital repayment in respect of balance-sheet receivables.
The Bank did not receive any securities under this transaction.
In accordance with the agreement for the sale of receivables to the securitization fund, the seller is obliged to pay compensation to the acquirer for any claims regarding legal deficiencies in documentation transferred to the acquirer. As this was the first such transaction in Poland, the Bank has no experience in assessing which part of documentation transferred to the acquirer may be challenged by the acquirer for legal deficiencies. Considering the fact that a large part of the receivables sold were generated in the period from 1995 to 2000, which may give rise to an increased risk of deficiencies in the related documentation, the amount of the provision set by the Bank in this respect was determined at PLN 78,614 thousand.

8. Interest income and expenses

Interest income

	01.01 – 31.12.2005	**01.01 – 31.12.2004** **(comparative data)**
Income from loans and advances granted to customers	3 433 506	3 005 397
Income from placements with other banks	600 319	421 924
Income from investment securities	135 317	323 022
Income from other placements on money market	-	-
Other	1 346 745	1 494 621
Income from securities at fair value through profit or loss	1 256 445	1 398 947
From trading securities	23 290	29 771
Other	67 010	65 903
Total	**5 515 887**	**5 244 964**

Interest expenses

	01.01 – 31.12.2005	**01.01 – 31.12.2004** **(comparative data)**
Relating to amounts due to customers	(1 882 525)	(1 600 753)
Relating to placements with other banks	(72 054)	(53 905)
Relating to other placements on money market	-	-
Relating to own issue of debt securities	-	-
Other*	(87 479)	(118 359)
Total	**(2 042 058)**	**(1 773 017)**

* For comparability purposes, for the year 2004 the Bank presented costs of settled premium on debt securities. The details of this reconciliation are presented in Note 47 – reconciliation of profit and loss account for the year ended 31 December 2004 between PAS and IFRS.

In the year ended 31 December 2005, the total amount of interest income, calculated using the effective interest rate method, from financial assets not valued at fair value through profit or loss, amounted to PLN 4,212,766 thousand. In the same period, interest expense, calculated using the effective interest rate method, relating to financial liabilities which are not valued at fair value through profit or loss, amounted to PLN 1,954,579 thousand

PKO BP SA in PLN thousand

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9. Fees and commission income and expense

Fees and commission income

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
From accounts' servicing	576 520	584 571
From payments cards	339 244	293 547
From loans and advances granted	65 798	483 711
From transactions in securities	37 979	23 505
From guarantees, letters of credit and similar transactions	27 738	24 837
From acquisition services	-	-
Other	455 389	455 037
From cash transactions	205 324	236 964
Other*	250 065	218 073
Total	**1 502 668**	**1 865 208**

* Included in "Other" are, among others, income from bills of exchange servicing, sale of duty stamps and from services provided to PPUP "Poczta Polska".

A significant decrease in fees and commission income from granted loans and advances results from recognition of the above income in net interest income calculated at amortized cost using the effective interest rate.

Fees and commission expense

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Relating to acquisition services	(115 539)	(114 056)
Relating to payment cards	(173 274)	(128 973)
Due to transactions in securities	-	-
Other, of which:	(44 016)	(41 124)
Commission paid to intermediaries	(17 764)	(7 248)
Commission for services of other banks	(9 413)	(7 568)
Commission paid to PPUP	(8 033)	(9 870)
Other*	(8 806)	(16 438)
Total	**(332 829)**	**(284 153)**

10. Dividend income

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Dividend income from the issuers of:	**16 112**	**3 396**
Securities classified as available for sale	16 087	3 389
Securities classified as held for trading	25	7
Securities at fair value through profit or loss	-	-
Dividend income from subordinated entyties	**12 769**	**18 895**
Total	**28 881**	**22 291**

11. Result from financial instruments at fair value

Result from financial assets and liabilities at fair value through profit or loss in the years ended 31 December 2005 and 31 December 2004:

PKO BP SA in PLN thousand

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Debt securities	207 532	19 642
Derivative instruments	(179 796)	(61 445)
Equity instruments	7 009	(427)
Loans and receivables	-	-
Other	(4 166)	(3 746)
Total	**30 579**	**(45 976)**

The redesignation of financial instruments classified as available for sale into the financial assets at fair value through profit or loss as of 1 January 2005 was described in Note 47.

1.01.-31.12.2005	Profits	Losses	Net result
Financial assets at fair value through profit or loss	5 055 858	(5 025 279)	30 579
Financial liabilities at fair value through profit or loss	-	-	-
Total	**5 055 858**	**(5 025 279)**	**30 579**

1.01.-31.12.2004 (comparative data)	Profits	Losses	Net result
Financial assets at fair value through profit or loss	1 944 159	(1 990 135)	(45 976)
Financial liabilities at fair value through profit or loss	-	-	-
Total	**1 944 159**	**(1 990 135)**	**(45 976)**

Total change in the fair value of financial instruments at fair value through profit or loss determined using valuation models (where no quotations on an active market are available) in the year ended 31 December 2005 was PLN (1,161) thousand (in the year ended 31 December 2004 - PLN 60 thousand).

Changes in fair value in hedge accounting

PKO BP SA did not apply hedge accounting in the years ended 31 December 2005 and 31 December 2004.

12. Result from investment securities / Result on financial assets and liabilities other than classified as at fair value through profit or loss

Realised result from financial assets and liabilities other than classified as at fair value through profit or loss

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Realised gains		
Financial assets available for sale	294 332	44 820
Loans and receivables (together with finance lease receivables)	-	-
Investments held to maturity	-	-
Financial liabilities (except for held for trading)	-	-
Other	-	-
Total	**294 332**	**44 820**

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Realised losses		
Financial assets available for sale	(17 608)	(65 848)
Loans and receivables (together with finance lease receivables)	-	-
Investments held to maturity	-	-
Financial liabilities (except for held for trading)	-	-

Other	-	-
Total	**(17 608)**	**(65 848)**

In the year ended 31 December 2005, gains or losses from financial assets available for sale taken directly to equity amounted to PLN (72,933) thousand (in the year ended 31 December 2004 - PLN 233, 381 thousand).

Gains from financial assets for the year ended 31 December 2005 taken from equity to profit and loss amounted to PLN 276,724 thousand (in the year ended 31 December 2004 - PLN (21,028) thousand).

13. Foreign exchange result

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Foreign exchange differences resulting from financial instruments at fair value through profit or loss	201 291	250 291
Other foreign exchange differences	412 424	184 643
Total	**613 715**	**434 934**

14. Other operating income and expenses

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Other operating income		
Net sales of finished goods, goods for resale and raw materials	-	-
From asset management on behalf of third parties	85 970	86 231
Auxiliary revenues	26 965	30 283
Sale and liquidation of tangible fixed assets and intangible assets	10 066	3 378
Lease instalments	-	-
Received compensations, penalties and fines	3 289	4 165
Recovery of expired, forgiven and unrecoverable receivables	33 534	36 090
Other, of which:	99 866	69 690
Revenues from reversal of allowances for other receivables	27576	17 947
Returns of debt collector advances	3 572	4 713
Result on the sale of collector coins	2 013	2 325
Reversed provisions for future liabilities to employees	-	2 238
Other*	66 705	42 467
Total	**259 690**	**229 837**

* Included in “Other” are: for 2004 - revenues from court fees returned, liquidated accounts etc. and for 2005 – additionally, the penalties for delays in performing services.

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Other operating expense		
Cost of finished goods, goods for resale and raw materials sold	-	-
Costs of asset management on behalf of third parties	(11 566)	(8 645)
Cost of sale or liquidation of tangible fixed assets, intangible assets and assets earmarked for disposal	(10 567)	(7 409)
Donations	(6 663)	(7 096)
Leases	-	-
Compensation, penalties and fines paid	(3 529)	(1 244)
Impairment of expired, forgiven and unrecoverable receivables	(901)	(1 416)
Other, of which:	(16 497)	(70 560)
Impairment allowances against other receivables	-	(49 571)
Paid debt collector advances	(3 509)	(4 401)
Maintenance of property and intangible assets	-	-
Result on the sale of collector coins	(69)	(137)
Costs due to unexplained cash shortages and damages	(105)	(281)
Other*	(12 814)	(16 170)
Total	**(49 723)**	**(96 370)**

* Included in “Other” are: expenses from loan underpayments and loan agreements not settled, liquidation of savings-giro (ROR) accounts, court charges and fees, etc.

PKO BP SA in PLN thousand

15. General administrative expenses

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Employee costs	(1 972 843)	(1 885 912)
Non-personnel costs	(1 178 299)	(1 227 017)
Depreciation and amortisation	(419 287)	(471 396)
Taxes and charges	(52 872)	(49 142)
Contribution and payments to Banking Guarantee Fund	(8 023)	(11 769)
Restructuring costs	-	-
Total	**(3 631 324)**	**(3 645 236)**

Payroll costs / Employee costs

	01.01. – 31.12.2005	01.01. – 31.12.2004 comparative data)
Salaries and wages	(1 643 322)	(1 568 037)
Insurance and other employee benefits	(329 521)	(317 875)
Costs of pension plans, of which:	-	-
Defined contribution plans	-	-
Defined benefit plans	-	-
Costs of share-based payments	-	-
Costs of other retirement benefits	-	-
Total	**(1 972 843)**	**(1 885 912)**

PKO BP SA in PLN thousands

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The only binding version is the original Polish version.

16. Impairment losses

				Increases			Decreases					
year ended 31 December 2005	**Impairment allowances at the beginning of the period according to PAS 31.12.2004**	**Adjustments related to IAS conversion 01.01.2005**	**Impairment allowances at the beginning of the period according to IAS**	**Impairment losses recognised during the period**	**Foreign exchange differences**	**Other**	**Decrease in impairment allowances due to de-recognition of assets with no effect on P&L**	**Reversal of impairment losses during the period**	**Foreign exchange differences**	**Other**	**Impairment allowances at the end of the period**	**Net impact of recognised impairment allowances on the profit and loss account**
Impairment of financial assets not stated at fair value through profit or loss	2 484 087	638 869	3 122 956	829 503	-	23 996	261 250	805 026	-	14	15 964	(24 477)
Financial instruments stated at cost (unquoted equity instruments and the related derivative instruments)	27 136	-	27 136	6	5	-	-	11 164	-		24 900	11 158
Financial assets available for sale stated at fair value through equity	10 351	-	10 351	-	-	15 909	-	1 360	-	-	2 869 301	1 360
Loans and advances to customers and receivables from banks stated at amortised cost	2 446 600	638 869	3 085 469	829 497	-	8 087	261 250	792 502	-	-	-	(36 995)
Finance lease receivables	-	-	-	-	-	-	-	-	-	-	-	-
Investments held to maturity stated at amortised cost	-	-	-	-	-	-	-	-	-	-		-

PKO BP SA in PLN thousands

16. Impairment losses – continued

Impairment of investments in subsidiaries, associates and jointly controlled entities	219 124	(106 257)	112 867	482	-	-	-	37 282	-	3 500	72 567	36 800
Other**	160 771	-	160 771	163 715	-	112	-	**-52 492**	-	99 073	173 033	(111 223)
Total	**2 863 982**	**532 612**	**3 396 594**	**993 700**	**-**	**24 108**	**261 250**	**894 800**	**-**	**102 587**	**3 155 765**	**(98 900)**

** Included in "Other" are impairment allowances against other assets and off-balance sheet liabilities.

Impairment losses were recognised and reversed in the Bank's normal course of business.

Impairment allowances against loans and advances and receivables stated at amortised cost, as well as reversals of such allowances, are included in the income statement under "Result on impairment allowances".

In 2005 as a result of impairment test performed reverse impairment made on the Bank's investment in Inteligo Financial Services amounting to PLN 26,545 thousand due to improved financial results of the above entity.

PKO BP SA in PLN thousands

16. Impairment losses – continued

				Increases			Decreases					
year ended 31 December 2004	**Impairment allowances at the beginning of the period according to PAS 31.12.2003**	**Adjustments related to IAS conversion 01.01.2004**	**Impairment allowances at the beginning of the period according to IAS**	**Impairment allowances recognised during the period**	**Foreign exchange differences**	**Other**	**Decrease in impairment allowances due to de-recognition of assets with no effect on P&L**	**Reversal of impairment allowances during the period**	**Foreign exchange differences**	**Other**	**Impairment allowances at the end of the period**	**Net impact of recognised impairment allowances on the profit and loss account**
Impairment of financial assets not stated at fair value through profit or loss	2 588 660	-	2 588 660	991 690	-	187 607	225 395	896 221	-	-	2 646 341	(95 469)
Financial instruments stated at cost (unquoted equity instruments and the related derivative instruments)	800	-	800	1 010	-	25 973	-	647	-	-	27 136	(363)
Financial assets available for sale stated at fair value through equity	10 971	-	10 971	-	-	-	-	-	-	-	10 971	-
Loans and advances to customers and receivables from banks stated at amortised cost	2 576 889	-	2 576 889	990 680	-	161 634	225 395	895 574	-	-	2 608 234	(95 106)
Finance lease receivables	-	-	-	-	-	-	-	-	-	-	-	-
Investments held to maturity stated at amortised cost	-	-	-	-	-	-	-	-	-	-	-	-

* De-recognition of the value of shares not admitted to public trading due to the transfer of these shares from “Minority interest” in accordance with interpretation issued by the Banking Supervision Chief Inspector.

PKO BP SA in PLN thousands

16. Impairment losses – continued

Impairment of:	812	-	812	36 507	-	-	1 221	877	-	-	35 221	(35 630)
Tangible fixed assets	812	-	812	36 507	-	-	1 221	877	-	-	35 221	(35 630)
Investments property	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill		-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Impairment of investments in subsidiaries, associates and jointly controlled entities	248 131	(158 530)	89 601	143 697	-	-	-	120 231	-	200	112 867	(23 466)
Other**	131 997	-	131 997	32 289	**-**	14 844	-	**53 580**	-		125 550	21 291
Total	**2 969 600**	**(158 530)**	**2 811 070**	**1 204 183**	**-**	**202 451**	**226 616**	**1 070 909**	**-**	**200**	**2 919 979**	**2 919 979**

** Included in "Other" are impairment allowances against other assets and off-balance sheet liabilities.

Impairment losses were recognised and reversed in the Bank's normal course of business.

Impairment allowances against loans and advances and receivables stated at amortised cost, as well as reversals of such allowances, are included in the income statement under "Result on impairment allowances".

PKO BP SA in PLN thousands

17. Discontinued operations

In 2005, PKO BP SA had no material income or costs from discontinued operations.

18. Corporate income tax

	01.01. – 31.12.2005	01.01. – 31.12.2004 comparative data
Income statement		
Current income tax		
Current income tax expense	830 988	303 972
Deferred tax		
Relating to the arising and reversal of timing differences	(434 476)	46 358
Tax expense disclosed in the income statement	**830 988**	**303 972**
Deferred tax taken to revaluation reserve	-	-
Relating to the arising and reversal of timing differences	(38 320)	40 347
Tax expense disclosed in equity	**(38 320)**	**40 347**
Total	**792 668**	**344 319**

	01.01. – 31.12.2005	01.01. – 31.12.2004 comparative data
Gross profit before taxation from continued activities	**2 073 310**	**1 798 180**
Loss before taxation from discontinued operations	-	-
Change of accounting policies	-	63 215
Gross profit before taxation	**2 073 310**	**1 861 395**
Corporate income tax calculated using the enacted tax rate of 19% (2004: 19%)	830 940	303 972
Permanent differences between accounting gross profit and taxable profit, of which:	**(30 369)**	**(704 315)**
Other non-tax-deductible expenses	780 450	237 313
Reversed provisions and revaluation not constituting taxable revenue	(709 004)	(788 193)
Settlement of capitalised interest	(34 175)	(64 551)
Other non-taxable revenue	(38 759)	(66 593)
Dividend income	(28 881)	(22 291)
Other	-	-
Temporary differences between accounting gross profit and taxable income, of which:	**2 334 092**	**445 484**
Interest income and unrealised income from transactions on securities	891 710	73 543
Accrued interest expense and unrealised costs of transactions on securities	117 869	127 010
Recognised provisions and impairment losses not constituting tax deductible cost	131 873	570 500
Unrealised costs from derivative instruments	3 006 461	1 277 795
Income receivable, including from commissions received by the Bank in advance and recognised in revenues for the period to which they relate	353 156	20 323
Unrealised revenue from derivative instruments	(2 166 977)	(1 623 688)
Other	-	-
Other differences between accounting gross profit and taxable income, including donations	**(3 413)**	**(2 714)**
Effective tax rate	**19.12%**	**19.48%**
Corporate income tax in the income statement	**396 512**	**350 330**
Tax charge attributable to discontinued operations	**-**	**-**
Total	**396 512**	**350 330**

PKO BP SA in PLN thousands

Deferred tax asset/liability

	Balance sheet				Income statement	
	31.12.2005	**31.12.2004** comparative data	**B/S adjustments**	**01.01.2005**	**01.01 – 31.12.2005**	**01.01 – 31.12.2004** comparative data
Deferred tax liability						
Interest accrued on receivables (loans)	80 992	78 652	-	78 652	2 340	18 983
Interest on securities	48 977	83 381	-	83 381	(34 404)	(16 977)
Settlement of discount from securities (less premium)	9 176	71 237	-	71 237	(62 061)	(26 819)
Capitalised interest from restructuring bonds	-	112 769	-	112 769	(112 769)	(25 799)
Interest on transactions with the state budget	4 781	7 405	-	7 405	(2 624)	7 405
Capitalised interest on regular housing loans	314 184	331 044	-	331 044	(16 860)	(12 849)
Valuation of derivatives	-	71 676	-	71 676	(71 676)	65 319
Valuation of embedded derivatives	234	301	-	301	(67)	131
Other increases	52 157	58 775	-	58 775	(4 477)	3 906
Valuation of securities, of which:	20 840	37 567	20 749	58 316	-	-
- taken to profit and loss account	17 778	(21 570)	20 063	(1 507)	22 319	974
- taken to equity	3 062	59 137	686	59 823	-	-
Gross deferred tax liability	531 341	852 807	20 749	873 556	(280 279)	14 274
Net deferred tax liability	31 351	583 353	(79 207)	504 147	-	-
Deferred tax asset						
Interest accrued on liabilities	144 801	152 281	-	152 281	(7 480)	14 849
Provision for future liabilities to employees	18 153	13 747	-	13 747	4 406	1 862
Provision for jubilee bonuses and retirement benefits	40 045	34 981	-	34 981	5 064	2 062
Cost of accruals	52 216	56 167	1	56 168	(3 952)	(37 259)
Interest on transactions with the state budget	-	-	-	-	-	(3 050)
Valuation of derivatives	88 595	-	-	-	88 595	-
Valuation of embedded derivatives	-	-	-	-	-	-
Other	16 528	-	-	-	16 528	(6 553)
ESP valuation adjustment	126 793	-	79 506	79 506	47 287	-
Valuation of securities, of which:	12 859	12 277	20 449	32 726	-	-
- taken to profit and loss account	8 751	9 720	456	10 176	(1 425)	(3 995)
- taken to equity	4 108	2 557	19 993	22 550	-	-

PKO BP SA in PLN thousands

Gross deferred tax asset	**499 990**	**269 453**	**99 956**	**369 409**	**149 023**	**(32 084)**
Net deferred tax asset	**-**	**-**	**-**	**26 514**	**-**	**-**
Total deferred tax (deferred tax liability – deferred tax asset)	**31 351**	**583 353**	**(79 207)**	**504 147**	**-**	**-**
Deferred tax in the profit and loss account	**32 398**	**526 774**	**(59 900)**	**466 874**	**(434 476)**	**46 358**

Liabilities/ receivables due to corporate income tax

	31.12.2005	**31.12.2004** comparative data
Receivables due to income tax	**-**	**20 153**
Liabilities due to income tax	**436 494**	**-**

The Bank is a corporate income tax payers. The amount of liability is transferred to Second Mazowiecki Tax Authority in Warsaw. The final settlement of the Bank's CIT liabilities from corporate income tax is set on 31 March 2006.

19. Dividends paid and proposed

The net profit of PKO BP S.A. reported in its IAS standalone financial statements is subject to appropriation starting from 1 January 2005.

Dividends declared after the balance sheet date are not recognised as liabilities existing as at the balance sheet date.

According to the Resolution No. 8/2005 of the Ordinary Annual General Meeting of PKO BP SA dated 19 May 2005, the dividend for 2004 was set at the total level of PLN 1,000,000 thousand i.e. PLN 1 gross per share. The list of the shareholders entitled to receive dividend was determined as of 19 August 2005 and the payment took place on 1 September 2005.

As at 31 December 2005, the share capital of PKO BP SA amounted to PLN 1,000,000 thousand and was divided into 1,000,000 thousand shares with a nominal value PLN 1 each (as at 31 December 2004: PLN 1,000,000 thousand).

20. Cash and amounts due from Central Bank

	31.12.2005	**31.12.2004** comparative data
Current account with the Central Bank	2 626 732	2 285 043
Cash	1 204 370	1 203 637
Other funds	1 593	1 825
Total	**3 832 695**	**3 490 505**

In the course of the day, the Bank may use the funds from the obligatory reserve account for ongoing payments, on the basis of an instruction submitted to the National Bank of Poland. It must, however, ensure that the average monthly balance on this account complies with the requirements described in the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest of 0.9 of the rediscounting rate for bills of exchange; as of 31 December 2005 this interest rate is 4.275%.

As at 31 December 2005 and 31 December 2004, there were no restrictions as regards the use of these funds.

PKO BP SA in PLN thousands

21. Amounts due from banks

	31.12.2005	31.12.2004 comparative data
Current accounts	14 205	12 565
Placements with other banks	12 353 352	12 980 043
Loans and advances granted	115 826	-
Cash in transit	26 623	32 396
Other placements on money market	123 195	122 866
Other receivables	-	-
Total	**12 633 201**	**13 147 870**
Receivables' impairment allowance	(1 755)	(1 755)
Total net	**12 631 446**	**13 146 115**

The nominal value of placements with other banks with a fixed interest rate amounted to PLN 12,353,352 thousand (as at 31 December 2004: PLN 12,980,043 thousand). Majority of those placements were short-term placements. As at 31 December 2004 and 31 December 2005, the Bank did not have any placements with other banks with a floating interest rate.

Amounts due from banks, by maturity

According to the period remaining from the balance sheet date to maturity

	31.12.2005	31.12.2004 comparative data
Current accounts	14 205	21 565
Term deposits with a maturity period:	12 592 373	13 102 909
up to 1 month	5 909 928	6 679 142
from 1 to 3 months	1 447 808	3 637 463
from 3 months to 1 year	5 014 234	2 786 304
from 1 year to 5 years	173 115	-
over 5 years	47 288	-
Cash in transit	26 623	32 396
Other money market placements	123 195	122 866
Total	**12 633 201**	**13 147 870**
Receivables' impairment allowance	(1 755)	(1 755)
Total net	**12 631 446**	**13 146 115**

PKO BP SA in PLN thousands

22. Financial assets held for trading

	31.12.2005	31.12.2004 comparative data
Debt securities	839 726	341 117
- issued by central banks	-	-
- issued by other banks	-	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by the State Treasury	839 367	340 756
- issued by local government bodies	359	361
Shares in other entities – listed on stock exchange markets	2 188	5 014
Loans and advances	-	-
Total financial assets held for trading	**841 914**	**346 131**

PKO BP SA in PLN thousands

Financial assets held for trading as at 31 December 2005, by maturity: carrying amount

	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	with no maturity date specified	Total
Debt securities	**26 055**	**72 234**	**88 700**	**633 304**	**18 351**	**1 082**	**839 726**
- issued by central banks	-	-	-	-	-	-	**-**
- issued by other banks	-	-	-	-	-	-	**-**
- issued by other financial institutions	-	-	-	-	-	-	**-**
- issued by non-financial entities	-	-	-	-	-	-	**-**
- issued by the State Treasury	26 055	72 234	88 341	633 304	18 351	1 082	**839 367**
- issued by local government bodies	-	-	359	-	376	-	**359**
Shares in other entities – listed on stock exchange markets	**2 188**	**-**	**-**	**-**	**-**	**-**	**2 188**
Loans and advances	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total financial assets held for trading as at 31 December 2005	**28 243**	**72 234**	**88 700**	**633 304**	**18 351**	**1 082**	**841 914**

The average yield of debt securities issued by the State Treasury as at 31 December 2005 amounted to 4.93% for PLN, 3.02% for EUR and 3.00% for USD.

As at 31 December 2005, the portfolio of securities held for trading included:

- treasury bills with a total nominal value of PLN 33,790 thousand,
- treasury bonds with a total nominal value of PLN 624,467 thousand,
- bonds denominated in USD with a total nominal value of PLN 326 thousand,
- bonds denominated in EUR with a total nominal value of PLN 8,642 thousand.

PKO BP SA in PLN thousands

Financial assets held for trading as at 31 December 2004, by maturity: carrying amount (comparative data)

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Debt securities	**259**	**61 131**	**93 592**	**181 460**	**4 675**		**341 117**
- issued by central banks	-	-	-	-	-	-	**-**
- issued by other banks	-	-	-	-	-	-	**-**
- issued by other financial institutions	-	-	-	-	-	-	**-**
- issued by non-financial entities	-	-	-	-	-	-	**-**
- issued by the State Treasury	259	61 131	93 592	181 460	4 314	-	**340 756**
- issued by local government bodies	-	-	-	-	361	-	**361**
Shares in other entities – listed on stock exchange markets	**-**	**-**	**-**	**-**	**-**	**5 014**	**5 014**
Loans and advances	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total financial assets held for trading as at 31 December 2004	**259**	**61 131**	**93 592**	**181 460**	**4 675**	**5 014**	**346 131**

As at 31 December 2004, the average yield of debt securities issued by the State Treasury in PLN amounted to 6.60%.

As at 31 December 2004, the portfolio of securities held for trading included:

- treasury bills with a total nominal value of PLN 135,640 thousand,
- treasury bonds with a total nominal value of PLN 202,325 thousand,
- municipal bonds with a total nominal value of PLN 446 thousand.

PKO BP SA in PLN thousands

23. Derivative financial instruments

Derivatives used by the Bank

PKO BP SA uses various types of financial derivatives with a view to manage the risk involved in its business activities. Majority of derivatives used by Bank are contracts. As at 31 December 2005 and 31 December 2004, the Bank held the following derivative instruments:

	31.12.2005		31.12.2004 comparative data	
Type of contract	**Assets**	**Liabilities**	**Assets**	**Liabilities**
IRS	705 554	1 076 599	394 050	633 220
FRA	87 934	86 395	46 257	59 816
FX Swap	111 121	38 704	716 752	77 849
CIRS	182 871	12 644	178 937	-
Forward	7 620	1 216	3 638	683
Options	42 007	41 376	21 875	21 849
SBB	130	450	870	322
Total	**1 137 227**	**1 257 384**	**1 362 379**	**793 739**

Derivatives embedded in other instruments

The Bank uses derivative instruments which are part of compound financial instruments, i.e. instruments including both a derivative and a host contract, which results in a part of the cash flows from the compound instrument changing similarly to cash flows from a separate derivative. Derivatives embedded in other instruments cause that part of or all cash flows resulting from the host contract are modified on the basis of a certain interest rate, price of a security, foreign exchange rate, price index or interest rate index.

Derivatives are also embedded in loan and deposit agreements. The Bank offers deposits with embedded derivative instruments. The characteristics of such derivatives are not closely related to those of their respective host contracts i.e. deposit agreements. Such embedded derivatives are separated from their host contracts, classified as held for trading and are subject to valuation. The valuation of such instruments is recognised in the profit and loss account. The Bank has analysed the loan and other agreements portfolio in order to determine whether the embedded derivative instruments should be separated and, based on the above, the Bank concluded that those agreements do not require separation and separate recognition of embedded derivatives.

Risk involved in financial derivatives

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

The objective of derivative risk management is to monitor derivative instruments utilisation and keep any derivative-related risk within the limits set forth by the general Bank risk profile. The derivative risk management process within PKO BP SA is fully integrated with the management of interest rate, currency, liquidity and credit risk. The policies of derivative risk management define derivative-related risks and the tasks for individual organisational units in the process of derivative risk management.

The Value at Risk model is used to measure the risk related to derivative instruments.

The main tools of derivative risk management are as follows:

- internal procedures related to derivative risk management,
- derivative instruments profiles,
- limits and thresholds set for the risk related to derivative instruments,
- framework agreements (ISDA, ZBP) specifying, among others, settlement mechanisms.

Derivative risk management is realised by imposing limits on individual derivative instruments included in the Bank’s trading and banking portfolios, monitoring limit utilisation and reporting risk level.

The exposure of derivatives to credit risk was presented in Note 3.

The Bank concludes derivative transactions with other financial institutions, mainly other banks.

The following tables present notional amounts of financial derivative instruments and the fair values of such derivatives. The notional amounts of derivatives are recognised as off-balance sheet items. The notional values of certain financial instruments are used for the purpose of comparison with balance sheet instruments, but do not necessarily indicate what the future cash flow amounts will be or what the present fair value of such instruments is, and therefore do not reflect the Bank's exposure to credit or price risk.

Derivative financial instruments valuations become positive (assets) or negative (liabilities) as a result of fluctuations of market interest rates, indices, or foreign exchange rates, compared with their terms.

PKO BP SA in PLN thousands

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Derivative financial instruments as at 31 December 2005

Notional amounts and fair value of derivative financial instruments

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
- Over-the-counter market	-	-	-	-	-	-		
FX Swap	7 169 207	2 912 339	2 998 854	-	-	13 080 400	38 704	111 121
Purchase of currencies	3 607 281	1 453 587	1 517 329	-	-	6 578 197		
Sale of currencies	3 561 926	1 458 752	1 481 525	-	-	6 502 203		
Currency Forward	15 767	123 111	300 064	-	-	439 203	1 216	7 620
Purchase of currencies	7 981	62 744	152 054	-	-	222 779		
Sale of currencies	7 786	60 367	148 010	-	-	216 163		
Options	-	362 827	237 710	185 036	-	785 573	41 376	42 007
Purchase	-	180 109	118 825	92 518	-	391 452		
Sale	-	182 718	118 885	92 518	-	394 121		
- Regulated market	-	-	-	-	-	-		
FX Swap	-	-	-	-	-	-		
Purchase of currencies	-	-	-	-	-	-		
Sale of currencies	-	-	-	-	-	-		
Options	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
- Regulated market	-	-	-	-	-	-		
Currency Futures	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		

PKO BP SA in PLN thousands

Notional amounts and fair value of derivative financial instruments (continued)

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Interest Rate Swap (IRS)	4 040 000	15 730 000	46 084 000	55 466 440	3 759 170	125 079 610	1 076 599	705 544
Purchase	2 020 000	7 865 000	23 042 000	27 733 220	1 879 585	62 539 805		
Sale	2 020 000	7 865 000	23 042 000	27 733 220	1 879 585	62 539 805		
Forward Rate Agreement (FRA)	14 450 000	29 750 000	57 900 000	16 350 000	-	118 450 000	86 396	87 935
Purchase	8 100 000	14 750 000	31 000 000	8 050 000	-	61 900 000		
Sale	6 350 000	15 000 000	26 900 000	8 300 000	-	56 550 000		
Interest rate transactions								
Cross Currency IRS	-	-	2 998 265	8 018 222	3 632 144	14 648 631	12 644	182 871
Purchase	-	-	1 510 985	4 052 951	1 836 080	7 400 016		
Sale	-	-	1 487 280	3 965 271	1 796 064	7 248 615		
Other transactions	-	-	-	-	-	-		
SELL BUY BACK	1 098 934	3 012	-	-	-	1 101 946	450	130
Purchase	936 984	3 012	-	-	-	1 101 946		
Sale	161 950	-	-	-	-	161 950		
Futures on bonds	-	5 119	513	-	-	5 632		
Purchase	-	5 119	-	-	-	5 119		
Sale	-	-	513	-	-	513		
Total derivative instruments	26 774 170	48 886 408	110 519 406	80 019 698	7 391 314	273 590 734	1 257 384	1 137 227

PKO BP SA in PLN thousands

Derivative financial instruments as at 31 December 2004 (comparative data)

Notional amounts and fair value of derivative financial instruments

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
- Over-the-counter market								
FX Swap	9 191 895	5 993 447	2 246 182	-	-	**17 431 524**	77 849	716 752
Purchase of currencies	4 721 861	3 092 662	1 239 986	-	-	**9 054 509**		
Sale of currencies	4 470 034	2 900 785	1 006 196	-	-	**8 377 015**		
Currency Forward	62 734	92 678	27 425	9 218	-	**192 055**	683	3 638
Purchase of currencies	31 678	46 768	13 923	4 723	-	**97 092**		
Sale of currencies	31 056	45 910	13 502	4 495	-	**94 963**		
Options	-	-	-	356 065	-	**356 065**	21 849	21 875
Purchase	-	-	-	176 738	-	**176 738**		
Sale	-	-	-	179 327	-	**179 327**		
- Regulated market	-	-	-	-	-	**-**		
FX Swap	-	-	-	-	-	**-**		
Purchase of currencies	-	-	-	-	-	**-**		
Sale of currencies	-	-	-	-	-	**-**		
Options	-	-	-	-	-	**-**		
Purchase	-	-	-	-	-	**-**		
Sale	-	-	-	-	-	**-**		
- Regulated market	-	-	-	-	-	**-**		
Currency Futures	-	-	-	-	-	**-**		
Purchase	-	-	-	-	-	**-**		
Sale	-	-	-	-	-	**-**		

PKO BP SA in PLN thousands

Notional amounts and fair value of derivative financial instruments (continued)

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Interest Rate Swap (IRS)	6 600 000	7 632 000	39 794 000	34 288 000	1 556 364	**89 870 364**	633 220	394 050
Purchase	3 300 000	3 816 000	19 897 000	17 144 000	778 182	**44 935 182**		
Sale	3 300 000	3 816 000	19 897 000	17 144 000	778 182	**44 935 182**		
Forward Rate Agreement (FRA)	7 100 000	13 565 000	21 530 000	4 700 000	-	**46 895 000**	59 816	46 257
Purchase	3 600 000	6 970 000	10 850 000	2 250 000	-	**23 670 000**		
Sale	3 500 000	6 595 000	10 680 000	2 450 000	-	**23 225 000**		
Interest rate transactions								
Cross Currency IRS	1 091 200	1 091 480	-	3 234 880	671 210	**6 088 770**		178 937
Purchase	562 780	563 060	-	1 649 620	344 890	**3 120 350**		
Sale	528 420	528 420	-	1 585 260	326 320	**2 968 420**		
Other transactions								
SELL BUY BACK	1 274 542	353 495	-	-	-	**1 628 037**	322	870
Purchase	978 302	312 921	-	-	-	**1 291 223**		
Sale	296 240	40 574	-	-	-	**336 814**		
Futures on bonds	498	-	-	-	-	**498**		
Purchase	498	-	-	-	-	**498**		
Sale	-	-	-	-	-	**-**		
Total derivative instruments	**25 320 869**	**28 728 100**	**63 597 607**	**42 588 163**	**2 227 574**	**162 462 313**	793 739	1 362 379

PKO BP SA in PLN thousands

24. Other financial instruments at fair value through profit or loss

	31.12.2005	1.01.2004 comparative data)
Debt securities	20 034 160	19 953 740
- issued by the State Treasury	14 810 621	16 079 725
- issued by central banks	4 435 795	3 874 015
- issued by other banks	787 744	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by local government bodies	-	-
Shares in other entities	-	-
- listed on stock exchange markets	-	-
- unlisted	-	-
Loans and advances	-	-
Total other financial instruments at fair value through profit or loss	**20 034 160**	**19 953 740**

The Bank took advantage of the IFRS 1 exemption regarding the restatement of comparative data in accordance with IAS 39. For more details, see Note 47.

As at 31 December 2005, the portfolio of securities valued at fair value through profit or loss included:

- treasury bills with a total nominal value of PLN 13,376,331 thousand,
- treasury bonds with a total nominal value of PLN 2,449,820 thousand,
- money bills with a total nominal value of PLN 1,779,640 thousand,
- USD bonds with a total nominal value of PLN 13,204,347 thousand,
- EUR bonds with a total nominal value of PLN 1,254,435 thousand.

As at 31 December 2005, the average yield of debt securities issued by the State Treasury and Central Bank and included in the portfolio of other financial instruments at fair value through profit or loss was 4.71% for PLN, 3.77% for EUR, 4.62% for USD.

As at 31 December 2004, the Bank did not have financial instruments valued at fair value through profit or loss.

As at 1 January 2005, the average yield of debt securities issued by the State Treasury and Central Bank and included in the portfolio of other financial instruments at fair value through profit or loss was 6.33% for PLN, 3.78% for EUR and 4.12% for USD.

PKO BP SA in PLN thousands

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Other financial instruments at fair value through profit or loss as at 31 December 2005, by maturity: carrying amount

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Debt securities	**2 024 230**	**1 030 895**	**5 094 257**	**7 304 861**	**4 579 917**	**-**	**20 034 160**
- issued by central banks	1 778 216	-	-	-	2 657 579	-	4 435 795
- issued by other banks	49 354	-	-	565 962	172 428	-	787 744
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by the State Treasury	196 660	1030 895	5 094 257	6 738 899	1 749 910	-	14 810 621
- issued by local government bodies	-	-	-	-	-	-	-
Shares in other entities – listed and unlisted on stock exchange markets	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Total other financial instruments at fair value through profit or loss as at 31 December 2005	**2 024 230**	**1 030 895**	**5 094 257**	**7 304 861**	**4 579 917**	**-**	**20 034 160**

PKO BP SA in PLN thousands

Other financial instruments at fair value through profit or loss as at 1 January 2005*, by maturity: carrying amount

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Debt securities	**1 409 019**	**1 816 793**	**4 249 550**	**8 217 677**	**4 260 701**		**19 953 740**
- issued by central banks	1 057 050	-	85 769	90 125	2 641 071	-	3 874 015
- issued by other banks	-	-	-	-	-	-	-
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by the State Treasury	351 969	1 816 793	4 163 781	8 127 552	1 619 630		16 079 725
- issued by local government bodies	-	-	-	-	-	-	-
Shares in other entities – listed and unlisted on stock exchange markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total other financial instruments valued at fair value through profit or loss as at 1 January 2005	**1 409 019**	**1 816 793**	**4 249 550**	**8 217 677**	**4 260 701**	**-**	**19 953 740**

* Classification as at 1 January 2005, in accordance with the exemption allowed under IFRS 1 (see Note 47).

PKO BP SA in PLN thousands

25. Loans and advances to customers

As at 31 December 2005	Receivables valued using the individual method	Receivables valued using the portfolio and collective methods	Allowances against exposures with individual impairment	Allowances against exposures with collective and portfolio impairment	Total net value
Loans and advances granted to:					
state budget entities	6 209	6 743 012	(6 209)	(42 601)	**6 700 411**
financial entities other than banks	14 806	794 868	(14 806)	(45 390)	**749 478**
non-financial entities	1 142 653	40 217 845	(565 942)	(2 192 598)	**38 601 958**
Total	**1 163 668**	**47 755 752**	**(586 957)**	**(2 280 589)**	**46 051 847**

As at 31 December 2004	Receivables in "normal" risk category	Receivables in "watch" risk category and irregular receivables	Specific provisions for receivables in "normal" risk category	Specific provisions for receivables in "watch" risk category and irregular receivables	Total net value
Loans and advances granted to:					
public entities	7 569 756	44 102	-	(13 063)	7 600 795
financial entities other than banks	517 809	98 129	-	(68 057)	547 881
non-financial entities	27 718 995	6 235 411	(133 733)	(2 391 626)	31 429 047
Total	**35 806 560**	**6 377 642**	**(133 733)**	**(2 472 746)**	**39 577 723**

In December 1993, in accordance with the Act of 3 February 1993 on financial restructuring of enterprises and banks and amendments to certain laws (Journal of Laws No. 18 item 82 with subsequent amendments), the Bank received restructuring bonds with a nominal value of PLN 573,420 thousand. These bonds were granted to the Bank in order to increase its capital and to create additional specific provisions for irregular loans, up to the amount required by the NBP. The redemption of capital and capitalised interest started in June 1995 and was to be continued to December 2008.

As at 31 December 2004, the value of restructuring bonds held by the Bank amounted to PLN 759,564 thousand. On 31 May 2005 restructuring bonds were redeemed at an earlier date, in accordance with the Decision No. NZ/3/2005 of the Minister of Finance dated 16 May 2005.

As of 31 December 2004 the balance of loans and advances included also the balance of restructuring bonds.

Additionally, as at 31 December 2004 the Bank had a general banking risk reserve in the amount of PLN 661,597 thousand.

Out of the above amount, PLN 161,634 thousand was allocated to loan receivables, while the amount of PLN 499,963 thousand was presented under Bank's equity (general banking risk fund).

PKO BP SA in PLN thousands

Additional information as at 1 January 2005, by sectors

	Decree of the Minister of Finance on creation of specific provisions	IAS 39		Impairment allowances
		individual approach	group and collective approach	
Loans and advances to customers				
financial sector	67 928	34 236	39 832	74 068
non-financial sector	2 357 961	575 349	2 376 865	2 952 214
public sector	13 034	400	51 109	51 509
Total loans and advances	**2 438 923**	**609 985**	**2 467 806**	**3 077 791**
General banking risk reserve	661 597	-	-	-
TOTAL	**3 100 520**	**609 985**	**2 467 806**	**3 077 791**

	31.12.2005	**31.12.2004**
	Carrying amount	**Carrying amount**
Loans and advances granted, gross:		
to state budget entities	6 749 221	7 613 858
up to 1 month	297 966	197 098
from 1 to 3 months	72 015	80 538
from 3 months to 1 year	702 399	1 971 935
from 1 to 5 years	4 790 243	4 368 705
over 5 years	886 598	995 582
average effective rate	-	-
to financial entities other than banks	809 674	615 938
up to 1 month	103 683	76 775
from 1 to 3 months	56 420	47 880
from 3 months to 1 year	242 346	38 801
from 1 to 5 years	350 811	444 354
over 5 years	56 414	8 128
average effective rate	-	
to non-financial entities	41 369 816	33 954 406
up to 1 month	9 110 198	8 188 308
from 1 to 3 months	1 390 370	1 093 632
from 3 months to 1 year	5 457 510	4 019 765
from 1 to 5 years	10 693 106	9 418 607
over 5 years	14 709 314	11 234 094
average effective rate	-	
Total	**48 919 393**	**42 184 202**

As at 31 December 2004, PKO BP SA took advantage of the exemption allowed under IFRS 1 and did not restate comparative data relating to the valuation of loans and advances using the effective interest rate method.

Finance and operating leases

Finance leases

The Bank does not have any lease receivables.

PKO BP SA in PLN thousands

Operating leases

Operating lease agreement is an agreement under which the lessor retains substantially all of the risks and rewards incidental to the ownership of an asset. Lease payments under an operating lease are recognised as an expense in the income statement on a straight line basis over the lease term.

Rental agreements concluded by the Bank as part of its normal business activities meet the criteria of operating lease. All such agreements are concluded at an arm's length.

The table below shows data concerning operating lease agreements concluded by the Bank:

Total value of future lease payments under non-cancellable operating leases	**31.12.2005**	**31.12.2004** comparative data
For the period:		
up to 1 year	364	281
from 1 to 5 years	11 686	16 057
over 5 years	419 097	507 119
Total	**431 147**	**523 457**

Lease and sub-lease payments recognised as an expense in the period from 1 January 2005 to 31 December 2005 amounted to PLN 143,733 thousand (in the period from 1 January 2004 to 31 December 2004: PLN 140,433 thousand).

26. Investment securities

	31.12.2005	**31.12.2004** comparative data
Available for sale	**1 898 442**	**21 643 404**
- issued by central banks	-	3 768 909
- issued by other banks	-	235 909
- issued by other financial institutions	7 762	89 777
- issued by non-financial entities	746 141	793 984
- issued by the State Treasury	354 347	16 079 723
- issued by local government bodies	790 192	675 335
Held to maturity	**-**	**1 893 017**
- issued by central banks	-	-
- issued by other banks	-	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by the State Treasury	-	1 893 017
- issued by local government bodies	-	-
Total investment securities	**1 898 442**	**23 536 421**
Impairment allowances	(40 864)	(38 107)
Total net investment securities	**1 857 578**	**23 498 314**

PKO BP SA in PLN thousands

Movements in investment securities

	1.01.-31.12.2005	1.01.-31.12.2004 comparative data
Available for sale		
Balance at the beginning of the period	**21 605 297**	**24 331 761**
Change in accounting policies*	(19 953 121)	-
Balance as at 1 January 2005	1 652 176	-
Foreign exchange differences	(576)	1 153
Increases	4 451 248	41 827 887
Decreases (redemption)	(4 311 013)	(44 518 744)
Change in the fair value	65 743	(36 760)
Balance at the end of the period	**1 857 578**	**21 605 297**
Held to maturity		
Balance at the beginning of the period	**1 893 017**	**3 830 980**
Change in accounting policies*	170	-
Balance as at 1 January 2005	**1 893 187**	-
Foreign exchange differences		
Increases	39 218	181 986
Decreases (redemption)	(1 932 405)	(2 119 949)
Changes in the fair value	-	-
Balance at the end of the period	**-**	**1 893 017**

* Reclassified as of 1 January 2005 to the portfolio of assets and liabilities at fair value through profit or loss according to IFRS 1 and debt instruments valuation in accordance with IAS 39

** Adjustment to the effective interest rate of debt instruments.

PKO BP SA in PLN thousands

Available for sale securities as at 31 December 2005, by maturity: carrying amount

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Available-for-sale securities							
issued by central banks	-	-	-	-	-	-	**-**
issued by other banks	-	-	-	-	-	-	**-**
issued by other financial institutions	-	-	-	-	320	-	**320**
issued by non-financial entities	150 382	268 793	14 006	176 640	102 898	-	**712 719**
issued by the State Treasury	-	-	-	354 347	-	-	**354 347**
issued by local government bodies	32	843	108 945	523 518	156 854	-	**790 192**
Total available-for-sale securities as at 31 December 2005	**150 414**	**269 636**	**122 951**	**1 054 505**	**260 072**	**-**	**1 857 578**

The average yield of available-for-sale securities as at 31 December 2005 amounted to 4.96%.

As at 31 December 2005, the portfolio of available-for-sale debt securities included:

- commercial bills with a total nominal value of PLN 271,500 thousand,
- corporate bonds with a total nominal value of PLN 426,247 thousand,
- municipal bonds with a total nominal value of PLN 780,562 thousand,
- treasury bonds with a total nominal value of PLN 330,000 thousand.

PKO BP SA in PLN thousands

Available for sale securities as at 31 December 2004 by maturity: carrying amount (comparative data),

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Available-for-sale securities							
issued by central banks	1 127 839	-	-	-	2 641 070	-	**3 768 909**
issued by other banks	39 148	-	14 982	90 125	-	91 421	**235 676**
issued by other financial institutions	319	-	70 787	0	-	-	**71 106**
issued by non-financial entities	45 985	109 950	8 053	151 479	133 562	325 519	**774 548**
issued by the State Treasury	351 967	1 816 793	4 163 781	8 127 552	1 619 630	-	**16 079 723**
issued by local government bodies	-	11 028	82 093	482 991	99 223	-	**675 335**
Total available-for-sale securities as at 31 December 2004	**1 565 258**	**1 937 771**	**4 339 696**	**8 852 147**	**4 493 485**	**416 940**	**21 605 297**

As at 31 December 2004, the average yields of available-for-sale securities issued by the State Treasury amounted to 6.33% for PLN, 3.78% for EUR and 4.12% for USD.

As at 31 December 2004, the portfolio of available-for-sale debt securities included:

- treasury bills with a total nominal value of PLN 2,252,520 thousand,
- commercial bills with a total nominal value of PLN 147,900 thousand,
- corporate bonds with a total nominal value of PLN 403,890 thousand,
- municipal bonds with a total nominal value of PLN 964,654 thousand,
- treasury bonds with a total nominal value of PLN 13,181,117 thousand,
- bonds issued by NBP with a total nominal value of PLN 2,522,112 thousand,
- money bills with a total nominal value of PLN 1,130,720 thousand.

PKO BP SA in PLN thousands

Available-for-sale securities as at 1 January 2005*, by maturity: carrying amount

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Available-for-sale securities							
issued by central banks	-	-	-	-	-	-	**-**
issued by other banks	-	-	-	-	-	91 421	**91 421**
issued by other financial institutions	70 789	-	-	45	-	39 467	**110 256**
issued by non-financial entities	36 284	109 950	8 053	151 479	133 562	334 002	**773 330**
issued by the State Treasury	-	-	-	-	-	-	**-**
issued by local government bodies	-	12 243	82 093	482 991	99 223	-	**676 550**
Total available-for-sale securities as at 1 January 2005	**107 073**	**122 193**	**90 146**	**634 470**	**232 785**	**464 890**	**1 651 557**

* Classification as at 1 January 2005, in accordance with the exemption allowed under IFRS 1 (see Note 47).

As at 31 December 2004, the average yields of available-for-sale securities issued by the State Treasury amounted to 6.33% for PLN, 3.78% for EUR and 4.12% for USD.

PKO BP SA in PLN thousands

Held-to-maturity securities as at 31 December 2005, by maturity: carrying amount

As at 31 December 2005, the Bank did not have any securities held to maturity.

Held-to-maturity securities as at 31 December 2004, by maturity: carrying amount (comparative data)

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Held-to-maturity securities							
issued by central banks	-	-	-	-	-	-	**-**
issued by other banks	-	-	-	-	-	-	**-**
issued by other financial institutions	-	-	-	-	-	-	**-**
issued by non-financial entities	-	-	-	-	-	-	**-**
issued by the State Treasury	-	124 080	1 768 937	-	-	-	**1 893 017**
issued by local government bodies	-	-	-	-	-	-	**-**
Total held-to-maturity securities as at 31 December 2004	**-**	**124 080**	**1 768 937**	**-**	**-**	**-**	**1 893 017**

As at 31 December 2004, the average yield of held-to-maturity securities issued by the State Treasury was 6.59%.

As at 31 December 2004, the portfolio of debt securities held to maturity included treasury bonds with a nominal value of PLN 1,895,000 thousand.

PKO BP SA in PLN thousands

27. Investments in subsidiaries, associates and jointly controlled entities

As at 31 December 2005, the Bank's investments in subsidiaries, associates and jointly controlled entities are stated at acquisition cost less impairment losses.

The table below shows the value of the Bank's shares in the individual subsidiaries, associates and jointly controlled entities.

Entity name	31.12.2005	31.12.2004 comparative data
Subsidiaries		
PTE Bankowy SA	205 785	205 786
Centrum Finansowe Puławska Sp. z o.o.	128 288	128 288
KREDOBANK SA	111 971	109 531
PKO Inwestycje Sp. z o.o.	147 903	60 403
Inteligo Financial Services SA	43 153	16 608
Centrum Elektronicznych Usług Płatniczych SA	55 500	55 500
Bankowy Fundusz Leasingowy SA	30 000	30 000
Bankowe Towarzystwo Kapitałowe	18 566	18 566
PKO Towarzystwo Finansowe	-	-
Przedsiębiorstwo Informatyki Bankowej „Elbank”	-	-
International Trade Center Sp. z o.o. (in liquidation)	-	-
Jointly controlled entities		
PKO/Credit Suisse TFI SA	14 000	14 000
Wawel Hotel Development Sp. z o.o.	13 865	13 865
Centrum Obsługi Biznesu Sp. z o.o.	17 498	
Associates		
Bank Pocztowy SA	113 000	112 000
Kolej Gondolowa Jaworzyna Krynicka SA	-	-
Ekogips S.A. (in bankruptcy)	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	374	289
Hotel Jan III Sobieski Sp. z o.o.	-	-
Agencja Inwestycyjna CORP SA	29	29
Total	**899 932**	**764 865**

Summary information about associated entities valued using the equity pick-up method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2005					
Bank Pocztowy SA	1 800 930	1 608 874	239 197	25 035	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	37 889	8 919	11 188	2 648	37.83%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	6 711	2 017	135	95	33.33%
Hotel Jan III Sobieski Sp. z o.o.	132 434	262 629	51 821	21 625	35.50%
Agencja Inwestycyjna CORP SA	4 149	2 307	15 920	447	22.31%
Total	**1 982 112**	**1 884 746**	**318 261**	**49 850**	**---**
31.12.2004					
Bank Pocztowy SA	2 258 035	2 093 768	233 741	18 998	25.00%
Kolej Gondolowa Jaworzyna Krynicka SA	37 101	11 226	9 845	2 235	38.23%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	4 607	7	88	59	33.33%
Hotel Jan III Sobieski Sp. z o.o.	135 146	286 996	53 047	49 974	32.50%
Agencja Inwestycyjna CORP SA	4 373	2 823	17 017	418	22.31%
Total	**2 439 262**	**2 394 820**	**313 738**	**71 684**	**---**

The data presented in the above table derives from the companies' financial statements prepared in accordance with Polish Accounting Standards

PKO BP SA in PLN thousands

As of 31 December 2005 and as of 31 December 2004 the Bank did not have any share in conditional liabilities of subsidiaries, purchased jointly with other investors.

In 2005 the Bank acquired PKO Inwestycje Sp. z. o.o. in total amount of PLN 87,500 thousand for investments projects realization.

On 25 January 2005, PKO BP SA acquired 34,992 shares, accounting for 41.44% of the company's share capital and votes at the shareholders' meeting. The acquisition cost amounted to PLN 17,498 thousand.

The Bank, acting through „Rosan – Papiery Wartościowe" Sp. z o.o. with the registered office in Lvov, made a bid to minority shareholders of KREDOBANK S.A. to purchase their shares. As a result the Bank purchased from minority shareholders 339,763,026 shares representing approximately 2.367% of KREDOBANK S.A.. The purchase price amounted to PLN 2,439,350

28. Intangible assets

Year ended 31 December 2005	**Development expenses**	**Patents and licenses**	**Goodwill acquired as a result of business combination**	**Intangible assets under construction**	**Total**
Acquisition cost as at 1 January 2005 including amortisation	-	124 069	-	259 976	384 045
Increases due to internal development projects	-	-	-	-	-
Purchases	-	-	-	274 937	274 937
Disposals	-	(103)	-	(49)	(152)
Reversal of impairment allowances	-	-	-	-	-
Attributable to discontinued operations	-	-	-	-	-
Impairment allowance	-	-	-	-	-
Amortisation	-	(128 067)	-	(3 807)	(131 874)
Other changes	-	187 234	-	(188 884)	(1 650)
Net carrying amount	**-**	**183 133**	**-**	**342 173**	**523 306**
As at 1 January 2005					
Acquisition cost (gross carrying amount)	-	605 172	32	266 769	871 973
Accumulated amortisation and impairment allowance	-	(481 103)	(32)	(6 793)	(487 928)
Net carrying amount	**-**	**124 069**	**-**	**259 976**	**384 045**
As at 31 December 2005					
Acquisition cost (gross carrying amount)	-	775 924	32	352 361	1 128 317
Accumulated amortisation and impairment allowance	-	(594 646)	(32)	(10 188)	(604 866)
Net carrying amount	**-**	**181 133**	**-**	**342 173**	**525 306**

A significant item of intangible assets is represented by capital expenditures incurred for the integrated IT system (ZSI). As at 31 December 2005, capital expenditures incurred for ZSI amounted to PLN 145,491 thousand. As at 31 December 2004, these expenditures amounted to PLN 39,748 thousand.

PKO BP SA in PLN thousands

Year ended 31 December 2004	**Development expenses**	**Patents and licenses**	**Goodwill acquired as a result of business combination**	**Intangible assets under construction**	**Total**
Acquisition cost as at 1 January 2004 including amortisation	-	124 475	-	138 848	**263 323**
Increases due to internal development projects	-	-	-	-	**-**
Purchases	-	-	-	223 223	**223 223**
Disposals	-	(1 265)	-	(38)	**(1 303)**
Reversal of impairment allowances	-	-	-	-	**-**
Attributed to discontinued operations	-	-	-	-	**-**
Impairment allowance	-	-	-	-	**-**
Amortisation	-	(132 594)	-	(3 002)	**(135 596)**
Other changes	-	133 453	-	(99 055)	**34 398**
Net carrying amount	**-**	**124 069**	**-**	**259 976**	**384 045**
As at 1 January 2004					
Acquisition cost (gross carrying amount)	-	475 122	32	141 776	**616 930**
Accumulated amortisation and impairment allowance	-	(350 647)	(32)	(2 928)	**(353 607)**
Net carrying amount	**-**	**124 475**	**-**	**138 848**	**263 323**
As at 31 December 2004					
Acquisition cost (gross carrying amount)	-	605 172	32	266 769	**871 973**
Accumulated amortisation and impairment allowance	-	(481 103)	(32)	(6 793)	**(487 928)**
Net carrying amount	**-**	**124 069**	**-**	**259 976**	**384 045**

* "Other changes" in the "Patents and licences" category mainly consist of software transferred from intangible assets under construction.

The Bank did not create any patents or licenses itself.

In the period from 1 January 2005 to 31 December 2005, PKO BP SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 569,119 thousand. In the period from 1 January 2004 to 31 December 2004, PKO BP SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 516,267 thousand.

PKO BP SA PLN thousands

29. Tangible fixed assets

Year ended 31 December 2005	**Land and building including investment properties**	**Plant and machinery**	**Motor vehicles**	**Assets under construction**	**Other**	**Total**
Cost of tangible fixed assets as at 31 December 2004 in accordance with PAS	**1 778 726**	**2 185 312**	**40 009**	**239 018**	**321 226**	**4 564 291**
Change in accounting policies in accordance with IAS as at 01.01.2005	**279 217**	**-**	**-**	**-**	**-**	**279 217**
Cost of tangible fixed assets in accordance with IAS as at 1 January 2005	**2 057 943**	**2 185 312**	**40 009**	**239 018**	**321 226**	**4 843 508**
Increases, of which:	**79 266**	**303 572**	**478**	**295 191**	**21 407**	**699 914**
Purchases and other changes	79 266	303 572	478	295 191	21 407	699 914
Foreign exchange differences	-	-	-	-	-	-
Decreases, of which:	**(74 346)**	**(142 597)**	**(6 680)**	**(324 503)**	**(8 223)**	**(556 349)**
Transfer to assets held for sale	-	-	-	-	-	-
Liquidation and sale	(13 531)	(124 076)	(46 243)	-	(6 956)	(150 806)
Disposal resulting from business combination	-	-	-	-	-	-
Other	(60 815)	(18 521)	(437)	(324 503)	(1 267)	(405 543)
Cost of tangible fixed assets at the end of the period	**2 062 863**	**2 346 287**	**33 807**	**209 706**	**334 410**	**4 987 073**
Accumulated depreciation at the beginning of the period	**(417 268)**	**(1 860 239)**	**(31 421)**	**-**	**(281 127)**	**(2 590 055)**
Increases, of which:	**(84 652)**	**(206 587)**	**(4 321)**	**-**	**(20 301)**	**(315 861)**
Depreciation charge for the period	(74 831)	(188 997)	(3 721)	-	(19 864)	(287 413)
Other	(9 821)	(17 590)	(600)	-	(449)	(28 460)
Transfers	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-
Decreases, of which:	**130 098**	**139 859**	**6 611**	**-**	**8 020**	**170 239**
Liquidation and sale	3 791	123 804	6 203	-	6 876	140 674
Other	11 958	16 055	408	-	1 144	29 565
Accumulated depreciation at the end of the period	**(486 171)**	**(1 926 967)**	**(29 131)**	**-**	**(293 420)**	**(2 735 689)**
Impairment allowances						
Opening balance	(35 221)	-	-	-	-	(35 221)
Increases	(15 000)	-	-	-	-	(15 000)
Decreases	-	-	-	-	-	-
Closing balance	**(50 221)**	**-**	**-**	**-**	**-**	**(50 221)**
Net book value	**1 526 471**	**419 320**	**4 676**	**209 706**	**40 990**	**2 201 163**
Opening balance	**1 286 497**	**325 073**	**8 588**	**239 018**	**40 099**	1 939 015
Closing balance	**1 526 471**	**419 320**	**4 676**	**209 706**	**40 990**	**2 201 163**

As at 31 December 2005, the carrying amount of plant and machinery used on the basis of finance lease agreements and lease agreements with a purchase option amounted to PLN 3,345 thousand (as at 31 December 2004: PLN 4,278 thousand).

In the year ended 31 December 2005, there were no restrictions on the Bank’s title to tangible fixed assets resulting from pledging them as collateral.

PKO BP SA PLN thousands

Year ended 31 December 2004	Land and buildings including investment properties	Plant and machinery	Motor vehicles	Assets under construction	Other	Total
Cost of tangible fixed assets as at 1 January 2004	**1 734 196**	**2 105 632**	**41 146**	**201 519**	**313 898**	**4 396 391**
Changes in accounting policy – Determining deemed cost of tangible fixed assets re-measured to fair value in accordance with IFRS 1	279 217	-	-	-	-	279 217
Cost of tangible fixed assets after changes in accounting policy	**2 013 413**	**2 105 632**	**41 146**	**201 519**	**313 898**	**4 675 608**
Increases, of which:	**57 877**	**153 624**	**298**	**299 459**	**13 143**	**524 401**
Purchases and other changes	57 877	153 624	298	299 459	13 143	524 401
Foreign exchange differences	-	-	-	-	-	-
Disposals, of which:	**(13 347)**	**(73 944)**	**(1 435)**	**(261 960)**	**(5 815)**	**(356 501)**
Transfer to assets held for sale	-	-	-	-	-	-
Liquidation and sale	(7 393)	(68 583)	(1 340)	(1 136)	(5 815)	(84 267)
Disposal resulting from business combination	-	-	-	-	-	-
Other	(5 954)	(5 361)	(95)	(260 824)	-	(272 234)
Cost of tangible fixed assets at the end of the period	**2 057 943**	**2 185 312**	**40 009**	**239 018**	**321 226**	**4 843 508**
Accumulated depreciation as at 1 January 2004	**(356 598)**	**(1 676 891)**	**(27 311)**	**-**	**(271 764)**	**(2 332 564)**
Increases, of which:	**(63 235)**	**(253 721)**	**(5 150)**	**-**	**(15 266)**	**(337 372)**
Depreciation charge for the period	(63 235)	(253 721)	(5 150)	-	(13 694)	(335 800)
Other	-	-	-	-	(1 572)	(1 572)
Transfers	-	-	-	-	-	-
Decreases, of which:	**2 565**	**70 373**	**1 040**	**-**	**5 904**	**79 882**
Liquidation and sale	2 401	67 814	1 001	-	5 904	77 120
Other	164	2 559	39	-	-	2 762
Accumulated depreciation at the end of the period	**(417 268)**	**(1 860 239)**	**(31 421)**	**-**	**(281 126)**	**(2 590 054)**
Impairment allowances	**-**	**-**	**-**	**-**	**-**	**-**
Opening balance	(121)	-	-	(683)	(8)	(812)
Increases	(35 221)	-	-	-	-	(35 221)
Decreases	121	-	-	683	8	812
Closing balance	**(35 221)**	**-**	**-**	**-**	**-**	**(35 221)**
Net book value	**1 605 454**	**325 073**	**8 588**	**239 018**	**40 100**	**2 218 233**
Opening balance	**1 656 694**	**428 741**	**13 835**	**200 836**	**42 126**	2 342 232
Closing balance	**1 605 454**	**325 073**	**8 588**	**239 018**	**40 100**	**2 218 233**

As of 1 January 2004 remeasured tangible fixed assets in accordance with IFRS 1..The total amount of fair value of remeasured tangible fixed assets amounted to PLN 666,233 thousand. The carrying value of the above tangible fixed assets as of 31 December 2003 amounted PLN 387,016 thousand. In 2005, the Bank did not receive any compensation from third parties due to impairment or loss of tangible fixed assets, recognised in the profit and loss account for the year ended at 31 December 2005.

PKO BP SA PLN thousands

"Landing buildings, including investment properties" include land, which is not subject to depreciation. The largest item is the plot of land in Warsaw, with fair value estimated by an independent appraiser, exceeding its carrying value amounting to PLN 28, 828 thousand by approx. PLN 7,000 thousand. There are no contractual commitments or restrictions relating to the Bank's rights to sell these properties.

The amounts of income/expenses connected with the Bank's investment properties are presented below.

	1.01.-31.12.2005	**1.01.-31.12.2004** comparative data
Rental income from investment properties	-	-
Direct operating expenses relating to investment properties (including maintenance and repair costs) which generated rental income during the given period	-	-
Direct operating expenses relating to investment properties (including maintenance and repair costs) which did not generate rental income during the given period	1 434	1 384

PKO BP SA PLN thousands

30. Other assets

	31.12.2005	31.12.2004 comparative data
Settlements of transactions carried out using cards	150 378	192 276
Receivables from customers	56 356	29 493
Settlements of securities' trading transactions	-	10 900
Prepayments	16 678	30 320
Receivables from budget due to distribution of duty stamps by PKO BP SA	15 402	16 367
Receivables from other banks and non-banking points of sale of duty stamps	15 041	15 923
Inter-bank and inter- branch clearing accounts	1 686	1 800
Other*	58 707	6 054
Total	**314 248**	**303 133**

* Included in "Other" are mainly receivables relating to own operations conducted by the Bank.

31. Assets pledged as security/ collateral for liabilities

PKO BP SA has the following assets pledged as collateral/ security for its own and third party's liabilities:

Fund for the Protection of Guaranteed Money

PKO BP SA creates a fund for the protection of guaranteed money in accordance with Article 25 of the Act on the Banking Guarantee Fund (*Bankowy Fundusz Gwarancyjny*) dated 14 December 1994 (Journal of Laws of 2000, No. 9, item 131, with subsequent amendments).

	31.12.2005	31.12.2004 comparative data
Fund's value	92 009	174 307
Nominal value of collateral/ security	93 000	200 000
Type of collateral/ security	treasury bonds	treasury bonds
Maturity of collateral/ security	24.03.2007	12.08.2005
Carrying amount of collateral/ security	92 669	192 720

Cash pledged as collateral for securities' transactions conducted by BDM PKO BP SA are deposited in the National Depository for Securities as part of the stock exchange guarantee fund.

	31.12.2005	31.12.2004 comparative data
Stock exchange guarantee fund	2 479	2 911

32. Amounts due to the Central Bank

	31.12.2005	31.12.2004 comparative data
Current accounts	-	-
Up to 1 month	766	144
From 1 month to 3 months	-	-
From 3 months to 1 year	-	-
From 1 year to 5 years	-	-
Over 5 years	-	-
Total amounts due to the Central Bank	**766**	**144**

As of 31 December 2005 and as of 31 December 2004 the interest rate amounted to 0.071%.

PKO BP SA PLN thousands

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33. Amounts due to other banks

	31.12.2005	31.12.2004 comparative data
Current accounts	11 022	6 608
Other banks' deposits	1 920 269	693 916
Loans and advances received	-	81 580
Cash in transit	-	-
Other deposits from money market	11 744	18 299
Total amounts due to other banks	**1 943 035**	**800 403**

Structure of amounts due to other banks by maturities

	31.12.2005	31.12.2004 comparative data
Current accounts	11 022	6 608
Amounts due with maturity period of:	1 932 013	793 795
Up to 1 month	1 071 754	479 215
From 1 month to 3 months	505 502	-
From 3 months to 1 year	179 722	233 000
From 1 year to 5 years	175 035	81 580
Over 5 years	-	-
Cash in transit	-	-
Other deposits from money market	-	-
Total	**1 943 035**	**800 403**

34. Other financial liabilities valued at fair value through profit or loss

As at 31 December 2005 and 31 December 2004, PKO BP SA did not have other financial liabilities valued at fair value through profit or loss.

35. Amounts due to customers

	31.12.2005	31.12.2004 comparative data
Amounts due to corporate entities	**9 759 222**	**6 487 007**
Current accounts and O/N deposits	4 305 934	3 674 373
Term deposits	5 426 877	2 749 490
Other	26 411	63 144
Amounts due to state budget entities	**3 186 238**	**5 369 539**
Current accounts and O/N deposits	2 552 753	2 420 571
Term deposits	496 354	2 745 086
Other	137 131	203 882
Amounts due to individuals	**62 941 420**	**60 719 727**
Current accounts and O/N deposits	20 633 998	17 949 029
Term deposits	42 288 819	42 732 910
Other	18 603	37 788
Total amounts due to customers	**75 886 880**	**72 576 273**

PKO BP SA PLN thousands

Structure by maturity

	31.12.2005	31.12.2004 comparative data
Current accounts and O/N deposits	27 492 685	24 043 973
Amounts due with maturity period of:	48 394 195	48 532 300
Up to 1 month	18 823 445	17 531 668
From 1 month to 3 months	12 797 824	11 164 288
From 3 months to 1 year	15 361 153	18 270 906
From 1 year to 5 years	1 399 046	1 513 451
Over 5 years	12 727	51 987
Other	-	-
Total	**75 886 880**	**72 576 273**

36. Liabilities arising from debt securities issued

As at 31 December 2005 and 31 December 2004, the Bank had no liabilities arising from debt securities issued.

37. Other liabilities

	31.12.2005	31.12.2004 comparative data
Accrued expenses		
Income received in advance	182 662	144 398
Other liabilities	161 640	4 667
liabilities arising from settlements of transactions in securities	1 321 878	1 094 539
liabilities arising from inter-bank and inter-branch transactions	414 556	145 317
liabilities arising from social and legal transactions	291 827	66 691
liabilities arising from foreign currency activities	181 681	138 521
settlements arising from purchase of machinery and equipment and raw materials and services concerning construction of tangible fixed assets	82 374	43 263
liabilities arising from non-financial operations	42 739	61 265
liabilities arising from sale of duty stamps	20 926	22 994
liabilities relating to investment activities and own operations	19 801	104 401
liabilities arising from the return of excess payments to borrowers due to debts forgiven by the state budget	15 002	13 781
liabilities due to suppliers	13 238	19 105
liabilities arising from deposits paid by suppliers and from non-cash credits for individuals for purchase of industrial articles	9 767	4 140
liabilities relating to payments of benefits	6 967	3 010
settlements with Poczta Polska relating to substitution services	3 621	4 836
settlements relating to payments from Foundation "Polsko-Niemieckie Pojednanie"	3 011	13 153
liabilities relating to bank transfers to be paid out in PLN	2 934	1 895
other*	25 050	227 312
Total	**1 666 180**	**1 243 604**

* Included in “Other” as at 31 December 2005 are various operating liabilities amounting to PLN 13,733 thousand (as at 31 December 2004: PLN 25,735 thousand) as well as settlements relating to transactions carried out using payment cards, amounting to PLN 2,395 thousand (as at 31 December 2004: PLN 12,267 thousand).

PKO BP SA PLN thousands

38. Provisions

	Provision for disputes	Provision for retirement benefits	Provision for liabilities and guarantees granted	Other provisions	Total
Balance as at 31 December 2004 in accordance with PAS	**5 614**	**184 113**	**10 330**	**672 462**	**872 519**
Adjustments arising from application of IAS to opening balances, including:	-	-	-	(665 486)	**(665 486)**
IAS 27	-	-	-	(3 889)	**(3 889)**
IAS 30	-	-	-	(661 597)	**(661 597)**
Balance as at 1 January 2005 in accordance with IAS	**5 614**	**184 113**	**10 330**	**6 976**	**207 033**
Recognition/revaluation	-	26 651	57 063	85 051	**168 765**
Reversal	-	-	(50 766)	-	**(50 766)**
Balance as at 31 December 2005	**5 614**	**210 764**	**16 627**	**92 027**	**25 0323**

	Provision for disputes	Provision for retirement benefits	Provision for liabilities and guarantees granted	Other provisions	Total
Balance as at 31 December 2003 in accordance with PAS	**5 614**	**173 257**	**15 695**	**664 995**	**859 561**
Adjustments arising from application of IAS to opening balances, including:	-	-	-	(664 995)	**(664 995)**
IAS 27	-	-	-	(3 398)	**(3 398)**
IAS 30	-	-	-	(661 597)	**(661 597)**
Balance as at 1 January 2004 in accordance with PAS	**5 614**	**173 257**	**15 695**	**-**	**194 566**
Recognition/revaluation	-	10 856	-	11 693	**22 549**
Reversal	-	-	(5 365)	(8 115)	**(13 480)**
Balance as at 31 December 2004	**5 614**	**184 113**	**10 330**	**6 976**	**207 033**

Provisions for disputes were created in the amount equal to expected outflows of economic benefits.

39. Employee benefits

On 10 November 2004, in accordance with the Act dated 30 August 1996 on commercialisation and privatisation (Journal of Laws, 2002, No. 171, item 1397 with further amendments) and § 14.1 of the Minister of State Treasury Decree dated 29 January 2003 concerning detailed principles of dividing entitled employees into groups, determining the number of shares falling to each of those groups and the procedure for acquiring shares by entitled employees (Journal of Laws, No. 35, item 303), the Bank's employee shares have been granted to the employees. As a result, the employees received 105,000,000 shares, which account for 10.5% of the share capital of the Bank. In preparing these financial statements, the Bank applied transitional provisions of IFRS 1 and did not settle the above transaction in accordance to the requirements of IFRS 2.

40. Social fund [Zakładowy Fundusz Świadczeń Socjalnych]

In the balance sheet, the Bank compensated the Fund's assets and liabilities due to the fact that the assets of the Social Fund are not controlled by the Bank. Accordingly, the balance of the Social Fund accounts in the Bank's balance sheet as at 31 December 2005 and 31 December 2004 amounted to null.

PKO BP SA PLN thousands

The following listing presents the types and carrying amounts of assets, liabilities and costs associated with the Social Fund:

	31.12.2005	**31.12.2004** comparative data
Loans granted to employees	90 692	74 006
Amounts on the Social Fund account	9 399	13 085
	1.01-31.12.2005	**1.01-31.12.2004** comparative data
Contributions to Social Fund	29 439	29 647
Non-refundable expenditure by the Fund	16 439	23 276

PKO BP SA PLN thousands

41. Contingent liabilities

As at 31 December 2005, the Bank's underwriting agreements covered the following securities:

Issuer of underwritten securities	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Type of sub-issue
Company A	Corporate bonds	**25 000**	2006-12-30	Bonds Issue Agreement*
Company B	Corporate bonds	**200 000**	2009-12-31	Bonds Issue Agreement
Company C	Corporate bonds	**4 000**	2010-12-30	Bonds Issue Agreement
Company D	Corporate bonds	**150 000**	2006-01-04	Bonds Issue Agreement
Company E	Commercial bills of exchange	**40 000**	2006-12-30	Commercial Bills Issue Agreement
Entity A	Municipal bonds	**3 000**	2011-12-31	Bonds Issue Agreement
Entity B	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	**6 070**	2014-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	**2 000**	2012-12-30	Bonds Issue Agreement
Entity E	Municipal bonds	**3 900**	2015-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	**2 500**	2011-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	**6 000**	2013-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	**2 400**	2009-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	**4 400**	2011-12-31	Bonds Issue Agreement
Entity J	Municipal bonds	**18 300**	2016-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	**8 722**	2011-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	**5 500**	2021-06-30	Bonds Issue Agreement
Entity M	Municipal bonds	**3 500**	2021-06-30	Bonds Issue Agreement
Entity N	Municipal bonds	**2 700**	2014-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	**2 000**	2013-12-31	Bonds Issue Agreement
Entity P	Municipal bonds	**3 000**	2013-12-31	Bonds Issue Agreement
Entity Q	Municipal bonds	**7 000**	2011-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity T	Municipal bonds	**2 110**	2013-12-31	Bonds Issue Agreement
Entity U	Municipal bonds	**40 500**	2017-12-31	Bonds Issue Agreement
Entity V	Municipal bonds	**5 000**	2011-12-31	Bonds Issue Agreement
Entity W	Municipal bonds	**50 000**	2011-12-31	Bonds Issue Agreement
Entity X	Municipal bonds	**2 200**	2014-12-31	Bonds Issue Agreement
Entity Y	Municipal bonds	**3 700**	2008-12-31	Bonds Issue Agreement
Entity Z	Municipal bonds	**4 000**	2015-12-31	Bonds Issue Agreement
Entity AA	Municipal bonds	**5 000**	2012-12-31	Bonds Issue Agreement
Entity BB	Municipal bonds	**5 300**	2014-12-31	Bonds Issue Agreement
Entity CC	Municipal bonds	**6 000**	2017-12-31	Bonds Issue Agreement
Entity DD	Municipal bonds	**6 100**	2012-12-31	Bonds Issue Agreement
Entity EE**	Municipal bonds	**25 745**	2009-12-30	Bonds Issue Agreement
Other, with total value not exceeding PLN 2.0m	Municipal bonds	**8 750**		
Total		**670 397**		

* Relates to the Agreement for Organization, Conducting and Servicing of a Bond Issuance Program
** Debt securities denominated in EUR after translation into PLN.

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As at 31 December 2004, the Bank's underwriting agreements covered the following securities (comparative data):

Issuer of underwritten securities	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Type of sub-issue
Company A	Commercial bills of exchange	**69 871**	2005-12-31	Commercial Bills Issue Agreement
Company B	Commercial bills of exchange	**39 912**	2006-12-30	Commercial Bills Issue Agreement
Entity A	Municipal bonds	**5 000**	2011-12-31	Bonds Issue Agreement*
Entity B	Municipal bonds	**4 500**	2010-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	**10 000**	2010-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	**5 430**	2011-12-31	Bonds Issue Agreement
Entity E	Municipal bonds	**5 900**	2011-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	**700**	2009-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	**5 000**	2009-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	**900**	2010-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	**3 000**	2011-12-31	Bonds Issue Agreement
Entity J	Municipal bonds	**11 222**	2011-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	**3 800**	2012-10-01	Bonds Issue Agreement
Entity L	Municipal bonds	**5 200**	2014-12-31	Bonds Issue Agreement
Entity M	Municipal bonds	**2 400**	2009-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	**1 700**	2012-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	**2 160**	2015-07-15	Bonds Issue Agreement
Entity P	Municipal bonds	**14 000**	2013-12-30	Bonds Issue Agreement
Entity Q	Municipal bonds	**40 500**	2017-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	**7 500**	2011-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	**35 000**	2011-12-31	Bonds Issue Agreement
Entity T	Municipal bonds	**500**	2010-11-30	Bonds Issue Agreement
Total		**276 195**		

* Relates to the Agreement for Organization, Conducting and Servicing of a Bond Issuance Program

All securities under sub-issue program have an unlimited transferability, are not quoted on stock exchange and are not traded on a regulated OTC market.

Potential liabilities

As at 31 December 2005, the total value of court proceedings in which the Bank is defendant (inbound) was PLN 453,788 thousand (as at 31 December 2004: PLN 10,000,000,391,362 thousand), while the total value of court proceedings in which the Bank filed claims (outbound) was PLN 63,017 thousand (as at 31 December 2004: PLN 92,072 thousand).

a) Unfair competition proceedings

The Bank is a party to proceedings initiated on the basis of the decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office upon request of the Polish Trade and Distribution Organization against the following: Visa CEMEA – Visa International, Europay International S.A, Visa Forum Polska and Europay Forum Polska and the banks – members of the association of payees Visa Forum Polska and Europay Forum Polska, including against the Bank, for practices limiting competition on the market of services relating to discharging consumer liabilities towards accepting parties resulting from credit card purchases of goods and services made on the territory of Poland, whereby the above named participate in agreeing of "interchange" fees for transactions made with the use of Visa credit cards (which may be in breach of Art. 5 section 1 point 1 of the Act on competition protection), participate in agreeing of “interchange” fees for transactions made with the use of Europay/ Eurocard/Mastercard cards in Poland (which may be in breach of Art. 5 section 1 point 1 and 6 of the Act on competition protection) and coordinate activities with a view to limiting an access to the corporate market for the payees who are not members of the above systems (which may be in breach of Art. 5 section 1 point 1 and 6 of the Act on competition protection). The deadline for completing the proceedings was postponed several times. Based on the decision of the President of the Competition and Consumer Protection Office dated 23 February 2006, the deadline for the completion of proceedings was postponed to 27 April 2006 due to the necessity to obtain appropriate data and information and the necessity to analyze court evidence.

PKO BP SA PLN thousands

b) Re-privatisation claims relating to properties held by the Bank

As at the date of these financial statements, seven administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank or, in one case, by the Bank’s subsidiary. These proceedings, in the case of an unfavourable outcome for the Bank, may result in re-privatisation claims being raised against the Bank. Only one of these proceedings relates to property which was classified by the Bank as material for its operations, i.e. property located in Warsaw at ul. Puławska 15, which houses the Bank’s Headquarters. Perpetual leasehold of land to this property is held by CFP Sp. z o.o. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to four properties of the Bank claims were submitted by their former owners. Legal proceedings have started in one case. In the other three cases, the Bank still conducts negotiations in order to settle the legal status of these properties.

In the opinion of the Management Board of PKO BP SA, the probability of serious claims arising for the Bank under the proceedings described above is remote.

The financials statements for the year ended 31 December 2005 do not include any adjustments arising from the potential liabilities described above.

Financial liabilities granted

	31.12.2005	31.12.2004 comparative data
Total financial liabilities granted:	**17 545 743**	**15 795 037**
to financial sector	1 575 793	2 130 848
to non-financial sector	13 590 624	12 387 189
to public sector	2 379 326	1 277 000
of which: irrevocable liabilities granted	8 519 942	9 504 544

Guarantee liabilities granted

	31.12.2005	31.12.2004 comparative data
Amounts due to financial sector:	64 384	185 665
guarantees	64 384	185 665
sureties	-	-
confirmed export letters of credit	-	-
Amounts due to non-financial sector:	1 190 908	461 792
guarantees	1 190 908	461 792
sureties	-	-
confirmed export letters of credit	-	-
Amounts due to public sector:	252 752	210 508
guarantees	252 752	210 508
sureties	-	-
avals	-	-
Total guarantees granted	**1 508 044**	**857 965**

Information on provisions for off-balance guarantees and financial liabilities is included in Note 38.

PKO BP SA PLN thousands

Contingent liabilities granted as of 31 December 2005 (by maturity dates)

	up to 1 month	1-3 month	over 3 month – 1 year	1-5 years	over 5 years	Total
Financial granted liabilities	4 035 245	734 238	6 905 398	4 967 848	903 014	17 545 743
Guarantees granted libilities	309 655	49 905	606 710	474 771	67 003	1 508 044
Total	**4 344 900**	**784 143**	**7 512 108**	**5 442 619**	**970 017**	**19 053 787**

Contingent liabilities granted as of 31 December 2004 (by maturity dates)

(comparative data)

	up to 1 month	1-3 month	over 3 month – 1 year	1-5 years	over 5 years	Total
Financial granted liabilities	5 106 917	759 393	5 818 626	3 290 171	819 930	15 795 037
Guarantees granted libilities	136 726	125 638	168 699	411 272	15 630	857 965
Total	**5 243 643**	**885 031**	**5 987 325**	**3 701 443**	**835 560**	**16 653 002**

Assets pledged as collaterals for contingent liabilities

As at 31 December 2005 and 31 December 2004, the Bank had no financial assets pledged as collateral.

Off-balance sheet received liabilities

	31.12.2005	31.12.2004
Off-balance sheet received liabilities	**4 665 423**	**5 143 815**
Financial	447 742	714 887
Guarantees	4 217 681	4 428 928

42. Share capital

In the years ended 31 December 2004 and 31 December 2005, there were no changes in the Bank's share capital.

As at 31 December 2005, the share capital of PKO BP SA amounted to PLN 1,000,000 thousand and consisted of 1,000,000 thousand shares with a nominal value of 1 PLN each (as at 31 December 2004: PLN 1,000,000 thousand, 1,000,000 shares with a nominal value of 1 PLN each) – shares fully paid.

As of 31 December 2005 377,000 thousand shares were subject to public trading (as of 31 December 2004: 377,000 thousand)

As of 31 December 2005 and as of 31 December 2004 the subsidiaries, jointly controlled entities and associates of PKO BP did not have any PKO BP shares.

Information on the holders of PKO BP SA shares is presented in Note 1.

PKO BP SA PLN thousands

43. Other capital items and retained earnings

	31.12.2005	31.12.2004 comparative data
Reserve capital	3 297 080	2 789 765
Share premium	-	-
Other	3 297 080	2 789 765
Revaluation reserve - valuation of financial assets available for sale	(4 460)	241 205
General banking risk fund	1 000 000	1 499 963
Other reserves	1 380 000	1 370 000
Retained earnings	430 976	558 265
Total	**6 103 596**	**6 459 198**

44. Notes to the cash flow statement

Cash and cash equivalents

	31.12.2005	31.12.2004 comparative data
Cash and amounts in the Central Bank	3 832 695	3 490 505
Current receivables from financial institutions	7 371 941	10 329 170
Total	**11 204 636**	**13 819 675**

Cash flow from operating activities – other adjustments

	01.01.-31.12.2005	01.01.-31.12.2004 comparative data
Valuation, interest accrued, discount, premium on debt securities decreased by deferred tax	(75 027)	238 171
Disposal of tangible and intangible assets	25 441	48 562
Valuation, impairment allowances against investments in jointly controlled entities and associates	(27 829)	23 463
Utilization of provision for general banking risk	-	(33 567)
Separation of tax paid and current tax expense	(27 906)	(42 816)
Valuation at amortized cost with the use of effective interest rate	2 492	-
Financial assets impairment	501	-
Total other adjustments	**(102 328)**	**233 813**

Reconciliation of differences between the balance sheet changes and the cash flow statement changes of items presented in Group A of the cash flow statement

(Profit) loss from investing activities	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Income from sale and disposal of the tangible and intangible fixed assets	(11 026)	(20 165)
Sale and disposal costs of tangible and intangible fixed assets	26 006	61 716
(Profit) loss from investing activities - total	**14 980**	**41 551**

PKO BP SA PLN thousands

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Interest and dividends	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Interests from securities classified to available for sale and held to maturity portfolio, presented in the investing activities.	(870 412)	(2 055 907)
Dividends presented in the investing activities	(28 856)	(22 284)
Interest and dividends - total	**(899 268)**	**(2 078 191)**

Change in loans and advances to banks	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances' change	514 669	(5 196 209)
Change in reserves for loans and advances to banks	430	(2 185)
Exclusion of the cash and cash equivalents change	(2 957 229)	4 279 929
Change in loans and advances to banks - total	**(2 442 130)**	**(918 465)**

Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances' change	(20 529 943)	528 906
Transfer of the ALPL portfolio to the investment activities	19 364 312	-
Transfer of the securities classified to ALPL portfolio to "Other adjustments"	589 428	-
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss - total	**(576 203)**	**528 906**

Change in loans and advances to customers	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances' change	(6 474 124)	(2 118 699)
Implementation of the assets valuation with amortized cost with the use of effective interests method net of deferred tax.	(345 006)	-
Change in provisions on loans and advances due from customers	(261 498)	8 447
Change in loans and advances to customers - total	**(7 080 628)**	**(2 110 252)**

Change in amounts due to banks	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances' change	1 143 254	(203 135)
Transfer of the repayments/received long term advances due from banks to financing activities	-	(72 146)
Change in amounts due to banks - total	**1 143 254**	**(275 281)**

Change in amounts due to customers	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances' change	3 310 607	928 487
Implementation of the liabilities valuation with amortized cost with the use of effective interest method net of deferred tax.	6 512	-
Transfer of the repayments/received long term advances due from other than banks financial institutions to financing activities	(50 312)	-
Change in amounts due to customers - total	**3 266 807**	**928 487**

PKO BP SA PLN thousands

Change in provisions	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances' change	(434 003)	99 172
Implementation of the IAS impairment of the loans and advances due from customers	(477 235)	-
Provisions on receivables due from banks	(430)	2 185
Provisions on receivables due from customers	261 498	(8 447)
Change of the deffred tax provision on the available for sale portfolio	57 626	(40 347)
Change in provisions - total	**(592 544)**	**52 563**

Change in other liabilities	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances' change	859 270	84 336
Adjustment related to the adoption of IAS regarding capitalized interests of loans from "old" mortgage loans portfolio	174 356	
Reclassification of interests repayment from loans received from others than banks institutions, revealed in financial activity	2 549	1458
Change in other liabilities - total	**1 036 175**	**85 794**

PKO BP SA in PLN thousands

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45. Transactions with related parties

All transactions with entities related by capital and personal relationships have been made at an arm's length. Repayment dates are from one month to ten years.
Presented below are transactions of PKO BP SA with entities related by capital at the following dates:

31 December 2005

Entity	Relationship	Net receivables	Of which: gross loans	Liabilities	Total revenues	Of which: interest and fees and commission income	Total costs	Of which: interest and fees and commission costs	Off – balance sheet liabilities granted
Powszechne Towarzystwo Emerytalne BANKOWY SA	Subsidiary	-	-	35 960	1 118	1 118	644	644	-
Centrum Finansowe Puławska SA	Subsidiary	73 610	73 610	8 649	3 213	3 213	48 522	289	-
Kredobank SA	Subsidiary	130 469	96 464	392	3 049	3 049	85	85	8 596
PKO Inwestycje Sp. z o.o.	Subsidiary	605	-	1 519	67	67	716	6	2 680
Inteligo Financial Services SA	Subsidiary	-	-	45 491	161	157	56 761	1 267	-
Centrum Elektronicznych Usług Płatniczych „eService" SA	Subsidiary	21 209	21 017	8 099	1 716	1 711	17 487	17 200	100
Bankowy Fundusz Leasingowy SA	Subsidiary	495 966	495 965	909	24 675	24 360	1 194	35	328 317
Bankowe Towarzystwo Kapitałowe SA	Subsidiary	-	-	11 860	-	-	367	331	-
Fort Mokotów Sp. z o.o.	Indirect subsidiary	25 613	25 613	33 417	3 483	3 483	526	526	-
POMERANKA Sp. z o.o.	Indirect subsidiary	20 382	20 375	1 128	2 725	2 725	66	66	27 950
Wilanów Investments Sp. z o.o.	Indirect subsidiary	98 591	89 162	18 216	6 262	6 262	41	41	15 838
UKRPOLINWESTYCJE Sp. z o.o.	Indirect subsidiary	-	-	-	-	-	-	-	-
Finanse-Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	-	4	4	83	83	-

PKO BP SA in PLN thousands

Centrum Obsługi Biznesu Sp. z o.o.	Jointly controlled entity	17 211	16 924	4 241	104	104	14	14	80 945
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA	Jointly controlled entity	461	-	611	21 499	21 484	26	26	218
Wawel Hotel Development Sp. z o.o.	Jointly controlled entity	110 155	105 860	12 974	4 636	4 571	91	90	-
Bank Pocztowy SA	Associate	-	-	-	-	-	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	Associate	3750	3750	50	1 729	1 728	27	4	-
Ekogips SA (in bankruptcy)	Associate	-	-	-	-	-	-	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Associate	-	-	4 349	2	1	146	141	-
Hotel Jan III Sobieski Sp. z o.o.	Associate	76 289	76 236	-	1 930	1930	85	4	-
Agencja Inwestycyjna „CORP” SA	Associate	181	-	26	516	-	2 209	-	-
FINDER Sp. z o.o.	Associate	-	-	-	-	-	-	-	-
TOTAL		**1 074 492**	**1 024 976**	**193 539**	**76 889**	**75 967**	**162 514**	**20 852**	**464 644**
In liquidation:									
International Trade Center Sp. z o.o. (in liquidation)	Subsidiary	-	-	-	-	-	-	-	-
Przedsiębiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation)	Subsidiary	-	-	-	-	-	-	-	-
TOTAL		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

PKO BP SA in PLN thousands

As at 31 December 2004 (comparative data)

Entity	Relationship	Net receivables	Of which: gross loans	Liabilities	Total revenues	Of which: interest and fees and commission income	Total costs	Of which: interest and fees and commission costs	Off – balance sheet liabilities granted
Powszechne Towarzystwo Emerytalne BANKOWY SA	Subsidiary	-	-	3 106	47	47	80	80	-
Centrum Finansowe Puławska SA	Subsidiary	78 253	78 253	5 813	2 328	2 295	68 910	451	-
Kredyt Bank Ukraina SA	Subsidiary	27 466	-	541	122	122	-	-	1 711
PKO Inwestycje Sp. z o.o.	Subsidiary	2	-	279	726	726	125	118	5 585
Inteligo Financial Services SA	Subsidiary	2 500	2 500	9 703	370	368	41 704	136	-
Centrum Elektronicznych Usług Płatniczych „eService" SA	Subsidiary	17 056	17 037	4 486	13 438	13 425	10 997	10 997	50
Bankowy Fundusz Leasingowy SA	Subsidiary	432 325	361 453	4 390	20 931	19 702	173	15	599 831
Dom Maklerski BROKER SA	Subsidiary	-	-	-	286	240	-	-	105 000
Finanse-Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	2 063	3	3	56	56	-
Fort Mokotów Sp. z o.o.	Associate	28 737	28 737	13 524	4 214	4 214	820	820	37 963
Wilanów Investments Sp. z o.o.	Associate	69 824	69 824	648	3 709	3 709	-	-	35 175
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA	Jointly controlled entity	-	-	188	1 132	1 093	-	-	67
Wawel Hotel Development Sp. z o.o.	Jointly controlled entity	120 637	115 950	7 371	256	224	122	122	-
Bank Pocztowy SA	Associate	-	-	-	-	-	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	Associate	3750	3750	439	796	796	96	56	-
Ekogips SA (in bankruptcy)	Associate	-	-	-	-	-	-	-	-
Poznański Fundusz Poręczeń Kredytowych	Associate	-	-	2 347	4	1	27	11	-

PKO BP SA in PLN thousands

Sp. z o.o.									
Hotel Jan III Sobieski Sp. z o.o.	Associate	41 952	83 793	1	2 287	2 287	219	-	-
Agencja Inwestycyjna „CORP" SA	Associate	203	-	-	1	-	2 169	-	-
TOTAL		**822 705**	**761 297**	**54 899**	**50 650**	**49 251**	**125 498**	**12 862**	**785 382**
In liquidation:									
PKO Towarzystwo Finansowe Sp. z o.o. (in liquidation)	Subsidiary	211	-	-	5	5	18	16	-
International Trade Center Sp. z o.o. (in liquidation)	Subsidiary	-	-	-	-	-	-	-	-
Przedsiębiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation)	Subsidiary								
TOTAL		**211**	**-**	**-**	**5**	**5**	**18**	**16**	**-**

Transactions with the State budget

According to the Act dated 30 November 1995 on the state support in the repayment of certain housing loans, the refund of guarantee premium to banks and amendments to certain acts (Journal of Laws 2003, No.119, item 1115 with subsequent amendments), PKO BP SA receives payments from the State budget for the redemption of interest on housing loans. As part of the realisation of statutory obligations by the State budget, during the year ended 31 December 2005 the Bank recognised income in the amount of PLN 194,400 thousand (in 2004: PLN 205,896 thousand) due to temporary redemption by the State budget of interest on housing loans from the “old” portfolio. During this period, the Bank received PLN 166,814 thousand in cash (in the corresponding period of 2004: PLN 160,507 thousand) in respect of temporary redemption by the State budget of interest on housing loans from the “old” portfolio. The difference of PLN 27,586 thousand (in 2004: PLN 45,389 thousand) between income recognised for this period and income received in cash is reflected in the balance sheet of the Bank under “Loans and advances to customers”.

PKO BP SA receives a commission for settlements relating to the redemption of interest on housing loans. In 2005, PKO BP SA received a commission for the fourth quarter of 2004 amounting to PLN 1,715 thousand (in 2004, for the fourth quarter of 2003: PLN 1,646 thousand). This commission is included in the profit and loss account under “Fees and commission income”.

The balance sheet of the Bank includes receivables, securities and liabilities arising from transactions with the State Treasury, state budget entities and entities for which the State Treasury is the shareholder. The largest loan exposures were disclosed in Note 3. These transactions were concluded at arm’s length.

As of 1 January 1996 the Bank became general distributor of duty stamps. The amount received in this respect from the State budget in the year ended 31 December 2005 totalled PLN 43,697 thousand (in 2004: PLN 46,794 thousand) and was recognised in the Bank’s income under “Fees and commission income” in full.

In the year ended 31 December 2005, the Bank also recognised a commission income of PLN 629 thousand (in 2004: PLN 13,054 thousand) in respect of its fees for servicing compensation payments for pensioners who in 1991 lost the increases or additions to their pensions payable for performing work in specific conditions or of a specific nature, as well as for public sector employees whose salaries were not adjusted in the second half of 1991 and in the first half of 1992. This amount was included under “Fees and commission income”.

The Act on the coverage of repayment of certain housing loans by State Treasury guarantees was passed on 29 November 2000 and came into force on 1 January 2001. The coverage of the “old” portfolio housing loan receivables by the guarantees of the State Treasury resulted in the neutralisation of the default risk of these loans. The State Treasury guarantees are realised when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of unpaid part of principal and interest becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realisation of the State Treasury responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes creditor towards the borrower.

PKO BP SA in PLN thousands

Benefits for the key management of the Bank

a) Short-term employee benefits

Remuneration received from PKO BP SA

Name	Position	01.01.-31.12.2005	01.01.–31.12.2004 comparative data
Management Board			
Podsiadło Andrzej	Board President	259	251
Małecki Kazimierz	Vice-President, First Deputy President	255	248
Demianiuk Danuta	Vice-President	227	221
Skrzypek Sławomir	Vice-President	6	-
Kamiński Piotr	Board Member	259	193
Obłękowski Jacek	Board Member	248	221
Szewczyk Krystyna	Board Member	214	143
Total of short-term benefits for Management Board members		**1 468**	**1 277**
Supervisory Board			
Samojlik Bazyl	Chairman	30	30
Pałaszek Urszula	Vice-Chairman	16	-
Zdanowski Krzysztof	Secretary	16	-
Kamiński Arkadiusz	Secretary	13	30
Kokoszczyński Ryszard	Member	30	30
Kasiewicz Stanisław	Member	30	30
Giryn Andrzej	Member	30	30
Osiatyński Jerzy	Member	30	30
Siwek Czesława	Member	16	-
Szymański Władysław	Member	30	30
Total of short-term benefits for Supervisory Board members		**241**	**210**
Short-term benefits, total		**1 709**	**1 487**

Remuneration received from subsidiaries, associates and jointly controlled entities of PKO BP SA

Name	Position	01.01.-31.12.2005	01.01.–31.12.2004 comparative data
Management Board			
Podsiadło Andrzej	Board President	135	35
Małecki Kazimierz	Vice-President, First Deputy President	-	68
Demianiuk Danuta	Vice-President	30	30
Skrzypek Sławomir	Vice-President	-	-
Kamiński Piotr	Board Member	76	-
Obłękowski Jacek	Board Member	-	18
Szewczyk Krystyna	Board Member	76	14
Short-term benefits, total		**317**	**165**

PKO BP SA in PLN thousands

During the years 2004-2005, members of the Supervisory Board did not receive any remuneration from subsidiaries, associates or jointly controlled entities of PKO BP S.A.

b) Post-employment benefits

In the years ended 31 December 2005 and 31 December 2004, no post-employment benefits were paid.

c) Other long-term benefits

In the years ended 31 December 2005 and 31 December 2004, no "other long-term benefits" were paid.

d) Benefits due to termination of employment

In the years ended 31 December 2005 and 31 December 2004, no benefits were paid due to termination of employment.

e) Share-based payments

In the years ended 31 December 2005 and 31 December 2004, no benefits were paid in the form of share-based payments.

Loans, advances, guarantees and other benefits provided by the Bank to management and employees

	31.12.2005	**31.12.2004** comparative data
Employees	517 665	389 624
Management Board members	433	7
Supervisory Board members	**204**	**-**
Individuals related personally to members of management and supervisory boards	-	-
Total	**518 302**	**389 631**

Terms of interest and repayment periods for these receivables do not differ from market terms and repayment terms for similar banking products.

46. Events after the balance sheet date

As of 1 January 2006, PKO BP introduced a new Table of banking fees and commission rates. These changes are due to market terms and a considerable enlargement of the Bank's offer.

On 9 January 2006, Bankowe Towarzystwo Kapitałowe SA – Bank's subsidiary – took up 351 shares in the increased share capital of FINDER Sp. z o.o. The acquisition price amounted to PLN 1,000 thousand. As a result of this transaction, the share of Bankowe Towarzystwo Kapitałowe SA in the share capital and votes at the Shareholders' Meeting of FINDER Sp. z o.o. increased from 42.31% to 46.43%. This increase must be registered with the National Court Register.

On 24 January 2006, PKO BP signed a conditional agreement with Credit Suisse Asset Management Holding Europe (Luxembourg) SA for the sale of 45,000 of registered preference shares of PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych SA. The Bank will acquire these shares after it fulfils all the conditions specified in the agreement. The expected transfer of ownership of the shares will take place by the end of the first quarter of 2006. The shares acquired by the Bank account for 25% of votes at the Company's General Meeting. As a result of this acquisition, PKO BP SA will hold 75% of shares in the Company's share capital and votes at the Annual General Meeting. The price for the shares acquired by the Bank amounts to PLN 55,000 thousand.

On 25 January 2006, the Bank signed an agreement with one of its Customers for issuing banking guarantee. Under this agreement, the Bank is required to issue – to Customer's order – a guarantee to the Customs Office -

in respect of excise security required by Article 43.1 of the Excise Tax Act of 23 January 2004, amounting to PLN 309,000 thousand. The agreement for issuing banking guarantee is in force from 1 February 2006 to 31 January 2007 plus a 90-day liability period. The collateral for the agreement is the clause for deducting receivables from the Customer's current account and a declaration of the Customer about submitting to enforcement, in accordance with Article 97 of the Banking Law. The interest on the potential receivables resulting from failure to pay the liabilities arising from the guarantee is based on WIBOR index plus the Bank's margin. The total value of the agreements signed by the Bank with the Customer as at the date of signing the agreement amounted to PLN 1,104,890 thousand. The signing of this agreement results in the requirement for the Bank to submit a notification about the signing of a significant agreement by the Bank, because the total value of the agreements signed with that Borrower meets the criteria defined in Article 2.1.51 in correspondence with Article 2.2 of the Decree of Finance Minister of 19 October 2005 on current and periodic information provided by the issuers of securities.

On 27 January 2006, PKO BP SA signed a Partners' Agreement with the City of Sopot and NDI S.A., with the participation of Centrum Haffnera Sp. z o.o., for an investment project relating to re-vitalisation of Sopot's tourist centre.

The Bank's financial engagement in this project will include:

- capital engagement – the Bank will take up, after the fulfilment of the conditions included in the agreement, about 49.4% of shares in Centrum Haffnera Sp. z o.o.;
- credit engagement.

On 8 March 2006, the Supervisory Board of the Bank made a resolution, in which it accepted the resignation of Mr Piotr Kamiński from acting function as Member of the Board from date 9 March i.e. effective date when Piotr Kamiński was appointed as a Vice-chairman of the Bank Pocztowy S.A. Board.

On 16 March 2006 PKO BP received approval of the chairman of Office of Competition and Consumer Protection for concentration resulting from the overtake the control through PKO BP SA over PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych. S.A.

47. First-time adoption of International Financial Reporting Standards

This note includes the following reconciliations: reconciliation of equity as at 1 January 2004 and 31 December 2004 and reconciliation of net profit for the year ended 31 December 2004 and significant changes in cash flow statement between previously published financial statements prepared in accordance with Polish Accounting Standards (PAS) and the restated comparative data in accordance with IFRS presented in these financial statements.

In addition, this note also includes a comparison of balance sheets prepared in accordance with PAS and IFRS as at 31 December 2004 and a comparison of profit and loss accounts prepared for the year ended 31 December 2004 in accordance with PAS and IAS.

In preparing these financial statements the Bank applied the provisions of IFRS 1. The optional exemptions allowed by IFRS 1 and applied by the Bank are described in Note 2.

The accounting policies in accordance with IFRS differ in a number of areas from the accounting policies in accordance with PAS. The differences between IFRS and PAS which had a significant influence on calculation of net profit and valuation of equity in 2004 and in the year ended 31 December 2005 are described below.

Valuation of financial assets and liabilities at amortised cost

The International Accounting Standard IAS 39 requires that certain financial assets and liabilities should be valued at amortised cost using the effective interest rate.

The Bank took advantage of the exemption from the requirement to restate comparative data in accordance with IAS 39. The transition date for this standard is 1 January 2005. The comparative data concerning the transactions, assets and liabilities for the periods commencing 1 January 2004 and ending 31 January 2004 or earlier which fall within the scope of this standard (IAS 39) were prepared in accordance with Polish Accounting Standards.

As of 1 January 2005, the Bank made adjustments in respect of the valuation of financial assets and liabilities at amortised cost using the effective interest rate method in accordance with IAS 39. The effects of the adjustments made as at 1 January 2005 are presented in the reconciliation of equity as at 1 January 2005 and in the comparison of the balance sheet prepared in accordance with IAS as at 31 December 2004 (without compliance with IAS 39) and the balance sheet in accordance with IFRS as at 1 January 2005.

The main adjustments which would be essential in preparing comparative data in accordance with IAS 39 with reference to the financial assets and liabilities stated at amortised cost, which, in accordance with PAS, are stated at nominal value plus accrued interest and less the amount of specific provisions, are as follows:

- adjustment to the value of loans and advances granted to customers – valuation at amortised cost,
- adjustment to amounts due from banks – valuation at amortised cost,
- adjustment to financial liabilities (apart from these valued at fair value), including customers' deposits – valuation at amortised cost,
- adjustment to the value of financial instruments held to maturity – valuation at amortised cost,
- adjustment to revaluation reserve in respect of financial instruments available for sale – using the effective interest rate method,
- adjustment to deferred tax asset/liability.

Except for the adjustment to deferred tax asset/ deferred tax liability, the above adjustments relate to the fact that, in accordance with PAS, the Bank applies straight-line method to the recognition of interest income and expenses. Application of accounting policies in accordance with IFRS would result in transferring certain commission income items from net commission income to net interest income.

The effect of the above adjustments would have been taken to the accumulated profits (losses) as at 1 January 2004 and to the profit and loss account for the year ended 31 December 2004 in the case of preparing comparative data.

Impairment of financial assets

According to IAS 39, a financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An enterprise is required to assess at each balance sheet date whether there is any objective evidence that the financial asset may be impaired. Such evidence includes, among others, information about significant financial difficulty of the issuer or an actual breach of contract, such as a default or delinquency in interest or principal payments. If the diminution or loss of value occurs, the amount of impairment allowance is the difference between the asset's carrying amount and the present value of the expected future cash flows, discounted using the original effective interest rate for assets measured at cost, and using the current market rate of interest for financial assets measured at fair value.

According to Polish Accounting Standards, banks are required to perform, at least quarterly, a review of loan exposures and classify them to the so-called risk groups (i.e. normal receivables, watch receivables, substandard receivables, doubtful receivables, lost receivables). The classification follows the criteria of timeliness of repayments of receivables and of economic and financial situation of the borrower. Specific provisions for loan exposures are created at least at the level required for particular risk groups (from 1.5% do 100% of the basis for creating a provision).

In addition, in accordance with PAS, the required level of specific provisions for loan exposures:

- relating to retail loans classified as "normal" – is decreased by 25% of the general banking risk reserve;
- classified as "watch" – is decreased by 25% of the general banking risk reserve created in accordance with Art. 130 of the Banking Law.

The Bank took advantage of the exemption from the requirement to restate comparative data required for IAS 39 purposes. The IFRS transition date for this standard is 1 January 2005. The comparative financial data concerning transactions, assets and liabilities for the periods commencing 1 January 2004 and ending 31 January 2004 or earlier which fall within the scope of IAS 39 have been prepared in accordance with Polish Accounting Standards.

Portfolios of financial assets and liabilities in accordance with IAS 39

IAS 39 includes portfolio definitions which are different from those under PAS. The obligation to transfer certain financial instruments from one portfolio to another results, among others, from the requirements of classification of financial instruments to specific portfolios in accordance with IAS 39, which are different from PAS. Moreover, according to the exemption included in IFRS 1, the Bank had the possibility to assign certain financial instruments held to the portfolio of financial assets at fair value through profit or loss or to the available-for-sale portfolio.

PKO BP SA in PLN thousands

The Bank took advantage of the exemption from the requirement to restate comparative data in accordance with IAS 32, IAS 39. Transactions, assets and liabilities for the periods commencing 1 January 2004 and ending 31 December 2004 or earlier which fall within the scope of these standards were recognised in accordance with Polish Accounting Standards.

Given the above, the Bank designated certain financial instruments, which are to be included in the portfolio of financial assets or liabilities at fair value through profit or loss or in the available-for-sale portfolio at 1 January 2005. The transfer of instruments between portfolios valued using different principles had an effect on the profit of the Bank. The effect of the adjustments made as at 1 January 2005 is presented in the reconciliation of equity as at 1 January 2005 and in the comparison of the balance sheet in accordance with IAS as at 31 December 2004 (prepared with no compliance with IAS 39) and the balance sheet in accordance with IAS as at 1 January 2005.

The table below presents the fair value of the items of financial assets designated as at 1 January 2005 to the portfolio of financial assets at fair value through profit or loss.

	Name of instrument	**Fair value as at 1 January 2005**	**Previous classification**	**Carrying amount as at 31 December 2004**
Financial assets designated as at 1 January 2005 to financial assets at fair value through profit and loss				
	NBP bills	1 127 839	Available for sale	1 127 839
	NBP bonds	2 641 070	Available for sale	2 641 070
	treasury bills	2 204 929	Available for sale	2 204 929
	treasury bonds	13 682 074	Available for sale	13 682 074
	treasury bonds – collateral for the Banking Guarantee Fund	192 720	Available for sale	192 720
	bonds of other banks in foreign currency	105 108	Available for sale	105 108
Total		**19 953 740**		**19 953 740**

The adjustments that would be necessary in the case of preparation of comparative data for the year ended 31 December 2004 in accordance with IAS 39 relating to assigning financial instruments to specific portfolios, would depend, among others, on the decision of the Bank's Management Board concerning assignment of financial instruments to portfolios defined in accordance with IAS 39 as at 1 January 2004.

Effects of hyperinflationary economy

IAS 29 "*Financial reporting in hyperinflationary economies*" requires that the assets and liabilities reported in the currency of a hyperinflationary economy are stated in current prices at the end of the reporting period and provide the basis for the measurement of assets and liabilities in the financial statements for the following periods. The above standard applies to non-monetary balance sheet items. In the case of the Bank, significant non-monetary items include tangible fixed assets, investments classified as non-current assets and equity. Until the end of 1996, the Polish economy fulfilled the criteria of the hyperinflationary economy. However, since 1997, the criteria have not been fulfilled. The Bank did not apply IAS 29 in the previous years; it only performed a revaluation of tangible fixed assets as at 1 January 1995, in accordance with the regulations binding in Poland, in order to reflect the effects of inflation on their carrying amount, by applying revaluation indices set by the Ministry of Finance for the individual groups of tangible fixed assets. This revaluation did not meet the requirements of IAS 29, as the Bank did not apply general price indexes and did not restate tangible fixed assets as at 31 December 1996.

Taking advantage of the exemption allowed under IFRS 1, the Bank re-measured certain items of tangible fixed assets acquired before the period of hyperinflation at fair value at the date of transition to IFRS i.e. at 1 January 2004. The Bank used this fair value as a deemed cost determined as at that date. Since all the assets acquired before the hyperinflation period were re-measured to fair value, there was no need to perform any other restatements under IAS 29.

PKO BP SA in PLN thousands

The effect of adjustments made in this respect as at 1 January 2004 has been presented in the reconciliation of equity as at 1 January 2004 as presented below. As at 1 January 2004, the Bank established the deemed cost of tangible fixed assets in accordance with IFRS 1. The value of the adjustment amounted to PLN 279,217 thousand net of deferred tax effect.

Valuation of investments in subsidiaries, jointly controlled entities and associates

The Bank applied equity pick up method in the valuation of investments in subsidiaries, jointly controlled entities and associates. According to IAS, holding company/ significant investor in the separate financial statements measures the investment in subsidiaries, jointly controlled entities and associates at cost less impairment or in accordance with IAS 39, for the purpose of the Bank's separate financial statements preparation, the cost less impairment method was applied.

Share based payments

In accordance with IFRS 1, the first-time adopters of IFRS are recommended but not required to apply the provisions of IFRS 2 *Share-based payments* with respect to equity instruments which were granted on 7 November 2002 or earlier and equity instruments which were granted after 7 November 2002 and vested before 1 January 2005. Consequently, the Bank took advantage of the exemptions allowed under IFRS 1 and did not apply the IFRS 2 requirements to granted employee shares.

General banking risks reserve

In accordance with IFRS 30, any amounts set aside for general banking risks cannot be disclosed as part of liabilities but should be presented separately as appropriations of retained earnings. The value of the general banking risk reserve which, in accordance with IFRS requirements, has been presented in retained earnings, amounted to PLN 499,963 thousand as at 1 January 2005.

The above adjustments arising from differences between PAS and IFRS had an impact on the balance of deferred tax asset/deferred tax liability as at 1 January 2004, 31 December 2004 and 1 January 2005.

Balance sheet as at 31 December 2004 - Reconciliation of differences between the previously published financial data according to PAS and the comparative data restated to IAS.

	PAS 31.12.2004	**IAS 31.12.2004**	**Difference IAS – PAS**
ASSETS			
Cash and balances with the Central Bank	3 490 505	3 490 505	-
Amounts due from banks	13 159 200	13 146 115	(13 085) [1)]
Financial assets held for trading	346 131	346 131	-
Derivative financial instruments	1 362 379	1 362 379	-
Other financial instruments valued at fair value through profit or loss	-	-	-
Loans and advances to customers	42 587 084	39 577 723	(3 009 361) [2), 3)]
Investment securities	23 498 314	23 498 314	-
1. Available for sale	21 605 297	21 605 297	-
2. Held to maturity	1 893 017	1 893 017	-
Investments in associates	658 170	764 865	106 695 [4)]
Intangible assets	384 045	384 045	-
Tangible fixed assets	1 939 016	2 218 233	279 217 [5)]
Deferred tax assets	-	-	-
Other assets	506 948	323 286	(183 662) [1), 2)]
TOTAL ASSETS	**87 931 792**	**85 111 596**	**(2 820 196)**

PKO BP SA in PLN thousands

This document is a translation of the document originally issued in Polish.
The only binding version is the original Polish version.

	PAS 31.12.2004	IAS 31.12.2004	Difference PAS – IAS
LIABILITIES AND EQUITY			
Amounts due to the Central Bank	144	144	-
Amounts due to other banks	800 403	800 403	-
Derivative financial instruments	793 739	793 739	-
Amounts due to customers	72 576 273	72 576 273	-
Liabilities arising from securities issued	-	-	-
Other liabilities	4 287 878	1 243 403	(3 044 475) [1), 2)]
Deferred tax liability	530 302	583 353	53 051 [5)]
Provisions	872 519	207 033	(665 486) [3), 4)]
TOTAL LIABILITIES	**79 861 258**	**76 204 348**	**(3 656 910)**
Equity			
Share capital	1 000 000	1 000 000	-
Other capital items	5 553 019	5 900 933	347 914 [3), 5)]
Retained earnings	6 450	558 265	347 914 [3), 5)]
Net profit for the period	1 511 065	1 448 050	(63 015) [4)]
Total equity	**8 070 534**	**8 907 248**	**836 714**
TOTAL LIABILITIES AND EQUITY	**87 931 792**	**85 111 596**	**(2 820 196)**

Description of changes

1) Derecognition of receivables from the Social Fund
2) Derecognition of suspended interest
3) Provision for general banking risk allocated to “normal” and “watch” receivables
4) Valuation of investments in subsidiaries in accordance with IAS 27
5) Establishment of the deemed cost of tangible fixed assets re-measured to fair value and its’ tax effect
6) Derecognition of Social Fund liabilities
7) Taking into account deductions for Social Fund
8) Provisions’ allocation for general risk
9) Transfer from provisions for general risk to share capital

Reconciliation of difference between the previously published financial data according to PAS and the comparative data restated to IAS in respect of equity as at 1 January 2004 i.e. at the transition date

Equity according to PAS as at 1.01.2004	6 399 135
Adjustment to investments in subsidiaries, associates and jointly controlled entities – application of the cost less impairment method instead of the equity method	161 928
Deemed cost of tangible fixed assets re-measured to fair value in accordance with IFRS 1	226 166
Transfer of the general banking risk provision to equity	533 530
Transfer to the Social Fund	(200)
Equity according to IAS as at 1.01.2004	7 320 759

Reconciliation of differences between the previously published financial data according to PAS and the comparative data restated to IAS in respect of equity as at 31 December 2004 and as at 1 January 2005

Equity according to PAS as at 31.12.2004	8 070 534
Valuation of investments in subsidiaries, associates and jointly controlled entities – application of the cost less impairment method instead of the equity method	110 584
Deemed cost of tangible fixed assets re-measured to fair value in accordance with IFRS 1	226 166
Transfer of the general banking risk provision to equity	499 963
Transfer to the Social Fund	(200)
Equity according to IAS as at 31.12.2004	8 907 047

PKO BP SA in PLN thousands

Equity according to PAS as at 31.12.2004	8 070 534
Valuation of investments in subsidiaries, associates and jointly controlled entities – application of the cost less impairment method instead of the equity method	110 584
Deemed cost of tangible fixed assets re-measured to fair value in accordance with IFRS 1	226 166
Transfer of provision on general risk to equities	499 963
Transfer to the Social Fund	(200)
Application of IAS 39, including:	(638 380)
Valuation at amortized cost using the effective interest rate adjusted for tax effects	(336 002)
Impairment of financial assets	(476 734)
Interest on the "old portfolio" housing loans	174 356
Equity according to IAS as at 01.01.2005	8 268 867

Profit and loss account for the year ended 31 December 2004 – Reconciliation of differences between the previously published financial data according to PAS and the comparative data restated to IAS.

	PAS 01.01.2004 – 31.12.2004	**IAS 01.01.2004 – 31.12.2004**	**Difference IAS-PAS**
Interest income	5 244 964	5 244 964	
Interest expense	(1 654 658)	(1 773 017)	(118 359)[1)]
Net interest income	**3 590 306**	**3 471 947**	**(118 359)**
Fees and commission income	1 865 208	1 865 208	-
Fees and commission expense	(284 153)	(284 153)	-
Net fees and commission income	**1 581 055**	**1 581 055**	**-**
Dividend income	3 396	22 291	18 895[2)]
Result from financial instruments valued at fair value	(47 830)	(45 976)	1 854[1)]
Result from investment securities	(137 533)	(21 028)	116 505[1)]
Foreign exchange result	434 934	434 934	-
Other operating income	243 714	229 837	(13 877)[3)]
Other operating expenses	(145 677)	(96 370)	49 307[3),5)]
Net other operating income	98 037	133 467	35 430
Impairment losses	(74 180)	(133 274)	(59 094)[3),4)]
General administrative expenses	(3 645 236)	(3 645 236)	-
Operating profit	**1 802 949**	**1 798 380**	**(4 769)**
Profit (loss) before taxation	**1 802 949**	**1 798 380**	**(4 769)**
Income tax expense	(350 330)	(350 330)	**-**
Share in net profits (losses) in subsidiaries, associates and jointly controlled entities accounted for using the equity method	58 446	-	(58 446)[2),4)]
Net profit (loss)	**1 511 065**	**1 447 850**	**(63 215)**

<u>Description of changes</u>

1) Change in presentation of premium from debt securities
2) Change in presentation of dividend received from a jointly controlled entity
3) Change in presentation of impairment allowances for tangible fixed assets
4) Valuation of investments in subsidiaries, associates and jointly controlled entities in accordance with IAS 27 and IAS 36
5) Transfer from net profit to the Social Fund

PKO BP SA in PLN thousands

Reconciliation of differences between the previously published financial data according to PAS and the comparative data restated to IAS in respect of net profit for the year ended 31December 2004

(12-month ended 31 December 2004)	
Net profit according to PAS	1 511 065
Valuation of investments in subsidiaries, associates and jointly controlled entities – application of the cost less impairment method instead of the equity method	(63 015)
Transfer to the Social Fund	(200)
Net profit according to IAS	1 447 850

Explanation of significant differences between the previously published financial data according to PAS and the comparative data restated to IAS in respect of the cash flow statement for the year ended 31 December 2004:

1. Cash and cash equivalents

Included in cash and cash equivalents are amounts due from banks with a maturity date of less than 3 months, in addition to cash and amounts due from the Central Bank. As of 1 January 2004 cash and cash equivalents were adjusted by PLN 5,137,834 thousand (as of 31 December 2004 by PLN 8,593,958 thousand.

2. Financial assets available for sale

Movements in the balance of financial assets classified as available for sale transferred from operating to investing activities.

Effect of transition to IAS on the cash flow statement

	1.01.-31.12.2005
Cash flow from operating activities	
Calculation of deemed cost of tangible fixed assets re-measured to fair value	(336 002)
Transfer of general banking risk provision to equity	(476 734)
Valuation of investments in subsidiaries, associates and jointly controlled entities in accordance with IAS	174 356
Total effect of transition to IAS	**(638 380)**

PKO BP SA in PLN thousands

Signatures of all Members of the Management Board

21 March 2006	Andrzej Podsiadło	President of the Board	……………………………………. (signature)
21 March 2006	Kazimierz Małecki	Vice-President First Deputy President of the Board	……………………………………. (signature)
21 March 2006	Danuta Demianiuk	Vice-President of the Board	…………………………………. (signature)
21 March 2006	Sławomir Skrzypek	Vice-President of the Board	…………………………………. (signature)
21 March 2006	Jacek Obłękowski	Member of the Board	…………………………………. (signature)

Signature of person responsible for keeping books of account

21 March 2006

Krystyna Szewczyk

Member of the Bank's Management Board, Chief Accountant of the Bank

(signature)

PKO BANK POLSKI

SPÓŁKA AKCYJNA

DIRECTORS' REPORT
ON THE ACTIVITIES OF
POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SPÓŁKA AKCYJNA
IN 2005

WARSAW, MARCH 2006

CONTENTS:

1. EXTERNAL FACTORS AND EVENTS WHICH ARE SIGNIFICANT TO THE BANK'S PERFORMANCE

1.1 Macroeconomic environment

During the year 2005, the economic growth slowed down in comparison with the year 2004. According to preliminary estimations of GUS (Central Statistical Office), the growth of GDP in the most recent year amounted to 3.2%, compared to 5.3% in the year 2004. The main reason for the economic slow-down which took place in the first half of 2005 was the decline in internal demand due to the following factors: smaller growth of consumption (the effect of extinguishment of the consumption boom from the period of Poland's accession to EU), smaller growth of investments (the effect of greater than expected difficulties with acquiring financing from the EU aid funds, weaker domestic demand, appreciation of Polish zloty and increase in real interest rates) as well as a smaller increase in inventories compared to the period of Poland's accession to EU. However, in the second half of the year, the Polish economy saw certain signs of improvement: gradual increase of people's real income resulted in moderate revival in individual consumption, while the continued good financial performance of enterprises and decreased interest rates, combined with gradual restoration of domestic demand and the continued inflow of direct foreign investments contributed to moderate growth of investments. At the same time, throughout the whole period under analysis, the main driver of economic growth was the decrease in foreign trade deficit.

Despite the economic revival in the second half of the year and the overall improvement in companies' financial standing, in 2005 only a slight improvement was observed in the labour market. In December 2005, official unemployment rate decreased by 1.4 percentage points and amounted to 17.6%, with 2.8 million persons without regular employment.

After the period of a significant growth in the inflation rate (4.4% year to year at the end of 2004), the inflation rate in 2005 showed a declining trend. In the second half of the year, the inflation rate was slightly below the borderline for the inflation target of the National Bank of Poland (NBP) and oscillated around 1.5%, which was within the bottom range of fluctuations of the inflation rate around the NBP's target. The decrease of the inflation rate in the second half of the year 2005 was mainly the effect of the so called "high reference base", i.e. a considerable increase in prices in the corresponding period of the year 2004 resulting from Poland's accession to the European Union. Moderate salary increases and appreciation of the Polish zloty were also conducive to the decrease in the inflation rate. On the other hand, inflation was boosted by fuel prices, which were increasing over a prevailing part of the year due to increases in the prices of crude oil on the world markets. Eventually, the inflation rate as at the end of 2005 amounted to 0.7% on a year-to-year basis (as estimated by PKO BP SA). In 2005 yearly average inflation rate amounted to 2.1%, and 3.5% in 2004.

In the previous year, household deposits increased by 3.6% due to a slow increase in the level of household income. However, the decreases in the NBP interest rates and the resulting decreases in the interest rates of bank deposits brought about a decrease in the share of bank deposits in the household savings' structure. At the same time, a growing proportion of household savings was kept in the form of trust fund units, shares or life insurance policies. The reluctance of enterprises to increase the size of investments, combined with good financial performance of enterprises, contributed to a considerable increase in the level of corporate deposits. As a result, the value of corporate deposits in December 2005 was almost 17% greater than in the corresponding period of 2004.

Household loans continued to grow during 2005, especially housing loans, which, among others, was due to the increasing level of household income and decreasing interest rates. In mid 2005, a small growth was noted in corporate loans, which, to a large extent, was due to low reference base, as monthly increases only slightly exceeded or approximated those noted in the previous year. The decline in the growing trend was due to the reluctance of enterprises to launch new investment projects and the relatively small use of external financing.

1.2 Monetary policy of the National Bank of Poland

Pursuant to the NBP's *Monetary Policy Assumptions for the Year 2005*, maintaining the annualised inflation rate at 2.5%, with allowable fluctuations of +/_ percentage point, continued to be it main objective in 2005. The macroeconomic data published in the first half of 2005 (relating mainly to the growth of GDP and, in particular, domestic demand) proved to be worse than expected, which resulted in NBP decreasing its projections with regard to future GDP and inflation. As it became more probable that the inflation rate in 2005-2006 will be below the NBP's inflation objective, the Polish Monetary Policy Council decided to decrease interest rates in the period from March to August by 200 base points altogether (by 225 base points in the case of the bills of exchange rediscount rate). As a result, at the end of 2005, the NBP reference rate amounted to 4.5%.

1.3 Financial market

During the year 2005, a significant decrease was recorded in the profitability of the Polish Treasury securities, which varied from 190 b.p. in the case of short-term instruments to 80 b.p. in the case of long-term bonds. At the same time, in the fourth quarter of 2005 the profitability of Treasury securities increased, mainly due to increased uncertainty relating to the development of political situation after the September Parliamentary and October Presidential elections. Another factor which contributed to the decrease in the prices of Polish Treasury securities was related to the fact that investors no longer expected any further decreases in interest rates by the Monetary Policy Council.

In 2005, the Polish zloty appreciated by more than 5% in relation to euro and depreciated by 9% in relation to US dollar (data at the year-end). The depreciation of the Polish zloty in relation to the US dollar was due to a strong appreciation of the US dollar on the world markets in 2005. The appreciation of the effective PLN rate (weighted by the share of the particular currencies in the Polish exports) was due to the fact that the foundations of the Polish economy continued to be positive, as well as due to the positive influence of Poland's accession to the European Union and the high demand from investors for Central European currencies.

1.4 Regulatory environment

Major changes in the regulatory environment which had an influence on the position of PKO BP SA in 2005 related to the following:

- Amendments of 27 August 2004 (Journal of Laws No. 213 item 2155), which imposed an obligation on listed companies to prepare their consolidated financial statements in accordance with the International Accounting Standards, International Financial Reporting Standards, as well as amendments to executive regulations in the area of accounting, including the Decree of the Minister of Finance dated 10 December 2001 on the specific accounting principles for banks (Journal of Laws No. 149 item 1673 with subsequent amendments), which requires that banks measure specific financial assets and liabilities at amortised cost using the effective interest rate method,
- New rules regulating the functioning of the capital market, introduced as of 24 October 2005 by three acts comprising the new capital market law: the Act on Capital Market Supervision, the Act on Trading in Financial Instruments and the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies; those acts created conditions for further liberalisation of the capital market and increase in competition by, among others, allowing brokers to carry out transactions in securities outside the stock exchange market, enabled better protection of investors' interests, introduced changes to the reporting requirements for issuers of securities listed on the stock exchange market and made it easier to undertake brokerage activities;
- Changes in the definition of "own funds", modification of prudence regulations, including changes in calculation of capital adequacy, made on the basis of the Banking Law Act amended in 2004 (Journal of Laws No. 91 item 870) and the executive regulations issued for this Act (Resolution 4/2004 of the Banking Supervisory Commission and Resolution 6/2004 of 8 September 2004 – NBP Journal No. 15 items 25 and 27);
- Amendments to the VAT Act and the related executive regulations relating to, among others, tax reliefs for bad debts, definition of taxable income, new exemptions in the scope of taxable trading, list of deductible input VAT items;

- Increase in banks' costs due to increased protection of consumer rights (relates to the loss of copies of certain banking documents by the clients), resulting from the Banking Law amended in 2004 (Journal of Laws No. 91 item 870);
- Decrease in the banks' share in the EU Guarantee Fund (*Fundusz Poręczeń Unijnych*) in relation to the interest revenues from the obligatory reserve, according to the Law on the EU Guarantee Fund (Journal of Laws 2004, No. 121 item 1262);
- Reduction of banks' costs relating to the bank deposits guarantee system, resulting from the decrease in the obligatory annual payment and the ratio determining the amount of the guaranteed funds;
- New requirements for banks concerning banking secrecy, resulting from the amendments to the Act on Protection of Classified Information;
- Modified requirements for reporting to the Securities and Exchange Commission (KPWiG) as well as the National Bank of Poland and the General Inspectorate for Banking Supervision (GINB) in respect of information required for defining monetary policy and assessing country's monetary situation, banks' financial standing and banking risk, as well as additional reporting requirements relating to taxation of interest on deposits held by non-residents and requirements relating to identification of such individuals;
- Changes in the conditions that must be met while carrying out brokerage activities, including with respect to services provided, settlements processing, transaction recording, loan collaterals, issuing loans for the purchase of securities admitted to public trading by banks conducting brokerage activities, as introduced by the Decree of the Council of Ministers dated 19 April 2005 and the amended reporting requirements concerning brokerage and trust fund activities;
- Changes in tax proceedings resulting from the amended Tax Ordinance Act, including in authorisation for taxpayers to issue guarantees and grant suretyships in order to secure tax liabilities;
- New regulations concerning operating risk management, determined in Recommendation M of the Chief Inspector for Banking Supervision.

Most of the above changes in the banking regulatory environment resulted in additional financial and organisational expenditures incurred by the Bank. This was reflected in the structure of the Bank's assets and liabilities and the level and structure of its financial results, influenced on the Bank's capital adequacy ratio and enabled the Bank to pursue new business initiatives.

In addition, the Bank's activities in the year 2005 were also affected by the preparation for the introduction of new capital adequacy regulations based on the New Capital Accord (Basel II Accord).

1.5 Competition in the banking sector

In 2005, majority of banks observed an increase in income from banking activities and a significant improvement in the efficiency of operations. As a result, the banking sector reported the highest ever financial result. This was due to the following factors:

- increase in household demand for loans, especially mortgage loans and credit cards,
- further improvement in quality of bank loan portfolios,
- increase in the amount of deposits held by banks' clients.

The most important factors that affected the development of the banking sector were as follows:

- increasing competition on the banking services market, resulting, among others, in:
  - development of financial services offered by non-banking institutions, in particular investment funds, financial intermediaries, lease companies, factoring companies, SKOKs and supermarket and gas station chains;
  - extension and modernisation of banking products for individual and corporate customers; in particular, banks intensively developed products relating to housing loans, *bancassurance* and capital market products, as well as products for small land medium enterprises and local authorities, including assimilation of the EU aid funds. Banks have diversified the prices of their services by promoting loyalty programs and packages;

  - e-banking development, including the development of credit card products and on-line services for individual and corporate customers;
- extension of distribution channels for banking products; banks modernised their existing and opened new outlets, concluded agreements for cooperation with financial intermediaries, agreements for mutual cash dispenser services and developed direct and Internet sales; the development of business activities was accompanied by an increase in the level of employment and the standard of customer service;
- reducing operating expenses via *outsourcing* – more and more banks opted for *outsourcing* in certain areas of their activities; this related in particular to administrative functions, IT support, legal services, debt collection and pay card processing;
- entrance of new foreign competitors to the Polish banking market – nearly 90 foreign banks, mainly from the European Union, expressed their interest in providing products and services in a cross-border form in the area of real estate financing, mortgage loans, asset management, servicing the most affluent clients, as well as the provision of financial services to local governments;
- merger of European financial groups, UniCredito and HVB, resulting in the potential formal merger of two Polish banks – Pekao SA and BPH SA.

2. MAJOR EVENTS THAT HAD A SIGNIFICANT INFLUENCE ON THE BANK'S ACTIVITIES AND RESULTS

Major events that had a significant influence on the Bank's activities in the year 2005 were related to its business activities and have been described in the following sections of this Report.

3. BANK'S DEVELOPMENT STRATEGY FOR THE YEARS 2006-2008

In 2005 the Bank completed the implementation of the Bank's Modernisation Strategy for the years 2003-2005. On 8 December 2005 the Supervisory Board of the Bank approved the Strategy of PKO BP SA for the years 2006-2008. This is an Innovation Strategy, and its implementation will ensure dynamic activities of the Bank on new markets, as well as creating new quality of the Bank's products and customer service based on modern solutions in the area of management, and in particular in the area of corporate culture.

While strengthening its strong position on the retail banking market and its leading role on the market of housing loans, the Bank also intends to strengthen its position in services offered to businesses, including small and medium enterprises. As an entity which has a significant influence on the stabilisation of the Polish financial system, PKO BP SA will take an active part in the processes of market consolidation and will strengthen its position on foreign markets. It will effectively manage the capital entrusted to the Bank by its shareholders and will create conditions for satisfactory professional development for its employees.

In order to strengthen its market position and improve the effectiveness of its operations, PKO BP SA intends to:

- intensify organic development by maintaining the existing customers and active acquisition of new customers in all market segments,
- continue to expand its operations on the most attractive markets of Central and Eastern Europe,
- develop a multi-channel sales network which will improve the effectiveness of the customer service system,
- develop an effective Group to create new opportunities for distribution of its products and services,
- optimise the costs of the Bank's operations,
- protect business profitability, among others by increasing other-than-interest revenues and stabilising interest revenues,
- diversify the sources of income, among others by expanding and modernising the scope of the Bank's activities and increasing the effectiveness of the Bank's capital exposures,
- prepare for the implementation of the capital adequacy rules based on the New Capital Accord,
- implement modern technological and IT solutions,
- effectively develop intellectual resources.

The financial effects that PKO BP SA may achieve at the end of 2008 by implementing the Innovation Strategy are as follows:

- ROE of app. 20%,
- The costs to income (C/I) ratio at the level of 57%,
- The result on commission and fees to administrative expenses (without depreciation) ratio at the level of 56%.

4. FINANCIAL PERFORMANCE OF THE BANK

The Bank did not publish any forecasts concerning its financial performance for the year 2005.

4.1 Balance sheet structure

4.1.1 Assets

Table 1. Major asset categories (in PLN thousands)

Assets	As at:		Change	
	31.12.2005	**31.12.2004**	**PLN thousands**	**%**
1	*2*	*3*	*4*	*5*
1. Cash and balances with the Central Bank	3 832 695	3 490 505	342 190	9.8%
2. Amounts due from banks	12 631 446	13 146 115	(514 669)	(3.9%)
3. Financial assets	841 914	346 131	495 783	143.2%
4. Derivative financial instruments	1 137 227	1 362 379	(225 152)	(16.5%)
5. Other financial instruments valued at fair value through profit or loss	20 034 160	0	20 034 160	x
6. Loans and advances to customers	46 051 847	39 577 723	6 474 124	16.4%
7. Investment securities	1 857 578	23 498 314	(21 640 736)	(92.1%)
8. Property, plant and equipment	2 201 163	2 218 233	(17 070)	(0.8%)
9. Other assets	1 739 486	1 472 196	267 290	18.2%
Total assets	**90 327 516**	**85 111 596**	**5 215 920**	**6.1%**

In comparison to 2004, the most significant change in the structure assets is the transfer of assets from "Investment securities" to "Other financial instruments valued at fair value through profit or loss" in connection with separation of the ALPL[1] portfolio from the previous "available for sale" portfolio. This allowed the Bank to reflect the results from valuation of hedged items and hedging instruments within the same category of the profit and loss account, which increased the transparency of presented results from valuation of debt securities.

The most significant item in the Bank's assets (51.0%) consists of loans and advances to customers.

[1] Assets and liabilities at fair value through profit or loss

Table 2. Loans and advances granted to the Bank's customers (in PLN thousands)

Item	As at		Change	
	31.12.2005	**31.12.2004**	**PLN thousands**	**%**
1	*2*	*3*	*4*	*5*
1. Gross loans and advances granted to customers, of which:	48 919 393	42 184 202	6 735 191	16.0%
- public sector	6 749 221	7 613 858	(864 637)	(11.4)%
- financial sector (except for banks)	809 674	615 938	193 736	31.5%
- non-financial sector	41 360 498	33 954 406	7 406 092	21.8%
2. Allowances for impaired loans	(2 867 546)	(2 606 479)	(261 067)	10.0%
Loans and advances to customers	**46 051 847**	**39 577 723**	**6 474 124**	**16.4%**

Receivables from customers with maturities over 1 year had a predominant role in the aging structure of gross loans and advances as at 31 December 2005 and 2004. Their total share in the Bank's loan portfolio increased from 62.7% at the end of 2004 to 64.4% at the end of 2005. In the aging structure of receivables, the greatest increase (by 3.0 pp.) was observed in the category of receivables due in more than 5 years, which was mainly due to the high dynamics of long-term housing loans.

Detailed information about maturity term of loans and advances granted to customers are included in note 25 of additional notes to financial statements.

4.1.2 Equity and Liabilities

<u>Liabilities</u>

Table 3. Major items of liabilities and equity (in PLN thousands)

Item	As at		Change	
	31.12.2005	**31.12.2004**	**PLN thousands**	**%**
1	*2*	*3*	*4*	*5*
1. Liabilities, of which:	81 547 122	76 204 549	5 342 573	7.0%
- Amounts due to the Central Bank	766	144	622	431.9%
- Amounts due to other banks	1 943 035	800 403	1 142 632	142.8%
- Derivative financial instruments	1 257 384	793 739	463 645	58.4%
- Amounts due to customers	75 886 880	72 576 273	3 310 607	4.6%
- Other liabilities	2 459 057	2 033 990	425 067	20.9%
2. Total equity	8 780 394	8 907 047	(126 653)	(1.4)%
Total liabilities and equity	**90 327 516**	**85 111 596**	**5 215 920**	**6.1%**

The most significant item of liabilities and equity (84.0%) consists of amounts due to customers, which amounted to PLN 75,887 million as at 31 December 2005 and increased by 4.6% compared to the balance at the end of 2004. This represented the main source for financing of the Bank's activity.

As at 31 December 2005, the main item in the Bank's liabilities to customers (accounting for 82.9% of the total balance) consisted of amounts due to private customers, which amounted to PLN 62,941 million. The most significant item in this category consisted of term deposits, which amounted to PLN 42,289 million at the end of 2005 and decreased by 1.0% compared to the end of 2004.

The following changes took place in amounts due to customers compared to the end of 2004:

- amounts due to corporate entities increased by PLN 3,272 million (i.e. 50.4%) - this mainly related to term deposits, which increased almost twice,
- amounts due to private customers increased by PLN 2,222 million (3.7%) – of which current deposits increased by PLN 2,685 million (15.0%),

- amounts due to public sector entities decreased by PLN 2,183 million (40.7%) – the main reason for such a decrease was the withdrawal of funds by the Ministry of State Treasury in accordance with the Act on Bank Gospodarstwa Krajowego of 14 March 2003 and the Decree of the Minister of Finance dated 28 December 2004 on the rules for investing public funds.

Compared to the end of 2004, in the amounts due to customers by maturity structure, an increase was observed in amounts due to customers within up to 3 months (including current accounts and overnight deposits), which increased by 12.1 % compared to the end of 2004, while the balance of deposits with maturities over 3 months decreased by 15.4 %. This had an impact on the aging structure of amounts due to customers, in which the percentage of amounts due to customers within up to 3 months increased from 72.7% to 77.9%, with a corresponding decrease in the percentage of liabilities with longer maturity periods. Liabilities with maturities over 1 year comprise approximately 2% of total amounts due to customers.

4.2 Off-balance sheet items

Table 4. Off-balance sheet items (in PLN thousands)

Item	As at		Change	
	31.12.2005	31.12.2004	PLN thousands	%
1	*2*	*3*	*4*	*5*
I. Contingent liabilities granted:	**10 533 845**	**7 148 458**	**3 385 387**	**47.4%**
1. Financial	9 025 801	6 290 493	2 735 308	43.5%
2. Guarantees	1 508 044	857 965	650 079	75.8%
II. Liabilities arising from purchase/sale transactions	**279 032 527**	**170 088 351**	**108 944 176**	**64.1%**
III. Other	**11 422 181**	**12 368 143**	**(945 962)**	**(7.6)%**
1. Irrevocable liabilities	8 519 942	9 504 544	(984 602)	(10.4)%
2. Collaterals received	2 902 239	2 863 599	38 640	1.3%
Total off-balance sheet items	**300 988 553**	**189 604 952**	**111 383 601**	**58.7%**

In comparison to the balance as at the end of 2004 total off-balance sheet liabilities of PKO BP SA increased by 58.7%, mainly due to increase in liabilities related to purchase/sale transactions, which increased by 61.4%. This item mainly consisted of derivative transactions and forward exchange transactions which were concluded by PKO BP SA in order to manage the Bank's foreign currency liquidity as well as for speculation and arbitrage purposes.

4.3 Profit and loss account

Table 5. Main profit and loss account items (in PLN thousands)

Item	2005	2004	Dynamics
1	*2*	*3*	*4*
1. Net interest income	3 473 829	3 471 947	100.1%
2. Net fees and commission income	1 169 839	1 581 055	74.0%
3. Dividend income	28 881	22 291	129.6%
4. Result from financial instruments at fair value	30 579	(45 976)	X
5. Result from investment securities	276 724	(21 028)	X
6. Foreign exchange result	613 715	434 934	141.1%
7. Net other operating income	209 967	133 467	157.3%
8. Total income items (1-7)	**5 803 534**	**5 576 690**	**104.1%**
9. Impairment losses	(98 900)	(133 274)	74.2%
10. General administrative expenses	(3 631 324)	(3 645 236)	99.6%
11. Profit before taxation	**2 073 310**	**1 798 180**	**115.3%**
12. Income tax expense	(396 512)	(350 330)	113.2%
13. Net profit	**1 676 798**	**1 447 850**	**115.8%**

4.3.1 Income items

In the profit and loss account for the year 2005, the total of income items amounted to PLN 5.804 million and was PLN 227 million (4.1%) higher than in 2004. The main items comprising this amount were net interest income and net fees and commission income.

Net interest income

Table 6. Interest income and expense

Item	2005	2004	Dynamics
1	*2*	*3*	*4*
1. Interest income, of which:	**5 515 887**	**5 244 964**	105.2%
- from loans and advances granted to customers	3 433 506	3 005 397	114.2%
- from securities at fair value through profit or loss	1 256 445	1 398 947	89.8%
- from placements with other banks	600 319	421 924	142.3%
- from investment securities	135 317	323 022	41.9%
- other	90 300	95 674	94.4%
2. Total interest expense, of which:	**(2 042 058)**	**(1 773 017)**	115.2%
- relating to amounts due to customers	(1 882 525)	(1 600 753)	117.6%
- relating to deposits from other banks	(72 054)	(53 905)	133.7%
- other	(87 479)	(118 359)	73.9%
Net interest income	**3 473 829**	**3 471 947**	**100.1%**

The net interest income consists of interest income of PLN 5,516 million and interest expense of PLN 2,042 million, which increased, respectively, by 5.2% and 15.2% in comparison to 2004. Higher dynamics of expenses was connected to an increase in the volume of deposits and better competitive position of the Bank with respect to deposit interest rates.

The most significant item in the Bank's interest income in 2005 was income from loans and advances granted to customers, which accounted for 62.2% of total interest income (4.9 pp. increase in relation to 2004), and then interest income from securities at fair value through profit or loss, which accounted for 22.8% of total interest income (3.9 pp. decrease in relation to 2004). These securities mainly included bonds and Treasury and money bills.

In the structure of interest expense in 2005, the most significant item was the expense related to amounts due to customers, which accounted for 92.2% of total interest expense and increased by 1.9 pp. in relation to 2004.

In 2005, the average interest rate of loans was 7.7%[2], while the average interest rate of deposits was 2.6%[3]. Compared to 2004, these rates increased by 0.3 pp. in the case of deposits and remain unchanged in the case of loans and advances.

[2] The average interest rate for loans was calculated as the relation of interest income from loans to the average balance of loans in the reporting period.

[3] The average interest rate for deposits was calculated as the relation of interest expense relating to deposits to the average balance of deposits in the reporting period.

Net fees and commission income

Table 7. Fees and commission income and expense (in PLN thousands)

Item	2005	2004	Dynamics
1	*2*	*3*	*4*
1. Fees and commission income, of which:	1 502 668	1 865 208	80.6%
- from loans and advances granted by the Bank	65 798	483 711	13.6%
- other	1 436 870	1 381 497	104.0%
2. Total fees and commission expense	(332 829)	(284 153)	117.1%
Net fees and commission income	**1 169 839**	**1 581 055**	**74.0%**

Net fees and commission income decreased by 26% in relation to 2004. The reasons of the above were lower incomes and higher costs generated by the Bank in comparison to 2004.

The decrease in fees and commission income mainly relates to income from loans and advances, which decreased by 86.4% due to the fact that, starting from 2005, such income is deferred and measured at amortized cost using the effective interest rate, which discounts the expected cash flows to net carrying amount over the period to maturity. Fees and commissions are included in the calculation of the effective interest rate because they are an integral part of the effective return on the loan or advance and adjust their carrying amount.

In terms comparable with 2004, i.e. including all fees and commissions recognised on a cash basis in 2005, the dynamics of fees and commission income would amount to approximately 111%.

As of 1 January 2006, the Bank introduced a new "Table of Banking Fees and Commission Rates". This change resulted from market conditions and new products and services offered by the Bank.

Other income items

The total of other income items (other than net interest income and net fees and commission income) amounted to PLN 1,160 million and increased more than twice (+121.5%) in comparison to 2004. This was due to the following:

- The result from financial instruments at fair value, which was negative and amounted to PLN (-) 31 million, was PLN 77 million better than the corresponding balance in the previous year;
- The result from investment securities amounted to PLN 277 million (an increase of PLN 298 million compared to 2004) – the increase was a result of an increased activity of the Bank on the Stock Exchange, especially in the third quarter of 2005, due to the boom on the stock exchange market during this period;
- Foreign exchange result amounted to PLN 614 million and increased by 41.1% in relation to 2004, mainly due to better result on FX SWAP and CIRS transactions (the result on these transactions is of an interest type);
- Net other operating income amounted to PLN 210 million (an increase of 57.3%) and consisted of other operating income of PLN 260 million and other operating expense of PLN 50 million;
- Dividend income amounted to PLN 28.9 million (an increase of 29.6%).

4.3.2 Impairment losses

The result from impairment losses amounted to PLN (-) 99 million in 2005 and improved by PLN 34,4 million compared to 2004. This was due to better quality of the loan portfolio as well as the finalisation in the fourth quarter of 2005 of the sale of a portfolio of doubtful retail debts and the reversal of the related specific provisions.

4.3.3 General administrative expenses

In 2005, the Bank's general administrative expenses amounted to PLN 3,631 million and decreased by 0.4% in relation to 2004.

The individual expense items were as follows:

- Employee costs – personnel costs incurred by the Bank in 2005 amounted to PLN 1,973 million and increased by PLN 86.9 million, i.e. 4.6%, compared to 2004. The main reason for the increase was a change in the salaries level in the Bank. The employment level in the Bank at the end of 2005 was 33,479 employees and decreased by 1,907 employees compared to 31 December 2004. The increase in the costs of salaries was the result of the Bank's strategy aimed at adjusting the salaries level in the Bank to the average salaries level in the banking sector in Poland and the planned restructuring of employment;
- Non-personnel costs amounted to PLN 1,178 million in 2005 and decreased by PLN 48.7 million, i.e. 4.0%, compared to 2004;
- Depreciation of tangible fixed assets and amortization of intangible assets amounted to PLN 419.3 million in 2005 and decreased by PLN 52.1 million, i.e. 11.1%, compared to 2004;
- Other administrative expenses in 2005 amounted to PLN 61 million, which was slightly less than in 2004. The main items are: taxes and charges, which amounted to PLN 52.9 million in 2005 and increased by 7.6 % compared to 2004, and contribution to the Banking Guarantee Fund, calculated as a specific percentage of assets weighted by risk (determined separately for each year), which in 2005 amounted to PLN 8 million and decreased by PLN 3.7 million, i.e. 31.8%, compared to 2004.

4.3.4 Key financial ratios

PKO BP SA's financial results for 2005 resulted in the following levels of the key financial ratios:

Ratio	2005	2004
1	*2*	*3*
1. Profit (loss) before taxation / average assets (ROA[4] $_{gross}$)	2.36%	n/a[5]
2. Net profit (loss) / average assets (ROA $_{net}$)	1.91%	n/a
3. Profit (loss) before taxation / average equity (ROE[6] gross)	23.44%	n/a
4. Net profit (loss) / average equity (ROE $_{net}$)	18.96%	n/a
5. General administrative expenses / total income items (C/I)	62.57%	65.37%

[4] *The ROA gross and ROA net ratios are calculated as the relation of, respectively, gross profit (loss) and net profit (loss) to the arithmetical mean of the balances of assets at the beginning and end of the reporting period.*

[5] *The ROA gross and ROA net ratios for the year 2004 can not be calculated comparable to 2005 owing to lack of information about opening balance of assets and equity according to MSSF i.e. as at 31 December 2003*

[6] *The ROE gross and ROE net ratios are calculated as the relation of, respectively, gross profit (loss) and net profit (loss) to the arithmetical mean of the balances of shareholders' equity (including accumulated profits from previous years and net profit for the period) at the beginning and end of the reporting period.*

4.4 Equity and Capital Adequacy Ratio

Table 8. Equity of PKO BP SA (PLN thousands)

Item	As at		Change by:
	31.12.2005	31.12.2004	
1	2	3	5
1. Share capital	1 000 000	1 000 000	0.0%
2. Other capital items	5 672 620	5 900 933	(3.9)%
3. Retained earnings	430 976	558 264	(22.8)%
4. Net profit for the period	1 676 798	1 447 850	15.8%
Total equity	**8 780 394**	**8 907 047**	**(1.4)%**
Capital adequacy ratio	14.06	18.70	4.64 pp.

In comparison to 2004 the Bank's equity decreased by 1.4%. A decrease in equity in spite of the relatively high net profit for the period was the effect of a number of factors, among which the most significant were: the appropriation of PLN 1 billion from the net profit for 2004 to shareholder dividends, adjustments made in respect of IAS 39 and reduction of the revaluation reserve.

The capital adequacy ratio as at 31 December 2005 was 14.06% and decreased by 4.64 percentage points in relation to 2004.

The following reasons contributed to the decrease of the capital adequacy ratio:
- decrease of the Bank's own funds used in the calculation of the ratio - mainly as a result of reduction of the revaluation reserve (due to revaluation gains realised on the sale of available for sale financial assets and transferred from the revaluation reserve to the result on financial operations in the profit and loss account) and an increase in the Bank's investment exposures which decreases the amount of the Bank's own funds used in calculation of the capital adequacy ratio,
- increase of the total capital requirement - mainly due to the increase of assets with a risk weighting of 100% as a result of growth of the loan portfolio and the application of the amended rules for calculating capital requirements which came into force on 1 January 2005.

5. KEY BUSINESS AREAS

At 31 December 2005, the balances of interest-bearing assets and liabilities (deposits) resulting from the Bank's business activities were as follows:

Table 9. Gross interest-bearing assets of PKO BP SA (in PLN millions)

Item	31.12.2005	31.12.2004	Change by:
1	2	3	4
I. Gross loans *) , of which:	**48 723.1**	**41 108.8**	**7 614.3**
- retail banking	11 357.9	9 527.4	1 830.5
- housing market (new portfolio)	16 820.1	13 324.1	3 496.0
- housing loans	2 959.4	3 085.2	(125.8)
- corporate**)	17 585.6	15 172.1	2 413.5
II. Securities and inter-bank placements	**35 813.8**	**36 747.6**	**(933.8)**
Gross interest-bearing assets (I+II)	**84 536.9**	**77 856.4**	**6 680.5**

Source: Bank's management data
*) without interest
**) For comparability purposes, loans granted to SMEs are included in the corporate market.

At the end of 2005, the Bank's gross interest-bearing assets amounted to PLN 84.5 billion and increased by PLN 6.7 billion (i.e. 8.6%) compared to 31 December 2004. Loans accounted for 58% of the total amount of interest-bearing assets and, compared to the end of 2004, this share increased by 5 pp. due to the growth in the balance of loans which amounted to 118.5%.

At 31 December 2005, the gross value of loans granted by PKO BP SA amounted to PLN 48.7 billion and increased by PLN 7.6 billion i.e. 18.5% throughout the year 2005.

Table 10. Interest-bearing liabilities (deposits) of PKO BP SA (in PLN millions)

Item	31.12.2005	31.12.2004	Change by:
1	*2*	*3*	*4*
Deposits:			
- retail banking	53 506.1	52 932.6	573.5
- housing deposits	8 834.5	7 327.8	1 506.7
- corporate deposits*	13 658.9	12 106.3	1 552.6
- other (treasury operations, capital investments, BDM brokerage house)	2 050.2	894.6	1 155.6
Total deposits	**78 049.7**	**73 261.3**	**4 788.4**

Source: Bank's management data
*) For comparability purposes, SMEs' deposits are included in the corporate market.

As at 31 December 2005, the Bank's interest-bearing liabilities amounted to PLN 78 billion and increased by PLN 4.8 billion (6.5%) since the beginning of the year. Retail banking deposits accounted for 68.6% of the total amount of deposits and, compared to the balance at the end of 2004, this share decreased by 3.7 pp., for the benefit of the other types of deposits. In relation to 2004, retail banking deposits increased by 1.1%, housing deposits increased by 20.6%, corporate deposits (including SMEs) increased by 12.8% and other deposits increased by 129.2%.

As at 31 December 2005 the biggest part in structure of deposits territorial base had the following regions (including retail banking and corporate deposits): Mazowiecki (24.3%), Śląsko-Opolski (12.4%) and Wielkopolski (10.1%). Their share in total deposits of the Bank amounted 46.80 % and decreased by 2.2 pp compared to 2004.

Table 11. Bank accounts and pay cards issued by PKO BP SA (in thousands)

Item	31.12.2005	31.12.2004	Change by:
Total number of bank accounts, of which:	5 903	5 512	391
- savings-giro (ROR) accounts	*5 349*	*5 148*	*201*
- Inteligo accounts	*554*	*364*	*190*
Number of pay cards	6 076	5 443	633
of which: credit cards	*525*	*327*	*198*

Throughout the year 2005, the number of savings-giro (ROR) accounts and Inteligo accounts increased by the total of 391 thousand and amounted to 5,903 thousand as at 31 December 2005 (of which: the total number of Inteligo accounts amounted to 554 thousand).

Since the beginning of 2005, the number of payment cards issued by PKO BP SA increased by 633 thousand, of which 200 thousand accounted for an increase in the number credit cards.

5.1 Retail banking

The Bank's activities in the area of retail banking (including private banking) focused on maintaining the volume of deposits and increasing the volume of loans by increasing the attractiveness of products offered by the Bank and improving service quality and sales effectiveness through the completion of the following tasks:

- With respect to new, non-standard deposit products:
  - Introducing to the Bank's offer an annual structural deposit (*Lokata Bawarska*) – with a guaranteed interest rate which may be increased depending on the EUR/PLN exchange rate,
  - Conducting a subscription campaign for *Lokata Czeska* – 12-month deposit with an attractive interest rate and progressive structure,

  - Sales of *Lokata Paryska* - 12 to 60-month deposit with an attractive, progressive interest rate structure; the holders of such deposits who opened a savings-giro (ROR) account with the Bank have been additionally released from the fees charged by the Bank for maintaining such accounts for a period of 6 months,
  - Conducting a subscription campaign for *Lokata Flamenco* – 12-month deposit combined with investing funds in trust fund units;
  - For the private banking customers there were implemented financial advisory services regarding different forms of investments;
- With respect to consumer loans:
  - introduction of a new loan product - "Quick Credit Service" (*Szybki Serwis Kredytowy*), which changes the form of cooperation with the clients from the previous one which focused on financing only defined client needs to one which allows for flexibility in the relationships with the client without the need to focus on the target of financing, while maintaining the same level of risk;
  - introduction of a new loan product – a loan secured by shares acquired free of charge;
  - modification of credit risk assessment concerning financing of those customers, who applied for revolving credit in the current account, which consists in the introduction of the system of behavioural scoring, which will significantly increase the efficiency of the decision taking process and will enable the Bank to manage the related credit risk,
  - modification of the Quick Credit Service facility, which consists in providing clients with the possibility of taking a loan and signing an insurance contract which will increase safety of the client and his/her family; such insurance relates to the repayment of the loan in the case of the following events: loss of employment, death of the insured, permanent disability as a result of illness or accident and temporary disability as a result of accident;
  - The cash loan for the private banking customers offer modification: extension of the crediting time up to 96 months, cease certain limitation concerning collaterals, launching bill of exchange in blanco as the standard collateral for loan not exceeding given amount, implementation of new condition for non-residents for AURUM/PLATINIUM loans granting;
  - Sales performance improvement by granting INWESTOR credit for private banking customers for securities acquisition, incuding interest rates based on the arms length basis.
- With respect to investment banking, the most important activities of the Bank consisted in placing two new investment funds in the Bank's offer:
  - PKO/Credit Suisse Akcji Nowa Europa [New Europe] – which offers products tailored to the needs of private customers, in particular customers from the Private Banking sector who expect satisfactory return on investments,
  - PKO/Credit Suisse Światowy Fundusz Walutowy [World Monetary Fund] – offered to private customers, holders of foreign currency deposits placed with PKO BP SA and other banks in Poland and members of the foreign currency funds that were previously established on the Polish market.
- With respect to development and intensification of distribution channels:
  - Launching 90 Mobile Points of Sales focusing on the sales of the Quick Credit Service facility; by opening external points of sale of consumer loans in attractive locations, this project is targeted at customers who do not use banking services, do not have any loans and do not have a savings-giro (ROR) account with PKO BP SA;
  - Conducting an information campaign addressed to the holders of savings-giro (ROR) accounts concerning the PKO Inteligo e-banking services; throughout the year 2005, the Bank acquired 757 thousand customers who signed contracts for the use of on-line and call center services in relation to savings-giro (ROR) accounts and the Partner-type current accounts.

Moreover in the area of Private Banking launched sales of selected products via agents network, and also the number of partners of Privileges Programme AURUM/PLATINIUM significantly increased. This program enables clients to acquire products and services form non financial Bank's partners on the preferential conditions. Furthermore, the new condition of Privileges Programme were prepared aiming to increase pay cards transaction ratio, through conditional preferences dependent on payment using the PKO BP SA card.

Small and medium-sized enterprises (SMEs)

The most important activities of the Bank in 2005 relating to small and medium-sized enterprises were as follows:

- Improving competitiveness of the Bank's products offered to SMEs and increasing availability of loans by:
  - Introducing the "Quick Credit Service" product, which creates new value in terms of time required to obtain the loan and documents that must be filled in when applying for the loan for financing current activities,
  - Modification of the Hipoteka PARTNER loan which finances real estate investments – the product is combined with loan repayment insurance granted by PZU S.A.,
  - Modification of the AUTO PARTNER loan which is designed to finance vehicle purchases,
  - Providing support to entrepreneurs - beneficiaries of the EU structural funds,
  - Initiating and developing cooperation with guarantee funds – overcoming barriers arising from the inability of small and micro-enterprises to provide collateral for a loan;
- creating a new value in cooperation with PKO BP SA agents and loan intermediaries, which creates conditions for an increase in the efficiency of these distribution channels in sales among small and medium-sized enterprises;
- cooperation with the European Bank for Restructuring and Development – as described in section 5.6 of this Report.

Cards issued by PKO BP SA

The total number of cards issued by PKO BP SA to retail customers increased by 631 thousand (12%) throughout the year 2005 and exceeded 6 million at the end of 2005.

As at 31 December 2005, the number of credit cards amounted to 525 thousand (an increase more than 60%) in relation to December 2004). Throughout the year 2005, the number of credit cards increased by 198 thousand.

The number of transactions executed using cards increased in 2005 by approximately 35% in relation to 2004.

Throughout the year 2005, the Bank enhanced attractiveness of its credit card offer by:

- conducting promotional sales of credit cards, including new cards with a sports-related image such as VISA Turyn, MasterCard FIFA World Cup, under which the Bank does not charge the fees for issuing and using the card during the first year of use;
- introducing the balance transfer service which allows for the transfer of the balance under the card previously used by the client to a new credit card issued by PKO BP SA;
- extending the interest-free period on non-cash transactions from 52 to 55 days and reducing the minimum repayment amount from 5 to 4%;
- reducing the minimum level of income required in order to obtain a credit card from PKO BP SA;
- conducting work on changes to the mechanism of charging fees for issuing and using credit cards, where the fee will be charged depending on the value of transactions made in the given month using the card.

In 2005 the Bank issued two new credit cards, dedicated to the Private Banking sector:

- PKO MasterCard Platinum,
- PKO Visa Infinite.

Other services

- Compensation payments made from State Treasury funds

Compensation is paid to public sector employees whose salaries were not revalued in the second half of 1991 or in the first half of 1992, and to pensioners who, in 1991, lost their pension increases or additional payments due for working in specific conditions or doing work of a specific nature.

In 2005, the Bank made 26.4 thousand payments to entitled persons, with a total value of PLN 77.5 million.

- Benefit payments made from Fundacja "Polsko-Niemieckie POJEDNANIE"

In 2005, the Bank made 158.2 thousand payments to entitled persons, with a total value of PLN 177.2 million.

5.2 Corporate banking

In 2005, the Bank's activities in the area of corporate banking focused in particular on improving the efficiency of corporate customer service in order to strengthen business relations, improve market position and create an image of the Bank as an active financial institution which is dynamically developing on the corporate market.

In pursuing its objectives the Bank focused on the following activities:

- extended and modified product offer;
- introduced package-based solutions which enable the Bank to develop appropriate product and price policy with respect to the individual customer segments, thus activating sales of particular groups of products;
- improved the sales system based on individual relationships between advisors and clients, which has been functioning since 2004;
- developed and implemented uniform standards in customer relationships;
- stimulated increase in the effectiveness and efficiency of operation of the network dedicated to corporate customer service;
- extended the scope of cooperation with existing clients, in particular by increasing transaction service.

In order to improve competitiveness of PKO BP SA's products designed for corporate customers, the Bank introduced new products, such as:

- trust account and conditional settlements account, designed for gathering funds and making settlements between business parties specified in the agreement;
- multi-purpose credit limit, under which the customer may benefit from different forms of financing, in different currencies depending on customer's current needs;
- the e-money instrument for entities making payments to retail customers.

In addition, the Bank continued the products development which will help to increase the Bank's other-than-interest revenues. As part of this work, in 2005 the Bank modernised the following:

- cash management services,
- launched *cash pooling* services dedicated to entities operating within the same capital group,
- developed the functionality of the Virtual Business Partner Account System,
- and the MultiCash home-banking system.

As at 31 December 2005, <u>the number of cards</u> issued by PKO BP SA to corporate clients amounted to approximately 51 thousand (of which 5.3 thousand related to a new product – the e-money payment instrument issued to the Municipal Social Assistance Center (*Miejski Ośrodek Pomocy Społecznej*) in Poznań. In 2005, the number of issued cards increased by 2 thousand.

In addition, the Bank's activities in the area of corporate banking included:

- issuing securities, as a result of which the Bank organised:
  - 38 issues of municipal bonds for a total amount of PLN 317.1 million, among others for the cities of Zamość, Świnoujście, Rzeszów;
  - 7 issues of corporate bonds for a total amount of PLN 753.3 million, of which the largest ones related to entities from the energy industry, development and investment industry and financial sector,
  - 2 issues of PKO BP SA commercial papers, for a total amount of PLN 300.8 million;

- cooperated with domestic financial institutions, thus contributing to the increase of activity on the debt securities market.

5.3 Real estate financing

In the area of real estate financing, PKO BP SA has the following types of loans:

- mortgage products for individual clients,
- investor loans,
- loans supported by the state budget, which were granted by the Bank until 31 March 1996 on the basis of separate regulations.

In the area of mortgage loans, in 2005 the Bank focused its real estate financing activities on maintaining its leading market position.

Loans supported by the state budget show a continued declining trend.

5.3.1 Mortgage loans for individual clients and investor loans

As at 31 December 2005, the credit exposure of mortgage loans products amounted to PLN 16.8 billion. Compared to the balance at the end of 2004, it increased by PLN 3.5 billion i.e. 26%.

The Bank maintains a very high share in the market of sales of PLN loans – average share in this market in 2005 amounted to 40%. At the same time, the Bank records a high level of sales of foreign currency loans – on average PLN 380 million per month, which translates into a 32% share in the market of foreign currency loans.

The sales of the mortgage loans products in 2005 amounted to PLN 7.5 billion, which means an increase of 42% and 71% in relation to 2004 and 2003, respectively. The highest levels of sales were recorded in June and December – PLN 788 billion and PLN 799 billion, respectively.

The sales of the WŁASNY KĄT loan predominated in the structure of sales in 2005 – they accounted for 81% of total sales. At the same time, an increase was noted in the percentage of mortgage collateralized non-housing loans – the share of consolidation loans in retail sales increased from 5% in 2004 to 6% in 2005.

The housing loan WŁASNY KĄT played a predominant role in the Bank's portfolio. The balance of such loans at the end of 2005 amounted to PLN 14.1 billion, which accounted for 85% of the total value of the "new" housing loan portfolio.

The following activities contributed to the high level of the Bank's sales:

- focusing on sales in big cities; the activities taken by the Bank resulted in an increase in the value of sales – in December 2005, sales in big cities amounted to PLN 322 million, which accounted for almost 50% of total sales.
- intensification of activities aimed at acquiring clients on the market of investment loans, which resulted in an increase in the sales of such loans; the growth in the sales of investment loans in 2005 in relation to the previous year amounted to 234%;

In order to enhance the attractiveness of its offer and tailor it to the clients' needs, the Bank:

- introduced unemployment and hospitalization insurance;
- modified the institution of Escrow Housing Account (*Mieszkaniowy Rachunek Powierniczy*) by introducing 3 types of accounts tailored to the nature of transactions carried out on the real estate market:
  - open and closed accounts designed for investors and used for collecting funds from home buyers,
  - transaction account designed for private customers who purchase homes on the secondary market;
- extended its investment loan offer by introducing loan facility commitment,
- introduced new referential rates for products addressed to private customers as well as expanded its offer in the area of referential rates for investment loans;

Furthermore, in order to attract new clients and increase the total value of extended credit facilities, the Bank prepared special financing programs for customers purchasing homes from developers, focusing in particular on housing projects co-financed by PKO BP SA; these special programs have been designed so as to attract as many clients as possible; they make it possible for home buyers to finance their housing investments using a double formula: an investment loan and a loan for the purchase of housing property.

In addition, the Bank implemented internal regulations regarding control over construction projects and rules for determining the value of property representing loan collateral.

The restructuring of the portfolio of loans with deferred payment was completed. As a result of taken action, about 7.3% of the number of loans and 8% of the value of deferred payment loans were converted to WŁASNY KĄT loans. As a result of the restructuring activities and repayments made by the borrowers, the balance of debt under these loans decreased in 2005 by approximately 32%.

5.3.2 Housing loans covered by state assistance ("old" housing loans)

At the end of 2005, the total balance of housing loans covered by state assistance amounted to PLN 2,778.4 million and decreased by PLN 286.3 million i.e. 9.3% compared to the balance at the end of 2004.

The loans subject to temporary redemption of interest, repaid according to the "normative" and "income" formulas, accounted for 96.6% of the old housing loans portfolio and thus played a predominant role in this portfolio.

The main goals of the Bank with respect to housing loans covered by state assistance were to:

- maintain a high level of recoverability,
- minimise the percentage of loans repaid according to the "quotient" formula,
- restructure irregular loans,
- continue to improve the quality of this portfolio under the terms of the new assessment methodology introduced in accordance with IAS 39.

5.3.3 Activities relating to deposits held on housing plan passbooks

As at 31 December 2005, PKO BP SA kept 2.1 million accounts for housing plan passbooks, with total savings of PLN 6,259.3 million.

In 2005, the Bank recorded an increase of 145.5 thousand in the number of passbooks without the right to guarantee premium and an increase of 4.4 thousand in the number of activated passbooks with guarantee premium, which resulted in an overall increase in the value of deposits of PLN 1,283.3 million. As a result of the above changes (and taking into account liquidations of passbooks with the right to guarantee premium), the structure of housing plan passbooks changed compared to the end of 2004: passbooks with the right to guarantee premium account for about 75.7% of total accounts (a decrease of 6.2%) and passbooks without the right to guarantee premium account for 24.3%.

5.3.4 Activities relating to corporate clients on the housing market

In 2005, the Bank focused on strengthening its position with regard to the existing corporate clients on the housing market (i.e. housing cooperatives and communities, developers and real estate agents) as well as attracting new customers.

This was achieved by:

- introducing a new investment loan "NOWY DOM remont" which includes a thermo-modernisation premium from BGK,
- making the PKO INTELIGO services available to housing communities,
- expanding cooperation with existing clients, in particular by providing transaction services and cash management services.

These activities resulted in:

- an increase in the volume of deposits and loans,
- an increase in the number of customers served by the Bank.

5.4 Activities on the money market

In 2005, the Bank's activity on the money market focused mainly on liquidity, interest rate and foreign exchange risk management, investment portfolio management and trade activities carried out on the inter-bank market and with the Bank's clients.

The most important activities focused on:

- bank debt securities portfolio management - during almost all of the first half of the year the duration of portfolio was lengthened, however in the second half of the year the utilisation of the current bank interest rate limits was lower,
- an increase of investments in securities denominated in foreign currencies; on the one hand this was due to an increase in surplus funds in EUR and USD, and on the other hand the requirement to diversify the portfolio of securities; the portfolio of foreign securities consists of treasury bonds and bonds issued by financial institutions; at the end of 2005, the value of the portfolio was PLN 2.3 billion and was almost three times higher in comparison with 2004,
- assuring long-term financing in CHF – in 2005 the level of structural exposure in this currency was increased almost to CHF 3 million (at the end of 2004 it was CHF 1 million); in 2005, the main instrument used to acquire financing on the interbank market consisted of long-term CIRS (Currency Interest Rate Swaps);
- the activity of Bank on the treasury securities market and interest rate derivatives - PKO BP maintained the position of one of the major market markers at this market; as a result of intense activities on this market, the bank gained the First Price in a ranking organised by the Ministry of Treasury for the selection of the Dealer in Treasury Securities; in 2005 the Bank made its first derivatives transactions on the Stock Exchange (futures for bonds), maintained high share in trading on the secondary market and in tenders organised on primary markets;
- development of transactions with non-bank clients – in 2005 the Bank extended its product offer related to derivatives (options, FX Swaps) and sales to non-bank clients increased by 64%.

5.5 Brokerage activities

In 2005 Bankowy Dom Maklerski PKO BP SA strengthened its position on the capital market. This was accompanied by a revival on this market – the main indices increased on average by 30% and the yearly turnover on the Stock Exchange increased by 58% and exceeded the amount of PLN 186 billion.

BDM PKO BP SA kept its position among the 10 leading brokerage houses and its share in the secondary market for all types of instruments increased throughout the year:

- the share in the sales on the stock market amounted to 8.1%, which accounts for a growth of 2.0 percentage points compared to 2004 (sixth position on the market in 2005, the seventh position in 2004);
- the share in the sales on the bond market amounted to 37.6%, which accounts for a growth of 8.8 percentage points compared to 2004 (first position on the market in 2005, the second position in 2004),
- the share in the sales on the forward market amounted to 6.0%, which accounts for a growth of 0.9 percentage points compared to 2004 (sixth position on the market in 2005, the seventh position in 2004);
- the share in the sales on the market of options for indices amounted to 9.0%, which accounts for growth of 3.0 percentage points compared to 2004 (fifth position on the market in 2004 and 2005).

At the end of 2005, the number of accounts (both investment and registration accounts) kept by BDM PKO BP SA was approximately 411 thousand. When compared to the end of December 2004, the number of accounts increased by approximately 13%, while the BDM turnover on the stock market amounted to PLN 14.6 billion, e.i. the turnover increase by 120%.

The value of assets held by customers on investment and registration accounts was PLN 18.4 billion at the end of 2005, which translates to a 36% increase compared to 2004.

As a result of its activities, BDM PKO BP SA received three awards from President of the Management Board of the Polish Stock Exchange:

- for the greatest share in the sales of bonds in 2005;
- for the greatest activity as an animator on the stock market in 2005;
- for introducing to the Stock Exchange the greatest number of new companies in 2005.

5.6 International cooperation

European Bank for Reconstruction and Development

PKO BP SA participates in the "Loan Window" programme being a part of the "UE/EBRD SME Finance Facility" (on the basis of the Loan Agreement of 21 February 2003 concluded by PKO BP SA and the European Bank for Reconstruction and Development for the financing of small and medium-sized enterprises).

As at 31 December 2005, the Bank has signed 1,775 loan agreements for a total amount of EUR 32.7 million. Apart from granting loans to small and medium-sized enterprises, PKO BP SA also participated in improving the lending process and identifying the needs of small and medium-sized enterprises in their relations with banks.

Cooperation with other foreign institutions

PKO BP SA signed five ISDA agreements with foreign banks and one annex to a previously signed framework agreement as well as one note agreement with a foreign bank.

Three *nostro* accounts have been closed. At 31 December 2005, the Bank holds 28 *nostro* accounts at correspondent banks, denominated in 12 currencies, and keeps 31 *loro* accounts denominated in three currencies for foreign banks.

The Bank signed two additional agreements to the Global Loan Agreement with the European Investment Bank:

- Amendment No. 1 dated 31 October 2005 – which postpones all deadlines in the agreement by one year,
- Amendment No. 2 dated 28 November 2005 – which supplements the agreement with the rules for using the Municipal Finance Facility and the Municipal Infrastructure Facility (credit lines available under the Global Loan and sponsored by the European Commission).

The Bank cannot use the Global Loan facility due to the fact that EIB did not agree the procedures for establishing pledges on Treasury securities in the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych - KDPW*).

Cooperation with rating agencies
Rating scores are currently assigned to PKO BP SA by four rating agencies: Moody's, Standard & Poor's, Capital Intelligence and Fitch Ratings. These ratings are granted free of charge on the basis of generally available information, in particular interim and annual reports, and on the basis of information provided by the Bank directly to the above agencies.

In 2005, the following rating agencies changed the ratings of PKO BP SA:

- Moody's – increased its financial strength rating twice: on 13 January from D+ to C- and on 28 November from C- to C,
- Capital Intelligence – on 1 February the Bank received a report from this agency on PKO BP SA, dated December 2004, in which the support rating was decreased from 1 to 2.

Increases in the Bank's ratings are constrained by Poland's *country ceiling*, i.e. the level of ratings assigned by the agencies to the Polish economy.

Table 12. PKO BP SA ratings as at 31 December 2005

FITCH RATINGS	
Support rating	2
STANDARD AND POOR'S	
Long-term local currency liabilities rating	BBBpi
MOODY'S INVESTORS SERVICE LTD.	
Long-term deposit rating	A2 stable outlook
Short-term deposit rating	Prime-1 stable outlook
Financial strength	C stable outlook
CAPITAL INTELLIGENCE	
Long-term foreign currency liabilities rating	BBB+
Short-term foreign currency liabilities rating	A2
Local strength	BB+
Support rating	2
Outlook	stable

6. ORGANIZATIONAL AND CAPITAL RELATIONS

6.1 Investment activity

In 2005, the main changes in the capital and organizational relations within the group of related entities were as follows:

– the acquisition of 41.44% of shares in Centrum Obsługi Biznesu Sp. z o.o.,
– the repurchase from minority shareholders of shares in KREDOBANK S.A. (former Kredyt Bank (Ukraina) S.A.), representing 2.367% of the company's share capital; as a result of the above transaction, the Bank holds in total 69.018% of shares in the company's share capital, which entitle to 69.018% of votes at the Annual General Meeting;
– completion of the liquidation of PKO Towarzystwo Finansowe Sp. z o.o.;
– registration of increase in the capital of Kolej Gondolowa Jaworzyna Krynicka S.A.; the percentage of the share capital held by the Bank decreased from 38.23% to 37.83% and the percentage of votes at the Annual General Meeting decreased from 37.03% to 36.85%;
– incorporation of POMERANKA Sp. z o.o – a subsidiary of PKO Inwestycje Sp. z o.o. (which holds 100% of the company's share capital and votes at the Shareholders' Meeting);
– incorporation of UKRPOLINWESTYCJE Sp. z o.o based in Kiev – a subsidiary of PKO Inwestycje Sp. z o.o. (which holds 55% of the company's share capital and votes at the Shareholders' Meeting);
– the acquisition by PKO Inwestycje Sp. z o.o – a subsidiary of the Bank – of shares in Wilanów Investments Sp. z o.o. accounting for 49% of the company's share capital; as a result of the above transaction, PKO Inwestycje Sp. z o.o holds 100% of the company's share capital and 100% of votes at the Shareholders' Meeting;
– the acquisition by Bankowe Towarzystwo Kapitałowe S.A – a subsidiary of the Bank – of shares in FINDER Sp. z o.o. accounting for 42.31% of the company's share capital and 42.31% of votes at the Shareholders' Meeting;
– additional payment to PKO Inwestycje Sp. z o.o. in the total amount of PLN 87,500 thousand for realization of investment projects;
– registration by the National Bank of Ukraine of the change of the name of KREDOBANK S.A - former Kredyt Bank (Ukraina) S.A.,
– registration of the change of the name and scope of activities of Towarzystwo Kapitałowe S.A. – formerly Dom Maklerski BROKER S.A.; the current activities of the company are venture capital activities.

In addition, during the year 2005:

– the Bank sold its shares in Wschodni Bank Cukrownictwa S.A. (WBC S.A.). The shares, which were the subject of the transaction represented 25.1321% of the company's share capital and 25.1441% of votes at its Annual General Meeting. The assets disposed of by the Bank represented a long-term equity investment of PKO BP SA. The Bank acquired the shares in WBC S.A. in 2003 as a result of realisation of the restructuring program of WBC S.A.
– the Bank sold its shares in Łódzka Agencja Rozwoju Regionalnego S.A. The shares, which were the subject of the transaction represented 2.42% of the company's share capital and votes at its Annual General Meeting;
– the Bank made equity investments on the regulated market by making transactions within the portfolios controlled by the Equity Investment Department and BDM. The total value of the portfolios at acquisition cost as at 31 December 2005 was PLN 15.6 million and decreased by PLN 339.4 million in comparison to 31 December 2004.

<u>Work connected with the development of the Group</u>

In 2005, PKO BP carried on work connected with analysis of Central and Eastern European markets and an increase of control over PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.

On 22 December 2005, the Management Board of the Bank provided the Polish Securities and Exchange Commission (KPWiG) with a notification about its intention to acquire registered shares of PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. representing 25% of votes at its Annual General Meeting. As a result of this transaction, the Bank will hold 75% of the company's share capital and votes at the Annual General Meeting.

In the Bank's opinion, the capital and other investments planned by the Bank are feasible and will be adequate to the resources held by the Bank.

6.2 Related party transactions

<u>Transactions involving amounts not exceeding or equal to EUR 500 thousand</u>

In 2005, PKO BP SA provided the following services to related (affiliated) entities:

- keeping bank accounts,
- accepting deposits,
- granting loans and advances,
- issuing debt securities,
- granting bank guarantees and conducting foreign exchange operations.

In addition:

- Under the cooperation agreement with Inteligo Financial Services S.A., in 2005 the Bank made payments to the company for a total amount of PLN 106.9 million; these payments were mainly related to remuneration for services arising from the company's day-to-day operating activities and the re-invoicing of the costs of Centrum Bankowości Elektronicznej Inteligo and the Call Center in Lublin;
- Under the lease agreement with Centrum Finansowe Puławska Sp. z o.o., in 2005 the Bank made payments to the company for a total amount of PLN 59.7 million; these payments were mainly related to rent and operating fees.

All significant PKO BP SA transactions with the PKO BP SA Group entities, including debts due to the Bank from these companies as at 31 December 2005, have been presented in the Additional Notes and Explanations to the financial statements of PKO BP SA for the year 2005.

<u>Granted off-balance sheet liabilities</u>

Off-balance sheet liabilities of a financial and guarantee nature granted to related entities as at the end of 2005 amounted to PLN 453.3 million, and decreased by PLN 259.0 million in comparison to the end of 2004.

Out of the total amount of these liabilities, PLN 328.3 million relates to liabilities granted to Bankowy Fundusz Leasingowy S.A., mainly in respect of open credit lines and issued guarantees, while PLN 81 million represents financial liabilities and open credit lines granted to Centrum Obsługi Biznesu Sp. z o.o.

All transactions with related entities were made on an arm's length basis. Maturity dates range from 1 month to 10 years.

Detailed information concerned organisational relationships is described in Note 1 of additional notes to the financial statements.

7. RISK MANAGEMENT POLICY

The risk management system is one of the most important internal process of the Bank supporting its operations. The system covers both credit risk management and market risk and operating risk management. The aim of the system is to ensure an appropriate level of security and profitability in a changing legal and economic environment.

7.1 Credit risk

The Bank's risk management system is subject to on-going improvement and adjustment to new sources and aspects of banking risk.

Assessment of credit risk related to institutional clients

The assessment of credit risk related to institutional clients is made in terms of the client and transaction. Assessment of the client is reflected in client's rating, which is expressed in one of the eight client rating categories. Assessment of the risk related to the transaction, taking into account the specific nature of the transaction, is reflected in transaction's rating expressed in one of the five transaction rating categories. The synthetic measure of credit risk, reflecting the level of the Bank's credit risk, is the so called combined rating.

Assessment of credit risk related to individual clients

The assessment of credit risk related to individual clients is made in terms of borrowing power and credibility. The assessment of the borrowing power consists in examining the current financial standing of the client, including the sources and amounts of client's income, amounts of client's expenditures and liabilities, etc. Assessment of client's credibility consists in the assessment of credit scoring and assessment of information acquired from external sources and internal files of the Bank. In the third quarter of 2005, the Bank implemented behavioural scoring for revolving loans, which is used to set the limits of revolving loans for individual clients having savings-giro account (ROR) in PKO BP SA. The system covers almost 5 million accounts.

Limits, responsibilities and credit committees

The Bank's system of responsibilities for taking loan decisions depends on:

- the amount of the Bank's loan exposure to the given client or a group of related clients;
- the period and type of loan transaction;
- type of recommendation issued together with scoring assessment (in the case of individual clients).

The decision process is supported by credit committees which issue recommendations for persons responsible for taking decisions from the individual levels of the Bank's organizational structure. The amount of the Bank's loan exposure which requires the involvement of a credit committee in the lending process is uniform within the entire Bank and amounts to PLN 500 thousand.

Independent verification of credit risk assessment

In the event of fulfilling certain specific criteria, the assessment of credit risk related to institutional and individual clients is subject to verification by credit risk assessment forces.

Impairment losses and provisions for credit risk

The Annual General Meeting of the Bank adopted a resolution according to which, as of 1 January 2005, the Bank would prepare both its quarterly consolidated reports and stand-alone reports in accordance with IFRS. Accordingly, in 2005 the Bank started to introduce regulations relating to identification of loan exposures subject to the risk of impairment and calculation of the amount of impairment losses in accordance with IAS 39. Internal regulations relating to classification of loan exposures and recognition of specific provisions in accordance with the decree of the Minister of

Finance on the principles of providing for risks connected with banking activities were amended as appropriate for reporting and taxation purposes.

Portfolio credit risk management methods

In 2005, the Bank continued its work aimed at fully implementing the solutions set out in the draft of the New Capital Accord (NCA) and in the European Union Directive. During that period, the Bank analysed its compliance with the requirements of NCA in the field of internal processes, IT systems and the required data. The analysis would enable the Bank to identify the areas which need to be adjusted and for which the Bank has to prepare a schedule of activities that must be undertaken in order to fulfil the NCA requirements.

The Bank continues its work connected to the development of portfolio credit risk measurement methodology and the widening of the estimated portfolio credit risk indicators. Portfolio credit risk measurement allows the Bank to account for credit risk in the price of its services, assess profitability adjusted for the risk factor, mould collateral policy application and determine the level of impairment write offs based on internal models.

In 2005, the portfolio credit risk analysis was expanded by all companies from the PKO BP SA Group.

In 2005 there was a improvement in the quality of credit portfolio. At the end of 2005, the ratio of total irregular loans calculated according to the decree of the Minister of Finance dated 10 December 2003 on the principles of providing for banking risks amounted 6.9% and decreased by 2.0 percentage points compared with the end of 2004. In accordance with IFRS, the percentage of loan exposures which fulfilled the conditions for individual impairment, representing an approximate equivalent of the share of the ratio of irregular loans to total loans, amounted to 6.3% in 2005.

7.2 Financial risk

In 2005, the Bank updated the rules and procedures concerning currency risk management, derivatives, liquidity and classification of transactions and calculation of capital requirements concerning different types of risk. The amendments to internal regulations were the result of changes in the Bank's activities, changes in macroeconomic and legislative environment, development of risk assessment methodologies and the results of analyses performed by the Bank.

The rules concerning financial risk management adjusted the scope of duties and competences of the Bank's divisions and units dealing with risk management to the reorganization and modernization processes in the Bank.

In 2005, the process of implementing a specialized IT system supporting financial risk management was completed. The system will improve the operating efficiency and IT security of the financial risk management process; it will also increase the level of automation of computations and will allow for their centralization. Currently the Bank conducts post-implementation in order to adjust the IT system to current requirements of the Bank and to the changes in the macroeconomic environment in which the Bank operates.

Financial risk profile of the Bank in 2005

In 2005, as in previous periods, the Bank sustained high PLN liquidity, which throughout the year considerably exceeded the thresholds in all time horizons. In the previous year, the Bank changed PLN liquidity to foreign currency liquidity in order to finance foreign currency loans.

Interest rate risk indicators did not exceed the existing limits.

The Bank used derivatives for investment and balance sheet security purposes; it also held speculative positions on interest rates and foreign currencies.

In 2005, the Bank verified the standing of financial institutions on a regular basis – through verification of granted credit and settlement limits.

7.3 Operational risk

Operational risk is understood in the Bank as the risk of a loss arising from non-compliance or weakness of internal processes, people and systems or external events. Operational risk includes legal risk and does not include the risk of a loss of reputation or the strategic risk. The objective of operational risk management is to optimise the operational efficiency of the Bank by reducing operating losses and costs and increasing the speed and adequacy of the Bank's response to events which are beyond the Bank's control. The Bank mitigates operational risk by undertaking activities aimed at optimising quality management, human resources management and the Bank's organization, as well as by insurance, contingency plans, establishing legal security measures, anticipating the effects of operational events, controlling or avoiding operational risk and reducing adverse effects of operational events.

In 2005, the Bank issued internal regulations concerning classification of operational events and the procedure for communicating operational events, and also the method of calculating economic capital for operational risk.

8. DISTRIBUTION CHANNELS

Branches

At the end of 2005, PKO BP SA had 1,251 units, of which:

- 1,168 units on the retail market, including: 12 regional retail branches, 537 independent branches, 619 subordinated branches; compared with the end of 2004, the total number of units decreased by 15,
- 83 units on the corporate market, including: 13 regional corporate branches, 13 corporate client teams and 57 corporate centres.

Agencies

Year 2005 was the period of further changes in the structure of PKO BP SA agencies. These changes resulted primarily from adjusting the rules of the Bank's cooperation with agencies to the provisions of the amended Banking Law. The Bank prepared a new template for agency contract and extended the scope of banking and actual activities outsourced by the Bank to its agents.

In 2005, the number of agencies decreased by 215 when compared with the previous year. As at 31 December 2005, the Bank cooperated with 2,510 agencies.

During the year 2005, the Bank issued approximately 53 thousand loans via its agencies, for a total amount of PLN 484 million (the amount of loans sold increased by 25.2% when compared with 2004). In addition, agencies acquired more than 50 thousand savings-giro accounts (ROR), which accounts for 7.5% of the total number of accounts acquired by the Bank.

The Bank's clients who make cash withdrawals using pay cards at POS terminals are now able to obtain information about the amount of cash available at their accounts. As at 31 December 2005, PKO BP SA agencies realised approximately 9 million cash withdrawals using cards at POS terminals, for a total amount exceeding PLN 2.8 million.

E-banking

In the area of e-banking, year 2005 marked a period of a constant and dynamic growth in the number of the users of e-banking services provided via the PKO Inteligo service.

Throughout the year 2005, the Bank acquired 757 thousand customers with whom it signed contracts for the use of the Internet and phone services with respect to savings-giro (ROR) accounts and the Partner-type current accounts.

In the segment of customers with savings-giro (ROR) accounts, the percentage of the users of e-banking services amounts to approximately 13%, whereas in the segment of customers with Partner accounts – it amounts to approximately 28%. The total number of the users of e-banking services at the end of 2005, including the Inteligo account users, amounted to approximately 1,450 thousand, which gave the Bank the leading position in the e-banking sector in Poland.

During the year, the Bank expanded its e-banking services to include the possibility of printing out confirmations of realized transactions and sending the confirmations to the telefax number indicated by the client.

In addition, the Bank provided its Internet clients with the possibility of submitting loan requests under the Quick Credit Service facility. In the second half of 2005, the Bank expanded the range of clients using e-banking services to include housing communities holding the "Nasza Wspólnota" service package.

In the area of services for corporate client, the significant emphasis has been put on the further dissemination of *Multi Cash* electronic banking system. *Multi Cash* slowly becomes the major channel of communication between the Bank and corporate customers, at the same time being the tool for cost saving in this area.

The extensive usage confirmation of the electronic banking systems by the corporate customers is the share of electronic banking transfers in the total number of transfers, which amounted to almost 63% in second half of 2005. In comparison to 2004, in 2005 there was an increase of the number of contracts for *Multi Cash* system by almost 243%.

Self-service terminals and personnel support equipment

At the end of 2005, PKO BP SA had the largest ATM network in Poland, which accounted for 22%[7] of all ATMs in Poland. At the end of 2005, the number of ATMs available to the Bank's clients was 1,862 (including 840 ATMs with deposit function). The PKO BP SA ATMs carried out more than 191 million transactions for a total amount exceeding PLN 46.5 billion. The percentage of transactions carried out at PKO BP SA ATMs using cards issued by other banks amounted to 5.22%. During the year 2005, the Bank accepted over 142 thousand deposit envelopes and sold 302 thousand Simplus mobile phone cards via its ATM network.

At the end of 2005, the number of self-service terminals available to customers within the PKO BP SA network amounted to 222.

At the end of 2005, the number of cash dispensers supporting the work of the PKO BP SA personnel amounted to 277.

9. INTERNAL CONSIDERATIONS

9.1 Organization of the Bank

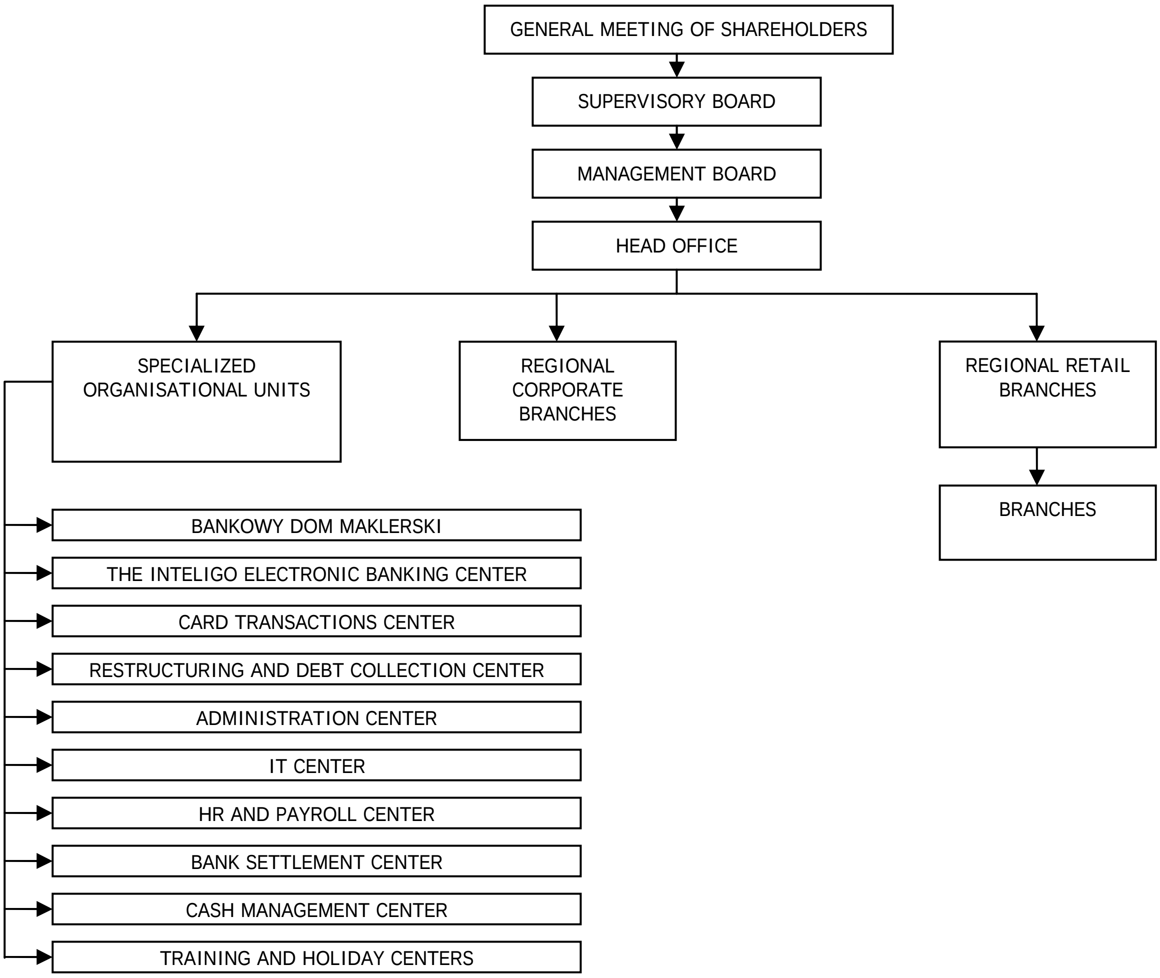
Year 2005 was the first full financial year in which the Bank operated within the structures created as a result of the reorganisation process. The primary purpose of this reorganisation was to create appriopriate conditions for the Bank's business activities development and to increase the effectiveness of the Bank's operations and control over the Bank's expenses as well as to prepare the Bank for implementation of the Integrated Information System, in particular by:

- focusing the operations of the business structures exclusively on tasks related to sales and on satisfying the requirements of the particular customer segments,
- concentrating support functions relating to the whole Bank in specialized organisational units or head office departments,
- clear assignation of responsibilities for business performance and cost optimisation,
- introducing changes to the system of internal regulations by replacing the existing instructions with principles, product certificates and procedures,
- standarisation of organisational structures for distribution network units.

In terms of vertical structure, the Bank operates through separate functional and organisational areas which group functional sections and the organisational units of the Bank and the Bank's head office which are outside these functional sections. The Bank's vertical structure allows for clear assignation of tasks, supervision over the process of completion of these tasks and assessment of the head office organisational units, regional corporate branches, regional retail branches, branches and specialized organisational units.

[7] *Data www.karty.pl – as at 16.11.2005*

Organisational structure of the Bank



9.2 Management and Supervisory Boards in the reporting period

Members of Management Board in the reporting period

Starting from 19 May 2005, members of the Bank's Management Board are appointed for a common term of three years.

Table 13. Members of Management Board in the reporting period

No.	Name and surname	Function	Date of appointment
1.	Andrzej Podsiadło	President of Management Board	20.06.2002; 19.05.2005 re-appointed to another term
2.	Kazimierz Małecki	First Deputy President	04.07.2002; 19.05.2005 re-appointed to another term
3.	Danuta Demianiuk	Deputy President	02.01.2003; 16.09.2005 re-appointed to another term
4.	Sławomir Skrzypek	Deputy President	20.12.2005
5.	Piotr Kamiński	Member	10.03.2003; 16.09.2005 re-appointed to another term
6.	Jacek Obłękowski	Member	20.06.2002; 19.05.2005 re-appointed to another term
7.	Krystyna Szewczyk	Member	14.05.2004; 16.09.2005 re-appointed to another term

Other functions performed by Board members during the reporting period

Table 14. Other functions performed by Board members during the reporting period

No.	Name and surname	Assets and Capital & Liabilities Management Committee	Credit Committee	Steering Committee for the Integrated Information System	Steering Committee for Implementation of Branch Modernisation Program (set up on 15.03.2005)
1.	Kazimierz Małecki	Chairman		Chairman	
2.	Danuta Demianiuk	Vice-chairman	Chairman	Member	Vice-chairman until 19.12.2005
3.	Sławomir Skrzypek				Vice-chairman since 20.12.2005
4.	Piotr Kamiński		Vice-chairman		
5.	Jacek Obłękowski			Vice-chairman	Chairman
6.	Krystyna Szewczyk	Member		Vice-chairman	Member

Members of Supervisory Board

Table 15. Supervisory Board of the Bank in the reporting period

No.	Name and surname	Function	Date of appointment
1.	Bazyl Samojlik	Chairman Member Chairman	25.08.2003 19.05.2005 20.05.2005
2.	Urszula Pałaszek	Member Vice-chairman	19.05.2005 20.05.2005
3.	Krzysztof Zdanowski	Member Secretary	19.05.2005 23.06.2005
4.	Andrzej Giryn	Member Member	25.03.2002 19.05.2005
5.	Stanisław Kasiewicz	Member Member	25.08.2003 19.05.2005
6.	Ryszard Kokoszczyński	Vice-chairman Member	06.06.2002 19.05.2005
7.	Jerzy Osiatyński	Member Member	25.03.2002 19.05.2005
8.	Czesława Siwek	Member	19.05.2005
9.	Władysław Szymański	Member Member	25.03.2002 19.05.2005
10.	Arkadiusz Kamiński*	Secretary	25.04.2002

*The appointment of Mr Arkadiusz Kamiński expired on 29 April 2005 due to submitted resignation.

Holders of commercial powers of attorney, Board meetings and implementation of resolutions of General Meetings and recommendations of the State Treasury Minister

As at 31 December 2004, there were 17 holders of commercial powers of attorney in PKO BP SA. During the year 2005, the Management Board of the Bank appointed 4 and dismissed 3 holders of commercial powers of attorney. As at 31 December 2005, there were 18 holders of commercial powers of attorney.

During the year 2005, the Management Board held 51 minuted meetings and took 364 resolutions.

The most important activities and decisions taken by the Management Board, which had an influence on the economic and financial position and activity of the Bank, have been presented in the relevant parts of the Directors' Report.

The Annual General Meeting of PKO BP SA was held on 19 May 2005.

The resolutions passed during the Annual General Meeting were implemented by PKO BP SA.

Rules for appointing and dismissing members of Management Board

In accordance with § 19 of the Bank's Articles of Association, Management Board members are appointed by the Supervisory Board for a common three-year term. Board members may only be dismissed for important reasons.

Authorisations granted to members Management Board

In accordance with § 20 of the Bank's Articles of Association, the scope of Management Board responsibilities includes all matters related to the conducting of Bank's affairs that have not been reserved by law or Articles of Association for the General Meeting or Supervisory Board, including purchase and disposal of property, property interests or perpetual usufruct, which do not require consent of the General Meeting in accordance with § 9 section 1 point 5 of the Bank's Articles of Association.

Contracts concluded between the issuer and persons performing management functions

In accordance with the definition contained in § 1 section 2.1 point 35 letter a) of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information provided by the issuers of securities (Journal of Laws No. 209 item 1744), members of Management Board are the persons who manage the Bank.

With each member of Management Board, the Bank concluded two contracts binding in 2005, which provide for compensation in the event of resignation or dismissal without an important reason:

- employment contract, which provides for a severance payment amounting to a 3-month basic salary recently received by the Board member,
- anti-competition contract, which provides compensation for complying with competition ban over a 6-month period after termination of the employment contract. This compensation amounts to 100% of the monthly basic salary received by the Board member prior to termination of the employment contract and is to be paid in arrears over the period of the ban.

The monthly basic salary is the equivalent of six times average remuneration determined in the so-called "chimney law" (Act of 3 March 2000 on the remuneration of persons managing certain legal entities). (Journal of Laws No. 26, item 306 with subsequent changes)

Emoluments and other benefits provided to members of management and supervisory boards

Full information on emoluments and other benefits provided to members of the Bank's Management and Supervisory Boards in the reporting period has been presented in Note 46 of additional notes to the Bank's financial statements.

Bank's shares held by members of Management and Supervisory Boards

Bank's shares held by members of Management and Supervisory Boards as at 31 December 2005. The nominal value is PLN 1 per share.

Table 16. Shares held by members of Management and Supervisory Boards

No.	Name and surname	Number of shares held at the date of submitting this report
I.	**Management Board**	
1.	Andrzej Podsiadło	450
2.	Kazimierz Małecki	2627
3.	Sławomir Skrzypek	--------------------
4.	Danuta Demianiuk	--------------------
5.	Piotr Kamiński	--------------------
6.	Jacek Obłękowski	512
7.	Krystyna Szewczyk	--------------------
II.	**Supervisory Board**	
1.	Bazyl Samojlik	--------------------
2.	Urszula Pałaszek	--------------------
3.	Krzysztof Zdanowski	--------------------
4.	Andrzej Giryn	--------------------
5.	Stanisław Kasiewicz	106
6.	Ryszard Kokoszczyński	--------------------
7.	Jerzy Osiatyński	--------------------
8.	Czesława Siwek	4000
9.	Władysław Szymański	--------------------

The Bank's Management and Supervisory Boards' members did not hold any shares of companies related with the Bank.

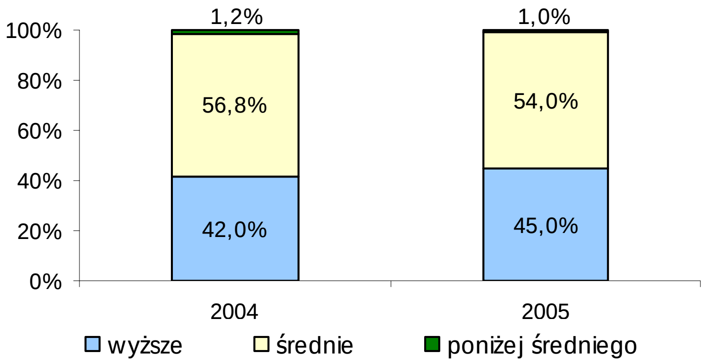
9.3 Human Resources

The number of PKO BP SA employees as at 31 December 2005 was 33,479 (in terms of full-time equivalent) and decreased by 1,907 i.e. 5.4% compared to 31 December 2004. Average number of employees in 2005 amounted to 34,522 (in terms of full-time equivalent) and decreased by 1,374 compared to 2004.

During the year 2005, the Bank continued the process of optimising employment in its organisational units by adjusting the number of employees, including specialized staff, to the tasks resulting from its strategic goals.

The activities undertaken by the Bank in 2005 were aimed at improving work effectiveness and efficiency and developing professional staff to provide clients with top quality services, face competition and market challenges and build up firm relations with the Bank's clients.

The employees of PKO BP SA by education level comlition



Remuneration system

The incentive systems existing in the Bank have been adjusted to the new organisational and functional structure of the Bank. They account for the specific nature of the business conducted in the retail and corporate markets and the separate activities of the specialized organisational units supporting the work of other departments.

The Bank introduced a system of bonuses aimed at intensifying business activities in the retail and corporate markets, improving work effectiveness and creating the Bank's value, including stimulating cost management skills.

Training

The main directions of training activities in 2005 were determined based on the needs of particular business areas and employees' individual needs in respect of professional development. Particular emphasis was placed on further strengthening of client-oriented organisational culture.

During the year 2005, more than 107 thousand employees participated in training, of which 93% participated in in-house training conducted by internal lecturers.

The Bank's training policy focused on:

- improving employees' selling skills and pro-client attitudes,
- developing employees' specialist skills, including those connected with implementation of new services, products and technologies,
- preparing employees for implementation of new technologies.

9.4 Service promotion and image building

Promotional activities

Promotional activities of the Bank in 2005 concentrated mainly upon the following:

- building up the image of the Bank as a modern leader in the area of banking, providing a multi-channel access to products and services;
- strengthening positive and consistent image of the Bank as a patron of Polish national culture and sponsor of Polish Olympic organisations;
- maintaining the leading position of the Bank on the retail market – promotional activities were focused on carrying out promotional campaigns for the Bank's products and services, including:
  - promotional campaign of a new cash loan facility called QUICK CREDIT SERVICE,
  - the AUTO PARTNER loan,
  - mortgage loan WŁASNY KĄT ("Own flat"),
  - consolidation loan,
  - subscribed deposits,
  - credit cards, including in particular the MasterCard UEFA Champions League,
  - QUICK CREDIT LIMIT FOR BUSINESSES – a new offer for small and medium-sized enterprises,
  - in Autumn 2005, the Bank carried out an image and product campaign "E-baking leader", which finalised the 2005 campaign supporting the sales of the PKO-Inteligo e-banking services; the aim of this campaign was to strengthen the positive features of the Bank's image as a reliable and safe financial institution and, at the same time, emphasize the changes connected with innovation and improvement of the efficiency of PKO BP SA operations,
  - private and personal banking support – essential for enhancing the prestige of the PKO BP SA brand – was provided in the form of an annual program involving PR and advertising activities;
- strengthening the Bank's position in the corporate market by creating an image of the Bank as professional advisor in the market of financial services;

  The Bank carried out intense promotional activities in the area of corporate banking by making an effective use of selected business events (seminars, conferences, meetings, business competitions), especially of a local nature, as well as promoting individual financial services addressed to various client segments. In doing this, the Bank referred to successful sale of its products, such as syndicated loans, municipal bonds or the European Program.
- as part of implementation of the Bank's marketing strategy for T-bonds, the Bank carried out a multimedia campaign for T-bonds using a new graphic layout of advertisements.

The Bank's sponsorship and charity activities were aimed at supporting culture, life-saving and health care. The Bank has supported almost 2,000 undertakings. In 2005, the Bank continued the long-term program "PKO Bank Polski Kulturze Narodowej" (PKO BP for National Culture), under which the Bank acted as the patron of: renovation of a replica of Michelangelo's fresco "The Last Judgment" and the ceremony of making this works available to the public, which was held at the National Museum in Cracow, ceremonial concert "V Wielki Recital" (Fifth Great Recital) held to commemorate the 85th anniversary of foundation of the Adam Mickiewicz University in Poznań, exhibition of manuscripts accompanying the Ninth Easter Ludwig van Beethoven Festival and anniversary concerts of Wanda Warska and Hanna Banaszak. The Bank continued to cooperate with the National Philharmonic, National Library and the National Museum in Warsaw (exhibition of sculptures by W. Hasior). The Bank was the general sponsor of another edition of the Polish Radio Music Festival, which commemorated the 80th anniversary of the Polish Radio, the Andrzej Drawicz Prize, the "Rawa Blues" Festival at Rawa Mazowiecka and the 48th International Festival of Contemporary Music "Warszawska Jesień" (Warsaw Autumn).

As part of the "PKO Bank Polski Blisko Ciebie" (PKO BP Close to You) program, the Bank sponsored, among others, the Stage-play Song Competition (Przegląd Piosenki Aktorskiej) in Wrocław and an international cross-country skiing event "Bieg Piastów", and subsidized the continuation and promotion of two social programs: "Cała Polska czyta dzieciom" (Whole Poland Reads to Children) and educational program "Zostańcie z nami" (Stay with Us) organised by the Foundation of the Weekly Polityka (Fundacja Tygodnika Polityka). The Bank sponsored also a few Students' Days (Juwenalia)

As part of the "PKO Bank Polski Reprezentacji Olimpijskiej" (PKO BP for the Olympic Representation) program, in 2005 the Bank continued its cooperation with the Polish Olympic Foundation (Polska Fundacja Olimpijska). The Bank was a sponsor of the Polish women's foil team and the title sponsor of the Word Cup in women's foil "Dwór Artusa PKO BP" and the sponsor of "For Wołodyjowski's Sabre Competition (Turniej o Szablę Wołodyjowskiego).

In the area of health care and health promotion, the Bank provided financing for, among others, Fundacja Rozwoju Kardiochirurgii (Foundation for Cardiosurgery Development) – to support the Polish artificial heart program, Fundacja na rzecz Przeszczepów Wątroby i Wspierania Postępu w Chirurgii Przewodu Pokarmowego (Liver Transplant Foundation), Fundacja Służby Zdrowia Samodzielnego Publicznego Wojewódzkiego Szpitala Zespolonego w Szczecinie (the Szczecin Public Hospital Foundation), Śląska Akademia Medyczna (The Silesian Medical Academy) – for the purchase of special apparatus for laparoscopic surgery, Szpital Uniwersytecki w Krakowie (The University Hospital in Cracow), Szpital Zachodni im. Jana Pawła II w Grodzisku Mazowieckim (a hospital in Grodzisk Mazowiecki), Caritas Polska and PCK Zarząd Główny (Polish Red Cross Central Management Board) – assistance for the victims of natural disasters in Asia. Additionally, the Bank made a donation for the "Różowa Konwalia" (Pink Lily of the Valley) program carried out by Polskie Towarzystwo Ginekologii Onkologicznej (Polish Oncologic Gynaecology Association), provided financing for the purchase of specialist medical equipment for Fundacja "Spełnionych Marzeń" (Dreams Fulfilled Foundation) and Stowarzyszenie Pomocy Dzieciom z Chorobami Serca i Nerek (Association for Children with Heart and Kidney Diseases).

<u>Awards and Distinctions</u>

In 2005, PKO BP SA received a number of awards and distinctions. The most important are listed below:

- "Debut of the Year 2004" (Debiut 2004 Roku) on the Warsaw Stock Exchange - an award granted by the Stock Exchange Newspaper PARKIET for the last-year privatisation of PKO BP SA – the biggest one in the history of the Warsaw Stock Exchange (February 2005);
- "Superbrands Polska 2004" - title granted to the Bank in recognition of the leading Polish brand in the financial sector (February 2005);
- "Employer of the Year" (Pracodawca Roku) – title awarded by a students' organisation, AIESEC (April 2005),
- "European Medal" – an award granted to the Bank in the "services" category for the "European Program" and to the Bank's subsidiary „eService" for "Authorisation of transactions carried out using pay cards" in the 10th edition of the competition organised by BCC and the European Integration Committee (April 2005);
- Europroduct – Promotional title granted Bank's products and services in the 8th Competition Edition organised by Polish Trade Association, in "service" category – for The European Program and in "product" category – for the Consolidation Loan, "Nasz Remont" Credit STUDENT credit card, and for current account SUPERKONTO with INTELIGO package;
- "Benefactor of the Year 2004" (Dobroczyńca Roku 2004) – two titles granted to PKO BP SA in annual competition organised by the Academy for the Development of Philanthropy in Poland (Akademia Rozwoju Filantropii w Polsce); in the "culture and arts" category – for supporting culture and arts institutions, including the National Philharmonic in Warsaw, and in the "health care and health promotion" category – together with Inteligo Financial Services – for providing financial assistance for the Polish Artificial Heart Program (April 2005);
- Golden Rock 2004 – prize awarded by MasterCard Europe for issuing the PKO Euro Biznes card – the first in Poland MasterCard credit card for small and medium-sized enterprises (April 2005);
- Rock Awards 2004 – an award granted to the Bank's subsidiary, „eService", for the greatest achievement in developing the network of points of sale accepting MasterCard pay cards (April 2005),
- Golden Jubilee Award – granted to the President of PKO BP SA by MasterCard Europe for a continued support of MasterCard Europe in Poland, and in particular for acting as chairman of Europay Forum Polska (April 2005);

- "Brand Worth of European Trust" (Marka Godna Europejskiego Zaufania) – title granted to the Bank by "Reader's Digest" in the current year edition of the European market research among its readers (April 2005);
- First place in Newsweek's ranking of "the most valuable company" (April 2005),
- "The Philharmonic's Sponsor of the Year" (Sponsor Roku Filharmonii) – title granted to the Bank for its last-year cooperation with the National Philharmonic (June 2005);
- Diamond to the Golden Statue of the Polish Business Leader awarded by the Business Centre Club to companies that were previously awarded the Polish Business Leader statue. PKO BP SA received the Diamond award for the third time (June 2005);
- A distinction granted to PKO BP SA in the Students' Employers Ranking KOMPAS, in the "financial institution" category (June 2005),
- First place in FORBES's ranking (September issue) granted to PKO BP SA in the category of "quick loans" for one of the cheapest revolving loan facilities and reasonable credit card interest rates,
- Arts & Business Awards 2005 of the Commitment to Europe art & business Foundation; PKO BP SA received an award in the "Sponsor art & business" category; in addition, the Bank received a distinction in the category of "Partnership of the Year" for its long-term cooperation with Willa Decjusza in Cracow, which may serve as an example of a long-term and mutually beneficial cooperation of a commercial firm with a cultural institution (November 2005),
- "Laureate" title in the "Bank Dostępny" (Accessible Bank) competition organised by the Foundation "Otwarte Drzwi" (Open Door) and the National Bank of Poland, in two categories: Clients Award – granted to PKO BP SA for the Inteligo account, and in the "Duży Bank" (Big Bank) category – granted to the First Branch of PKO BP SA in Lwówek Śląski (December 2005).

10. INVESTORS RELATIONS

10.1 Shareholders' holdings, directly or indirectly through subsidiaries, at least 5% of total votes at the Annual General Meeting

According to the Bank's knowledge, the State Treasury is a shareholder which holds, directly or indirectly through subsidiaries, at least 5% of total votes at the Bank's Annual General Meeting.

According to the Bank's knowledge, the State Treasury had the following number of PKO BP SA shares as at 31 December 2005:

Table 17. Shares held by the State Treasury as at 31 December 2005

Shareholder	Number of shares held	Percentage of Bank's share capital	Number of votes at AGM resulting from shares held	Percentage of votes held at AGM
State Treasury	515 711 446	51.57%	515 711 446	51.57%

10.2 Changes in Articles of Association

During the year, the Bank's Articles of Association were changed by two resolutions of the Ordinary Annual Meeting of PKO BP SA adopted on 19 May 2005:

- Resolution No. 29/2005 regarding amendments to the Articles of Association of PKO BP SA – the contents of § 6 of the Articles were changed; the previous registered "B" and "C" series shares were converted to bearer shares, and sections 3 and 4 were deleted from § 6 of the Articles,
- Resolution No. 30/2005 regarding amendments to the Articles of Association of PKO BP SA – the contents of § 11 section 1 were changed; in accordance with the new wording of § 11 section 1 of the Articles, Supervisory Board is appointed for a common term, other contents of § 11 section 1 did not change.

The consolidated text of the Bank's Articles of Association is included on the website of PKO BP SA.

10.3 Securities' issues

The Bank did not issue any securities in the period covered by this report.

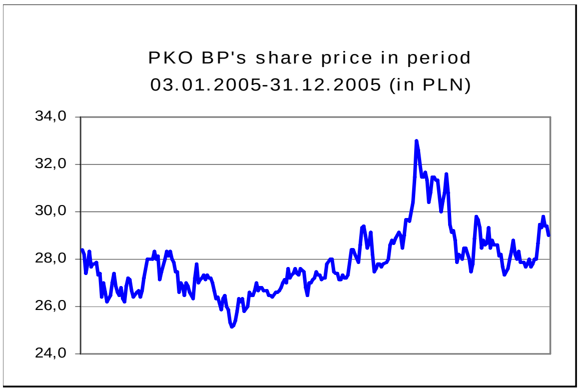
10.4 Re-acquisition of own shares

During the period covered by this report, the Bank did not re-acquire its shares on its own account.

10.5 Listed price of the Bank's shares

The price of the Bank's shares as at 31 December 2005 amounted to PLN 29.00 and increased by PLN 1.20 i.e. 4.3% compared to the price as at 31 December 2004.

During the year 2005, the price of the PKO BP SA shares fluctuated from PLN 25.10 as at 28 April 2005 to PLN 33.00 as at 19 September 2005. The following factors had impact on the level of the prices of the Bank's shares: trends prevailing on the Stock Exchange and the Bank's financial results.



10.6 Compliance with corporate governance rules

PKO BP SA complies with all corporate governance rules enacted by resolution no. 44/1062/2004 of the Stock Exchange Board dated 15 December 2004 on adopting corporate governance rules for joint stock companies being the issuers of shares, convertible bonds or bonds with priority right admitted to trading on the official market, except for the following rules: Rule 5 (relating to the requirement to document the participation of a shareholder's representative at AGM), Rule 24 (relating to the details of personal, factual or organisational relations between members of the Supervisory Board and the given shareholder), Rule 28 (relating to the activities of the Supervisory Board, including appointment of Audit and Remuneration Committees), Rule 38 (relating to the salaries of Management Board members), Rule 43 (relating to selection of the auditors), with which the Bank complies only partially, and Rule 20 (relating to independent members of Supervisory Board), which the Bank does not comply with at all.

10.7 Employee shares

Acting at the request of the State Treasury Minister under the Act of 30 August 1996 on commercialisation and privatisation (Journal of Laws 2002 No. 171, item 1397 with subsequent amendments) and § 14 section 1 of the decree of the State Treasury Minister dated 29 January 2003 on detailed principles for dividing entitled employees into groups, determining the number of shares falling to each of those groups and the procedure for acquiring shares by entitled employees (Journal of Laws No. 35, item 303), the Bank, on 4 April 2005, notified the public of commencing the process of free-of-charge transfer of 105,000,000 "B" series PKO BP SA shares to entitled employees. As at 31 December 2005, the number of shares assigned to employees amounted to 103,763,142.

The process of a free-of-charge transfer of shares to entitled persons, including the signing of agreements for a free-of-charge transfer of shares and the issuing of deposit certificates confirming the transfer of ownership to the entitled person, was carried out starting from 6 April 2005 at locations and dates which were determined separately for the employees entitled to acquire PKO BP SA shares free of charge and the successors of the entitled employees.

In accordance with Art. 38.3 of the Act on Commercialisation and Privatisation, in correspondence with Art. 48 of the Banking Law, employee shares which were acquired free of charge by entitled employees may not be disposed of within 2 years of the date on which the first shares according to general rules were transferred by the State Treasury, and the employee shares acquired by members of Management Board – within 3 years of the date on which the first shares according to general rules were transferred by the State Treasury.

10.8 Holders of any type of securities giving special control rights with regard to the issuer

PKO BP SA does not issue any securities which give special control rights with regard to the Bank. However, the State Treasury holds a package of 515,711,446 shares which give right to 51.57% of votes at the Annual General Meeting.

10.9 Restrictions for the transfer of ownership of securities and exercising voting rights

In accordance with the provisions of the Bank's Articles of Association, the transfer of "A" series shares requires consent of the Council of Ministers in the form of resolution. The transfer of "A" series shares after acquiring such consent results in the expiry of the above restrictions.

11. SIGNIFICANT CONTRACTS AND IMPORTANT AGREEMENTS WITH THE CENTRAL BANK OR SUPERVISORY BODIES

During the year 2005, the Bank signed the following significant contracts:

- On 1 June 2005, the Bank signed a contract with a consulting firm for the provision of consulting services relating to preparation and implementation of a plan for optimisation of selected costs of the Bank.
- On 29 July 2005, PKO BP SA signed a Letter of Intent with Poczta Polska (Polish Mail) regarding an extension of cooperation between these two companies.
- On 28 August 2005, the Bank concluded property and civil liability insurance contracts (in total, four insurance policies). Insurance coverage was provided to the Bank by a co-insurance pool comprising: TU Allianz Polska SA (60% share in risk) and PZU SA (40% share in risk).
- On 7 October 2005, the Bank signed a contract for the sale of a portfolio of retail non-performing loans classified as "loss" (balance sheet and off-balance sheet items). The amount due under this transaction was received by the Bank into its bank account on 20 October 2005.
- During the year 2005, the Bank signed 12 significant loan agreement with one borrower, for a total amount of PLN 3,760 million.
- On 22 December 2005, the Bank signed a syndicated loan agreement with a significant borrower from the fuel industry, which consists of tranche A of EUR 250 million and tranche B of EUR 750 million (the share of the Bank amounted respectively to: EUR 22.7 million and EUR 68.2 million). The total value of services arising from long-term agreements with that borrower meets the criteria referred to in § 2 section 2 of the decree of the Minister of Finance of 19 October 2005 on current and periodic information provided by the issuers of securities.
- The Bank concluded a syndicated loan agreement with a customer from the gas fuel production and distribution industry, which consists of tranche A of EUR 600 million and tranche B of EUR 300 million, and which can be used in either EUR, USD or PLN. The share of PKO BP SA in these tranches amounts to EUR 100 million and EUR 50 million, respectively.

In 2005, the Bank did not enter into any important agreements with either the Central Bank or the supervisory bodies.

As at the date of this Report, the Bank is not aware of any agreements which might result in changes to the proportion of shares held by its current shareholders, except for the agreement between PKO

BP SA and the Ministry of State Treasury relating to the granting of shares to entitled employees in accordance with the Act of 30 August 1996 on commercialization and privatization.

12. LOANS TAKEN, AND LOAN, GUARANTEE AND SURETYSHIP AGREEMENTS

During the year 2005, the Bank did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

13. UNDERWRITING AGREEMENTS AND GUARANTEES GRANTED TO SUBSIDIARIES

In 2005, PKO BP SA did not sign any underwriting agreements with Group companies.

The guarantee granted by PKO BP SA to its subsidiary - Bankowe Towarzystwo Kapitałowe S.A. (formerly Dom Maklerski BROKER S.A.) for an amount of PLN 105 million expired on 31 January 2005. This guarantee was issued as a security for the company's payments to the Stock Exchange Transaction Settlement Guarantee Fund (*Fundusz Gwarantowania Rozliczeń Transakcji Giełdowych*).

On 6 October 2005, PKO BP SA issued a guarantee to its subsidiary – Bankowy Fundusz Leasingowy S.A. for an amount up to PLN 22 million. The guarantee provides a security for the company's repayment of the first tranche of the loan granted by the European Bank for Reconstruction and Development of London.

On 7 November 2005, PKO BP SA issued a guarantee to its subsidiary - Centrum Elektronicznych Usług Płatniczych eService S.A. for an amount up to PLN 100 thousand. The guarantee provides a security for a contract concluded with POLKOMTEL S.A. for the sale of prepaid phone card units.

As at 31 December 2005, the value of guarantee arising from the Agreement for Organisation, Conducting and Servicing of a Bond Issuance Program, concluded between PKO BP SA and its subsidiary - Bankowy Fundusz Leasingowy S.A., amounted to PLN 25 million. This guarantee relates to the closing of an issue of bonds.

14. ENFORCEABLE TITLES ISSUED BY THE BANK

During the year 2005, PKO BP SA issued 30,284 banking enforceable titles for a total amount of PLN 324,204,403.

15. SIGNIFICANT POST-BALANCE SHEET EVENTS

- On 1 January 2006, PKO BP SA introduced a new Table of Banking Fees and Commission Rates. The changes result from market conditions and an extended scope of the Bank's operations.
- On 24 January 2006, PKO BP SA concluded with Credit Suisse Asset Management Holding Europe (Luxembourg) S.A. a conditional agreement for the sale of 45,000 registered preference shares of PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. The Bank will acquire these shares once it fulfils all the conditions specified in the agreement. The expected transfer of the shares will take place by the end of the first quarter 2006. The shares acquired by the Bank account for 25% of votes at the company's Annual General Meeting. As a result of this acquisition, PKO BP SA will hold 75% of shares in the company's share capital and votes at the Annual General Meeting. The price for the shares acquired by the Bank amounts to PLN 55 million.
- On 25 January 2006, PKO BP SA concluded an agreement with its customer for issuing banking guarantee. Under this agreement, the Bank is required to issue, at the request of the customer, a guarantee to the Customs Office in respect of an excise security amounting to 309 million. The agreement for issuing banking guarantee binds from 1 February 2006 to 31 January 2007, plus a 90-day liability period. As at the date of this agreement, the total value of all agreements signed by the Bank with that customer amounted to PLN 1,104.9 million.
- On 27 January 2006, PKO BP SA concluded a Shareholders' Agreement with the City of Sopot and NDI S.A., with the participation of Centrum Haffnera Sp. z o.o., for an investment project relating to re-vitalisation of Sopot's tourist centre.

  The Bank's involvement in this project will comprise capital involvement (the Bank will take up app. 49.4% of shares in Centrum Haffnera Sp. z o.o.) and loans.

The Bank will participate in the above project upon the fulfilment of the conditions specified in the Agreement.

- On 14 February 2006, the Bank received a report from the rating agency Capital Intelligence in which the rating for the financial strength of PKO BP SA was increased from BB+ to BBB- with a stable outlook. This change was made owing to the improving quality of the Bank's loan portfolio and increasing effectiveness of its operations.
- On 8 March 2006, the Supervisory Board of the Bank made a resolution, in which it accepted the resignation of Mr Piotr Kamiński from acting function as Member of the Board from date 9 March i.e. effective date when Piotr Kamiński was appointed as a Vice-chairman of the Bank Pocztowy S.A. Board.
- On 16 March 2006 PKO BP received approval of the chairman of Office of Competition and Consumer Protection for concentration resulting from the overtake the control through PKO BP SA over PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych. S.A.

16. CONTRACT WITH THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

On 8 August 2005, the Bank entered into a contract with Ernst & Young Audit Sp. z o.o., an entity authorised to audit financial statements, for an audit of stand-alone financial statements and consolidated financial statements for the years ending 31 December 2005, 2006 and 2007 and a review of stand-alone financial statements and consolidated financial statements for 6-month periods ending 30 June 2005, 2006 and 2007.

Total fees under the contracts related to reviews and audits of standalone and consolidated financial statements amounted to PLN 1,216.3 thousand (net of VAT) for the year 2005 and PLN 875.0 thousand (net of VAT) for the year 2004.

The total amount of fees arising from contracts concluded with Ernst & Young Audit Sp. z o.o. for remaining services other than reviews and audits of financial statements was as follows: PLN 2,319.4 thousand (net of VAT) for the year 2005 and PLN 2,889.0 thousand (net of VAT) for the year 2004.

The significant part of remuneration arising from contracts other than reviews and audits of financial statement concluded between the Bank and Ernst & Young Audit Sp. z o.o. was associated with the assistance in IFRS implementation in 2005 and activities concerning the privatisation of the Bank in 2004.

17. MANAGEMENT BOARD REPRESENTATIONS

The Management Board of PKO BP SA hereby represents that, according to its best knowledge:

– the annual financial statements and comparative data were prepared in accordance with the accounting principles in force and give a true and fair view of the Bank's financial position and results;
– the annual Directors' Report on the Bank's activities gives a true view of the Bank's development, achievements and standing, including a description of the main risks.

The Management Board of PKO BP SA hereby represents that the entity authorised to audit financial statements which performed an audit of the annual financial statements of PKO BP SA was selected in accordance with law, and that both this entity and the certified auditors who performed this audit met the conditions required to issue an impartial and independent audit opinion, in accordance with the relevant national laws.

This *Directors' Report on the activities of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna in 2005* consists of 41 consecutively numbered pages.

_ _
President of Management Board
Andrzej Podsiadło

_ _
First Deputy President
Kazimierz Małecki

_ _
Deputy President
Danuta Demianiuk

_ _
Deputy President
Sławomir Skrzypek

_ _
Member
Jacek Obłękowski

_ _
Member
Krystyna Szewczyk

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

1. We have audited the attached financial statements for the year ended 31 December 2005 of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank") located at Warsaw, Puławska 15 Street, including:
   - the profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 1,676,798 thousand zlotys,
   - the balance sheet as at 31 December 2005 with total assets amounting to 90,327,516 thousand zlotys,
   - the statement of changes in shareholders' equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders' equity amounting to 511,727 thousand zlotys,
   - the cash flow statement for the period from 1 January 2005 to 31 December 2005 with a net cash outflow amounting to 2,615,039 thousand zlotys, and
   - the additional notes and explanations ("the attached financial statements").

2. The truth and fairness of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

3. We conducted our audit of the financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether the financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management, as well as evaluating the overall presentation of financial statements. We believe our audit has provided a reasonable basis to express our opinion on the financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2005 to 31 December 2005, as well as its financial position as at 31 December 2005;
   - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
   - are, in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's articles of association.

5. We have read the "Directors' Report for the period from 1 January 2005 to 31 December 2005 and the rules of preparation of annual statements" ("the Directors' Report") and concluded that the information derived from the attached financial statements reconciles with the Directors' Report. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).

on behalf of
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Ident. no. 130

(-)

Dominik Januszewski
Certified Auditor No 9707/7255

(-)

Dorota Snarska-Kuman
Certified Auditor No 9529/7104

Warsaw, 21 March 2006

POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SPÓŁKA AKCYJNA

LONG-FORM REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

I. GENERAL NOTES

1. Background

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (hereinafter "PKO BP SA", "the Bank", "the Company") was incorporated on the basis of the Decree of the Council of Ministers dated, 18 January 2000 on the transformation of the state-owned bank, Powszechna Kasa Oszczędności bank państwowy, into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (Journal of Laws of 2000, No 5, item 55) with its registered office located in Warsaw, Puławska 15 Street.

On 12 July 2001 the Bank was entered in the Register of Entrepreneurs of the National Court Register, entry no. KRS 0000026438.

The Bank's NIP number is 525-000-77-38, which was granted on 14 June 1993 and its REGON statistical number is 016298263, which was granted on 18 April 2000.

PKO BP SA is the holding company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group. Details of transactions with affiliated entities and the list of companies in which the Bank holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 1 and 45 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2005.

According to the Statutes of PKO BP SA and the obtained license the Bank's business activities include:

- accepting call (demand) or term deposits and keeping deposit accounts,
- keeping other types of bank accounts,
- extending loans,
- extending cash advances,
- extending bank guarantees and sureties,
- performing bank settlements in the forms recognized in both domestic and foreign banking environment,
- operations including cheques and bills of exchange,
- issuing bank securities,
- issuing payment cards and performing operations using such cards,
- conducting forward transactions with domestic and foreign banks and other financial institutions,
- purchase and disposal of debt,
- issuing electronic money instruments,
- performing operations relating to the issue of securities,
- safekeeping of valuables and securities, and provision of safe deposit facilities,
- performing banking activities on behalf of other banks,
- conducting the Building Society operations,
- purchase and sale of foreign exchange,
- intermediation in money transfers and settlements in foreign exchange trade,
- granting and confirming sureties.

Additionally, the Bank's scope of activities includes:

- servicing the State Treasury loans and bonds,
- taking out loans and cash advances,
- accepting guarantees and sureties,
- brokerage activities based on rules set in separate regulations,
- rendering financial services in connection with canvassing activities, as defined in the Act on the organization and operation of pension funds,
- rendering custodial services on the basis of the Act on the organization and operation of pension funds,
- trading in domestic and foreign securities in compliance with separate regulations and the custody of these,
- operating schools' savings units ("szkolna kasa oszczędności")
- rendering custodial services,
- rendering intermediation services within the scope set out in the Act on insurance activity,
- financial consulting and advisory services,
- organizing transport services for valuables,
- finance lease services,
- purchase and disposal of shares and debt on its own account and rendering factoring services.

Furthermore, the Bank can:

- take up or acquire shares and related rights in other legal entities and participation units of trust funds,
- invest in domestic and foreign securities,
- acquire and dispose of real property and movables and rent or lease them,
- provide financial, settlement and consultancy services in respect of financial instruments,
- trade in securities.

As of 31 December 2005 Bank's share capital amounted to PLN 1,000,000 thousand and it comprised of 510,000,000 registered shares of the series A, 105,000,000 registered shares of the series B and 385,000,000 bearer shares of the series C, with the nominal amount 1 zloty each. Equity at this date amounted to 8,780,394 thousand zlotys.

(in thousand zlotys)

According to the letter of the Investor Relations Bureau dated 15 March 2006 as of 31 December 2004 the Bank's shareholders structure comprised of:

	Number of shares	Number of votes	Nominal value of the shares (PLN)	Share in the share capital
State Treasury	515,711,446	51.57%	515,711,446	51.57%
Other shareholders	484,288,554	48.43%	484,288,554	48.43%
Total	1,000,000,000	100.0%	1,000,000,000	100.0%

On 19 May 2005, the Annual Shareholders' Meeting resolved to introduce new Statutes of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna. As a result, registered shares of the series B and C were changed into the bearer status. This change did not have any impact on the share capital value.

Members of the Bank's Management Board as at 21 March 2006 were as follows:

Andrzej Podsiadło	- Board President
Kazimierz Małecki	- Vice-President and Deputy President
Danuta Demianiuk	- Vice-President
Sławomir Skrzypek	- Vice-President
Jacek Obłękowski	- Board Member
Krystyna Szewczyk	- Board Member

During 2005 there was one change in the Management Board – on 8 December 2005 the Bank's Supervisory Board appointed Sławomir Skrzypek as a Vice-President, effective 20 December 2005.

Furthermore on 8 March 2006 the Bank's Supervisory Board accepted resignation of Piotr Kamiński from duties of a Board Member.

2. Financial Statements

On 19 May 2005 General Shareholders' Meetings resolved that the Bank would prepare financial statements of the Bank in accordance with International Financial Reporting Standards, approved by European Union.

2.1. Auditor's opinion and audit of financial statements

Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw, Rondo ONZ 1, is a certified entity entered on the list of certified auditors under no. 130.

Ernst & Young Audit Sp. z o.o. was elected by the Bank's Supervisory Board on 7 April 2005 to audit the Bank's financial statements for 2005.

Ernst & Young Audit Sp. z o.o. and the auditor managing the audit meet the conditions, as defined by Article 66 clause 2 and 3 of the Accounting Act dated September 29, 1994 (uniform text: Journal of Laws of 2002, No 76, item 694 with subsequent amendments) ("the Accounting Act"), enabling them to express an impartial and independent opinion on the financial statements.

Pursuant to the agreement executed on 8 August 2005 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2005.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unqualified independent auditor's opinion dated 21 March 2005, stating the following:

"**To the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna**

1. We have audited the attached financial statements for the year ended 31 December 2005 of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank") located at Warsaw, Puławska 15 Street, including:
   - the profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 1,676,798 thousand zlotys,
   - the balance sheet as at 31 December 2005 with total assets amounting to 90,327,516 thousand zlotys,
   - the statement of changes in shareholders' equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders' equity amounting to 511,727 thousand zlotys,

- the cash flow statement for the period from 1 January 2005 to 31 December 2005 with a net cash outflow amounting to 2,615,039 thousand zlotys, and
- the additional notes and explanations ("the attached financial statements").

2. The truth and fairness of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

3. We conducted our audit of the financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether the financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management, as well as evaluating the overall presentation of financial statements. We believe our audit has provided a reasonable basis to express our opinion on the financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2005 to 31 December 2005, as well as its financial position as at 31 December 2005;
   - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
   - are, in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's articles of association.

5. We have read the "Directors' Report for the period from 1 January 2005 to 31 December 2005 and the rules of preparation of annual statements" ("the Directors' Report") and concluded that the information derived from the attached financial statements reconciles with the Directors' Report. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744)."

We carried out the audit of the Bank's financial statements from 7 November 2005 to 21 March 2006. We were present on the Company's premises from 7 November 2005 to 23

December 2005 and from 9 January 2006 to 21 March 2006 and in the Bank's branches from 28 November 2005 to 7 December 2005.

2.2. Materiality level

Professional judgment was applied taking into account the specific factors relating to the Bank to establish a level of materiality. This determination included considering quantitative and qualitative aspects.

2.3. Representations provided and availability of data

The Management Board confirmed its responsibility for the truth and fairness of the financial statements and has stated that it has provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board has also provided a written representation dated 21 March 2006 confirming that:

- the information disclosed in the books of account was complete,
- all contingent liabilities have been included in the financial statements, and
- all material events from the balance sheet date to the date of the representation had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Bank's Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

2.4. Financial statements for prior financial year

The Bank's financial statements for the year ended 31 December 2004 prepared in accordance with the Polish accounting standards were audited by Dominik Januszewski, Certified Auditor No. 9707/7255 acting on behalf of Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw at Emilii Plater 53 Street (number in the auditors' register 130).

The certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2004.

(in thousand zlotys)

The Bank's financial statements for the year ended 31 December 2004 were approved by the General Shareholders' Meeting on 19 May 2005 at which meeting the shareholders resolved to distribute the 2004 net profit and the retained earnings as follows:

Dividends for the shareholders	1,000,000
Reserve capital	507,315
Other reserve capital	10,000
Company's Social Benefits Fund	200
	- - - - - - - -
Total, including:	1,517,515
net profit for 2004	1,511,065
retained earnings	6,450
	========

The financial statements for the financial year ended 31 December 2004 together with the auditor's opinion, the excerpt from the resolution approving the financial statements, the excerpt from the resolution on the distribution of profit were filed on 23 May 2005 in the National Court Register.

The introduction to the financial statements, balance sheet as at 31 December 2004, profit and loss account, statement of changes in shareholders' equity and cash flow statement for the year ended 31 December 2004 together with the auditor's opinion, the excerpt from the resolution approving the financial statements and the excerpt from the resolution on the distribution of profit were published on 19 August 2005, in Monitor Polski-B No. 1290.

The closing balances as at 31 December 2004 were correctly brought forward in the accounts as the opening balances at 1 January 2005.

(in thousand zlotys)

3. Analytical Review

3.1. Basic data and financial ratios

Presented below are selected financial ratios indicating the economic and financial performance of the Bank for the years 2004 - 2005. The ratios for years 2004 and 2005 were calculated on the basis of the financial information included in the financial statements for the year ended 31 December 2005. Certain data and ratios for the year 2003 were omitted from calculations due to the fact that the Bank changed its accounting policies into International Financial Reporting Standards, approved by the European Union in 2005. Therefore, the preceding data is not available.

	2005	**2004***
Gross profit	2,073,310	1,798,180
Net profit	1,676,798	1,447,850
Shareholders' funds	8,780,394	8,907,047
Total assets	90,327,516	85,111,596
Capital adequacy ratio of Bank in accordance with NBP methodology	14,06%	18,70%
Cost to income ratio $\frac{\text{overhead costs}}{\text{income from operations}}$	62.57%	65.37%
Profitability ratio $\frac{\text{gross profit}}{\text{overhead costs}}$	57.10%	49.33%
Return on Equity (ROE) $\frac{\text{net profit}}{\text{average shareholders' funds}}$	18.96%	n/a
Return on Assets (ROA) $\frac{\text{net profit}}{\text{average assets}}$	1.91%	n/a
Rate of inflation:		
Yearly average	2.1%	3.5%
December to December	0.7%	4.4%

* - comparable data

3.2 Comments

Trends in the financial ratios were as follows:

- Net profit for 2005 amounted to 1,676,798 thousand zlotys in comparison to the net profit for 2004 amounting to 1,447,850 thousand zlotys (according to the comparable data presented in the Bank's financial statements for year ended 31 December 2005).
- There was an increase of the total assets. The total assets as at 31 December 2005 amounted to 90,327,516 thousand zlotys in comparison to 85,111,596 thousand zlotys as at 31 December 2004.
- Cost to income ratio decreased to 62.57% comparing with 65.37% in 2004,
- The profitability ratio increased from 49.33% in 2004 to 57.10% in 2005,
- As at 31 December 2005 the return on equity and return on assets ratios amounted to:
  - Return on equity 18.96%
  - Return on assets 1.91%
- The Bank' capital adequacy ratio amounted to 14.06% as at 31 December 2005 comparing with to 18.70% as at the end of 2004.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Bank is unable to continue as a going concern for at least twelve months subsequent to 31 December 2005 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 1 of the additional notes and explanations to the Bank's audited financial statements for the year ended 31 December 2005 the Management Board has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2005 and that there are no circumstances that would indicate a threat to its continued activity.

3.4 Application of regulations mitigating banking risk

As at 31 December 2005 the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Banking Supervisory Board envisaged following banking regulatory norms:

- level of currency positions,
- concentration of credit risk,
- concentration of investment in shares,
- loans, issued guarantees and collaterals classification to risk categories, level of provisions related to banking operations,
- solvency ratio,
- level of obligatory reserve,
- capital adequacy ratio.

During our audit we have not identified any facts indicating that during the period from 1 January 2005 to 31 December 2005 the Bank did not comply with these regulations. We have received written representation from the Management Board that during the year the banking regulatory norms were not breached.

3.5 Correctness of the calculation of the capital adequacy ratio

During our audit we did not identify any irregularities in the calculation of the capital adequacy ratio as of 31 December 2005 in accordance with Resolution No. 4/2004 of the Banking Supervisory Board, dated 8 September 2004 on the scope of and specific principles used to determine capital requirements relating to particular risks and the scope of applying statistical methods and conditions, the fulfilment of which enables the Bank to obtain consent to apply them, and regarding the method and detailed rules of calculating the bank's capital adequacy ratio, the scope and method of taking into account the activity of banks in holding when calculating capital adequacy requirements and ratio and specification of additional balance sheet items of the bank included together with own equity in the calculation of the capital adequacy and the scope, method and conditions of their identification." (Official Journal of the National Bank of Poland of 5 October 2004). *[Uchwała nr 4/2004 Komisji Nadzoru Bankowego z dnia 8 września 2004 roku w sprawie zakresu i szczegółowych zasad wyznaczania wymogów kapitałowych z tytułu poszczególnych rodzajów ryzyka oraz zakresu stosowania metod statystycznych i warunków, których spełnienie umożliwia uzyskanie zgody na ich stosowanie, sposobu i szczegółowych zasad obliczania współczynnika wypłacalności banku, zakresu i sposobu uwzględniania działania banków w holdingach w obliczaniu wymogów kapitałowych i współczynnika wypłacalności oraz określenia dodatkowych pozycji bilansu banku ujmowanych łącznie z funduszami własnymi w rachunku adekwatności kapitałowej oraz zakresu, sposobu i warunków ich wyznaczania (Dz. Urz. NBP z dnia 5 października 2004 roku)].*

II. DETAILED REPORT

1. Accounting System

The Bank's accounts are kept using the following computer systems: Zorba 3000 (main Bank's accounting system) and the additional systems (Promak, Profile, SGW, Oracle Financial, Flex Cube) in the Bank's head office.

The Bank has up-to-date documentation, as required under Article 10 of the Accounting Act, including the Bank's chart of accounts, approved by the Bank's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements, and which were not subsequently adjusted including irregularities relating to:

- reasonableness and consistency of applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and trail of entries in the accounting records;
- documentation of business transactions;
- the correctness of the opening balances based on approved prior year figures;
- the consistency between the accounting entries, underlying documentation and the financial statements;
- fulfilling requirements for the safeguarding of accounting documents and the storage of accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Bank's assets, liabilities and equity, profit and loss account are presented in the audited financial statements for the year ended 31 December 2005.

Verification of assets, liabilities was conducted in accordance with the Accounting Act. Any differences were adjusted in the 2005 books of account.

3. Notes to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2005 were prepared, in all material respects, in accordance with the requirements of the International Financial Reporting Standards, approved by the European Union.

4. Directors' Report

We have read the Directors' report on the Bank's activities in the period from 1 January 2005 to 31 December 2005 and the basis for preparation of annual financial statements ("Directors' Report") and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of

Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).

5. Conformity with Law and Regulations

We have obtained a letter of representation from the Management Board that no laws, regulations or provisions of the Bank's Statutes were breached during the financial year.

6. Work of the Expert

During our audit we have taken into account the results of the work of the following independent experts:

- property value experts – in the calculations regarding the fair value of the real estate in accordance with IFRS 1, owned by the Bank as at 1 January 2004,
- property value experts – in the calculation regarding the level of impairment for loan receivables we took into consideration the value of collaterals established in valuations performed by property value experts engaged by the Bank;
- actuary – calculation of pension and disability provisions.

on behalf of
Ernst & Young Audit Sp. z o.o.
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Ident. no. 130

(-)
Dominik Januszewski
Certified Auditor No 9707/7255

(-)
Dorota Snarska-Kuman
Certified Auditor No 9667/7232

Warsaw, 21 March 2006