



**PKO BANK POLSKI
SPÓŁKA AKCYJNA**

**INTERIM FINANCIAL STATEMENTS
OF
THE POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SA GROUP
FOR THE FIRST QUARTER OF 2007**

Prepared in accordance with
International Financial Reporting Standards

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1. SUMMARY

- As at 31 March 2007:
 - total assets of the PKO BP Group amounted to PLN 102,345 million and were PLN 1,084 million i.e. 1.1% higher compared to the end of 2006;
 - the Group's total equity amounted to PLN 10,879 million and in the 1st quarter of 2007 increased by PLN 699 million i.e. by 6.9%.
- The gross profit earned by the PKO BP Group in the 1st quarter of 2007 amounted to PLN 873 million and was 42.6% higher compared to that earned in the corresponding period of 2006. The net profit for the period amounted to PLN 672 million and was 39.5% higher compared to that recorded in the 1st quarter of 2006.
- The results achieved caused an improvement in consolidated financial ratios, which after the 1st quarter of 2007 were as follows:
 - ROA net was 2.4% and was 0.4 p.p. higher compared to the corresponding period of the previous year,
 - ROE net was 23.2% and was 3.1 p.p. higher,
 - C/I decreased by 9.1 p.p. to 51.7% compared to 60.8% in the 1st quarter of 2006.

2. ACCOUNTING POLICIES

In preparing this consolidated quarterly Report, the Bank adopted accounting policies resulting from International Financial Reporting Standards, effective from the beginning of 2005, issued by the International Accounting Standards Board (IASB) and interpretations thereof issued by the International Financial Reporting Interpretations Committee (IFRIC). The consolidated quarterly report was prepared in accordance with the International Accounting Standard No 34 "*Interim Financial Reporting*" and includes additional disclosures required by the Ordinance of the Minister of Finance of 19 October 2005 on current and interim financial information to be provided by the issuers of securities (Journal of Laws No 209, item 1744).

The accounting policies applied in the Report for the 1st quarter of 2007 are consistent with those applied in the previous quarters. These policies were described in detail in the Annual Consolidated Report for the year 2006.

3. FINANCIAL STATEMENTS

Consolidated quarterly report 1/2007

for the 1st quarter of 2007 covering the period from 1 January 2007 to 31 March 2007

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna				
(Issuer full name)				
PKO BP SA				
(Issuer abbreviated name)				
02-515 (postal code)				Warsaw (city)
Puławska (street)				15 (number)
(22) 521-71-12 (telephone)	521-71-11 (fax)	(e-mail)		
525-000-77-38 (NIP)	016298263 (REGON)	www.pkobp.pl (www)		
Data derived from consolidated financial statements	PLN thousands		EUR thousands	
SELECTED FINANCIAL DATA	Period from 01.01.2007 to 31.03.2007	Period from 01.01.2006 to 31.03.2006	Period from 01.01.2007 to 31.03.2007	Period from 01.01.2006 to 31.03.2006
Net interest income	1 028 806	904 530	263 369	235 212
Net fees and commission income	484 417	406 281	124 008	105 648
Operating result	871 146	620 371	223 009	161 320
Net profit (loss) for the current year (including minority interest)	682 293	491 998	174 663	127 938
Net profit (loss)	672 472	481 945	172 149	125 324
Equity assigned to the shareholders of the holding company	10 764 711	9 220 076	2 781 938	2 342 678
Total equity	10 879 099	9 273 501	2 811 500	2 356 252
Net cash flow from operating activities	(2 772 657)	(218 726)	(709 785)	(56 877)
Net cash flow from investing activities	1 582 452	239 135	405 099	62 184
Net cash flow from financing activities	22 592	(263)	5 783	(68)
Total net cash flows	(1 167 613)	20 146	(298 903)	5 239
Basic earnings per share for the period	0.67	0.48	0.17	0.13
Diluted earnings per share for the period	0.67	0.48	0.17	0.13
Basic funds (Tier 1)	9 157 755	7 420 492	2 366 651	1 885 431
Supplementary funds (Tier 2)	16 720	2 891	4 321	735
Data derived from condensed financial statements	PLN thousands		EUR thousands	
SELECTED FINANCIAL DATA	Period from 01.01.2007 to 31.03.2007	Period from 01.01.2006 to 31.03.2006	Period from 01.01.2007 to 31.03.2007	Period from 01.01.2006 to 31.03.2006
Net interest income	993 799	879 803	254 407	228 782
Net fees and commission income	486 719	394 745	124 597	102 648
Operating result	788 784	564 393	201 924	146 763
Gross profit	788 784	564 393	201 924	146 763
Net profit	613 682	453 406	157 099	117 903
Total equity	10 662 349	9 240 880	2 755 485	2 347 964
Net cash flow from operating activities	(2 474 338)	(241 040)	(633 417)	(62 679)
Net cash flow from investing activities	1 497 816	255 464	383 433	66 430
Net cash flow from financing activities	(547)	-	(140)	-
Total net cash flows	(977 069)	14 424	(250 124)	3 751
Basic earnings per share for the period	0.61	0.45	0.16	0.12
Diluted earnings per share for the period	0.61	0.45	0.16	0.12
Basic funds (Tier 1)	8 342 172	7 473 105	2 155 879	1 898 799
Supplementary funds (Tier 2)	16 672	2 620	4 309	666

BALANCE SHEET OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP		
ASSETS	As at 31.03.2007	As at 31.12.2006
Cash and amounts due from the Central Bank	4 094 729	4 628 134
Amounts due from banks	11 672 279	13 430 590
Financial assets held for trading	632 872	392 380
Derivative financial instruments	1 038 560	1 199 556
Other financial instruments at fair value through profit or loss	12 376 349	11 360 064
Loans and advances to customers	62 833 077	58 906 607
Investment securities	5 162 017	6 763 188
1. Available for sale	5 162 017	6 763 188
Investments in associates and jointly controlled entities	186 608	180 162
Intangible assets	930 388	944 028
Tangible fixed assets	2 607 719	2 655 041
Current tax receivables	1 218	326
Deferred tax asset	32 630	33 454
Other assets	776 497	767 683
TOTAL ASSETS	102 344 943	101 261 213
LIABILITIES AND EQUITY	As at 31.03.2007	As at 31.12.2006
Liabilities		
Amounts due to the Central Bank	969	1 387
Amounts due to other banks	3 839 784	4 193 090
Derivative financial instruments	990 805	1 098 863
Amounts due to customers	83 945 096	82 900 142
Liabilities arising from securities issued	134 028	43 722
Other liabilities	1 879 034	2 220 347
Current tax liability	165 933	170 960
Deferred tax liability	80 593	23 922
Provisions	429 602	428 200
TOTAL LIABILITIES	91 465 844	91 080 633
Equity		
Share capital	1 000 000	1 000 000
Other capital	7 193 614	7 165 597
Currency translation differences from foreign operations	(12 624)	(13 672)
Retained earnings	1 911 249	(222 671)
Net profit for the period	672 472	2 149 052
Equity assigned to the shareholders of the holding company	10 764 711	10 078 306
Minority interest	114 388	102 274
Total equity	10 879 099	10 180 580
TOTAL LIABILITIES AND EQUITY	102 344 943	101 261 213
Capital adequacy ratio	13.80	11.81

*Translation of Interim Financial Statements of the PKO BP SA Group for the 1st quarter of 2007
The Polish original should be referred to in matters of interpretation*

PROFIT AND LOSS ACCOUNT OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP				
	1st Quarter Period from 01.01.2007 to 31.03.2007	1st Quarter cumulatively Period from 01.01.2007 to 31.03.2007	1st Quarter Period from 01.01.2006 to 31.03.2006	1st Quarter cumulatively Period from 01.01.2006 to 31.03.2006
Interest income	1 493 799	1 493 799	1 342 800	1 342 800
Interest expense	(464 993)	(464 993)	(438 270)	(438 270)
Net interest income	1 028 806	1 028 806	904 530	904 530
Fees and commission income	590 899	590 899	490 778	490 778
Fees and commission expense	(106 482)	(106 482)	(84 497)	(84 497)
Net fees and commission income	484 417	484 417	406 281	406 281
Dividend income	8	8	-	-
Result from financial instruments at fair value	7 904	7 904	(7 298)	(7 298)
Result from investment securities	698	698	427	427
Foreign exchange result	119 341	119 341	147 494	147 494
Other operating income	254 809	254 809	297 530	297 530
Other operating expense	(92 798)	(92 798)	(101 175)	(101 175)
Net other operating income and expense	162 011	162 011	196 355	196 355
Result on impairment allowances	844	844	(26 138)	(26 138)
General administrative expenses	(932 883)	(932 883)	(1 001 280)	(1 001 280)
Operating result	871 146	871 146	620 371	620 371
Share in the profits (losses) of associates and jointly controlled entities	1 410	1 410	(8 508)	(8 508)
Gross profit (loss)	872 556	872 556	611 863	611 863
Income tax expense	(190 263)	(190 263)	(119 865)	(119 865)
Net profit (loss) (including minority interest)	682 293	682 293	491 998	491 998
Profit (loss) attributable to minority shareholders	9 821	9 821	10 053	10 053
Net profit (loss)	672 472	672 472	481 945	481 945
Earnings per share				
– basic earnings per share for the period	0.67	0.67	0.48	0.48
– diluted earnings per share for the period	0.67	0.67	0.48	0.48

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP		
	Period from 01.01.2007 to 31.03.2007	Period from 01.01.2006 to 31.03.2006
EQUITY		
Share capital	1 000 000	1 000 000
Other capital, of which:	7 193 614	5 857 008
Reserve capital	4 545 269	3 297 614
Revaluation reserve	16 720	2 891
<i>Fair value adjustments to available-for-sale financial assets</i>	<i>16 720</i>	<i>2 891</i>
Other reserves	1 561 625	1 556 503
General banking risk fund	1 070 000	1 000 000
Currency translation differences from foreign operations	(12 624)	(4 102)
Retained earnings	1 911 249	1 885 225
Net profit for the period	672 472	481 945
Equity assigned to the shareholders of the holding company	10 764 711	9 220 076
Minority interest	114 388	53 425
<i>Including the result for the period</i>	<i>9 821</i>	<i>10 053</i>
Total equity	10 879 099	9 273 501
Sources of changes in equity		
Equity as at the end of the previous period	10 180 580	8 774 990
Equity as at the beginning of the period, restated	10 180 580	8 774 990
Changes in equity		
Net profit (loss) for the period attributable to the shareholders of the holding company	672 472	481 945
Profit (loss) of the minority shareholders	9 821	10 053
Fair value adjustments to available-for-sale financial assets recognised in the revaluation reserve	12 886	6 945
Currency translation differences from foreign operations	1 048	(20)
Other increases/decreases in equity	2 292	(412)
Total equity	10 879 099	9 273 501

OFF-BALANCE SHEET ITEMS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP		
	As at 31.03.2007	As at 31.12.2006
Off-balance sheet contingent liabilities granted:	15 165 756	14 601 269
1. financial	12 337 126	12 253 587
2. guarantees	2 828 630	2 347 682
Liabilities arising from the purchase/sale transactions	338 706 676	308 950 992
Other, of which:	19 496 399	18 205 730
- irrevocable liabilities	10 596 542	10 298 419
- collateral received	8 899 857	7 907 311
Total off-balance sheet items	373 368 831	341 757 991

CONDENSED STATEMENT OF CASH FLOW OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP		
	Period from 01.01.2007 to 31.03.2007	Period from 01.01.2006 to 31.03.2006
Net cash flow from operating activities	(2 772 657)	(218 726)
Net cash flow from investing activities	1 582 452	239 135
Net cash flow from financing activities	22 592	(263)
Total net cash flow	(1 167 613)	20 146
Cash and cash equivalents at the beginning of the period	14 163 158	11 390 608
Cash and cash equivalents at the end of the period	12 995 545	11 410 754
Cash and cash equivalents, of which:	12 995 545	11 410 754
Cash on hand	1 278 305	1 133 699
Amounts due to the Central Bank	2 816 424	2 723 906
Current receivables from financial institutions	8 900 070	7 537 337
Cash of the Brokerage House in the Stock Exchange Guarantee Fund	746	15 812

*Translation of Interim Financial Statements of the PKO BP SA Group for the 1st quarter of 2007
The Polish original should be referred to in matters of interpretation*

BALANCE SHEET OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA		
ASSETS	As at 31.03.2007	As at 31.12.2006
Cash and amounts due from the Central Bank	4 036 206	4 543 677
Amounts due from banks	11 698 411	13 349 723
Financial assets held for trading	632 872	391 177
Derivative financial instruments	1 038 560	1 199 751
Other financial instruments at fair value through profit or loss	12 232 354	11 214 660
Loans and advances to customers	60 774 014	57 220 980
Investment securities	5 296 979	6 805 567
1. Available for sale	5 296 979	6 805 567
Investments in subsidiaries, associates and jointly controlled entities	994 946	1 005 611
Intangible assets	709 823	726 458
Tangible fixed assets	2 106 135	2 157 382
Current tax receivables	-	-
Deferred tax asset	-	-
Other assets	456 511	437 847
TOTAL ASSETS	99 976 811	99 052 833

LIABILITIES AND EQUITY	As at 31.03.2007	As at 31.12.2006
Liabilities		
Amounts due to the Central Bank	969	1 387
Amounts due to other banks	3 331 636	3 717 350
Derivative financial instruments	990 653	1 098 853
Amounts due to customers	82 685 677	81 670 039
Liabilities arising from securities issued	-	-
Other liabilities	1 660 479	1 925 573
Current tax liabilities	162 845	170 960
Deferred tax liability	56 674	8 378
Provisions	425 529	424 569
TOTAL LIABILITIES	89 314 462	89 017 109
Equity		
Share capital	1 000 000	1 000 000
Other capital	7 001 276	6 988 333
Retained earnings	2 047 391	-
Net profit for the period	613 682	2 047 391
Total equity	10 662 349	10 035 724
TOTAL LIABILITIES AND EQUITY	99 976 811	99 052 833

Capital adequacy ratio	12.51	11.70
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PROFIT AND LOSS ACCOUNT OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA				
	1st Quarter Period from 01.01.2007 to 31.03.2007	1st Quarter cumulatively Period from 01.01.2007 to 31.03.2007	1st Quarter Period from 01.01.2006 to 31.03.2006	1st Quarter cumulatively Period from 01.01.2006 to 31.03.2006
Interest income	1 420 576	1 420 576	1 295 991	1 295 991
Interest expense	(426 777)	(426 777)	(416 188)	(416 188)
Net interest income	993 799	993 799	879 803	879 803
Fees and commission income	592 603	592 603	482 523	482 523
Fees and commission expense	(105 884)	(105 884)	(87 778)	(87 778)
Net fees and commission income	486 719	486 719	394 745	394 745
Dividend income	8	8	-	-
Result from financial instruments at fair value	6 091	6 091	(7 467)	(7 467)
Result from investment securities	858	858	641	641
Foreign exchange result	117 554	117 554	145 709	145 709
Other operating income	48 161	48 161	52 070	52 070
Other operating expense	(19 755)	(19 755)	(14 572)	(14 572)
Net other operating income	28 406	28 406	37 498	37 498
Result on impairment allowances	(9 027)	(9 027)	(21 476)	(21 476)
General administrative expenses	(835 624)	(835 624)	(865 060)	(865 060)
Operating result	788 784	788 784	564 393	564 393
Gross profit (loss)	788 784	788 784	564 393	564 393
Income tax	(175 102)	(175 102)	(110 987)	(110 987)
Net profit (loss)	613 682	613 682	453 406	453 406

Earnings per share				
– basic earnings per share for the period	0.61	0.61	0.45	0.45
– diluted earnings per share for the period	0.61	0.61	0.45	0.45

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA		
	Period from 01.01.2007 to 31.03.2007	Period from 01.01.2006 to 31.03.2006
EQUITY		
Share capital	1 000 000	1 000 000
Other capital, of which:	7 001 276	5 679 700
Reserve capital	4 529 604	3 297 080
Revaluation reserve	16 672	2 620
<i>Fair value adjustments to available-for-sale financial assets</i>	16 672	2 620
Other reserves	1 385 000	1 380 000
General banking risk fund	1 070 000	1 000 000
Retained earnings	2 047 391	2 107 774
Net profit for the period	613 682	453 406
Total equity	10 662 349	9 240 880
Sources of changes in equity		
Equity at the end of the previous year	10 035 724	8 780 394
Equity at the beginning of the period, restated	10 035 724	8 780 394
Changes in equity		
Net profit (loss) of the Bank	613 682	453 406
Fair value adjustments to available-for-sale financial assets recognised in the revaluation reserve	12 943	7 080
Other increases/decreases in shareholders' equity		
Total equity	10 662 349	9 240 880

OFF-BALANCE SHEET ITEMS OF POWSZECHNA KASA OSZCZEDNOSCI BANK POLSKI SA		
	As at 31.03.2007	As at 31.12.2006
Off-balance sheet contingent liabilities granted	15 101 392	14 799 391
1. financial	12 281 081	12 286 757
2. guarantees	2 820 311	2 512 634
Liabilities arising from the purchase/sale transactions	338 735 853	308 982 423
Other, of which:	14 872 396	13 948 116
- irrevocable liabilities	10 595 758	10 296 573
- collateral received	4 276 638	3 651 543
Total off-balance sheet items	368 709 641	337 729 930

CONDENSED STATEMENT OF CASH FLOW OF POWSZECHNA KASA OSZCZEDNOŚCI BANK POLSKI SA		
	Period from 01.01.2007 to 31.03.2007	Period from 01.01.2006 to 31.03.2006
Net cash flow from operating activities	(2 474 338)	(241 040)
Net cash flow from investing activities	1 497 816	255 464
Net cash flow from financing activities	(547)	-
Total net cash flow	(977 069)	14 424
Cash and cash equivalents at the beginning of the period	13 879 643	11 204 636
Cash and cash equivalents at the end of the period	12 902 574	11 219 060
Components of cash and cash equivalents	12 902 574	11 219 060
Cash on hand	1 219 782	1 091 169
Amounts due from the Central Bank	2 816 424	2 723 906
Current receivables from financial institutions	8 865 622	7 388 173
Cash of the Brokerage House in the Stock Exchange Guarantee Fund	746	15 812

4. IMPAIRMENT OF THE GROUP'S ASSETS

The value of impairment of the Group's assets at the balance sheet date:

	31.03.2007	31.12.2006
Impairment allowances against loans and advances, realized guarantees and placements	2 413 097	2 447 351
Impairment allowances against tangible fixed assets and intangible assets	83 113	82 901
Impairment allowances against financial assets	86 774	92 237
Impairment allowances against other assets	83 110	77 732

Impairment losses taken to the Group's profit and loss account are as follows:

	Period from 01.01.2007 to 31.03.2007	Period from 01.01.2006 to 31.03.2006
Increases, of which:	(247 718)	(208 239)
impairment losses on loans and advances	(222 982)	(197 073)
impairment losses on off-balance sheet liabilities	(22 168)	(6 376)
impairment losses on securities and financial assets	(6)	-
impairment losses on other receivables and tangible fixed assets	(2 562)	(4 790)
Decreases, of which:	248 562	182 101
impairment losses on loans and advances	231 582	170 386
impairment losses on off-balance sheet liabilities	13 826	9 660
impairment losses on securities and financial assets	1 001	850
impairment losses on other receivables and tangible fixed assets	2 153	1 205
Balance at the end of the period	844	(26 138)

5. ADJUSTMENTS DUE TO PROVISIONS, DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY

	31.03.2007	31.12.2006
Deferred tax liability	554 236	521 165
Deferred tax asset	506 273	530 697
Provision for off-balance sheet liabilities	31 889	26 330
Provision for future liabilities to employees	350 290	354 996
Provision for other future liabilities	47 423	46 874

6. DESCRIPTION OF THE PKO BP GROUP

6.1 ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the financial statements of the Bank as the holding company of the PKO BP Group, and its subsidiaries, as defined under IAS 27 "Consolidated and Separate Financial Statements".

Table 1. Entities included in the consolidated financial statements of the PKO BP Group

	Entity name	Value of investment at cost	% of share capital	Consolidation method
		in PLN thousands	%	
Holding company				
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
Direct subsidiaries				
2	Powszechne Towarzystwo Emerytalne BANKOWY SA	205 786	100.00	Full method
3	KREDOBANK SA	144 605	69.933	Full method
4	Centrum Finansowe Puławska Sp. z o.o.	128 288	100.00	Full method
5	PKO Inwestycje Sp. z o.o.	123 313*	100.00	Full method
6	PKO Towarzystwo Funduszy Inwestycyjnych SA	69 055	75.00	Full method
7	Inteligo Financial Services SA	59 602	100.00	Full method
8	Centrum Elektronicznych Usług Płatniczych eService SA	55 500	100.00	Full method
9	Bankowy Fundusz Leasingowy SA	30 000	100.00	Full method
10	Bankowe Towarzystwo Kapitałowe SA	18 566	100.00	Full method

Indirect subsidiaries				
Subsidiaries of PKO Inwestycje Sp. z o.o.				
11	Wilanów Investments Sp. z o.o.	82 981	100.00	Full method
12	POMERANKA Sp. z o.o.	19 000	100.00	Full method
13	Fort Mokotów Sp. z o.o.	2 040	51.00	Full method
14	UKRPOLINWESTYCJE Sp. z o.o.	359	55.00	Full method
Subsidiary of PTE BANKOWY SA				
15	Finanse Agent Transferowy Sp. z o.o.	2 861**	100.00	Full method

**inclusive of a specific capital injection of PLN 5.5 million*

*** inclusive of a specific capital injection of PLN 1 million*

Table 2. Other subordinated entities included in the consolidated financial statements

	Entity name	Value of investment at cost	% of share capital	Consolidation method
		in PLN thousands	%	
Jointly controlled entities				
1	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43	Equity method
2	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	Equity method
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.				
3	Sopot Zdrój Sp. z o.o.	58 923	100%	Equity method
4	Promenada Sopocka Sp. z o.o.	10 058	100%	Equity method
5	Centrum Majkowskiego Sp. z o.o.	6 609	100%	Equity method
6	Kamienica Morska Sp. z o.o.	976	100%	Equity method
Associates				
7	Bank Pocztowy SA	146 500	25.0001	Equity method
8	Kolej Gondolowa Jaworzyna Krynicka SA	15 531	37.53	Equity method
9	Ekogips SA – in bankructcy	5 400	60.26	Equity method
10	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	Equity method
11	Agencja Inwestycyjna CORP SA	29	22.31	Equity method
Associates of Bankowe Towarzystwo Kapitałowe SA				
12	FINDER SA	6 500	46.43	Equity method
13	P.L. ENERGIA SA	5 000	33.77	Equity method
14	INTER FINANCE Polska Sp. z o.o.	3 248	45.00	Equity method

6.2 CHANGES IN THE ORGANISATION OF SUBORDINATED ENTITIES IN THE 1ST QUARTER OF 2007

In the 1st quarter of 2007, the following events affected the structure of the PKO BP Group:

- Completion of liquidation proceedings of Sonet Hungary Kft

On 10 January 2007, the Metropolitan Court in Budapest issued a decision to remove from the register of entrepreneurs the company Sonet Hungary Kft, the subsidiary of Inteligo Financial Services SA. The decision confirmed the completion of liquidation proceedings of this Company as of 23 September 2006 i.e. the date on which the court's decision became legally valid. The Company was removed from the register of entrepreneurs on 11 January 2007.

- Taking up shares in the increased share capital of P.L. ENERGIA SA

On 17 January 2007, Bankowe Towarzystwo Kapitałowe SA, the Bank's subsidiary, took up 25,500 shares in the increased share capital of P.L. ENERGIA SA with a nominal value of PLN 100 each. The total purchase price was PLN 4,999,785.

As a result of the above transaction, Bankowe Towarzystwo Kapitałowe SA holds 33.77% shares in P.L. ENERGIA SA which give right to 32.08% votes at the general shareholders' meeting of this Company.

The main business activities of P.L. ENERGIA SA is rendering services in the field of natural gas and crude oil mining and distribution.

- Transformation of FINDER Sp. z o.o. into a joint stock company

On 2 January 2007, FINDER SA, the associate of Bankowe Towarzystwo Kapitałowe SA, was entered in the National Court Register. This entry marked the completion of the process of transformation of this entity from a limited liability to a joint stock company. The share of BTK SA in the share capital and votes at the general shareholders' meeting of this Company did not change.

6.3 RELATED PARTY TRANSACTIONS

In the 1st quarter of 2007, PKO BP SA provided the following services to its related parties (subordinated entities):

- keeping bank accounts,
- accepting deposits,
- extending loans and advances,
- issuing debt securities,
- issuing guarantees and conducting spot forex transactions.

All transactions were conducted at arms' length.

Details of transactions of PKO BP with related parties, the amount of which exceeds the Polish zloty equivalent of EUR 500 thousand, and which do not result from the day-to-day operating activities of the Bank, have been presented in Note 16 of this Report.

7. MAJOR ACHIEVEMENTS OF PKO BP IN THE 1ST QUARTER OF 2007

7.1 GENERAL INFORMATION

Table 3. Basic operating data

Items	31.03.2007	31.12.2006	31.03.2006	Change since	
				31.12.06	31.03.06
Total number of branches	1 238	1 239	1 249	-1	-11
<i>- in the Retail Market Area:</i>	<i>1 155</i>	<i>1 156</i>	<i>1 166</i>	<i>-1</i>	<i>-11</i>
Regional Retail Branches	12	12	12	-	-
Independent branches	574	574	574	-	-
Subordinated branches	569	570	580	-1	-11
<i>- in the Corporate Market Area:</i>	<i>83</i>	<i>83</i>	<i>83</i>	<i>-</i>	<i>-</i>
Regional Corporate Branches	13	13	13	-	-
Corporate client teams	13	13	13	-	-
Corporate centers	57	57	57	-	-
Number of ATMs	2 084	2 024	1 859	60	225
Number of employees (full time posts)	31 632	31 955	33 091	-323	-1 459

7.2 BANKING ACTIVITIES

- As at 31 March 2007, the Bank's **deposits** amounted to PLN 86.5 billion, and since the beginning of the year have increased by PLN 0.8 billion i.e. by 1.0%, due to increase in corporate deposits by PLN 1.6 billion and retail deposits by PLN 1.1 billion (an increase of 16.4% and 2.8%, respectively) with a simultaneous decrease mainly in private banking deposits by PLN 1.3 billion, mainly due to the transfer of some funds to investment deposits of PKO TFI.

In the 1st quarter of 2007, the following activities were conducted in the area of deposit products:

- The Bank introduced a new form of saving for housing purposes, Housing Savings Book linked with investment funds of PKO TFI, which combines traditional savings book with a selected investment fund of PKO/Credit Suisse “Balanced” or “Equity”,
- The Bank offered an annual investment deposit “Equity/Balanced” (“*Akcji/ Zrównoważony*”). Under this deposit, the client’s funds are divided into two parts, one of which is held as a deposit and the other one is invested in participation units issued by the PKO/Credit Suisse equity open-end investment fund („*Akcji – fundusz inwestycyjny otwarty*”) or the balanced open-end investment fund (“*Zrównoważony – fundusz inwestycyjny otwarty*”).
- The Bank offered an investment deposit “Balanced/American Equity” („*Zrównoważony/ Amerykańskiego Rynku Akcji*”). Under this deposit, the client’s funds are divided into two parts, one of which is held as a deposit and the other one is invested in participation units issued by the PKO/Credit Suisse balanced investment fund („*Zrównoważony – fundusz inwestycyjny*”) or the global currency fund, a specialised open-end investment fund, the sub-fund of the American Equity Fund („*Światowy Fundusz Walutowy specjalistyczny fundusz inwestycyjny otwarty, Subfundusz Amerykańskiego Rynku Akcji*”) (in the 50:50 proportion).

Table 4. Deposits of PKO BP (in PLN millions)¹

Items	Balance at:			Changes since:	
	31.03.2007	31.12.2006	31.03.2006	31.12.2006	31.03.2006
1. Client deposits, of which	82 411.4	81 320.3	77 374.3	1 091.0	5 037.0
- retail banking	39 449.6	38 367.4	36 831.1	1 082.2	2 618.5
- private banking	16 045.0	17 324.5	18 197.9	-1 279.5	-2 152.9
- SMEs (small and medium sized enterprises)	5 497.8	5 787.7	4 399.6	-289.9	1 098.2
- housing	10 151.0	10 160.4	8 825.3	-9.4	1 325.7
- corporate	11 268.0	9 680.4	9 120.5	1 587.5	2 147.5
2. Other deposits	4 095.9	4 356.5	2 751.8	-260.6	1 344.1
Total deposits	86 507.3	85 676.9	80 126.1	830.4	6 381.2

Source: Bank’s management information

- As at 31 March 2007, **the gross value of loans and advances** extended by PKO BP amounted to PLN 63.1 billion and increased in the 1st quarter of 2007 by PLN 3.6 billion i.e. by 6.0%, mainly due to an increase in the balance of housing loans by PLN 2.0 billion i.e. by 9.1%.

In the 1st quarter of 2007, in the area of loan products:

- the Bank extended its product offer to include a preference housing loan with interest costs partially financed by BGK,
- the Mix mortgage loan product was equipped with the following new features: insurance of the funds borrowed, option to increase the amount of borrowing to be used for any purpose and extension of loan term,
- the Bank commenced its spring promotional campaign of the „WŁASNY KĄT” housing loan; the promotional activities in this respect caused that sales of mortgage loans hit the record level of PLN 1.4 billion in March alone and PLN 3.6 billion in the whole 1st quarter of 2007 (an increase of 60% and 66%, respectively, compared to the corresponding period of 2006),
- the Bank increased its product offer for housing cooperatives, housing communities, developers, real estate agents and real estate managers to include an allowable debit balance in the current account, overdraft alternative, which would allow to obtain extra funds to finance current needs of those clients,
- the Bank extended its pricing promotional offer for the SMEs which seek funds from the EU ,
- a price promotion was introduced for „Szybki Limit Kredytowy” (*the Quick Credit Limit for Businesses*) directed to SMEs,
- an amendment was made to the commission and charge tariff to include a reduction in the commission for extending or increasing the balance of revolving loan, if the borrower decides to purchase insurance policy offered with the revolving loan taken out,

¹ In this document, any differences in totals, percentages and ratios of change are due to the rounding of amounts to full million and the rounding of percentages to one decimal place.

- until 28 February 2007, the Bank continued to apply reduced commission charge for extending “Szybki serwis kredytowy” (the *Quick Credit Service*) loan,
- the Bank offered loan for the purchase of shares of Elektrotim SA and Makarony Polskie SA.

Table 5. Gross loans and advances of PKO BP (in PLN millions)*

Items	Balance at:			Change since:	
	31.03.2007	31.12.2006	31.03.2006	31.12.2006	31.03.2006
- retail banking	11 068.2	11 518.0	10 116.0	-449.8	952.2
- private banking	2 863.0	2 132.4	1 476.7	730.6	1 386.3
- SMEs	5 115.3	4 574.9	3 558.3	540.4	1 557.0
- housing loans	24 495.3	22 461.7	17 902.8	2 033.6	6 592.4
- housing receivables	2 782.8	2 822.6	2 880.9	-39.8	-98.1
- corporate	16 779.6	16 008.6	15 989.7	771.0	790.0
Total loans and advances	63 104.2	59 518.2	51 924.4	3 586.0	11 179.8

Source: Bank's management information

*without interest due and interest not due

- Other achievements in the 1st quarter of 2007:
 - a service „Cash delivery” („*Wyplata gotówkowa*”) was offered to corporate clients; cash drawings are realized either in the Bank's branch or delivered to the client (transport option),
 - as of 15 February 2007, two new product-service packages were offered to housing communities, „NASZA MAŁA WSPÓLNOTA” and „NASZA WSPÓLNOTA PREMIUM”; these packages are tailored to the size and needs of individual Client and include banking products and services enabling to effectively manage housing community finances. In addition, the packages were linked with credit offer,
 - the Bank extended its offer concerning participation units in investment funds of PKO/Credit Suisse distributed in the Bank's branches to include the SMEs Shares Fund (“*Fundusz Akcji Małych i Średnich Spółek*”),
 - the offer of investment funds available to the clients of Internet banking was extended to include three new funds (money market, long-term bonds and New Europe shares).
- In the 1st quarter of 2007, the **total number of savings-settlement accounts (ROR) and Inteligo current accounts** increased by a total of 50 thousand and amounted to 6,068 thousand accounts as at 31 March 2007. During the period from 31 March 2006 to 31 March 2007, this number increased by a total of 195 thousand accounts, of which the number of ROR accounts alone increased by 116 thousand accounts, while the number of Inteligo accounts increased by 79 thousand accounts.
- As at 31 March 2007, the number of users of the PKO Inteligo service line exceeded 1.5 million. Together with Inteligo current accounts, the number of users of **electronic banking** services amounted to more than 2.1 million at the end of March 2007.

During the period under review, PKO BP made available a new functionality to the clients of Inteligo and PKO Inteligo which enables them to choose an operator during the recharge of their mobile phone cards in the www service line. This functionality enables to re-charge phone numbers transferred between various operators.

As of January 2007, the users of Inteligo service were offered the possibility to service on their own the “I pay with SMS in Plus GSM” (“*Placę SMS-em w sieci Plus GSM*”) functionality using the Inteligo transaction service. Prior to that, servicing this functionality was only possible through the Inteligo consultants.
- During the period from January to March 2007, **the number of banking cards** issued by PKO BP increased by 96 thousand and amounted to 7,056 thousand at the end of March 2007. During this period, the number of credit cards increased by 8 thousand to 943 thousand. The increase in the number of banking cards during the period from 31 March 2006 to 31 March 2007 amounted to 577 thousand, including an 316 thousand increase in the number of credit cards.

The following events occurred in the 1st quarter of 2007 with respect to banking cards:

- the promotional card issuance campaign was extended for those clients who open savings-settlement accounts i.e. ROR, term deposit account or apply for a consumer loan (SSK),
- the promotional campaign was carried out, under which the first year individual users of credit cards were not required to pay card issuance fee,
- promotional campaign was commenced concerning issuance of credit cards „PKO Eurobiznes” directed to SMEs.

Table 6. *Accounts and banking cards of PKO BP (in thousands)*

Items	31.03.2007	31.12.2006	31.03.2006	Change since:	
				31.12.2006	31.03.2006
Total number of accounts, of which:	6 121	6 070	5 923	51	198
- savings-settlement accounts, ROR	5 455	5 423	5 339	32	116
- Inteligo accounts, of which:	666	647	584	19	82
<i>current</i>	613	595	534	18	79
<i>other</i>	53	52	50	1	3
Number of banking cards, of which:	7 056	6 960	6 479	96	577
- <i>credit cards</i>	943	935	627	8	316

- In the 1st quarter of 2007, the activities of PKO BP SA on **the money market** concentrated on the following three areas:
 - managing the Bank’s investment portfolio – the current trading policy relating to the investment portfolio was correlated with the situation on the treasury securities market and consisted mainly in maintaining moderate exposure to the interest rate risk. The situation on the financial market in the 1st quarter of 2007 has been described in paragraph 8.3.3. of this Report;
 - financial risk management - which consisted in active management of liquidity, currency and interest rate risks generated in all areas of the Bank’s activities. During the course of fulfilling this task, a further increase was noted in the balance of long-term liabilities denominated in CHF, this related to financing the Bank’s lending activities; similar to prior periods, the funds were acquired by entering into CIRS (Currency Interest Rate Swap) transactions;
 - trading activities with retail and corporate clients – in the 1st quarter of 2007, a significant growth was noted in the volume of transactions with corporate clients; compared to the corresponding 1st quarter of 2006, the volume of foreign exchange transactions with such clients increased by 15%, while the volume of derivative transactions increased almost six times.
- As far as **structural financing** is concerned, during the 1st quarter of 2007, PKO BP:
 - Within its lending activities:
 - organised 2 syndicated loans for the fuel and electronic industry clients; the Bank’s share in these transactions amounts to PLN 150 million and EUR 12.5 million, respectively;
 - entered into 3 bilateral loan agreements with a total value of PLN 573.2 million to extend loans to entities operating in the following industries: lumber industry (PLN 300 million), mining industry (PLN 200 million) and construction industry (PLN 73.2 million);
 - by re-purchasing a loan tranche of EUR 10 million, joined a syndicated loan agreement as part of the banking consortium extending a loan to an entity operating in the rail transport industry.
 - Within the activities relating to the issuance of non-Treasury debt securities, the Bank concluded:
 - 3 agreements for the issue of non-treasury debt securities to corporate entities for a total amount of PLN 305.9 million, of which PLN 200 million related to the energy industry client, PLN 100 million – to the finance industry client and PLN 5.9 million to the developer industry client;
 - one agreement for the issue of municipal bonds for the Solec Kujawski town council for the total amount of PLN 3.5 million.
 - Within the cooperation with other banks and financial institutions, the Bank concluded:
 - Credit Support Annex to earlier ISDA agreement, TBMA/ISMA Global Repurchase Master Agreement and LVP agreement with foreign banks,
 - 3 master agreements with domestic financial institutions for transactions in debt securities.

7.3 BROKERAGE ACTIVITIES

In the 1st quarter of 2007, Dom Maklerski PKO BP (*DM - Brokerage House*):

- recorded PLN 7.7 billion turnover on the stock market i.e. PLN 1.9 billion more than in the corresponding period of 2006 (with a 6.4% share in the total turnover on the stock market); acting as a market maker on the stock market, DM recorded turnover of PLN 2.2 billion. Also, the number of agreements with companies listed

on the Stock Exchange in Warsaw, under which the DM acted as market maker and issuer, increased by 5 to 60 agreements and by 1 to 37 agreements, respectively,

- maintained a leading position on the bonds' market with a total turnover of PLN 398.2 million (which accounts for 41.7% of the total turnover on the bonds' market),
- reached the turnover of 30 thousand options concluded on the options' market with the dynamics of 175.8% compared to the 1st quarter of 2006; this result gave the DM a 15.3% share in the options' market and caused that it was ranked second on the market,
- recorded a turnover of 200 thousand contracts on the futures' market (5.1% share in the market),
- as part of its primary market participant activities, the DM successfully carried out the initial public offering of ELEKTROTIM SA and carried out public subscriptions for the shares of Projprzem SA and TIM SA for the total amount of PLN 211 million as well as private issue directed to EMC Instytut Medyczny SA with a value of PLN 5.8 million.

In the 1st quarter of 2007, the DM's product offer was extended to include 4 funds belonging to the funds offering potentially the highest profits. To ensure better quality of services, the system of servicing clients at Client Service Points was changed from the desk-type to network-type.

At the end of March 2007, DM PKO BP kept 386.7 thousand accounts, of which 92.2 thousand were investment accounts and 294.5 thousand - active registry accounts. Compared to the end of 2006, the number of investment accounts increased by 2.5 thousand, while the number of registry accounts decreased by 8.2 thousand, mainly due to redemption of treasury bonds.

7.4 OTHER ACHIEVEMENTS

- Awards and distinctions granted to PKO BP SA in the 1st quarter of 2007:
 - Silver Rock Award 2006 of MasterCard, for building a portfolio of over 0.5 million credit cards operating in this system,
 - IV Prize in the XVth edition of competition „Employer of the Year” organised by AIESEC,
 - European Medal in the XIVth edition of competition organised by the Office of the Committee for European Integration (*Urząd Komitetu Integracji Europejskiej*) and the Business Centre Club for „Szybki Limit Kredytowy” (*the Quick Credit Limit for Businesses*) – the product offered to small and medium sized enterprises.

7.5 MAJOR ACHIEVEMENTS OF SUBSIDIARIES IN THE 1ST QUARTER OF 2007

Powszechne Towarzystwo Emerytalne BANKOWY SA

At the end of March 2007, the value of assets held by the Bankowy Open-End Pension Fund (OFE), managed by PTE BANKOWY, amounted to PLN 4,035 million, which accounts for an increase of PLN 329 million compared to the end of 2006.

At the end of the 1st quarter of 2007, Bankowy OFE was ranked 8th on the market of open-end pension funds, both in terms of the value of OFE assets and the number of accounts kept (470,517 accounts).

Centrum Elektronicznych Usług Płatniczych eService SA

In the 1st quarter of 2007, transactions with a value of PLN 3,220 million were generated using the eService SA terminals. As far as the value of pay card transactions is concerned, the Company estimated that its share in the card transaction market at the end of the 1st quarter of 2007 was 29.4%.

The number of terminals operational at the end of the 1st quarter of 2007 amounted to 36,618 pieces, which accounts for a 7.14% increase compared to the number of terminals operated at the end of 2006. The Company's share in the market as regards the number of terminals was 33%.

Inteligo Financial Services SA

At the end of the 1st quarter of 2007, the Company offered access to electronic banking systems to more than 1,561 thousand of PKO BP SA's clients using the PKO Inteligo services. At the same time, the Company operated over 546 thousand Inteligo accounts, which accounts for an increase of 16 thousand compared to the number of accounts operated at the end of 2006.

In the 1st quarter of 2007, the value of deposits held by the Inteligo clients amounted to PLN 1,904 million and increased by PLN 71 million compared to the end of 2006.

In January 2007, the Company signed with Bank Pocztowy SA an agreement for data communications services in order to enable the Bank Pocztowy SA clients to operate and maintain electronic access to their bank accounts.

In February 2007, the company was entered in the Register of Entrepreneurs operating on the Telecommunication market kept by the Office of Electronic Communications (*Urząd Komunikacji Elektronicznej*).

PKO Inwestycje Sp. z o.o.

In the 1st quarter of 2007, PKO Inwestycje Sp. z o.o. continued, using special purpose vehicles (SPVs), the realization of the following investment projects: “Marina Mokotów” and “Nowy Wilanów” in Warsaw, “Neptun Park” in Gdańsk and “Kuźmińska” in Kiev, Ukraine.

The project “Marina Mokotów” is carried out by a special purpose vehicle, Fort Mokotów Sp. z o.o. PKO Inwestycje Sp. z o.o. holds 51% shares in the share capital of this Company. The Company discharges its liabilities towards subcontractors on a timely basis. The construction stage of the project has already been completed and tidying of the former building site is currently underway.

The project “Nowy Wilanów” is carried out by a special purpose vehicle, Wilanów Investments Sp. z o.o. PKO Inwestycje Sp. z o.o. holds 100% shares in the share capital of this Company. The Company discharges its liabilities towards subcontractors on a timely basis. Finishing works (fault clearing, final settlement) of the I Stage of the investment are continued, whereas construction works of Stage II are currently underway and these are slightly delayed. The Company commenced design work relating to the construction of the next housing apartments of the II and III Stage of building development.

The housing project “Neptun Park” is carried out by an SPV, POMERANKA Sp. z o.o. PKO Inwestycje Sp. z o.o. holds 100% shares in the share capital of this Company. The Company continues work connected with Task I of the project – construction of 119 apartments. At the same time, the Company commenced the II Stage of this project – the construction of 48 apartments. The Company discharges its liabilities towards subcontractors on a timely basis.

The “Kuźmińska” project is realized by another SPV, UKRPOLINWESTYCJE Sp. z o.o. PKO Inwestycje Sp. z o.o. holds 55% shares in the share capital of this Company. The project is realized in cooperation with the Ukrainian partner, IK Komfort Sp. z o.o., and involves the construction of five, terraced, 2-storey residential buildings in Kiev. The Company discharges its liabilities towards subcontractors on a timely basis. At this stage, the foundation work has been completed.

On 30 March 2007, PKO Inwestycje Sp. z o.o. received from Fort Mokotów Sp. z o.o. dividend for 2006 in the amount of PLN 30.6 million.

Bankowy Fundusz Leasingowy SA

In the 1st quarter of 2007, the Company signed 1,684 lease agreements for fixed assets with a net value of PLN 268.9 million. The total carrying amount of the net investment in the lease amounted to PLN 1,072.5 million at the end of the 1st quarter of 2007 and increased by 14% compared to the end of 2006. This ranked the Company 11th among lease companies (source: *Rzeczpospolita* daily, issue dated 12 April 2007).

Centrum Finansowe Puławska Sp. z o.o.

In the 1st quarter of 2007, the Company leased out 97.86% of office and commercial space in the building Centrum Finansowe Puławska, which is managed by the Company.

Bankowe Towarzystwo Kapitałowe SA

At the end of the 1st quarter of 2007, BTK SA managed the investment portfolio with a value of PLN 14.75 million, which comprised its engagement in FINDER SA, INTER FINANCE Polska Sp. z o.o. and P.L. ENERGIA SA.

On 23 April 2007, based on the conditional share sale agreement, BTK SA disposed off all shares in INTER FINANCE Polska Sp. z o.o.

KREDOBANK SA

During the 1st quarter of 2007, the value of total assets of KREDOBANK SA increased by UAH 284.5 million i.e. by 8.7% and amounted to UAH 3,559.2 million as at 31 March 2007.

In the 1st quarter of 2007, the gross loan portfolio of the Company increased by UAH 336.6 million i.e. by 13.5% and amounted to UAH 2,833.4 million at the end of March 2007.

During the 1st quarter of 2007, the value of client term deposits increased by UAH 83.2 million i.e. by 4.7% and amounted to UAH 1,857.1 million at the end of March 2007.

As at 31 March 2007, KREDOBANK SA had 21 branches and 121 local offices in 16 out of 24 Ukrainian provinces and the Autonomous Republic of Crimea. During the 1st quarter of 2007, the bank established 1 new branch and 15 new local offices.

In January 2007, the Company took out from PKO BP a subordinated loan of USD 7.5 million.

PKO Towarzystwo Funduszy Inwestycyjnych SA

The value of Fund assets managed by the Company amounted to PLN 11.5 billion at the end of March 2007, which accounts for a 35% increase in the value of assets compared to the end of 2006, and ranks the Company 4th on the market of investment funds, with a 9.81% share in that market.

8. FACTORS AND EVENTS WITH SIGNIFICANT IMPACT ON FINANCIAL RESULTS

8.1 FINANCIAL PERFORMANCE OF THE PKO BP GROUP IN THE 1ST QUARTER OF 2007

8.1.1. Balance sheet data

The balance sheet of the holding company has the most significant impact on the balance sheet of the PKO BP Group. It determines both the value and the structure of assets and liabilities of the Group. As at 31 March 2007, the ratio of total assets of PKO BP to total assets of the Group was 97.7%.

As at 31 March 2007, total assets of the Group amounted to PLN 102,345 million and were PLN 1,084 million i.e. 1.1% higher compared to the end of 2006.

Table 7. Main balance sheet items of the PKO BP Group (in PLN thousands)

Items	As at 31.03.2007	As at 31.12.2006	Change
ASSETS			
Cash and amounts due from the Central Bank	4 094 729	4 628 134	-11.5%
Amounts due from banks	11 672 279	13 430 590	-13.1%
Financial assets held for trading	632 872	392 380	61.3%
Derivative financial instruments	1 038 560	1 199 556	-13.4%
Other financial instruments at fair value through profit or loss	12 376 349	11 360 064	8.9%
Loans and advances to customers	62 833 077	58 906 607	6.7%
Investment securities	5 162 017	6 763 188	-23.7%
Tangible fixed assets	2 607 719	2 655 041	-1.8%
Other assets	1 927 341	1 925 653	0.1%
TOTAL ASSETS	102 344 943	101 261 213	1.1%
LIABILITIES AND EQUITY			
Liabilities, of which:	91 465 844	91 080 633	0.4%
Amounts due to the Central Bank	969	1 387	-30.1%
Amounts due to other banks	3 839 784	4 193 090	-8.4%
Derivative financial instruments	990 805	1 098 863	-9.8%
Amounts due to customers	83 945 096	82 900 142	1.3%
Other liabilities	2 689 190	2 887 151	-6.9%
Total equity	10 879 099	10 180 580	6.9%
TOTAL LIABILITIES AND EQUITY	102 344 943	101 261 213	1.1%

Compared to the balance as at 31 December 2006, there were no significant changes in the structure of balance sheet of the PKO BP Group.

8.1.2. Off-balance sheet items

As at 31 March 2007, the total of off-balance sheet items of the PKO BP Group was PLN 373,369 million and increased by PLN 31,611 million i.e. 9.2% compared to the balance at the end of December 2006.

The main item of the off-balance sheet items (90.7%) were liabilities relating to purchase/ sale transactions amounting to PLN 338,707 million. Compared to the balance as at 31 December 2006, the share of this item in total off-balance sheet liabilities slightly increased (an increase of 0.3 p.p.). The balance comprised mainly derivative transactions and forward exchange transactions carried out by PKO BP SA to regulate the Bank's currency liquidity, as well as for speculation and arbitrage purposes.

8.1.3. Financial result and performance indicators

In the 1st quarter 2007, the PKO BP Group recorded consolidated pre-tax profit of PLN 873 million. After deducting income tax charge and the profit (loss) attributable to minority shareholders, the resulting net profit amounted to PLN 672 million. Compared to the corresponding period of 2006, the pre-tax profit and the net profit were higher by PLN 261 million and PLN 191 million i.e. by 42.6% and 39.5%, respectively.

The ratio of costs to income (C/I) for the 1st quarter of 2007 was 51.7% and was 9.1 p.p. lower compared to the corresponding period of 2006, due to the increase in the total of income items by 9.4% with a simultaneous decrease in general administrative expenses by 6.8%.

Table 8. *Main items of the profit and loss account of the PKO BP Group (in PLN thousands)*

Items	I Quarter of 2007	I Quarter of 2006	Dynamics
1. Net interest income	1 028 806	904 530	113.7%
2. Net fee and commission income	484 417	406 281	119.2%
3. Dividend income	8	0	x
4. Result from financial instruments at fair value	7 904	(7 298)	x
5. Result from investment securities	698	427	163.5%
6. Foreign exchange result	119 341	147 494	80.9%
7. Net other operating income	162 011	196 355	82.5%
8. Total income items (1-7)	1 803 185	1 647 789	109.4%
9. Result on impairment allowances	844	(26 138)	x
10. General administrative expenses	(932 883)	(1 001 280)	93.2%
11. Share in the profits (losses) of subordinated entities	1 410	(8 508)	x
12. Gross profit	872 556	611 863	142.6%
13. Income tax expense	(190 263)	(119 865)	158.7%
Net profit (loss) (including minority shareholders)	682 293	491 998	138.7%
Profit (loss) of minority shareholders	9 821	10 053	97.7%
Net profit/ (loss)	672 472	481 945	139.5%
General administrative expenses to Total income items (C/I)	51.7%	60.8%	

In the 1st quarter of 2007, the total of income items of the PKO BP Group amounted to PLN 1,803 million and was PLN 155 million higher compared to the corresponding period of 2006. The individual items in the profit and loss account of the PKO BP Group were as follows:

- Net interest income in the 1st quarter of 2007 amounted to PLN 1,029 million and was PLN 124 million (i.e. 13.7%) higher compared to the corresponding period of 2006. This amount comprised interest income of PLN 1,494 million and interest expense of PLN 465 million, which were 11.2% and 6.1% higher than in the corresponding period of 2006.

The increase in the net interest income took place when the PLN interest rates were lower (e.g. in the 1st quarter of 2007, the average 1M WIBOR was 20 base points lower than in 2006), following efforts made to move the interest result from the deposit to credit side.

- Net fee and commission income in the 1st quarter of 2007 amounted to PLN 484 million and was PLN 78 million (i.e. 19.2%) higher than in the 1st quarter of 2006. The above amount consisted of fee and commission income of PLN 591 million (20.4% higher than in the prior year) and fee and commission expense of PLN 106 million (26.0% higher than in the prior year).

The increase in commission income is mainly due to increase in the number of banking cards and the number of transactions made with the use of these cards, increase in revenues from lending activities and sale of insurance products.

- Result from financial operations was PLN 8.6 million and was PLN 15.5 million higher than in the corresponding period of the prior year. Out of this amount:
 - PLN 7.9 million relates to the result from financial instruments at fair value through profit or loss (increase of PLN 15.2 million),
 - PLN 0.7 million – to the result from investment securities (increase of PLN 0.3 million),
- Foreign exchange result in the 1st quarter of 2007 amounted to PLN 119 million and was PLN 28 million (i.e. 19.1%) lower than the result for the 1st quarter of 2006.

The decrease in the foreign exchange result was due to the decrease in the result on swap transactions (swap points) caused by narrowing spreads between Polish and foreign interest rates after increases in interest rates abroad.

- Net other operating income in the 1st quarter of 2007 amounted to PLN 162 million and was PLN 34 million (i.e. 17.5%) lower than in the corresponding period of 2006. Net other operating income consisted of: operating income of PLN 255 million and operating expense of PLN 93 million, which were respectively 14.4% and 8.3% lower compared to the corresponding period of 2006.

The main factor that contributed to the decrease in both other operating income and other operating expense was the decrease in operating income and operating expense of the PKO Inwestycje Group related to its developer activities.

The result on impairment allowances in the 1st quarter of 2007 amounted to PLN (+) 0.8 million and was PLN 27 million higher compared to the corresponding period of 2006. This was mainly due to higher impairment allowances against loans and advances (by PLN 35 million) thanks to improvement of the quality of loan portfolio and customer financial standing.

In the 1st quarter of 2007, general administrative expenses of the PKO BP Group amounted to PLN 933 million and were PLN 68 million (i.e. 6.8%) lower than in the corresponding period of 2006.

The 2006 results of the PKO BP Group translated into higher rates of return on assets and equity:

Items	31.03.2007	31.03.2006
1. Gross profit (loss)/ average assets (ROA ² _{gross})	3.0%	2.4%
2. Net profit (loss)/ average assets (ROA _{net})	2.4%	2.0%
3. Gross profit (loss)/ average equity (ROE ³ _{gross})	29.4%	25.0%
4. Net profit (loss)/ average equity (ROE _{net})	23.2%	20.1%

8.1.4. Shareholders' equity

As at 31 March 2007, the shareholders' equity of the PKO BP Group amounted to a total of PLN 10,879 million and was PLN 699 million i.e. 6.9% higher than at the end of 2006.

Table 9. Shareholders' equity of the PKO BP Group (in PLN thousands)

Items	As at 31.03.2007	As at 31.12.2006	Change
1. Share capital	1 000 000	1 000 000	0.0%
2. Other capital	7 193 614	7 165 597	0.4%
3. Currency translation differences from foreign operations	(12 624)	(13 672)	(7.7)%
4. Retained earnings	1 911 249	(222 671)	x
5. Net profit for the period	672 472	2 149 052	(68.7)%
Equity assigned to the shareholders of the holding company	10 764 711	10 078 306	6.8%
Minority interest	114 388	102 274	11.8%
Total equity	10 879 099	10 180 580	6.9%
Capital adequacy ratio (%)	13.80%	11.81%	+1.99 p.p.

² ROA gross and ROA net computed as proportion of, respectively, annualized gross and net profit (loss) for the period to the arithmetic average of assets at the beginning and at the end of the period.

³ ROE gross and ROE net computed as proportion of, respectively, annualized gross and net profit (loss) for the period to the arithmetic average of equity (including retained earnings and profit for the period) at the beginning and at the end of the period.

8.2 FINANCIAL PERFORMANCE OF PKO BP FOR THE 1ST QUARTER OF 2007

In the 1st quarter of 2007, PKO BP SA recorded a pre-tax profit of PLN 789 million and net profit of PLN 614 million, which were 39.8% and 35.3%, respectively, higher than in the 1st quarter of 2006.

In the 1st quarter of 2007, the costs to income ratio (C/I) was 51.2% and was 8.4 p.p. lower than in the corresponding period of 2006 due to 12.6% increase in income items with a simultaneous decrease in general administrative expenses by 3.4%.

Table 10. Main items of the profit and loss account of PKO BP (in PLN thousands)

Items	I Quarter of 2007	I Quarter of 2006	Dynamics
1. Net interest income	993 799	879 803	113.0%
2. Net fee and commission income	486 719	394 745	123.3%
3. Dividend income	8	0	x
4. Result from financial instruments at fair value through profit and loss	6 091	(7 467)	x
5. Result from investment securities	858	641	133.9%
6. Foreign exchange result	117 554	145 709	80.7%
7. Net other operating income	28 406	37 498	75.8%
8. Total income items (1-7)	1 633 435	1 450 929	112.6%
9. Result on impairment write-downs	(9 027)	(21 476)	42.0%
10. General administrative expenses	(835 624)	(865 060)	96.6%
11. Profit before income tax	788 784	564 393	139.8%
12. Income tax expense	(175 102)	(110 987)	157.8%
13. Net profit	613 682	453 406	135.3%
General administrative expenses to Total income items (C/I)	51.2%	59.6%	

In the 1st quarter of 2007, the total of income items of the Bank amounted to PLN 1,633 million and was PLN 183 million higher than in the corresponding period of 2006.

The individual items of the profit and loss account of the Bank were as follows:

- Net interest income in the 1st quarter of 2007 was PLN 994 million and was PLN 114 million (i.e. 13.0%) higher than in the corresponding period of 2006. The balance of net interest income comprises interest income of PLN 1,421 million and interest expense of PLN 427 million, which were, respectively, 9.6% and 2.5% higher than in the prior year.
- Net fee and commission income in the 1st quarter of 2007 was PLN 487 million and was PLN 92 million (i.e. 23.3%) higher than in the 1st quarter of 2006. The above amount consisted of fee and commission income of PLN 593 million (a 22.8% increase) and fee and commission expense of PLN 106 million (a 20.6% increase).
- The total of the result from financial instruments at fair value through profit or loss and the result from investment securities in the 1st quarter of 2007 resulted in a profit of PLN 7 million that was PLN 14 million higher than in the 1st quarter of 2006.
- The foreign exchange result was PLN 118 million and was PLN 28 million (i.e. 19.3%) lower than in the corresponding period of 2006.
- In the 1st quarter of 2007, net other operating income was PLN 28 million and was PLN 9 million (i.e. 24.2%) lower than in the corresponding period of 2006 and comprised other operating income of PLN 48 million and other operating expenses of PLN 20 million, which were 7.5% lower and 35.6% higher, respectively, than in the 1st quarter of 2006.

Comments to the individual items presented in the description of the results of the PKO BP SA Group (paragraph 8.1.3) also relate to the results of PKO BP.

The result on impairment allowances for the 1st quarter of 2007 amounted to PLN (-)9 million and was PLN 12 million better than in the corresponding period of 2006, mainly as a result of the improved result on impairment allowances against loans and advances. This, in turn, was possible thanks to the improvement in the quality of loan portfolio and an overall improvement in the borrowers' financial standing.

In the 1st quarter of 2007, general administrative expenses of the Bank amounted to PLN 836 million and were 3.4% lower compared to those incurred in the 1st quarter of 2006.

The 2006 results of PKO BP translated into higher rates of return on assets and equity:

Ratios	31.03.2007	31.03.2006
1. Gross profit (loss)/ average assets (ROA ⁴ _{gross})	2.8%	2.3%
2. Net profit (loss)/ average assets (ROA _{net})	2.3%	1.9%
3. Gross profit (loss)/ average equity (ROE ⁵ _{gross})	27.4%	23.5%
4. Net profit (loss)/ average equity (ROE _{net})	22.2%	19.2%

8.3 FACTORS AFFECTING FINANCIAL PERFORMANCE

8.3.1. Macroeconomic factors

In the 1st quarter of 2007:

- The pace of growth in production and retail sales increased compared to the 4th quarter of 2006. This shows that the very high rate of economic growth continued and, to a large extent, was stimulated by the national demand, with less favorable trends in the foreign trade present.
- Due to good economic situation, better absorption of the EU funds for the activation of the unemployed, probable increase in the number of persons seeking employment abroad (especially short-term employment) as well as due to good weather conditions enabling the extension of time of construction work, the labor market saw a further improvement and in February 2007, the registered unemployment rate fell to 14.9%. At the same time, the private sector recorded further increase in the number of persons employed, counted on a year-to-year basis.
- The inflation rate increased to 2.5% from 1.4% at the end of 2006, counted on a year-to-year basis. This was mainly the effect of lower reference point i.e. low prices of food registered in the corresponding period of the prior year, and increase in fuel prices.
- Upward trend of household's deposits was maintained and at the end of March the increase in household deposits amounted to 9.5%, on a year-to-year basis (compared to 9.6% at the end of 2006, also calculated on the year-to-year basis). This upward trend was influenced by higher disposable income, although the opposite trend of re-direction of funds from bank deposits to alternative forms of savings was also noted. At the same time, an increase in the balance of corporate deposits to 29.8% at the end of March, calculated on a year-to-year basis, was recorded, while at the end of 2006, the increase was 25.9%, calculated on a year-to-year basis.
- The dynamics of loans and advances granted to households continued to accelerate, stimulated mainly by high demand for housing loans. Gradual increase in the demand for corporate loans was also recorded.
- The Monetary Policy Council did not change interest rates and the NBP reference rate was 4.0%.

At the same time, the results of the PKO BP SA Group in the 1st quarter of 2007 were affected by the following macroeconomic factors in Ukraine, where the Bank's subsidiary, KREDOBANK SA, operates:

- continued positive trends in the area of real economy as regards further increase in the dynamics of the GDP, with a positive effect of higher investments and net export and decrease in the unemployment rate,
- keeping the inflation rate at the high level of 10.1%, calculated on a year-to-year basis, mainly as a result of lower reference point from the corresponding period of prior year,
- maintaining growth in the dynamics of loans and advances and deposits at the level of that recorded in the 4th quarter of the prior year (approx. 70% for loans and advances and 40% for deposits, on a year-to-year basis),
- stabilization of the Ukrainian currency, Hryvna, at the level of 5.05 UAH/USD, due to frequent interventions of the Central Bank on the currency market in order to counteract the pressure to appreciate the Ukrainian currency.

⁴ ROA gross and ROA net computed as proportion of, respectively, gross and net profit (loss) for the period to the arithmetic average of assets at the beginning and at the end of the period.

⁵ ROE gross and ROE net computed as proportion of, respectively, gross and net profit (loss) for the period to the arithmetic average of equity (including retained earnings and profit for the period) at the beginning and at the end of the period.

8.3.2. Regulatory factors

The following regulatory factors had an impact on the activities of the PKO BP Group in the 1st quarter of 2007:

- amended policies concerning calculation of interest on obligatory reserve which caused an increase in the balance of interest income from obligatory reserve held with the Central Bank – as of 1 January 2007, the entire interest income from obligatory reserve in the Central Bank is to be included in the bank's income (in 2006 – only 50%),
- increase, as of 1 January 2007, in the percentage rate used for establishing the level of the amounts held in the fund of guaranteed money which is obligatorily created by banks.

The activities of the Bank were affected by preparatory activities aimed at implementing new capital adequacy requirements defined in the amended Banking Law Act dated 26 January 2007 (Journal of Laws, No. 42, item 272) and Resolutions of the Commission for Banking Supervision dated 13 March 2007 (Official Journal of NBP, No 2 and No 3).

The financial situation of the PKO BP Group was also affected by legislative changes in the Ukrainian banking system, and in particular by obtaining by KREDOBANK a permission of the National Bank of Ukraine to include in own funds the amounts of the subordinated loan taken out from PKO BP in January 2007.

8.3.3. Financial markets

In the 1st quarter of 2007, the quotations of treasury securities were very stable. The increased probability of tightening monetary policy by the Monetary Policy Council in the 2nd quarter of 2007 caused that the profitability of short-term treasury securities slightly increased (less than 10 base points). However, the price of long-term treasury securities changed only slightly despite the perspective of the increase in interest rates in Poland and increase in the profitability of German bonds. Stabilized political situation, better macroeconomic and fiscal situation, better ratings assigned to Poland by Fitch and Standard & Poor's rating agencies as well as slight decrease in the profitability of American bonds, all those factors caused that prices of long-term treasury securities stabilized.

During the period from January 2007 to March 2007, Polish zloty depreciated against Euro by 1% (to 3.87 PLN/EUR at the end of March 2007) and slightly (0.2%) appreciated against US Dollar (to 2.91 PLN/USD at the end of March 2007). The first two months of the quarter saw a strong depreciation of Polish currency, initially due to limiting the demand of foreign investors for the currencies of the emerging markets with better quotations of the US Dollar on global markets. In March, the above situation started to stabilize and the Polish zloty exchange rate started to increase supported by positive effects of strong foundations of Polish economy.

9. SEASONALITY OR CYCLICAL NATURE OF ACTIVITIES IN THE REPORTING PERIOD

PKO BP SA is a universal bank, providing services on the whole territory of Poland, and its activities are exposed to similar fluctuations to those affecting the entire Polish economy. The activities of other Group companies do not indicate any particular seasonality or cyclical nature.

10. ISSUANCE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY SECURITIES

Among entities of the PKO BP Group, the following raise capital through the issuance of debt securities:

- Bankowy Fundusz Leasingowy SA (BFL SA),
- KREDOBANK SA.

In the 1st quarter of 2007, Bankowy Fundusz Leasingowy SA issued 35,500 bonds with a total nominal value of PLN 355 million and redeemed 18,000 bonds with a total nominal value of PLN 180 million.

Compared to the end of 2006, the debt of BFL SA in this respect increased by PLN 175 million.

As at 31 March 2007, the portfolio of PKO BP contained 22,895 corporate bonds of the Company with a total nominal value of PLN 228,950 thousand. The remaining 12,105 corporate bonds with a total nominal value of PLN 121,050 thousand were sold on the secondary market.

On 20 February 2007, KREDOBANK SA issued 25,000 bonds with a total nominal value of UAH 25 million and final redemption date was set at 20 February 2012. All bonds were sold on the Ukrainian market.

11. EVENTS THAT OCCURRED AFTER THE DATE ON WHICH THE REPORT WAS PREPARED AND THAT MAY AFFECT FUTURE FINANCIAL RESULTS

- On its meeting on 2 April 2007, the Supervisory Board of PKO BP:
 - delegated Mr Marek Głuchowski, PhD, President of the Supervisory Board of PKO BP, to independently supervise the activities of the Bank's Management Board as of 11 April 2007,
 - appointed, as of 11 April 2007, Mr Rafał Juszczak, Vice-President of the Management Board to act as President of the Management Board of PKO BP until a new President of the Management Board is elected,
 - delegated Mr Adam Skowroński, PhD, Member of the Bank's Supervisory Board, to temporarily act as Vice-President of the Management Board during the period from 11 April 2007 to 30 April 2007.
- On 11 April 2007, the Reuters information agency announced that *the Moody's Investors Service* rating agency reduced for PKO BP its long-term deposit in domestic currency rating from Aaa to Aa2 (the remaining ratings did not change). According to *the Moody's*, the above change resulted from changes in the rating assignment methodology, which, among others, consisted in paying more attention to intrinsic financial strength of banks, and less – to the level of external support during the course of *rating* assignment. The above change related to the JDA methodology (obtaining external support), using which the *Moody's* assigned two new *ratings* to the Bank at the end of February 2007.
- On 20 April 2007, PKO BP signed with the European Bank for Reconstruction and Development a conditional agreement for the purchase by PKO BP of shares in KREDOBANK SA. Subject to this transaction are the shares of KREDOBANK SA which account for 28.2486% in the Company's share capital and votes in its general shareholders' meeting. The condition required to effect the transaction is obtaining permission of the National Bank of Ukraine. After the transaction, PKO BP will hold a total of 98.1815% shares in KREDOBANK SA share capital, which would give right to 98.1815% votes at the general shareholders meeting of this Company.
- On 20 April 2007, the Supervisory Board of PKO BP adopted a new strategy for the Bank „New Opening, Strategy for the Growth of PKO BP in the years 2007-2012”. The main objectives of the strategy were presented at the Ordinary General Shareholders' Meeting of PKO BP on 26 April 2007.
- The Ordinary General Shareholders' Meeting of PKO BP held on 26 April 2007:
 - approved: (i) Directors' Report on the activities of PKO BP for the year 2006, (ii) financial statements of PKO BP for the year 2006, (iii) Directors' Report on the activities of the PKO BP Group for the year 2006, (iv) consolidated financial statements of the PKO BP Group for the year 2006,
 - appropriated the 2006 profit of PKO BP of PLN 2,047,391 thousand in the following manner: (i) dividend to shareholders – PLN 980,000 thousand, (ii) reserve capital – PLN 1,062,391 thousand, (iii) other capital – PLN 5,000 thousand,
 - acknowledged the fulfillment of duties by members of the Management and Supervisory Boards in 2006,
 - defined policies for remunerating President of the Management Board of PKO BP,
 - approved Regulations of the Supervisory Board of PKO BP,
 - made amendments to the Statutes of PKO BP.

The content of Resolutions of General Shareholders' Meeting of PKO BP was published in the current report No 25/2006 dated 27 April 2007.

12. POSITION OF THE MANAGEMENT BOARD AS REGARDS THE POSSIBILITY OF ACHIEVING PREVIOUSLY PUBLISHED FORECASTS FOR THE CURRENT YEAR

PKO BP did not publish any financial forecasts for 2007.

13. INFORMATION ON DIVIDEND PAID (OR DECLARED)

On 19 March 2007, the Management Board of the Bank passed a resolution and decided to submit to the General Shareholders' Meeting its recommendation to pay dividend for 2006 in the amount of PLN 980,000,000 i.e. PLN 0.98 per share.

On 2 April 2007, the above recommendation was considered and accepted by the Supervisory Board.

On 26 April 2007, the Ordinary General Shareholders' Meeting of PKO BP resolved to pay dividend for 2006 in the amount of PLN 0.98 per share. The list of shareholders entitled to receive dividend will be set as at 20 July 2007, while dividend payment will take place on 2 August 2007.

14. SHAREHOLDERS HOLDING, DIRECTLY OR INDIRECTLY THROUGH SUBSIDIARIES, AT LEAST 5% OF VOTES AT THE GENERAL SHAREHOLDERS' MEETING

The interim report for the 4th quarter of 2006 was submitted to the Polish Financial Supervision Authority on 23 February 2007.

To the best knowledge of the Bank, the shareholder with at least 5% of total votes at the General Shareholders' Meeting of the Bank, held directly or indirectly through subsidiaries, is the State Treasury.

As at 31 March 2007, the State Treasury held 514,945,555 shares of the Bank.

The share of the above shareholder in the share capital of the Bank is 51.49% and matches the percentage share in the total number of votes at the General Shareholders' Meeting of the Bank as at the date of submitting the Report.

Table 11. Ownership structure as at 31 March 2007

Shareholder	Percentage of votes at the General Shareholders' Meeting as at the date of submitting previous quarterly report	Number of shares as at the date of submitting previous quarterly report	% change from the date of submitting previous quarterly report	Percentage of votes at the General Shareholders' Meeting as at the date of submitting this Report	Number of shares as at the date of submitting this Report
State Treasury	51.50%	514,959,296	-0.01 p.p.	51.49%	514,945,555

15. CHANGES IN THE NUMBER OF PKO BP SHARES HELD BY THE MANAGEMENT OR SUPERVISORY BOARD MEMBERS

Table 12. Shares held by the Management or Supervisory Board Members as at 11 May 2007

	Name	Number of shares as at the date of submitting previous quarterly report	Purchase	Disposal	Number of shares as at the date of submitting this Report
I.	Management Board				
1.	Rafał Juszcak, acting as President of the Management Board	-----	-----	-----	-----
2.	Robert Działak, Vice-president of the Management Board	-----	-----	-----	-----
3.	Wojciech Kwiatkowski, Vice-president of the Management Board	-----	-----	-----	-----
4.	Stefan Świątkowski, Vice-president of the Management Board	-----	-----	-----	-----
II.	Supervisory Board				
1.	Marek Głuchowski, President of the Supervisory Board	-----	-----	-----	-----
2.	Urszula Pałaszek, Vice-president of the Supervisory Board	-----	-----	-----	-----
3.	Jerzy Michałowski, Member of the Supervisory Board	-----	-----	-----	-----
4.	Tomasz Siemiątkowski, Member of the Supervisory Board	-----	-----	-----	-----
5.	Adam Skowroński, Member of the Supervisory Board	-----	-----	-----	-----
6.	Agnieszka Winnik-Kalemba, Member of the Supervisory Board	-----	-----	-----	-----

16. INFORMATION ON A TRANSACTION OR A NUMBER OF TRANSACTIONS CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY WITH OTHER GROUP ENTITIES, WITH A VALUE EXCEEDING EUR 500,000, IF THEY ARE NOT TYPICAL OR ROUTINE TRANSACTIONS

In executing the provisions of the lease agreement of 7 December 1995 (amended by Annexes no. 1 to 32) with the Bank's subsidiary, Centrum Finansowe Puławska Sp. z o.o. ("CFP"), in the 1st quarter of 2007, PKO BP SA made payments to the CFP in the total gross amount of PLN 12.4 million. The agreement determines the terms for the lease of space in the building located in Warsaw at 15 Puławska Street.

The payments that were made by the Bank related to rental fees, maintenance costs and costs of cleaning common space.

Due to the comprehensive regulation of all issues connected with cooperation between the parties to the agreement, the agreement is not a typical or routine agreement concluded by the parties in the course of their day-to-day operations.

17. RESULTS OF CHANGES IN THE BANK'S STRUCTURE, INCLUDING THE EFFECTS OF MERGER, TAKEOVER OR DISPOSAL OF THE GROUP ENTITIES, LONG-TERM INVESTMENTS, DIVISION, RESTRUCTURING AND DISCONTINUATION OF ACTIVITIES

The results of changes in the Bank's structure, including the results of merger, takeover or sale of Group entities have been described in paragraph 6.2 of this Report.

18. FACTORS WHICH MAY AFFECT FUTURE FINANCIAL PERFORMANCE WITHIN AT LEAST THE NEXT QUARTER

In the next few quarters, the results of the Bank and the PKO BP Group will be affected by economic processes which will take place in the Polish and global economy, as well as by response of the financial markets to those processes.

The interest rate policy applied by the Monetary Policy Council and by other largest central banks will also have a great influence on the Bank's performance.

19. SURETYSHIPS AND GUARANTEES GRANTED BY THE ISSUER OR BY ITS SUBSIDIARY TO A SINGLE ENTITY OR ITS SUBSIDIARY, IF THE TOTAL VALUE OF GRANTED SURETYSHIPS OR GUARANTEES AMOUNTS TO AT LEAST 10% OF THE ISSUER'S SHAREHOLDERS' EQUITY

During the 1st quarter of 2007, PKO BP SA and its subsidiaries did not grant any suretyships or guarantees to a single entity or its subsidiary with the total amount of at least 10% of the Bank's shareholders' equity.

20. PROCEEDINGS PENDING BEFORE THE COURT, ARBITRATION TRIBUNAL OR PUBLIC ADMINISTRATIVE AUTHORITY

As at 31 March 2007, the total value of court proceedings against PKO BP amounted to PLN 250,611,595 while the total value of the proceedings initiated by PKO BP amounted to PLN 81,188,681.

No court proceedings with the participation of PKO BP are in progress, the value of which amounts to at least 10% of the Bank's shareholders' equity.

Other Group companies have not conducted any proceedings before the court, arbitration tribunal or public administration authority concerning receivables or liabilities, the value of which amounts to at least 10% of the shareholders' equity of PKO BP.

21. OTHER DISCLOSURES SIGNIFICANT FOR EVALUATION OF THE ISSUER'S HUMAN RESOURCES, FINANCIAL SITUATION, FINANCIAL PERFORMANCE AND ANY CHANGES THEREIN

- On 29 December 2006, the Supervisory Board of PKO BP decided to start interviews with a view to appointing President and two Vice-presidents of the Management Board of PKO BP. Interviews with candidates for the post of the President of the Management Board were held on 24 January 2007, while with those for the post of Vice-presidents - on 25 January 2007.
- As of 10 January 2007, Mr Sławomir Skrzypek resigned as Vice-president and acting as President of the Management Board of PKO BP due to his appointment as President of the National Bank of Poland.
- The Supervisory Board of PKO BP on its meeting on 10 January 2007 delegated Mr Marek Głuchowski, PhD, President of the Supervisory Board of PKO BP, to temporarily act as President of the Management Board of the Bank i.e. to 23 January 2007. In addition, it was decided that in case the Supervisory Board does not appoint during the period from 24 January 2007 to 26 January 2007 a member of the Management Board who would act as President of the Management Board, Mr Marek Głuchowski, PhD, would temporarily act as President of the Management Board of PKO BP during the period from 27 January 2007 to 10 April 2007 at the latest.
- As of 31 January 2007, Mr Jacek Obłękowski resigned as Vice-president of the Management Board of PKO BP.
- On 22 February 2007, the Supervisory Board of PKO BP, as part of the interviews for the post of President and Vice-presidents of the Management Board of PKO BP, resolved the following:
 - Mr Robert Działak will act as Vice-president of the Management Board of the Bank as of 23 February 2007,
 - Mr Stefan Świątkowski will act as Vice-president of the Management Board of the Bank as of 1 May 2007.

In accordance with the resolutions referred to above, Mr Robert Działak and Mr Stefan Świątkowski were appointed for those positions for a joint term of office that commenced on 19 May 2005.

- On 22 February 2007, the Supervisory Board of PKO BP decided to open another round of qualification interviews for the post of the President and Vice-presidents of the Management Board of PKO BP. The interviews were held on 21 and 22 March 2007.
- On 24 February 2007, the *Moody's Investors Service* rating agency assigned two new *ratings* to the Bank: Aaa – for long-term domestic currency deposits with stable outlooks, and P-1 – for short-term domestic currency deposits with stable outlooks. The new ratings were assigned in connection with implementation of the new JDA methodology (obtaining external support) and amendment of the BFSR methodology (intrinsic financial strength of the bank).
- On 8 March 2007, the Bank received a report from the *Capital Intelligence* rating agency, which informed about the upgrade of the Bank's rating concerning its intrinsic financial strength i.e. from BBB(-) to BBB with stable outlooks. The report was issued in February 2007. The Agency stated that the above change in assessment results from a systematic growth in the Bank's profitability. In addition, the Agency pointed to the improving quality of the Bank's credit portfolio and better transparency of financial reporting.
- As of 13 March 2007, Mr Zdzisław Sokal resigned as Vice-president of the Management Board of PKO BP.
- The Extraordinary General Shareholders' Meeting of PKO BP appointed, as of 19 March 2007, Mr Maciej Czapiewski as Member of the Supervisory Board of PKO BP.

22. SEGMENTATION OF ACTIVITIES OF THE PKO BP GROUP

The primary segmentation key is based on business segments and the secondary - on geographical segments.

The Group usually settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates.

Business segments

Segmentation by business is as follows:

- Corporate Segment includes transactions of the parent company with large corporate clients and operations of the subsidiary assigned to this segment.
- Retail Segment covers transactions of the parent company with private individuals and also small and medium-sized enterprises as well as operations of the subsidiaries assigned to this segment,
- Treasury Segment covers inter-bank transactions, transactions made using derivative instruments and debt securities,
- Investments Segment covers brokerage and investing activities of the parent company and operations of the subsidiary assigned to this segment.
- Housing Segment covers transactions of the parent company connected with granting housing loans and accepting housing deposits and operations of the subsidiary assigned to this segment.

The Bank has not identified any other segments as a result of not having reached the thresholds set forth in IAS 14, which are as follows:

- segment revenue from sales to external customers and from transactions with other segments amounts to 10% or more of the total external and internal revenue of all segments, or
- segment result, whether a profit or loss, accounts for 10% or more of the aggregated result of all segments in profit or loss, whichever greater in absolute value, or
- segment assets account for 10% or more of total assets of all segments.

According to IAS 14, segments which were not separated have been disclosed as unallocated reconciling items.

The assets and liabilities of a given segment represent operating assets and liabilities used by that segment in its operating activities.

The tables below present data relating to revenue and results of individual business segments of the Group for the period of 3 months ended 31 March 2007 and 31 March 2006 and selected assets and liabilities as at 31 March 2007 and 31 December 2006.

*Translation of Interim Financial Statements of the PKO BP SA Group for the 1st quarter of 2007
The Polish original should be referred to in matters of interpretation*

For the 3 month period ended 31.03.2007	Continued activities					
	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	All activities
Revenue						
External customer-related revenues	320 547	1 295 860	354 655	51 808	539 000	2 561 870
Inter-segment sales	-	7 953	-	-	769	8 722
Total segment revenue	320 547	1 303 813	354 655	51 808	539 769	2 570 592
Result						
Segment result	100 547	451 426	43 948	27 848	144 207	767 976
Unallocated result together with the result of non-separated segments	-	-	-	-	-	57 014
Difference between FX Swap and CIRS results reported for accounting and management information purposes (Swap points)	-	-	-	-	-	46 156
Result from continued activities before taxation	-	-	-	-	-	871 146
Share in the results of associates and jointly controlled entities	-	-	-	-	-	1 410
Result before taxation and minority interest	-	-	-	-	-	872 556
Income tax (tax charge)	-	-	-	-	-	(190 263)
Profit (loss) of minority shareholders	-	-	-	-	-	9 821
Net profit for the period	-	-	-	-	-	672 472
Assets and equity and liabilities as at 31 March 2007						
Segment assets	19 884 991	20 306 689	26 769 005	1 439 412	27 255 989	95 656 086
Investments in associates and jointly controlled entities	-	-	-	186 608	-	186 608
Unallocated assets	-	-	-	-	-	6 502 249
Total assets	-	-	-	-	-	102 344 943
Segment liabilities and result	12 570 584	63 657 043	3 316 130	1 131 354	11 648 263	92 323 374
Unallocated liabilities	-	-	-	-	-	10 021 569
Total liabilities	-	-	-	-	-	102 344 943
Other segment information for the 3 month period ended 31 March 2007						
Result on impairment allowances*	51 517	(47 254)	-	1 000	1 736	6 999

*without impairment allowances relating to non-separated segments

*Translation of Interim Financial Statements of the PKO BP SA Group for the 1st quarter of 2007
The Polish original should be referred to in matters of interpretation*

	Continued activities					
For the 3 month period ended 31.03.2006	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	All activities
Revenue						
External customer-related revenues	301 652	974 057	405 600	39 639	537 654	2 258 602
Inter-segment sales	-	12 444	-	-	1 031	13 475
Total segment revenue	301 652	986 501	405 600	39 639	538 685	2 272 077
Result						
Segment result	82 784	224 385	38 168	11 977	118 355	475 669
Unallocated result together with the result of non-separated segments	-	-	-	-	-	80 466
Difference between FX Swap and CIRS results reported for accounting and management information purposes (Swap points)	-	-	-	-	-	64 236
Result from continued activities before taxation	-	-	-	-	-	620 371
Share in the results of associates and jointly controlled entities	-	-	-	-	-	(8 508)
Result before taxation and minority interest	-	-	-	-	-	611 863
Income tax (tax charge)	-	-	-	-	-	(119 865)
Profit (loss) of minority shareholders	-	-	-	-	-	10 053
Net profit for the year	-	-	-	-	-	481 945
Assets and equity and liabilities as at 31 December 2006						
Segment assets	19 293 605	19 127 175	28 158 790	1 619 540	25 137 161	93 336 271
Investments in associates and jointly controlled entities	-	-	-	180 162	-	180 162
Unallocated assets	-	-	-	-	-	7 744 780
Total assets	-	-	-	-	-	101 261 213
Liabilities and segment result	11 003 202	65 003 017	4 078 452	481 796	10 743 159	91 309 626
Unallocated liabilities	-	-	-	-	-	9 951 587
Total liabilities	-	-	-	-	-	101 261 213
Other segment information for the 3 month period ended 31 March 2006						
Result on impairment allowances*	32 507	(50 588)	-	850	(7 860)	(25 091)

* without impairment allowances relating to non-separated segments

Segmentation by geographical regions

Given the fact that the Group's activities are also conducted outside Poland, segmentation by geographical region is a secondary reporting format.

The operating activities of the PKO BP SA Group, which cover all business segments, are concentrated on the activities in Poland through PKO BP SA and subordinated entities.

Outside Poland, the Group carries out its activities in Ukraine – through KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o.

The scope of activities of the Group outside Poland is relatively small compared to the result of the whole Group.

The tables below present data relating to revenue of the individual geographical segments for the 3 month period ended 31 March 2007 and 31 March 2006 and selected assets as at 31 March 2007 and 31 December 2006.

For the 3 month period ended 31 March 2007	Poland	Ukraine	Total
Revenues			
Total segment revenues	2 498 334	72 258	2 570 592
Other segment information as at 31 March 2007			
Segment assets	100 205 221	1 953 114	102 158 335
Unallocated assets	-	-	-
Investments in associates	186 608	-	186 608
Total assets	100 391 829	1 953 114	102 344 943

For the 3 month period ended 31 March 2006	Poland	Ukraine	Total
Revenues			
Total segment revenues	2 221 064	51 013	2 272 077
Other segment information as at 31 December 2006			
Segment assets	99 293 788	1 787 263	101 081 051
Unallocated assets	-	-	-
Investments in associates	180 162	-	180 162
Total assets	99 473 950	1 787 263	101 261 213

23. CREDIT RISK AND MARKET RISK OF THE PKO BP GROUP

- Balance as at 31 March 2007

Balance sheet instruments		
	Carrying amount	Risk weighted value
Banking portfolio	99 079 545	58 408 070
Trading portfolio	3 265 398	1 339 359
Total balance sheet instruments	102 344 943	59 747 429

Off-balance sheet instruments			
	Replacement cost	Credit equivalent	Risk weighted value
<i>Derivatives</i>	171 079 288	2 436 636	488 354
Banking portfolio	33 325 557	1 366 459	274 283
Trading portfolio	137 753 731	1 070 177	214 071
<i>Other off-balance sheet instruments</i>	28 585 413	4 860 712	4 576 361
Banking portfolio	27 787 572	4 062 871	3 888 368
Trading portfolio	797 841	797 841	687 993
Total off-balance sheet instruments	199 664 701	7 297 348	5 064 715

	Carrying amount and off-balance sheet amount	Risk weighted value	Capital requirement
Total banking portfolio (credit risk)	160 192 674	62 570 721	5 005 658

Capital requirements for the trading portfolio (market risk)	Capital requirement
Market risk, of which:	134 112
Currency risk	-
Commodity price risk	-
Equity securities price risk	376
Debt securities special risk	95 793
Interest rate general risk	37 943
Other:	16 187
Settlement risk - business partner delivery	16 187
Securities underwriting risk	-
Other	-
Total capital requirement (credit and market risk)	5 155 957

The credit and market exposures were calculated based on the provisions of the Resolution of the Commission for Banking Supervision No 4/2004 dated 8 September 2004.

• **Balance as at 31 December 2006**

Balance sheet instruments		
	Carrying amount	Risk weighted value
Banking portfolio	97 965 282	54 339 741
Trading portfolio	3 295 931	1 284 405
Total balance sheet instruments	101 261 213	55 624 146

Off-balance-sheet instruments			
	Replacement cost	Credit equivalent	Risk weighted value
<i>Derivatives</i>	154 015 221	2 389 886	478 364
Banking portfolio	27 923 211	1 217 802	243 916
Trading portfolio	126 092 010	1 172 084	234 448
<i>Other off-balance-sheet instruments</i>	28 527 959	5 422 836	4 228 904
Banking portfolio	27 718 043	4 708 920	3 514 988
Trading portfolio	809 916	713 916	713 916
Total off-balance-sheet instruments	182 543 180	7 812 722	4 707 268

	Carrying amount and off-balance sheet amount	Risk weighted value	Capital requirement
Total banking portfolio (credit risk)	153 606 536	58 098 645	4 647 892

Capital requirements for the trading portfolio (market risk)	Capital requirement
Market risk, of which:	132 165
Currency risk	-
Commodity price risk	-
Equity securities price risk	214
Debt securities special risk	94 618
Interest rate general risk	37 333
Other:	16 522
Settlement risk - business partner delivery	16 522
Securities underwriting risk	-
Other	-
Total capital requirement (credit and market risk)	4 796 579

The credit and market exposures were calculated based on the provisions of the Resolution of the Commission for Banking Supervision No 4/2004 dated 8 September 2004.

15 May 2007

Danuta Szymańska

Bank's Director

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(Signature)