# The financial statements of
# Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
# for the year ended 31 December 2006

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

# SECURITIES AND EXCHANGE COMMISSION

# The annual report R 2006

(in accordance with § 86 section 1 point 3 of the Decree of Ministry of Finance, dated 19 October 2005, Journal of Laws No 209, item. 1744)
(for banks)

for the year 2006 covering the period from 2006-01-01 to 2006-12-31

containing financial statements prepared in accordance with International Financial Reporting Standards

currency PLN

date of submission: 03-04-2007

| | in PLN thousand | | in EUR thousand | |
|---|---|---|---|---|
| **SELECTED FINANCIAL DATA** | **Period from 01.01.2006 to 31.12.2006** | **Period from 01.01.2005 to 31.12.2005** | **Period from 01.01.2006 to 31.12.2006** | **Period from 01.01.2005 to 31.12.2005** |
| Net interest income | 3 699 127 | 3 473 829 | 948 713 | 863 428 |
| Net fees and commission income | 1 717 684 | 1 169 839 | 440 533 | 290 766 |
| Operating result | 2 502 064 | 2 073 310 | 641 703 | 515 326 |
| Gross profit | 2 502 064 | 2 073 310 | 641 703 | 515 326 |
| Net profit | 2 047 391 | 1 676 798 | 525 093 | 416 772 |
| Total equity | 10 035 724 | 8 780 394 | 2 619 473 | 2 274 831 |
| Net cash flow from operating activities | 8 528 557 | (3 410 059) | 2 187 314 | (847 578) |
| Net cash flow from investing activities | (5 104 874) | 1 747 257 | (1 309 244) | 434 285 |
| Net cash flow from financing activities | (748 676) | (952 237) | (192 013) | (236 681) |
| Total net cash flow | 2 675 007 | (2 615 039) | 686 058 | (649 974) |
| Basic funds (Tier 1) | 7 258 146 | 6 582 750 | 1 894 484 | 1 705 464 |
| Supplementary funds (Tier 2) | 3 729 | (4 460) | 973 | (1 156) |

*for the year ended 31 December 2006* *(in PLN thousand)*

**INCOME STATEMENT**
**for the years ended 31 December 2006 and 31 December 2005, respectively**

| | Note | 2006 | 2005 |
|---|---|---|---|
| Interest income | 8 | 5 357 933 | 5 515 887 |
| Interest expense | 8 | (1 658 806) | (2 042 058) |
| **Net interest income** | | **3 699 127** | **3 473 829** |
| Fees and commission income | 9 | 2 103 395 | 1 502 668 |
| Fees and commission expense | 9 | (385 711) | (332 829) |
| **Net fees and commission income** | | **1 717 684** | **1 169 839** |
| Dividend income | 10 | 18 624 | 28 881 |
| Result from financial instruments at fair value | 11 | (94 420) | 30 579 |
| Result from investment securities | 12 | 49 091 | 276 724 |
| Foreign exchange result | 13 | 532 570 | 613 715 |
| Other operating income | 14 | 214 330 | 259 690 |
| Other operating expenses | 14 | (79 927) | (49 723) |
| **Net other operating income** | | **134 403** | **209 967** |
| Result on impairment allowances | 16 | 34 018 | (98 900) |
| General administrative expenses | 15 | (3 589 033) | (3 631 324) |
| **Operating result** | | **2 502 064** | **2 073 310** |
| **Gross profit (loss)** | | **2 502 064** | **2 073 310** |
| Income tax expense | 18 | (454 673) | (396 512) |
| **Net profit (loss)** | | **2 047 391** | **1 676 798** |

*for the year ended 31 December 2006* *(in PLN thousand)*

**BALANCE SHEET**
**as at 31 December 2006 and 31 December 2005**

| | Note | 31.12.2006 | 31.12.2005 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and amounts due from the Central Bank | 20 | 4 543 677 | 3 832 695 |
| Amounts due from banks | 21 | 13 349 723 | 12 631 446 |
| Financial assets held for trading | 22 | 391 177 | 841 914 |
| Derivative financial instruments | 23 | 1 199 751 | 1 137 227 |
| Other financial instruments valued at fair value through profit or loss | 24 | 11 214 660 | 20 034 160 |
| Loans and advances to customers | 25 | 57 220 980 | 46 051 847 |
| Investment securities, including: | 26 | 6 805 567 | 1 857 578 |
| Available for sale | | 6 805 567 | 1 857 578 |
| Shares in subsidiaries, associates and jointly controlled entities | 27 | 1 005 611 | 899 932 |
| Intangible assets | 28 | 726 458 | 525 306 |
| Tangible fixed assets | 29 | 2 157 382 | 2 201 163 |
| Other assets | 30 | 437 847 | 314 248 |
| **TOTAL ASSETS** | | **99 052 833** | **90 327 516** |

| | | | |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Amounts due to the Central Bank | 32 | 1 387 | 766 |
| Amounts due to other banks | 33 | 3 717 350 | 1 943 035 |
| Derivative financial instruments | 23 | 1 098 853 | 1 257 384 |
| Amounts due to customers | 35 | 81 670 039 | 75 886 880 |
| Other liabilities | 37 | 1 925 573 | 1 666 180 |
| Current tax liabilities | 18 | 170 960 | 436 494 |
| Deferred tax liability | 18 | 8 378 | 31 351 |
| Provisions | 38 | 424 569 | 325 032 |
| **TOTAL LIABILITIES** | | **89 017 109** | **81 547 122** |
| **Equity** | | | |
| Share capital | 42 | 1 000 000 | 1 000 000 |
| Other capital items | 43 | 6 988 333 | 5 672 620 |
| Retained earnings | 43 | - | 430 976 |
| Net profit for the period | | 2 047 391 | 1 676 798 |
| **TOTAL EQUITY** | | **10 035 724** | **8 780 394** |
| **TOTAL LIABILITIES AND EQUITY** | | **99 052 833** | **90 327 516** |

*for the year ended 31 December 2006* *(in PLN thousand)*

## STATEMENT OF CHANGES IN EQUITY
## for the year ended 31 December 2006

| | Share capital | Other capital items | | | | Retained earnings | Net profit (loss) | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Reserve capital | Revaluation reserve | General banking risk fund | Other reserves | | | |
| **Balance as at 1 January 2006** | **1 000 000** | **3 297 080** | **(4 460)** | **1 000 000** | **1 380 000** | **430 976** | **1 676 798** | **8 780 394** |
| Transfer of net profit | - | - | - | - | - | 1 676 798 | (1 676 798) | - |
| Transfer from net profit to reserve capital | - | 1 232 524 | - | 70 000 | 5 000 | (1 307 774) | - | (250) |
| Transfer from net profit to dividends | - | - | - | - | - | (800 000) | - | (800 000) |
| Net profit (loss) for the period | - | - | - | - | - | - | 2 047 391 | 2 047 391 |
| Movement in available for sale investments adjusted for deferred tax | - | - | 8 189 | - | - | - | - | 8 189 |
| **Balance as at 31 December 2006** | **1 000 000** | **4 529 604** | **3 729** | **1 070 000** | **1 385 000** | **-** | **2 047 391** | **10 035 724** |

## for the year ended 31 December 2005

| | Share capital | Other capital items | | | | Retained earnings | Net profit (loss) | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Reserve capital | Revaluation reserve | General banking risk fund | Other reserves | | | |
| **Balance as at 1 January 2005** | **1 000 000** | **2 789 765** | **160 611** | **1 000 000** | **1 370 000** | **500 441** | **1 447 850** | **8 268 667** |
| 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 for deferred tax | - | - | (165 071) | - | - | - | - | (165 071) |
| **Balance as at 31 December 2005** | **1 000 000** | **3 297 080** | **(4 460)** | **1 000 000** | **1 380 000** | **430 976** | **1 676 798** | **8 780 394** |

*for the year ended 31 December 2006* *(in PLN thousand)*

**CASH FLOW STATEMENT**
**for the years ended 31 December 2006 and 31 December 2005, respectively**

| | Note | 2006 | 2005 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net profit (loss) | | 2 047 391 | 1 676 798 |
| Adjustments: | | 6 481 166 | (5 086 857) |
| Depreciation and amortisation | | 268 778 | 419 287 |
| (Profit) loss from investing activities | 44 | (23 803) | 14 980 |
| Interest and dividends | 44 | (276 403) | (899 268) |
| Change in loans and advances to banks | 44 | 1 247 174 | (2 442 130) |
| Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss | 44 | 9 270 237 | (576 203) |
| Change in derivative financial instruments (asset) | | (62 524) | 225 152 |
| Change in loans and advances to customers | 44 | (10 635 337) | (7 080 628) |
| Change in other assets | | (123 599) | 9 038 |
| Change in amounts due to banks | | 1 774 936 | 1 143 254 |
| Change in derivative financial instruments (liability) and other financial liabilities at fair value | | (158 531) | 463 645 |
| Change in amounts due to customers | 44 | 5 729 159 | 3 266 807 |
| Change in provisions | 44 | (492 682) | (592 544) |
| Change in other liabilities | 44 | 262 069 | 599 681 |
| Income tax paid | | (745 101) | (394 494) |
| Current tax expense | | 472 972 | 830 988 |
| Other adjustments | 44 | (26 179) | (74 422) |
| **Net cash from operating activities** | | **8 528 557** | **(3 410 059)** |
| **Cash flow from investing activities** | | | |
| **Inflows from investing activities** | | **125 285** | **2 449 820** |
| Sale of shares in associates | | - | 200 |
| Redemption of investment securities | | - | 2 409 738 |
| Proceeds from sale of intangible assets and tangible fixed assets | | 2 507 | 11 026 |
| Sale of assets classified as held for sale according to IFRS 5 | | 74 380 | - |
| Other investing inflows | | 48 398 | 28 856 |
| **Outflows from investing activities** | | **(5 230 159)** | **(702 563)** |
| Purchase of a subsidiary, net of cash acquired | | (87 689) | (89 940) |
| Purchase of shares in jointly controlled entities | | (44 371) | (17 498) |
| Purchase of investment securities | | (4 616 676) | - |
| Purchase of intangible assets and tangible fixed assets | | (481 423) | (595 125) |
| **Net cash used in investing activities** | | **(5 104 874)** | **1 747 257** |
| **Cash flow from financing activities** | | | |
| Dividends paid to shareholders | | (800 000) | (1 000 000) |
| Other financing inflows / outflows | | 51 324 | 47 763 |
| **Net cash generated from / (used in) financing activities** | | **(748 676)** | **(952 237)** |
| Net increase (decrease) in cash and cash equivalents | | **2 675 007** | **(2 615 039)** |
| **Cash and cash equivalents at the beginning of the period** | | 11 204 636 | 13 819 675 |
| **Cash and cash equivalents at the end of the period** | 44 | **13 879 643** | **11 204 636** |
| - include those with limited disposal | 31 | 5 487 | 2 479 |

*for the year ended 31 December 2006* *(in PLN thousand)*

## NOTES TO THE FINANCIAL STATEMENTS
## as at 31 December 2006

### 1. General 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 2006 and include comparative data for the year ended 31 December 2005.

The Bank was established in 1919. On the basis of the Decree of the Council of Ministers dated 18 January 2000, Powszechna Kasa Oszczędności bank państwowy (state-owned bank), was transformed into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its registered office in Warsaw, Puławska Street 15, in Poland.

On 12 April 2000 Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was entered in the Register of Entrepreneurs kept by the District Court for the capital city of Warsaw, XVI Economic Department of the National Court Register. At present, the appropriate District Court is the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register. The Bank was registered under entry No KRS 0000026438 and was granted REGON statistical No 016298263. The Bank's share capital amounts to PLN 1,000,000 thousand.

The Bank's shareholding structure is as follows:

| **Name** | **Number of shares** | **Number of votes** | **Nominal value of 1 share** | **Percentage of share capital** |
|---|---|---|---|---|
| | | **%** | | **%** |
| *As at 31 December 2006* | | | | |
| State Treasury | 514 959 296 | 51.50 | PLN 1 | 51.50 |
| Other shareholders | 485 040 704 | 48.50 | PLN 1 | 48.50 |
| **Total** | **1 000 000 000** | **100.00** | **---** | **100.00** |
| *As at 31 December 2005* | | | | |
| State Treasury | 515 711 446 | 51.57 | PLN 1 | 51.57 |
| Other shareholders | 484 288 554 | 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 the Warsaw Stock Exchange bulletin (*Cedula Giełdowa*), the Bank is classified to the macro-sector "Finance", sector "Banks".

**Bank's business activities**

The Bank's activities 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.

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

- accepting call (demand) or term deposits and keeping accounts of those deposits,
- keeping other types of bank accounts,
- extending loans,
- extending cash advances,
- extending and confirming bank guarantees and opening and confirming letters of credit,
- performing monetary bank settlements,
- operations including cheques, bills of exchange and operations with warrants,
- issuing bank securities,
- issuing payment cards and performing operations using such cards,
- conducting forward transaction,
- purchase and disposal of debt.

PKO BP SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other 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.

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 the Central Bank,
- market of corporate clients and sole traders, irrespective of the size of performed activities,
- market of retail clients.

The Bank operates on the territory of the Republic of Poland and – through its subsidiaries, KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o. – on the territory of Ukraine.

**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 at least 12 months from the balance sheet date, i.e. 31 December 2006. As at the date of signing these 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 at least 12 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 2006 and include comparative financial data for the year ended 31 December 2005. The financial data is presented in PLN thousands.

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

As at 31 December 2006, the Bank's Management Board consisted of:

- Sławomir Skrzypek Deputy President and Acting President of the Management Board
- Kazimierz Małecki Deputy President, First Deputy President
- Danuta Demianiuk Deputy President
- Rafał Juszczak Deputy President
- Jacek Obłękowski Deputy President
- Zdzisław Sokal Deputy President
- Wojciech Kwiatkowski Deputy President

On 8 March 2006 the Bank's Supervisory Board passed a resolution accepting the resignation of Mr Piotr Kamiński from the position of the Member of the Management Board of PKO BP SA as of the date of his appointment to the Management Board of Bank Pocztowy SA.

On 26 June 2006, at the meeting of the Bank’s Supervisory Board, Mr Andrzej Podsiadło resigned form the position of the President of the Management Board of PKO BP SA. At the request of the Bank’s Supervisory Board, Mr Andrzej Podsiadło was supposed to remain in the position of the President of the Bank’s Management Board of PKO BP SA until 31 October 2006. On 29 September 2006, Mr Andrzej Podsiadło resigned from the position of the President of the Management Board, thus shortening the period of staying in this position, which was agreed on previously.

At the same meeting, Mrs Krystyna Szewczyk resigned form the function of the member of the Management Board of PKO BP SA as of 26 June 2006.

On 26 June 2006, the Bank’s Supervisory Board passed resolutions appointing Mr Zdzisław Sokal and Mr Rafał Juszczak to the positions of Members of the Bank’s Management Board.

In accordance with these resolutions, Mr Zdzisław Sokal and Mr Rafał Juszczak were appointed to hold their positions in PKO BP SA as of 1 July 2006 over the common term of the Management Board that commenced on 19 May 2005.

On 29 September 2006, the Supervisory Board of PKO BP SA appointed Mr Sławomir Skrzypek acting President of the Management Board of PKO BP SA until the date of the appointment of Board President, however not longer than until 30 November 2006.

At the same meeting, the Supervisory Board of PKO BP SA passed resolutions appointing:

- Mr Wojciech Kwiatkowski to the position of Deputy President of the Bank’s Management Board as of 1 November 2006,
- Mr Jarosław Myjak to the position of Deputy President of the Bank’s Management Board as of 2 October 2006.

In accordance with these resolutions, Mr Wojciech Kwiatkowski and Mr Jarosław Myjak were appointed to hold their positions in PKO BP SA over the common term of the Management Board, which commenced on 19 May 2005.

In addition, the Supervisory Board of PKO BP SA appointed Mr Rafał Juszczak, Mr Jacek Obłękowski and Mr Zdzisław Sokal, the former Board members, to the positions of Deputy Presidents of the Bank’s Management Board as of 29 September 2006.

On 30 November 2006, the Supervisory Board of the Bank appointed Mr Sławomir Skrzypek acting President of the Management Board until the date of appointment of the new President of the Bank’s Management Board.

On 30 November 2006, Mr Jarosław Myjak resigned from the position of Deputy President of the Management Board.

On 19 December 2006, Mr Kazimierz Małecki resigned from the position of Deputy President, First Deputy President of the Management Board as of 31 December 2006.

On the same day, Mrs Danuta Demianiuk resigned from the position of Deputy President of the Management Board as of 31 December 2006.

As at 31 December 2006, the Bank's Supervisory Board consisted of:

- Marek Głuchowski Chairman
- Urszula Pałaszek Deputy Chairman
- Tomasz Siemiątkowski Secretary
- Jerzy Michałowski Member
- Jerzy Osiatyński Member
- Adam Skowroński Member
- Agnieszka Winnik - Kalemba Member

On 18 April 2006, the Ordinary General Shareholders' Meeting of PKO BP SA dismissed the following persons from their positions in the Bank's Supervisory Board:

- Bazyl Samojlik (Chairman),
- Ryszard Kokoszczyński (Deputy Chairman),
- Krzysztof Zdanowski (Secretary),
- Andrzej Giryn (Member),
- Stanisław Kasiewicz (Member),
- Czesława Siwek (Member),
- Władysław Szymański (Member).

On the same date, the Ordinary General Shareholders' Meeting of PKO BP SA appointed the following persons to the Bank's Supervisory Board:

- Marek Głuchowski,
- Jerzy Michałowski,
- Tomasz Siemiątkowski,
- Adam Skowroński,
- Agnieszka Winnik – Kalemba.

Changes in composition of the Management Board and Supervisory Board after 31 December 2006 are described in note 46.

**Internal organisational units of PKO BP SA**

The financial statements of PKO BP SA, comprising financial data for the year ended 31 December 2006 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 2006, these organizational units included: the Bank's Head Office in Warsaw, Dom Maklerski PKO BP SA ("DM PKO BP SA", operating under the name *Bankowy Dom Maklerski* until 31 August 2006), COK - Centrum Operacji Kartowych, CBE - Centrum Bankowości Elektronicznej Inteligo, 6 specialized units, 12 regional retail branches, 13 regional corporate branches, 574 independent branches, 570 offices (subordinated branches), 13 corporate client teams, 57 corporate centres and 2,277 agencies. Except for DM PKO BP SA, none of the organizational units listed above prepares separate financial statements.

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

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

*for the year ended 31 December 2006* *(in PLN thousand)*

**Structure of the PKO BP SA Group**

| No. | Name | Registered office | Activity | Percentage of issued share capital (%) | |
|---|---|---|---|---|---|
| | | | | 31.12.2006 | 31.12.2005 |
| | Holding company | | | | |
| 1 | Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna | | | | |
| | Direct subsidiaries | | | | |
| 2 | Powszechne Towarzystwo Emerytalne BANKOWY SA | Warsaw | Pension fund management | 100.00 | 100.00 |
| 3 | Centrum Finansowe Puławska Sp. z o.o. | Warsaw | Construction and use of Centrum Finansowe Puławska | 100.00 | 100.00 |
| 4 | PKO Inwestycje Sp. z o.o. | Warsaw | Real estate development | 100.00 | 100.00 |
| 5 | Inteligo Financial Services SA | Warsaw | Technical servicing of Internet banking | 100.00 | 100.00 |
| 6 | Centrum Elektronicznych Usług Płatniczych "eService" SA | Warsaw | Servicing and settlement of card transactions | 100.00 | 100.00 |
| 7 | Bankowy Fundusz Leasingowy SA | Łódź | Leasing | 100.00 | 100.00 |
| 8 | Bankowe Towarzystwo Kapitałowe SA | Warsaw | Intermediation in shares and stock trading | 100.00 | 100.00 |
| 9 | PKO Towarzystwo Funduszy Inwestycyjnych SA* | Warsaw | Investment fund management | 75.00 | 50.00 |
| 10 | KREDOBANK SA | Lviv, Ukraine | Financial services | 69.933 | 69.018 |
| | Indirect subsidiaries | | | | |
| | Subsidiaries of PKO Inwestycje Sp. z o.o. | | | | |
| 11 | Fort Mokotów Sp. z o.o. | Warsaw | Real estate development | 51.00 | 51.00 |
| 12 | POMERANKA Sp. z o.o. | Warsaw | Real estate development | 100.00 | 100.00 |
| 13 | Wilanów Investments Sp. z o.o. | Warsaw | Real estate development | 100.00 | 100.00 |
| 14 | UKRPOLINWESTYCJE Sp. z o.o. | Kiev, Ukraine | Real estate development | 55.00 | 55.00 |
| | Subsidiary of PTE BANKOWY S.A. | | | | |
| 15 | Finanse Agent Transferowy Sp. z o.o. | Warsaw | Intermediary financial services | 100.00 | 100.00 |

* a jointly controlled entity as at 31 December 2005 (operating under the name of PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych SA).

*for the year ended 31 December 2006* *(in PLN thousand)*

Additionally the Bank holds shares in the following jointly controlled entities and associates:

Jointly controlled entities

| No. | Name | Registered office | Activity | Percentage of issued share capital (%) 31.12.2006 | 31.12.2005 |
|---|---|---|---|---|---|
| Directly jointly controlled entities | | | | | |
| 1 | CENTRUM HAFFNERA Sp. z o.o. | Sopot | Real estate development | 49.43 | - |
| 2 | Centrum Obsługi Biznesu Sp. z o.o. | Poznań | Construction and operation of hotel | 41.44 | 41.44 |
| 3 | WAWEL Hotel Development Sp. z o.o. * | Cracow | Hotel services | - | 35.40 |
| Indirect jointly controlled entities | | | | | |
| Subsidiaries of CENTRUM HAFFNERA Sp. z o.o. (Indirectly jointly controlled by PKO BP SA) | | | | | |
| 4 | Centrum Majkowskiego Sp. z o.o. | Sopot | Real estate development | 100.00 | - |
| 5 | Kamienica Morska Sp. z o.o. | Sopot | Real estate development | 100.00 | - |
| 6 | Sopot Zdrój Sp. z o.o. | Sopot | Real estate development | 100.00 | - |
| 7 | Promenada Sopocka Sp. z o.o. | Sopot | Real estate development | 100.00 | - |

*This company was sold on 8 August 2006

Associates

| No. | Name | Registered office | Activity | Percentage of issued share capital (%) 31.12.2006 | 31.12.2005 |
|---|---|---|---|---|---|
| Direct associates | | | | | |
| 1 | Bank Pocztowy SA | Bydgoszcz | Financial services | 25.0001 | 25.0001 |
| 2 | Kolej Gondolowa Jaworzyna Krynicka SA | Krynica | Construction and operation of cable railway | 37.53 | 37.83 |
| 3 | Ekogips SA – 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 |
| 6 | Agencja Inwestycyjna CORP SA | Warsaw | Office premises management | 22.31 | 22.31 |
| Indirect associates | | | | | |
| Associates of Bankowe Towarzystwo Kapitałowe SA | | | | | |
| 7 | FINDER Sp. z o.o. | Warsaw | Car location and fleet management | 46.43 | 42.31 |
| 8 | INTER FINANCE Polska Sp. z o.o. | Suchy Las near Poznań | Investing in sector of financial intermediation services on the Ukrainian market | 45.00 | - |

**This company was sold on 31 October 2006

**Approval of financial statements**

These financial statements have been approved for publication by the Bank's Management Board on 27 March 2007.

Consolidated financial statements of the PKO BP S.A. Group have been also approved for publication on 27 March 2007 together with these 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, 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 (together referred to as "IFRS"). On the basis of Resolution No 28/2005 of 19 May 2005, the General Shareholders' 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 endorsed by EU, in line with the status as at 31 December 2006.

***Changes in accounting policies***

Presented below are the new or revised IFRS regulations and the new IFRIC interpretations which have been applied by the Bank during the current year. The application of these regulations and interpretations had no material effect on the financial statements.

*IAS 39 Financial Instruments: Recognition and Measurement*

The amendment relating to financial guarantee contracts (issued in August 2005) has modified the scope of IAS 39 in such a way that it now requires that financial guarantee contracts that are not considered to be insurance contracts should be initially recognised at fair value and subsequently measured at the higher of: the amount determined in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 *Revenue*. This amendment had no material effect on the financial statements.

The amendment relating to hedges of forecasted intragroup transactions (issued in April 2005) has modified IAS 39 in such a way that it now allows to qualify the foreign currency risk of a highly probable forecasted intragroup transaction as a hedged item in a cash flow hedge provided that the transaction is denominated in a currency other than the functional currency of the entities entering into that transaction and the foreign currency risk will affect consolidated profit or loss. As the Bank had not entered into any such transactions, this amendment had no effect on the financial statements.

The amendment relating to fair value measurement (issued in June 2005) has modified IAS 39 in such a way that it now allows for a limited use of the fair value option. As the Bank to the category of financial instruments at fair value through profit or loss classified only instruments held for trading and derivatives, the above change had no impact on the financial statements.

*IFRIC Interpretation 4 - Determining whether an arrangement contains a lease*

The Bank has implemented the provisions of IFRIC Interpretation 4 as of 1 January 2006. This interpretation provides guidance for determining whether an arrangement contains elements of lease which be accounted for in accordance with the accounting policies applicable to leases. This amendment to the Bank's accounting policies had no material effect on its financial statements as at 31 December 2006 or 31 December 2005.

***New standards and interpretations which have been issued but are not yet effective***

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but have not yet come into effect:

- Amendment to IAS 1 *Presentation of Financial Statements*, Disclosures on capital (effective for annual periods beginning after 1 January 2007),
- IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning after 1 January 2007),
- IFRS 8 *Operating Segments* – effective for annual periods beginning after 1 January 2009),
- IFRIC Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in*

*Hyperinflationary Economies* (effective for annual periods beginning after 1 March 2006),

- IFRIC Interpretation 8 *Scope of IFRS 2* (effective for annual periods beginning after 1 May 2006),
- IFRIC Interpretation 9 *Reassessment of Embedded Derivatives* (effective for annual periods beginning after 1 June 2006),
- IFRIC Interpretation 10 *Interim Financial Reporting and Impairment* (effective for annual periods beginning after 1 November 2006),
- IFRIC Interpretation 11 *Group and Treasury Share Transactions* (effective for annual periods beginning after 1 March 2007),
- IFRIC Interpretation 12 *Service Concession Arrangements* (effective for annual periods beginning after 1 January 2008).

The Bank has not applied IFRS 7 in these financial statements (the effective date is 1 January 2007, with early application permitted). IFRS 7 has superseded IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and the disclosure requirements included in IAS 32 *Financial Instruments: Disclosure and Presentation*. IFRS 7 extends the scope of quantitative and qualitative disclosures on the management of exposure to risks arising from financial instruments, such as credit risk, liquidity risk and market risk. The Bank believes that, most of all, a number of additional disclosures will be required for sensitivity analysis in market risk management.

The Bank is still in the process of estimating the impact of IFRS 8 "*Operating Segments*" on its financial statements (the effective date is 1 January 2009). Due to the fact that this standard has not been endorsed by the European Council, the Bank may apply it after the date of its publication taking into account the provisions relating to its application.

The other standards and interpretations that have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but have not yet come into effect will have no material effect on the financial statements of the Bank. The Bank plans to apply these standards and interpretations on the dates indicated in the given standard or interpretation (without early application).

The functional currency of the Bank is Polish zloty. The presentation currency of these financial statements is Polish zloty.

**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 2006 are as follows:

a) Estimates

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

The estimates and assumptions made 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 on 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 Bank presents the type and the magnitude of the changes in estimated values, if the change causes effect in the current period or if such results are anticipated in the future periods.

Estimates and assumptions, which are adopted by the Bank for presenting value of assets and liabilities as well as revenues and costs, are calculated using historical data and other factors, which are available and are recognized to be proper in the given circumstances. Assumptions regarding the future and the available data are used for assessing carrying amounts of assets and liabilities, which cannot be specified utilizing other sources unequivocally. While making assessments, the Bank takes into consideration the reason and source of uncertainty, which are anticipated at the balance sheet date.

Estimates and assumptions made by the Bank are subject to periodic reviews. Adjustments to estimates are recognised in the period, when the estimates were adjusted on the condition that these adjustments concern the given period. If the adjustments influence the period being subject to changes, as well as future periods, they are recognised in the period when the changes were made or in the future periods.

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 are events or groups of events which occurred after the date of the initial recognition of the asset/group of assets and which indicate that the expected future cash flows to be derived from the given asset or group of assets may have decreased. When evidence of impairment is found, the Bank estimates the amount of impairment allowance.

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-downs 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 allowances 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, any new data obtained by the Bank might affect the level of impairment allowances in the 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 actuarial valuation calculated on the balance sheet date by an independent actuary. The basis for calculation of these provisions are internal regulation especially the Collective Labour Agreement ("Zakładowy Układ

Zbiorowy Pracy") being in force at the Bank. Valuation of the employee benefits provisions is performed using techniques and actuarial assumptions in accordance with International Financial Reporting Standards and International Accounting Standards, especially IAS 19. 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 provisions calculated equal discounted payments to be made in the future taking into account turnover of staff and regarding the period till the balance sheet date. Profits or losses resulting from actuarial calculations are recognised in the income statement.

- Useful lives of tangible fixed assets, intangible assets and investment properties

In estimating the useful lives of particular types of tangible fixed assets, intangible assets and investment property, the Bank considers a number of factors, including the following:

- the average existing useful lives, which reflect the pace of the physical wear and tear, intensiveness of usage, etc.,
- technical obsolescence,
- the period of having control over the asset and legal and other limits on the use of the asset,
- dependence of the useful lives of assets on the useful lives of other assets,
- other factors affecting the useful lives of non-current assets of this type.

When the period of use of a given asset results from a contract, the useful live of that asset corresponds to the period defined in the contract; if, however, the estimated useful life is shorter than the period defined in the contract, the Bank uses the estimated useful life.

b) Cash and cash equivalents

"Cash and cash equivalents" consist of cash on hand, at *nostro* account with the Central 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.

<u>Equity instruments</u>

The equity instruments managed by Dom Maklerski PKO BP SA 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.

<u>Debt instruments</u>

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

Derivative financial instruments are recognised at fair value at the date of transaction and are subsequently carried 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 instruments at fair value through profit or loss or foreign exchange result (FX swap, FX forward and CIRS transactions), in correspondence with “Derivative financial instruments”.

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 or 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.

<u>Equity instruments</u>

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.

<u>Debt instruments</u>

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 interest 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, other than:

- financial assets, which are to be sold by the Bank at once or in a short period of time and which are classified as financial assets held for trading and also these assets which were classified as valued at fair value through profit or loss at initial recognition,
- financial assets, classified as available for sale at initial recognition by the Bank, or
- financial assets, whose owner may not recover the full amount of the initial investment due to other reasons than deterioration in credit repayment and which are classified as available for sale.

This category comprises loans, advances and other receivables acquired and granted. 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 amortization 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 affect the financial characteristics of the instrument. Commissions and fees, which are an integral part of the effective return on a loan or advance, 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 recognized 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 recognized 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 recognized as interest expense/income, as appropriate, and is amortized over the term of the contract using the effective interest rate.

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

e) 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) 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 credit losses that 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” 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.

f) 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. 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

Tangible fixed assets and intangible assets are stated at the balance sheet date at acquisition cost or cost of production, less accumulated depreciation/amortisation 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/amortisation 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/amortisation periods and depreciation/amortisation 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/amortisation charges and impairment losses are expensed directly to the profit and loss account for the current period. Tangible fixed assets (land) and intangible assets with indefinite useful lives are not depreciated/amortised but are tested for impairment.

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.

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.

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

| **Tangible assets** | **Periods** |
|---|---|
| Buildings, premises, cooperative rights to premises | 60 years |
| Leasehold improvements (buildings, premises) | 10 years<br>(or term of the lease if shorter) |
| Plant and machinery | 3-15 years |
| Computer hardware | 4-10 years |
| Motor vehicles | 5 years |
| **Intangible assets** | |
| Licences for computer software | 4-10 years |
| Copyright, including rights to computer software | 2 years |
| Other intangible assets | 5 years |

i) Investment property

Initially, investment property is measured at its cost, which includes transaction costs. After initial recognition, investment property is measured using the cost model (i.e. at cost less accumulated amortization and impairment losses). 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.

*for the year ended 31 December 2006* *(in PLN thousand)*

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.

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

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. Impairment allowances for 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 impairment allowances 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 2006 into euro, the Bank used the rate of 3.8312 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 2005 into euro, the Bank used the rate of 3.8598 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 2006 have been translated into euro using the rate of 3.8991 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 2005 have been translated into euro using the rate of 4.0233 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** | **2006** | **2005** |
|---|---|---|
| Rate prevailing on the last day of the period | 3.8312 | 3.8598 |
| Rate representing the arithmetical mean of the rates prevailing on the last days of each month of the period | 3.8991 | 4.0233 |
| The highest rate in the period | 4.1065 | 4.2756 |
| The lowest rate in the period | 3.7565 | 3.8223 |

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 guarantees are the most significant items of off-balance sheet liabilities granted.

For off-balance sheet liabilities granted, which carry the risk of default risk by the commissioning party, provisions are recognized 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.

p) Financial liabilities at fair value

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

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.

According to 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 bonuses upon retirement. The Bank periodically performs an actuarial valuation of the future liabilities to employees.

The Bank creates accruals for the future liabilities of the Bank relating to unused annual leave, taking into account all outstanding unused holiday days, for damages and severance payments made to those employees whose employment contracts are terminated for reasons independent of the employee, and also for the costs of the current period which will be incurred in the following periods.

u) Financial result

The 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 premium, 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 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 using the average NBP exchange rates prevailing at the balance sheet date 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 third party assets management, income from lease/rental of properties, recovered expired, forgiven and bad debts, income from sale or liquidation of non-current assets and assets seized in exchange for debts, received compensation, fines and penalties. Other operating expense mostly includes costs of sale or liquidation of non-current assets, including assets seized in exchange for debts, costs of third party assets management, donations given and costs of damages, penalties and fines.

v) Current 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 the Mortgage Fund.

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 cover balance sheet losses which may arise in the Banks' activities. Decisions to use the 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 the 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.

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 the corporate income tax expense.

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

According to the Social Fund Act dated 4 March 1994, 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 assets 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. Objectives and principles 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 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 note 2 under “Accounting policies”.

### 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 is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis taking into consideration changing external conditions and changes in the financial standing 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, off-balance sheet liabilities granted or shares in other entity owned by the Bank directly or indirectly, additional payments into a limited liability company as well as contributions or limited partnership sums – depending what is higher – in a limited partnership or limited joint-stock partnership for one entity or for 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 2006, the exposure of PKO BP SA towards one entity amounted to PLN 3,418,034 thousand (including PLN 2,054,034 thousand in respect of balance sheet items). According to Article 71.3 of the Banking Law, concentration limits do not apply to these exposures.

*for the year ended 31 December 2006* *(in PLN thousand)*

a) Concentration of credit risk by borrowers:

As at 31 December 2006

| Exposure of the Bank towards 10 biggest borrowers | | | |
|---|---|---|---|
| **No.** | **Borrower** | **Total exposure*** | **Percentage of the Bank's loan portfolio**** |
| 1 | Borrower A1 | 2 054 034 | 3.45% |
| 2 | Borrower A2 | 632 310 | 1.06% |
| 3 | Borrower A3 | 604 000 | 1.01% |
| 4 | Borrower A4 | 502 266 | 0.84% |
| 5 | Borrower A5 | 383 980 | 0.65% |
| 6 | Borrower A6 | 345 700 | 0.58% |
| 7 | Borrower A7 | 258 511 | 0.43% |
| 8 | Borrower A8 | 257 958 | 0.43% |
| 9 | Borrower A9 | 206 357 | 0.35% |
| 10 | Borrower A10 | 202 863 | 0.34% |

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

As at 31 December 2006, within 10 biggest borrowers, the exposures that amounted to 3.45% and 1.01%, respectively, related to risk that corresponds to the State Treasury risk, and therefore they do not increase the Bank's exposure to credit risk.

The other exposures resulted from transactions concluded with:

- entities effectively controlled by the Bank (0.84%),
- local authorities (1.06%),
- large corporate clients (2.78%).

None of the above loan exposures was classified as a non-performing loan.

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 B1 | 2 408 699 | 4.94% |
| 2 | Borrower B2 | 1 744 825 | 3.58% |
| 3 | Borrower B3 | 753 278 | 1.55% |
| 4 | Borrower B4 | 495 965 | 1.02% |
| 5 | Borrower B5 | 397 612 | 0.82% |
| 6 | Borrower B6 | 387 400 | 0.80% |
| 7 | Borrower B7 | 222 229 | 0.46% |
| 8 | Borrower B8 | 204 517 | 0.42% |
| 9 | Borrower B9 | 199 942 | 0.41% |
| 10 | Borrower B10 | 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.

*for the year ended 31 December 2006* *(in PLN thousand)*

b) Concentration of credit risk by capital groups

As at 31 December 2006

| Total exposure towards 5 biggest capital groups that are the Bank's clients | Percentage of the Bank's loan portfolio* |
|---|---|
| Group X1 | 2.09% |
| Group X2 | 1.09% |
| Group X3 | 0.98% |
| Group X4 | 0.89% |
| Group X5 | 0.73% |
| **Total** | **5.78%** |

* 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, 40.7% of the total exposure provided the basis for recognizing individual and collective impairment allowances for balance sheet exposures. Based on the Bank's methodology, none of these exposures is individually impaired, but 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 2005

| Total exposure towards 5 biggest capital groups that are the Bank's clients | Percentage of the Bank's loan portfolio* |
|---|---|
| Group Y1 | 1.39% |
| Group Y2 | 1.07% |
| Group Y3 | 1.04% |
| Group Y4 | 0.90% |
| Group Y5 | 0.88% |
| **Total** | **5.28%** |

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

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.

Concentration of credit risk by industry is presented in the table below:

| Section | Description | Share in loan portfolio | |
|---|---|---|---|
| | | 31.12.2006 | 31.12.2005 |
| D | Manufacturing | 22.58% | 18.20% |
| E | Electricity, gas and water supply | 7.49% | 10.30% |
| F | Construction | 3.21% | 2.60% |
| G | Trade (wholesale and retail), repairs of cars, motorbikes and household and personal goods | 13.26% | 11.90% |
| K | Real estate activities, renting, and business-related services | 8.92% | 7.80% |
| L | Public administration and national defence, obligatory social security and public health insurance | 29.16% | 38.00% |
| | Other exposures | 15.38% | 11.20% |
| | **Total** | **100.00%** | **100.00%** |

**Market risk**

Market risk in the Bank 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 the Asset and Liability 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 within the adopted interest risk profile.

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 sensitivity 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.

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.

The Bank set limits for the following items: currency positions, Value at Risk calculated for 10-day time horizon and daily loss from speculative transactions on currency market.

**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 fully 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 (VaR) model to measure the risk related to derivative instruments.

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.

Master agreements concluded by the Bank with the main counterparties on the basis of the master agreement of the Polish Banks Association (*Związek Banków Polskich - ZBP*) for domestic banks and the ISDA master agreement for foreign banks play a significant role in the process of mitigating 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 Commission for 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 or banking portfolio, determining the market result realized on original positions in the trading portfolio, determining the loss realized on original positions in the 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) 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 items that are subject to limits are open positions, daily losses and options' sensitivity.

**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 and requirements which may occur due to changes in market environment.

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

*for the year ended 31 December 2006* *(in PLN thousand)*

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.

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 2006**

**Interest rate risk**

Financial assets and financial liabilities subject to fair value of interest rate[1]

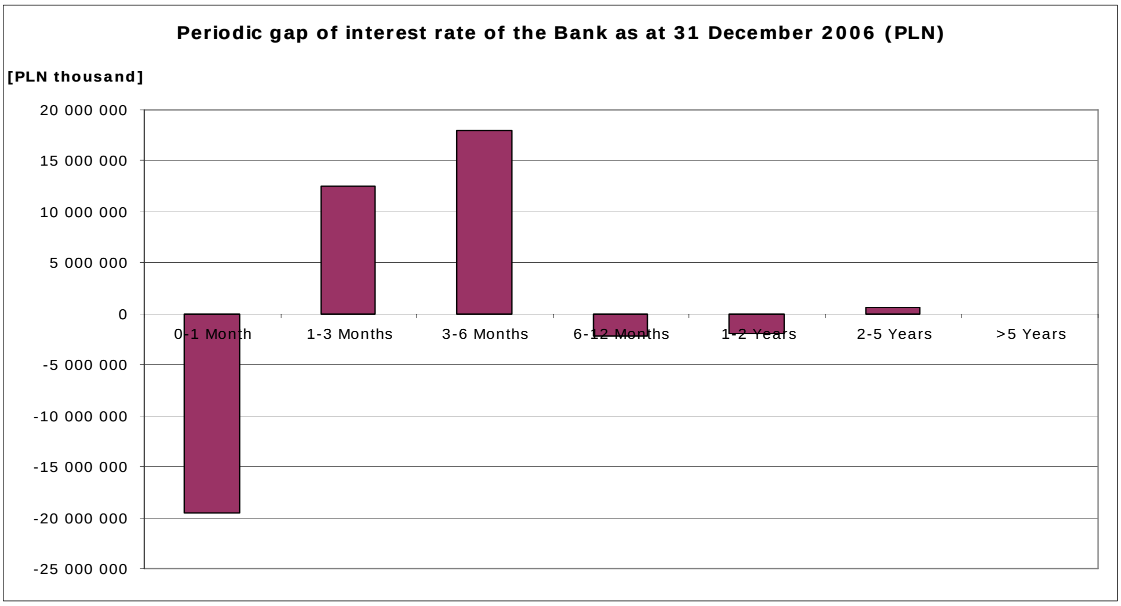
| | **31.12.2006** |
|---|---|
| Debt securities | 15 021 274 |
| Loans and advances based on fixed interest rates | 734 753 |
| Deposits from customers based on fixed interest rates | (14 660 248) |
| Inter-bank and negotiable deposits | (16 655 690) |
| Inter-bank receivables | 12 946 291 |
| **TOTAL** | **(2 613 620)** |

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

| | **31.12.2006** |
|---|---|
| Debt securities | 4 039 820 |
| Loans and advances based on variable interest rates | 59 491 751 |
| Deposits from customers based on variable interest rates | (51 585 402) |
| **TOTAL** | **11 946 169** |

Off-balance sheet transactions[1,2]

| | **31.12.2006** |
|---|---|
| Derivatives | 107 362 |




[1] Total for all currencies.

[2] Fair value

| 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 | (19 599 952) | 12 463 891 | 18 015 885 | (2 146 871) | (1 965 852) | 635 915 | (34 780) | 7 368 236 |
| Cumulative gap | (19 599 952) | (7 136 061) | 10 879 824 | 8 732 953 | 6 767 101 | 7 403 016 | 7 368 236 | x |

At the end of 2006, the Bank reported a negative cumulative PLN gap in a time horizon up to 3 months and a positive cumulative gap for longer horizons.

| PLN Repricing Gap (in USD thousand) | 0-1 month | 1 - 3 months | 3-6 months | 6-12 months | 1- 2 years | 2– 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Periodic gap | (378 458) | 181 384 | 99 566 | 86 261 | - | - | 52 374 | 41 127 |
| Cumulative gap | (378 458) | (197 074) | (97 508) | (11 247) | (11 247) | (11 247) | 41 127 | x |

| PLN Repricing Gap (in EUR thousand) | 0-1 month | 1 - 3 months | 3-6 months | 6-12 months | 1- 2 years | 2– 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Periodic gap | (497 048) | 401 894 | (5 310) | 78 608 | 26 377 | 1 022 | 7 355 | 12 898 |
| Cumulative gap | (497 048) | (95 154) | (100 464) | (21 856) | 4 521 | 5 543 | 12 898 | x |

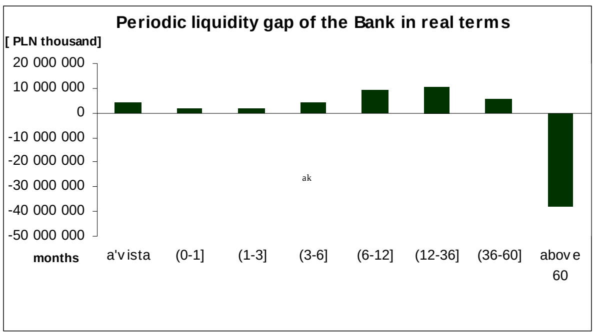
| PLN Repricing Gap (in CHF thousand) | 0-1 month | 1 - 3 months | 3-6 months | 6-12 months | 1- 2 years | 2– 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Periodic gap | 2 547 713 | (2 430 896) | (966) | (1 553) | (2 565) | - | - | 111 733 |
| Cumulative gap | 2 547 713 | 116 817 | 115 851 | 114 298 | 111 733 | 111 733 | 111 733 | x |

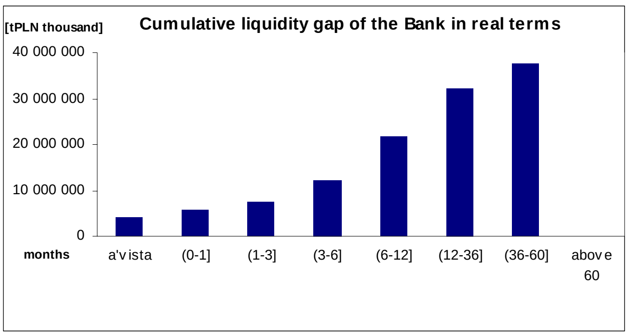
The Bank's exposure to interest rate risk remained within the accepted limits. The Bank was mainly exposed to the PLN interest rate risk, which accounted for approximately 43% of the Bank's Value at Risk (VaR).

The interest rate risk in the Bank remained at a low level. As at 31 December 2006, the interest rate VaR for the holding period of 10 days (10-days VaR) amounted to PLN 4,813 thousand, which accounts for approximately 0.07% of the Bank's funds[3]. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities.

## Liquidity risk of PKO BP SA

| | a'vista | (0 - 1] months | (1 - 3] months | (3 - 6] months | (6 - 12] months | (12 - 36] months | (36 - 60] months | over 60 months |
|---|---|---|---|---|---|---|---|---|
| Periodic gap in real terms | 4 088 906 | 1 755 373 | 1 766 932 | 4 465 463 | 9 578 027 | 10 481 513 | 5 654 981 | (37 791 195) |
| Cumulative periodic gap in real terms | 4 088 906 | 5 844 279 | 7 611 211 | 12 076 674 | 21 654 701 | 32 136 214 | 37 791 195 | - |




[3] Taken into account in the capital adequacy calculation.

*for the year ended 31 December 2006* *(in PLN thousand)*

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

**Concentration of credit risk – inter-bank market**

| Exposure on the inter-bank market | | | | |
|---|---|---|---|---|
| Contractor | Type of instrument | | | Total |
| | Deposit | Securities | Derivatives | |
| Counterparty 1 | 961 945 | - | - | **961 945** |
| Counterparty 2 | 666 050 | - | (422) | **666 050** |
| Counterparty 3 | 650 000 | - | (3 881) | **650 000** |
| Counterparty 4 | 620 000 | - | 16 514 | **636 514** |
| Counterparty 5 | 600 000 | - | (1) | **600 000** |
| Counterparty 6 | 520 000 | - | - | **520 000** |
| Counterparty 7 | 500 000 | - | 7 768 | **507 768** |
| Counterparty 8 | 500 000 | - | - | **500 000** |
| Counterparty 9 | 258 977 | 200 000 | - | **458 977** |
| Counterparty 10 | 415 935 | - | - | **415 935** |
| Counterparty 11 | 400 000 | - | (1 235) | **400 000** |
| Counterparty 12 | 323 700 | - | - | **323 700** |
| Counterparty 13 | 305 603 | - | - | **305 603** |
| Counterparty 14 | 300 000 | - | 4 044 | **304 044** |
| Counterparty 15 | 300 000 | - | (2 854) | **300 000** |
| Counterparty 16 | 300 000 | - | (6 289) | **300 000** |
| Counterparty 17 | 250 000 | - | 38 454 | **288 454** |
| Counterparty 18 | 195 525 | 84 113 | - | **279 638** |
| Counterparty 19 | 250 000 | - | 28 840 | **278 840** |
| Counterparty 20 | 252 676 | - | - | **252 676** |

For the purpose of determining the Bank's exposure, placements and securities issued by the counterparties are stated at nominal value, and derivative instruments at fair value. Total exposure to each counterparty is the sum total of the exposures related to placements and securities and the exposure related to derivative instruments if this exposure is positive (otherwise the exposure related to derivative instruments is not included in the total exposure of the Bank).

Out of the 11 counterparties listed above with whom PKO BP SA entered into derivative transactions, the Bank has signed master agreements with the following 9 counterparties: Counterparty 3, 4, 7, 11, 14, 15, 16, 17 and 19. These agreements allow for the offsetting of mutual liabilities in the event of bankruptcy of any of the parties to the transaction.

Counterparties generating 20 largest exposures on the inter-bank market come from the following countries (these are the countries in which the head office of the counterparty is located):

| No. | Country | Counterparty |
|---|---|---|
| 1. | Austria | Counterparty 1, Counterparty 2 |
| 2. | Belgium | Counterparty 5 |
| 3. | France | Counterparty 4, Counterparty 10, Counterparty 16, Counterparty 19 |
| 4. | Spain | Counterparty 12, Counterparty 20 |
| 5. | Ireland | Counterparty 9 |
| 6. | Germany | Counterparty 8, Counterparty 14 |
| 7. | Poland | Counterparty 11, Counterparty 15 |
| 8. | Portugal | Counterparty 6 |
| 9. | Switzerland | Counterparty 17 |
| 10. | Great Britain | Counterparty 3, Counterparty 7, Counterparty 13 |
| 11 | Italy | Counterparty 18 |

*for the year ended 31 December 2006* *(in PLN thousand)*

**Assets and liabilities of the Bank as at 31 December 2006, by maturity**

| Balance sheet items | up to 1 month | 1 – 3 months | 3 months - 1 year | 1 - 5 years | Over 5 years | Impairment allowances | Total |
|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | |
| Cash and balances with the Central Bank | 4 543 677 | - | - | - | - | - | **4 543 677** |
| Amounts due from banks | 7 826 097 | 1 538 768 | 3 695 262 | 232 743 | 57 182 | (329) | **13 349 723** |
| Financial assets held for trading | 5 316 | 88 616 | 134 645 | 38 987 | 123 613 | - | **391 177** |
| Other financial instruments at fair value through profit or loss | 218 846 | 154 501 | 2 264 436 | 5 484 672 | 3 092 205 | - | **11 214 660** |
| Loans and advances to customers | 10 450 677 | 1 630 240 | 8 770 845 | 19 296 370 | 19 406 239 | (2 333 391) | **57 220 980** |
| Securities available for sale | 30 840 | 319 624 | 1 175 590 | 2 394 691 | 2 914 836 | (30 014) | **6 805 567** |
| Other | 583 228 | 1 084 789 | 160 411 | 706 518 | 3 196 144 | (204 041) | **5 527 049** |
| **Total assets:** | **23 658 681** | **4 816 538** | **16 201 189** | **28 153 981** | **28 790 219** | **(2 567 775)** | **99 052 833** |
| | | | | | | | - |
| **Liabilities:** | | | | | | | |
| Amounts due to the Central Bank | 1 387 | - | - | - | - | - | **1 387** |
| Amounts due to banks | 1 759 650 | 866 260 | 913 000 | 178 440 | - | - | **3 717 350** |
| Amounts due to customers | 53 858 491 | 11 026 903 | 15 315 312 | 1 460 508 | 8 825 | - | **81 670 039** |
| Other liabilities | 1 158 747 | 1 611 049 | 465 816 | 85 821 | 306 900 | - | **3 628 333** |
| **Total liabilities:** | **56 778 275** | **13 504 212** | **16 694 128** | **1 724 769** | **315 725** | - | **89 017 109** |
| **Equity:** | - | - | - | - | **10 035 724** | - | **10 035 724** |
| **Total:** | **56 778 275** | **13 504 212** | **16 694 128** | **1 724 769** | **10 351 449** | - | **99 052 833** |
| | | | | | | | |
| **Liquidity gap** | **(33 119 594)** | **(8 687 674)** | **(492 939)** | **26 429 212** | **18 438 770** | **(2 567 775)** | **-** |

*for the year ended 31 December 2006* *(in PLN thousand)*

**Currency risk**

In 2006, 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 – 31.12.2006* | | | | |
|---|---|---|---|---|---|
| **Assets, of which:** | **PLN** | **EUR** | **CHF** | **Other** | **Total** |
| Cash and balances with the Central Bank | 4 322 855 | 124 570 | 7 323 | 88 929 | **4 543 677** |
| Loans and advances and other amounts due from financial sector | 9 762 998 | 1 086 452 | 164 639 | 3 183 522 | **14 197 611** |
| Loans and advances to non-financial sector | 39 109 199 | 2 285 503 | 10 696 069 | 554 117 | **52 644 888** |
| Loans and advances to public sector | 6 051 015 | 6 463 | 52 | 4 394 | **6 061 924** |
| Securities | 15 005 221 | 2 601 655 | - | 834 542 | **18 441 418** |
| Non-current assets | 7 519 507 | - | - | - | **7 519 507** |
| Other assets and derivatives | 1 652 937 | 29 321 | 1 684 | 20 326 | **1 704 268** |
| TOTAL GROSS ASSETS | 83 423 732 | 6 133 964 | 10 869 767 | 4 685 830 | **105 113 293** |
| DEPRECIATION/ AMORTISATIOIN/ IMPAIRMENT | (6 013 839) | (22 146) | (19 316) | (5 159) | **(6 060 460)** |
| TOTAL (NET) ASSETS | 77 409 893 | 6 111 818 | 10 850 451 | 4 680 671 | **99 052 833** |
| **LIABILITIES, of which:** | | | | | |
| Balances with the Central Bank | 1 387 | - | - | - | **1 387** |
| Amounts due to financial sector | 1 390 038 | 1 349 259 | 44 | 1 195 808 | **3 935 149** |
| Amounts due to non-financial sector | 72 080 860 | 3 043 819 | 63 639 | 3 102 995 | **78 291 313** |
| Amounts due to public sector | 3 146 805 | 10 518 | - | 3 604 | **3 160 927** |
| Provisions | 423 987 | 575 | - | 7 | **424 569** |
| Other liabilities and derivatives and deferred tax liability | 3 074 971 | 5 550 | 29 151 | 94 092 | **3 203 764** |
| Equity | 10 035 724 | - | - | - | **10 035 724** |
| TOTAL LIABILITIES | **90 153 772** | **4 409 721** | **92 834** | **4 396 506** | **99 052 833** |
| **OFF-BALANCE SHEET LIABILITIES GRANTED** | **22 160 296** | **1 807 071** | **898 870** | **229 727** | **25 095 964** |

**31 December 2005**

Interest rate risk

Financial assets and financial liabilities subject to fair value risk of interest rate[4]

| | **31.12.2005** |
|---|---|
| Debt securities | 19 869 505 |
| 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 receivables | 12 730 534 |
| **TOTAL** | **3 020 210** |

[4] Total for all currencies.

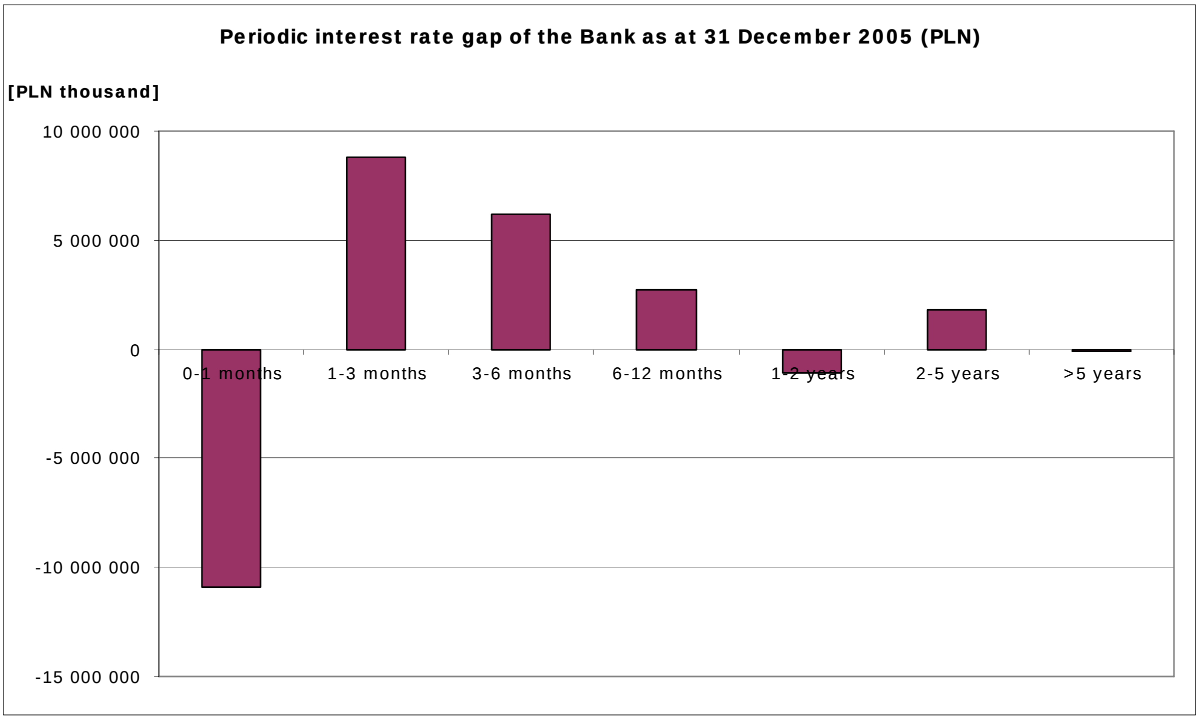
Financial assets and financial liabilities subject to cash flow risk connected with interest rates[4]

| | **31.12.2005** |
|---|---|
| Debt securities | 1 928 368 |
| Loans and advances based on variable interest rates | 48 007 343 |
| Deposits from customers based on variable interest rates | (46 318 895) |
| **TOTAL** | **3 616 816** |

Off- balance sheet transactions [4, 5]

| | **31.12.2005** |
|---|---|
| Derivatives | (126 795) |

| **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) | 7 401 389 |
| **Cumulative gap** | (10 910 303) | (2 099 337) | 4 064 021 | 6 804 087 | 5 703 785 | 7 516 566 | 7 401 389 | x |




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

| **PLN Repricing Gap (in USD thousand)** | **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 |

[4] Total for all currencies.
[5] Fair value

| PLN Repricing Gap (in EUR thousand) | 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 | 17 360 | 17 360 | 17 425 | 21 243 | x |

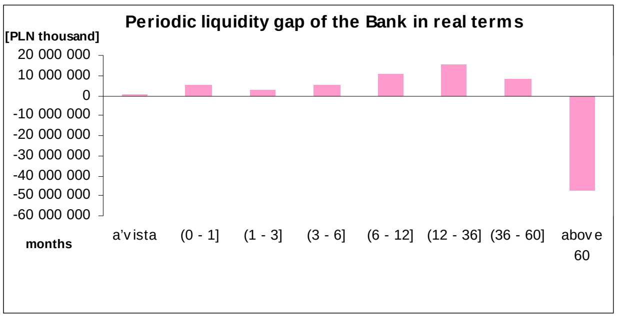
| PLN Repricing Gap (in CHF thousand) | 0-1 month | 1 - 3 months | 3-6 months | 6-12 months | 1- 2 years | 2– 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Periodic gap | 1 739 315 | (1 690 895) | (200) | (204) | - | - | - | 48 016 |
| Cumulative gap | 1 739 315 | 48 420 | 48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

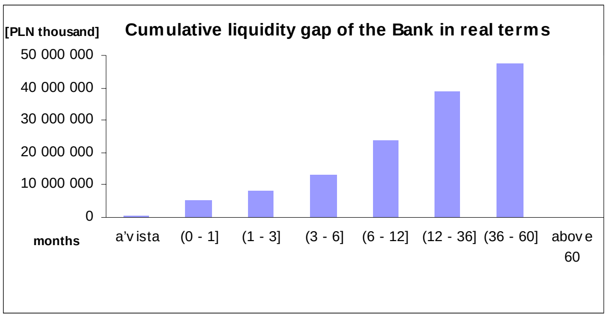
The Bank's exposure to interest rate risk remained within the accepted limits. The Bank was mainly exposed to the PLN interest rate risk, which accounted for approximately 73% of the Bank's Value at Risk (VaR).

The interest rate risk in PKO BP SA remained at a low level. As at 31 December 2005, the interest rate VaR for the holding period of 10 days (10-days VaR) amounted to PLN 27,164 thousand, which accounted for approximately 0.45% of the Bank's funds[6]. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities.

**Liquidity risk of PKO BP SA**

| | a'vista | (0 - 1] months | (1 - 3] months | (3 - 6] months | (6 - 12] months | (12 - 36] months | (36 - 60] months | over 60 months |
|---|---|---|---|---|---|---|---|---|
| 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 cumulative liquidity gap of the Bank in real terms was positive. This means a surplus of assets receivable over liabilities payable.

[6] Taken into account in the capital adequacy calculation.

*for the year ended 31 December 2006* *(in PLN thousand)*

**Concentration of credit risk – inter-bank market**

| Exposure on the inter-bank market | | | | |
|---|---|---|---|---|
| **Contractor** | **Type of instrument** | | | **Total** |
| | **Deposit** | **Securities** | **Derivatives** | |
| Counterparty 21 | 695 309 | - | - | **695 309** |
| Counterparty 22 | 594 392 | - | (10 623) | **594 392** |
| Counterparty 23 | 575 050 | - | 5 215 | **580 265** |
| Counterparty 18 | 444 598 | 94 252 | - | **538 850** |
| Counterparty 24 | 519 120 | - | - | **519 120** |
| Counterparty 6 | 514 598 | - | - | **514 598** |
| Counterparty 14 | 505 000 | - | 4 237 | **509 237** |
| Counterparty 25 | 456 582 | 32 613 | - | **489 195** |
| Counterparty 26 | 425 000 | - | (17 645) | **425 000** |
| Counterparty 27 | 394 253 | - | 26 711 | **420 964** |
| Counterparty 10 | 407 663 | - | - | **407 663** |
| Counterparty 1 | 391 356 | - | - | **391 356** |
| Counterparty 28 | 390 894 | - | 262 | **391 156** |
| Counterparty 29 | 380 000 | - | (8 885) | **380 000** |
| Counterparty 30 | 363 816 | - | 6 523 | **370 339** |
| Counterparty 31 | 358 743 | - | - | **358 743** |
| Counterparty 32 | 320 000 | - | - | **320 000** |
| Counterparty 33 | 303 301 | - | - | **303 301** |
| Counterparty 34 | 298 291 | - | 1 978 | **300 269** |
| Counterparty 35 | 300 000 | - | (1 788) | **300 000** |

For the purpose of determining the Bank's exposure, placements and securities issued by the counterparties are stated at nominal value, and derivative instruments at fair value. Total exposure to each counterparty is the sum total of the exposures related to placements and securities and the exposure related to derivative instruments if this exposure is positive (otherwise the exposure related to derivative instruments is not included in the total exposure of the Bank).

Out of the 11 counterparties listed above with whom PKO BP SA entered into derivative transactions, the Bank has signed master agreements with the following 9 counterparties: Counterparty 3, 4, 7, 11, 14, 15, 16, 17 and 19. These agreements allow for the offsetting of mutual liabilities in the event of bankruptcy of any of the parties to the transaction.

Counterparties generating 20 largest exposures on the inter-bank market come from the following countries (these are the countries in which the head office of the counterparty is located):

| No. | Country | Counterparty |
|---|---|---|
| 1. | Austria | Counterparty 1, Counterparty 24 |
| 2. | Belgium | Counterparty 26, Counterparty 28, Counterparty 35 |
| 3. | Denmark | Counterparty 27 |
| 4. | France | Counterparty 10 |
| 5. | Spain | Counterparty 21, Counterparty 33 |
| 6. | Iceland | Counterparty 25 |
| 7. | Germany | Counterparty 14, Counterparty 23, Counterparty 29, Counterparty 31, Counterparty 32, Counterparty 34 |
| 8. | Poland | Counterparty 22, Counterparty 30 |
| 9. | Portugal | Counterparty 6 |
| 10. | Italy | Counterparty 18 |

*for the year ended 31 December 2006* *(in PLN thousand)*

**Assets and liabilities of the Bank as at 31 December 2005, by maturity**

| Balance sheet items | up to 1 month | 1 – 3 months | 3 months - 1 year | 1 - 5 years | Over 5 years | Impairment allowances | Total |
|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | |
| Cash and balances with the Central Bank | 3 832 695 | - | - | - | - | - | **3 832 695** |
| Amounts due from banks | 5 950 756 | 1 447 808 | 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 | 19 433 | - | **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** |
| Other | 128 080 | 1 231 113 | 118 307 | 568 016 | 3 222 220 | (189 860) | **5 077 876** |
| **Total assets:** | **21 667 129** | **5 570 491** | **16 840 704** | **25 567 961** | **23 781 256** | **(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** |
| Other liabilities | 868 660 | 1 803 605 | 432 581 | 173 963 | 437 632 | - | **3 716 441** |
| **Total liabilities:** | **48 268 332** | **15 106 931** | **15 973 456** | **1 748 044** | **450 359** | **-** | **81 547 122** |
| **Equity:** | **-** | **-** | **-** | **-** | **8 780 394** | **-** | **8 780 394** |
| **Total:** | **48 268 332** | **15 106 931** | **15 973 456** | **1 748 044** | **9 230 753** | **-** | **90 327 516** |
| | | | | | | | |
| **Liquidity gap** | **(26 601 203)** | **(9 536 440)** | **867 248** | **23 819 917** | **14 550 503** | **(3 100 025)** | **-** |

*for the year ended 31 December 2006* *(in PLN thousand)*

**Currency risk**

| | *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 | 76 365 998 | 4 880 610 | 7 388 035 | 8 017 249 | **96 651 892** |
| DEPRECIATION/ AMORTISATIOIN/ 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** |
| 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 |

**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 for balance sheet receivables, the risk weighted value is calculated as the product of the carrying amount and the risk weight appropriate for 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 the balance-sheet equivalent (being the product of the nominal value of off-balance sheet liability and percentage risk weight) and the risk weight appropriate 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.

*for the year ended 31 December 2006* *(in PLN thousand)*

Credit and market risk as at 31 December 2006:

| Instrument type | Carrying amount | Risk weighted value |
|---|---|---|
| Cash | 1 344 922 | - |
| Receivables | 70 020 882 | 45 914 828 |
| Debt securities | 15 581 869 | 258 323 |
| Other securities, shares | 1 089 036 | 506 524 |
| Non-current assets | 2 883 840 | 2 157 382 |
| Other | 4 836 353 | 3 543 356 |
| **Total banking portfolio** | **95 756 902** | **52 380 413** |
| Debt securities | 3 294 436 | 1 282 910 |
| Reverse repo transactions | 1 495 | 1 495 |
| **Total trading portfolio** | **3 295 931** | **1 284 405** |
| **Total balance sheet instruments** | **99 052 833** | **53 664 818** |

| **Off-balance sheet instruments** | | | |
|---|---|---|---|
| **Instrument type** | **Replacement cost** | **Credit equivalent** | **Risk weighted value** |
| **Derivatives** | | | |
| *Interest rate instruments:* | *137 881 756* | *1 178 589* | *235 718* |
| FRA | 62 075 000 | 199 614 | 39 923 |
| IRS | 75 806 756 | 978 975 | 195 795 |
| *Foreign currency instruments:* | *15 367 913* | *1 134 662* | *227 333* |
| Currency forwards | 982 571 | 34 970 | 6 993 |
| Forwards – embedded derivatives | 3 809 | 1 181 | 591 |
| Swaps | 3 778 498 | 184 164 | 36 833 |
| CIRS | 833 | 50 | 10 |
| FX futures | 10 598 238 | 914 235 | 182 846 |
| Options (delta equivalent – purchase of options) | 3 964 | 62 | 60 |
| *Other instruments:* | *765 552* | *76 555* | *15 311* |
| SBB | 765 552 | 76 555 | 15 311 |
| **Total derivatives** | **154 015 221** | **2 389 806** | **478 362** |
| of which: banking portfolio | 27 923 211 | 1 217 802 | 243 915 |
| trading portfolio | 126 092 010 | 1 172 084 | 234 447 |

| **Other off-balance sheet instruments** | | | |
|---|---|---|---|
| **Instrument type** | **Off-balance sheet amount** | **Credit equivalent** | **Risk weighted value** |
| Lines of credit | 23 612 662 | 3 415 344 | 2 666 246 |
| Guarantees issued | 612 831 | 357 949 | 352 189 |
| Letters of credit | 237 650 | 108 929 | 108 257 |
| Other | 3 412 940 | 875 976 | 389 337 |
| **Total banking portfolio** | **27 876 083** | **4 758 198** | **3 516 029** |
| Underwriting guarantees | 806 916 | 809 916 | 713 916 |
| **Total trading portfolio** | **806 916** | **809 916** | **713 916** |

| | **Balance sheet and off-balance sheet amount** | **Risk weighted value** | **Capital requirement** |
|---|---|---|---|
| **Total banking portfolio (credit risk)** | **151 556 196** | **56 140 357** | **4 491 229** |

*for the year ended 31 December 2006* *(in PLN thousand)*

| **Capital requirements for trading portfolio (market risk)** | **Capital requirement** |
|---|---|
| **Market risk** | **132 165** |
| **of which:** | |
| Equity securities price risk | 214 |
| Debt instruments specific risk | 94 618 |
| Interest rate general risk | 37 333 |
| **Other:** | |
| Settlement risk – delivery and contractor | 16 522 |
| **Total capital requirement (credit and market risk)** | **4 639 916** |

Credit risk and market risk as at 31 December 2005:

| **Instrument type** | **Carrying amount** | **Risk weighted value** |
|---|---|---|
| Cash | 1 204 370 | - |
| Receivables | 58 683 293 | 34 786 109 |
| Debt securities | 20 388 738 | 157 549 |
| Other securities, shares | 915 280 | 374 295 |
| Non-current assets | 2 726 469 | 2 201 163 |
| Other | 4 079 799 | 2 787 620 |
| **Total banking portfolio** | **87 997 949** | **40 306 736** |
| Debt securities | 2 327 379 | 855 570 |
| Reverse repo transactions | 2 188 | 2 188 |
| **Total trading portfolio** | **2 329 567** | **857 758** |
| **Total balance sheet instruments** | **90 327 516** | **41 164 494** |

| **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 |
| **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 |

*for the year ended 31 December 2006* *(in PLN thousand)*

| 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 | 664 870 | 664 870 | 484 348 |
| **Total trading portfolio** | **664 870** | **664 870** | **484 348** |

| | Balance sheet and off-balance sheet amount | Risk weighted value | Capital requirement |
|---|---|---|---|
| **Total banking portfolio (credit risk)** | **142 361 736** | **42 281 700** | **3 382 536** |

| Capital requirements for trading portfolio (market risk) | Capital requirement |
|---|---|
| **Market risk** | **108 522** |
| **of which:** | |
| 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 |
| **Total capital requirement (credit and market risk)** | **3 506 532** |

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

| | | |
|---|---|---|
| | **31.12.2006** | **31.12.2005** |
| **Capital adequacy ratio** | **11.70** | **14.06** |

## 4. Objectives and principles of operational risk management

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

In its operational risk management policy, the Bank follows the following rules:

- operational risk management rules and procedures cover the 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 defining detailed targets,
- operational risk management process is coordinated by the Bank's Credit and Operational Risk Department.

## 5. Fair value of financial assets and liabilities

The Bank holds financial instruments which are not stated at fair value in the balance sheet. 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.

As for many financial instruments there is no available market value, their fair values have been estimated using 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 on hand and balances with the Central Bank, current receivables from and liabilities to clients, 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 not significant. Majority of such loans and deposits are of short-term nature.

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

The fair value of "Amounts due from banks" as at 31 December 2006 amounts to PLN 13,348,443 thousand (as at 31 December 2005: PLN 12,887,535 thousand). Differences between the fair value and carrying amount of other balance sheet items are not significant.

## 6. Custodial activities

The Bank is a direct participant of the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych*). The Bank keeps customer investments accounts and services transactions made on the domestic and foreign markets. As a member of the Council of Depository Banks (*Rada Banków Depozytariuszy*) and the Council for Non-treasury Securities (*Rada ds. Nieskarbowych Papierów* Dłużnych) operating as part of the Polish Banks Association (*Związek Banków Polskich*), the Bank participates in the creation of regulations and market standards.

## 7. Assets' securitization

During the years 2005 – 2006, the Bank sold a number of receivables classified as "lost" (balance sheet and off-balance sheet receivables) due to the Bank from corporate entities and natural persons.

On 7 October 2005, an agreement was signed for the sale of 73,000 retail loans with a total value of approximately PLN 660,000 thousand to a securitization fund. According to the agreement, the seller is obliged to pay compensation to the buyer for any claims regarding legal deficiencies in documentation transferred to the buyer. As the deadline for raising claims with regard to some of these debts has already expired, the amount of this provision as at 31 December 2006 has been established at PLN 8,167 thousand reflecting the value of claims raised by the securitization fund towards the remaining debt. The Bank does not accept these claims, however, it does not exclude the possibility that the Buyer will proceed with enforcing compensation.

On 29 August 2006, the Bank signed another agreement, under which it sold 1,009 corporate and retail debts with a value of approximately PLN 755,000 thousand. Taking into consideration the maximum contractual amount of potential claims, the Bank recognized a provision of PLN 5,680 thousand.

Another agreement for the sale of a package of debts to the securitization fund was signed on 17 October 2006. Under this agreement the Bank sold c.a. 63,000 retail debts with a total value of c.a. PLN 582,000 thousand. The provision for the potential claims of the buyer was determined at PLN 25,443 thousand.

The Bank did not receive any securities under these transactions.

*for the year ended 31 December 2006* *(in PLN thousand)*

## 8. Interest income and expenses

**Interest income**

| | 2006 | 2005 |
|---|---|---|
| Income from loans and advances granted to customers | 3 717 731 | 3 433 506 |
| Income from securities at fair value through profit or loss | 755 634 | 1 256 445 |
| Income from placements with other banks | 542 783 | 600 319 |
| Income from investment securities | 258 095 | 135 317 |
| Income from trading securities | 22 986 | 23 290 |
| Other | 60 704 | 67 010 |
| **Total** | **5 357 933** | **5 515 887** |

**Interest expenses**

| | 2006 | 2005 |
|---|---|---|
| Relating to amounts due to customers | (1 478 773) | (1 882 525) |
| Relating to placements of other banks | (90 233) | (72 054) |
| Other | (89 800) | (87 479) |
| **Total** | **(1 658 806)** | **(2 042 058)** |

In the year ended 31 December 2006, 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 4,579,313 thousand (PLN 4,212,766 thousand for the year ended 31 December 2005). 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 (1,591,365) thousand (PLN (1,954,579 thousand for the year ended 31 December 2005).

## 9. Fees and commission income and expense

**Fees and commission income**

| | 2006 | 2005 |
|---|---|---|
| From accounts' servicing | 719 386 | 576 520 |
| From payments cards | 529 724 | 430 661 |
| From loans and advances granted | 220 866 | 88 895 |
| From cash transactions | 208 467 | 205 324 |
| From investment funds servicing | 112 970 | 19 153 |
| From transactions on securities | 67 831 | 37 979 |
| From sale and distribution of treasury stamps | 56 457 | 39 223 |
| Handling fees | 32 802 | 3 761 |
| From guarantees, letters of credit and similar transactions | 2 900 | 27 738 |
| Other* | 151 992 | 73 414 |
| **Razem** | **2 103 395** | **1 502 668** |

* Included in "Other" is, among others, income earned from servicing bills of exchange, sale of duty stamps, insurance intermediary services, substitution transactions, making available safe custody boxes and cassettes, home banking services, administration of borrower's debts to the state budget.

*for the year ended 31 December 2006* *(in PLN thousand)*

**Fees and commission expense**

| | 2006 | 2005 |
|---|---|---|
| Relating to payment cards | (224 710) | (173 274) |
| Relating to acquisition services | (121 014) | (115 539) |
| Commission for services of other banks | (9 183) | (9 413) |
| Commission paid to intermediaries | (8 588) | (17 764) |
| Domestic trade commission | (6 880) | (293) |
| Commission paid to Polish Post | (6 469) | (8 033) |
| Foreign trade commission | (3 490) | (2) |
| Other* | (5 377) | (8 511) |
| **Total** | **(385 711)** | **(332 829)** |

* Included in “Other” are, among others, costs of commission on insurance premium for the holders of the PKO VISA GOLD and PKO EC/MC Business cards, commission on loans and advances, servicing of mass foreign transactions, valorisation of funds held in a collective account.

## 10. Dividend income

| | 2006 | 2005 |
|---|---|---|
| **Dividend income from the issuers of:** | **3 604** | **16 112** |
| Securities classified as available for sale | 3 288 | 16 087 |
| Securities classified as held for trading | 316 | 25 |
| **Dividend income from subordinated entities** | **15 020** | **12 769** |
| **Total** | **18 624** | **28 881** |

## 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 2006 and 31 December 2005:**

| | 2006 | 2005 |
|---|---|---|
| Debt securities | (128 547) | 207 532 |
| Derivative instruments | 27 000 | (179 796) |
| Equity instruments | 718 | 7 009 |
| Other | 6 409 | (4 166) |
| **Total** | **(94 420)** | **30 579** |

| 2006 | Profit | Loss | Net result |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 5 382 920 | (5 477 340) | (94 420) |

| 2005 | Profit | Loss | Net result |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 5 055 858 | (5 025 279) | 30 579 |

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 2006 was PLN 33,409 thousand (in the year ended 31 December 2005: PLN (183,962) thousand).

**Fair value changes in hedge accounting**

During the years ended 31 December 2006 and 31 December 2005 PKO BP SA did not apply hedge accounting.

*for the year ended 31 December 2006* *(in PLN thousand)*

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

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

| Financial assets available for sale | 2006 | 2005 |
|---|---|---|
| Realised gains | 61 985 | 294 332 |
| Realised losses | (12 894) | (17 608) |
| **Result on investment securities** | **49 091** | **276 724** |

In the year ended 31 December 2006, gains or losses from financial assets available for sale taken directly to equity amounted to PLN 10,110 thousand (in the year ended 31 December 2005: PLN (222,696) thousand).

Gains or losses from financial assets for the year ended 31 December 2006 taken from equity to profit and loss amounted to PLN 49,091 thousand (in the year ended 31 December 2005: PLN 276,724 thousand).

## 13. Foreign exchange result

| | 2006 | 2005 |
|---|---|---|
| Foreign exchange differences resulting from financial instruments at fair value through profit or loss | 257 113 | 201 291 |
| Other foreign exchange differences | 275 457 | 412 424 |
| **Total** | **532 570** | **613 715** |

## 14. Other operating income and expenses

| Other operating income | 2006 | 2005 |
|---|---|---|
| From asset management on behalf of third parties | 74 539 | 85 970 |
| Auxiliary revenues* | 25 319 | 26 965 |
| Recovery of expired, written-off and unrecoverable receivables | 16 705 | 33 534 |
| Sale and liquidation of fixed assets and intangible assets | 14 880 | 10 066 |
| Received compensations, penalties and fines | 3 214 | 3 289 |
| Sale of shares in subordinated entities | 20 716 | - |
| Returns of debt collector advances | 2 978 | 3 572 |
| Revenues from reversal of write-down against other receivables | 2 144 | 27 576 |
| Result on the sale of collector coins | 944 | 2 013 |
| Other ** | 52 891 | 66 705 |
| **Total** | **214 330** | **259 690** |

* Included in “Auxiliary revenues” are mainly revenues from rental of apartments in training and leisure centres and revenues from rental of business premises.

** Included in “Other” are, among others, revenues from reversal of provisions, coverage of the surplus of non-commission premium paid, settlement of commission on sale of bonds and fund units.

*for the year ended 31 December 2006* *(in PLN thousand)*

| **Other operating expense** | **2006** | **2005** |
|---|---|---|
| Cost of sale or liquidation of fixed assets, intangible assets and assets for disposal | (12 639) | (10 567) |
| Costs of asset management on behalf of third parties | (15 667) | (11 566) |
| Impairment of other receivables | - | - |
| Donations | (7 162) | (6 663) |
| Compensation, penalties and fines paid | (1 466) | (3 529) |
| Impairment of overdue, written-off and unrecoverable receivables | (668) | (901) |
| Costs of tangible and intangible assets development with no economic result | (6 343) | - |
| Bank's auxiliary costs | (4 327) | (4 660) |
| Paid debt collector advances | (4 078) | (3 509) |
| Cost of maintenance of property and intangible assets | (1 626) | - |
| Result on the sale of collector coins | (50) | (69) |
| Costs due to unexplained cash shortages and damages | (39) | (105) |
| Other * | (25 862) | (8 154) |
| **Total** | **(79 927)** | **(49 723)** |

* Included in “Other” are expenses relating to sale of debts, telephone costs, derecognition of intangible assets and UOKiK fine (the item relates to 2006).

## 15. General administrative expenses

| | **2006** | **2005** |
|---|---|---|
| Employee costs | (2 150 561) | (1 972 843) |
| Non-personnel costs | (1 104 166) | (1 178 299) |
| Depreciation and amortisation | (268 778) | (419 287) |
| Taxes and charges | (55 070) | (52 872) |
| Contribution and payments to Banking Guarantee Fund | (10 458) | (8 023) |
| **Total** | **(3 589 033)** | **(3 631 324)** |

| **Payroll costs / Employee costs** | **2006** | **2005** |
|---|---|---|
| Salaries and wages | (1 664 024) | (1 616 670) |
| Provisions for retirment benefits and jubilee bonuses | (110 526) | (26 652) |
| Provisions for insurance and severance payments for employees, with whom the employment contracts are terminated for the reasons independent of employees | (37 000) | - |
| Insurance and other employee benefits | (339 011) | (329 521) |
| **Total** | **(2 150 561)** | **(1 972 843)** |

*for the year ended 31 December 2006* *(in PLN thousand)*

## 16. Result on impairment allowances

| | | Increases | | Decreases | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2006** | **Impairment allowances at the beginning of the period** | **Impairment losses recognised during the period** | **Other** | **Decrease in impairment allowances due to de-recognition of assets with no effect on the profit and loss account** | **Reversal of impairment losses during the period** | **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 carried at fair value through profit or loss | 2 910 165 | 1 013 895 | - | 488 009 | 1 026 468 | 45 849 | 2 363 734 | 12 573 |
| Financial instruments carried at cost (unquoted equity instruments and the related derivative instruments) | 15 964 | - | - | - | 850 | - | 15 114 | 850 |
| Financial assets available for sale carried at fair value through equity | 24 900 | - | - | 9 736 | 264 | - | 14 900 | 264 |
| Loans and advances to customers and receivables from banks carried at amortised cost | 2 869 301 | 1 013 895 | - | 478 273 [1)] | 1 025 354 | 45 849 [2)] | 2 333 720 | 11 459 |
| Impairment of investments in subsidiaries, associates and jointly controlled entities | 72 567 | - | 30 826 [3)] | 31 349 [4)] | 17 575 | - | 54 469 | 17 575 |
| Other* | 231 000 | 97 835 | - | - | 101 705 | 7 417 | 219 713 | 3 870 |
| **Total** | **3 213 732** | **1 111 730** | **30 826** | **519 358** | **1 145 748** | **53 266** | **2 637 916** | **34 018** |

* Included in “Other” are mainly impairment allowances recognised against other assets, off-balance sheet items, tangible fixed assets and intangible assets.

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

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

In 2006, impairment allowance recognised for the Bank’ investment in Inteligo Financial Services amounting to PLN 16,449 thousand was reversed on the basis of impairment test performed due to significant improvement in the Company’s financial standing.

[1)] Write-off of receivables from loans granted to financial, non-financial and public sector, including approximately PLN 380,000 thousand relating to the sale of receivables to securitization fund.
[2)] Presentation of revenues from the reversal of the provisions of Company A in the amount of PLN 7,152 thousand and reversal of impairment allowance for the receivable from “Jan III Sobieski” in the amount of PLN 38,697 thousand, as a result on conversion debt into shares.
[3)] Impairment allowance recognized against the investment in “Jan III Sobieski” as a result of conversion of debt into shares.
[4)] Write-off of receivable from the investment in “Jan III Sobieski” due to sale of shares in this company.

*for the year ended 31 December 2006* *(in PLN thousand)*

| | | Increases | | Decreases | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2005** | **Impairment allowances at the beginning of the period** | **Impairment losses recognised during the period** | **Other** | **Decrease in impairment allowances due to de-recognition of assets with no effect on the profit and loss account** | **Reversal of impairment losses during the period** | **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 carried at fair value through profit or loss | 3 122 956 | 829 503 | 23 996 | 261 250 | 805 026 | 14 | 2 910 165 | (24 477) |
| Financial instruments carried at cost (unquoted equity instruments and the related derivative instruments) | 27 136 | 6 | - | - | 11 164 | 14 | 15 964 | 11 158 |
| Financial assets available for sale carried at fair value through equity | 10 351 | - | 15 909 | - | 1 360 | - | 24 900 | 1 360 |
| Loans and advances to customers and receivables from banks carriedat amortised cost | 3 085 469 | 829 497 | 8 087 | 261 250 | 792 502 | - | 2 869 301 | (36 995) |
| Impairment of investments in subsidiaries, associates and jointly controlled entities | 112 867 | 482 | - | - | 37 282 | 3 500 | 72 567 | 36 800 |
| Other* | 167 590 | 163 715 | 112 | - | 52 492 | 47 925 | 231 000 | (111 223) |
| **Total** | **3 403 413** | **993 700** | **24 108** | **261 250** | **894 800** | **51 439** | **3 213 732** | **(98 900)** |

* Included in “Other” are mainly impairment allowances recognised against other assets, off-balance sheet items, tangible fixed assets and intangible assets.

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

Impairment allowances against loans and advances and receivables carried 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 performed impairment tests, the impairment allowance recognized for the Bank's investments in Inteligo Financial Services, amounting to PLN 26,545 thousand, was reversed due to significant improvement in the financial results of this company.

*for the year ended 31 December 2006* *(in PLN thousand)*

**17. Discontinued operations**

In 2006, PKO BP SA had no material income or costs from discontinued operations.

**18. Corporate income tax**

| | **2006** | **2005** |
|---|---|---|
| **Income statement** | | |
| Current income tax | | |
| Current income tax expense | 479 567 | 830 988 |
| Deferred tax | | |
| Relating to the arising and reversal of timing differences | (24 894) | (434 476) |
| **Tax expense disclosed in the income statement** | **454 673** | **396 512** |
| Relating to the arising and reversal of timing differences | 1 921 | (38 320) |
| **Tax expense disclosed in equity** | **1 921** | **(38 320)** |
| **Total** | **456 594** | **358 192** |

| | **2006** | **2005** |
|---|---|---|
| **Gross profit before taxation from continued activities** | **2 502 064** | **2 073 310** |
| Corporate income tax calculated using the enacted tax rate of 19% (2005: 19%) | 475 392 | 393 929 |
| **Permanent differences between accounting gross profit and taxable profit, of which:** | **(20 049)** | **3 230** |
| Other non-tax-deductible expenses | 26 768 | 38 912 |
| Reversed provisions and revaluation not constituting taxable revenue | (31 218) | (17 389) |
| Settlement of capitalised interest | (4 792) | (6 493) |
| Other non-taxable revenue | (5 193) | (7 364) |
| Dividend income | (3 539) | (5 487) |
| Others | (2 075) | 1 052 |
| **Other differences between accounting gross profit and taxable income, including donations** | **(670)** | **(648)** |
| Temporary difference resulting from deferred tax presented in the income statement | (24 894) | (434 476) |
| Tax expense resulting from current corporate income tax | 479 568 | 830 987 |
| **Tax due to the effective tax rate** | **18.17%** | **19.12%** |
| Corporate income tax in the income statement | **454 673** | **396 512** |
| **Total** | **454 673** | **396 512** |

*for the year ended 31 December 2006* *(in PLN thousand)*

**Deferred tax asset/liability**

| | Balance sheet | | Income statement | |
|---|---|---|---|---|
| | **31.12.2006** | **31.12.2005** | **2006** | **2005** |
| **Deferred tax liability** | | | | |
| Interest accrued on receivables (loans) | 95 630 | 80 992 | 14 638 | 2 340 |
| Interest on securities | 39 437 | 48 977 | (9 540) | (34 404) |
| Settlement of discount from securities (less premium) | (3 416) | 9 176 | (12 592) | (62 061) |
| Capitalised interest from restructuring bonds | - | - | - | (112 769) |
| Interest on transactions with the state budget | 984 | 4 781 | (3 797) | (2 624) |
| Capitalised interest on regular housing loans | 294 460 | 314 184 | (19 724) | (16 860) |
| Valuation of derivatives | - | - | - | (71 676) |
| Valuation of embedded derivatives | 217 | 234 | (17) | (67) |
| Other increases | 73 145 | 52 157 | 20 988 | (6 618) |
| Valuation of securities, of which: | 5 165 | 20 840 | - | - |
| taken to income statement | 3 240 | 17 778 | (14 538) | 19 285 |
| taken to equity | 1 925 | 3 062 | - | - |
| **Gross deferred tax liability** | **505 622** | **531 341** | **(24 582)** | **(285 454)** |
| **Net deferred tax liability** | **8 378** | **31 351** | **-** | **-** |
| **Deferred tax asset** | | | | |
| Interest accrued on liabilities | 143 349 | 144 801 | (1 452) | (7 480) |
| Provision for future liabilities to employees | 25 891 | 18 153 | 7 738 | 4 406 |
| Provision for jubilee bonuses and retirement benefits | 57 764 | 40 045 | 17 719 | 5 064 |
| Cost of accruals | 46 547 | 52 216 | (5 669) | (3 952) |
| Valuation of derivatives | 44 031 | 88 595 | (44 564) | 88 595 |
| Other | 26 675 | 16 528 | 10 147 | 16 528 |
| EIR valuation adjustment | 132 879 | 126 793 | 6 086 | 47 287 |
| Valuation of securities, of which: | 20 107 | 12 859 | - | - |
| taken to income statements | 19 057 | 8 751 | 10 306 | (1 425) |
| taken to equity | 1 050 | 4 108 | - | - |
| **Gross deferred tax asset** | **497 243** | **499 990** | **311** | **149 023** |
| **Total deferred tax (deferred tax liability - diferred tax asset)** | **8 378** | **31 351** | **-** | **-** |
| **Total deferred tax in the income statement** | **7 505** | **32 398** | **(24 894)** | **(434 476)** |

**Liabilities/ receivables due to corporate income tax**

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| Liabilities due to income tax | 170 960 | 436 494 |

The Bank is a corporate income tax payer. The amount of tax liability is transferred to the Second Mazowiecki Tax Office in Warsaw. The final settlement of the Bank's CIT liabilities is made as required by the legal requirements, i.e. till 31 March after the balance sheet date.

## 19. Dividends paid and declared

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

In Resolution No 6/2006 dated 18 April 2006, the Ordinary General Shareholders' Meeting of PKO BP SA decided to distribute dividends for the year 2005 in the amount of PLN 800,000 thousand. PKO BP SA paid dividends for the year 2005 in the amount of PLN 0.80 per share on a pre-tax basis. The list of the shareholders entitled to receive dividend was determined as 10 July 2006 and the payment was made on 1 August 2006.

*for the year ended 31 December 2006* *(in PLN thousand)*

On 19 March 2007 the Bank's Management Board adopted a resolution and decided to submit to the General Shareholders' Meeting a recommendation of the divided payment for 2006 in the amount of PLN 980,000 thousand, i.e. PLN 0.98 per share.

As at 31 December 2006, 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 2005: PLN 1,000,000 thousand).

## 20. Cash and amounts due from the Central Bank

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| Current account with the Central Bank | 3 196 284 | 2 626 732 |
| Cash | 1 344 922 | 1 204 370 |
| Other funds | 2 471 | 1 593 |
| **Total** | **4 543 677** | **3 832 695** |

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 Central Bank of Poland. It must, however, ensure that the average monthly balance on this account complies with the requirements that result form the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest of 0.9 of the rediscount rate for bills of exchange; as at 31 December 2006, this interest rate was 4.25%.

As at 31 December 2006 and 31 December 2005, there were no restrictions as regards the use of these funds.

## 21. Amounts due from banks

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| Current accounts | 29 766 | 14 205 |
| Placements with other banks | 12 410 028 | 12 474 680 |
| Loans and advances granted | 326 051 | 117 693 |
| Cash in transit | 34 386 | 26 623 |
| Reverse repo transactions | 549 821 | - |
| **Total** | **13 350 052** | **12 633 201** |
| Impairment allowance | (329) | (1 755) |
| **Total net** | **13 349 723** | **12 631 446** |

The nominal value of placements with other banks with a fixed interest rate amounted to PLN 12,274,821 thousand (as at 31 December 2005: PLN 12,353,352 thousand). Majority of those placements were short-term placements. As at 31 December 2006 and 31 December 2005, the Bank did not have any placements with other banks with a floating interest rate.

*for the year ended 31 December 2006* *(in PLN thousand)*

**Amounts due from banks, by maturity**

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

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| Current accounts | 29 766 | 14 205 |
| Term deposits with a maturity period: | 13 285 900 | 12 592 373 |
| up to 1 month | 7 761 945 | 5 909 928 |
| from 1 to 3 months | 1 538 768 | 1 447 808 |
| from 3 months to 1 year | 3 695 262 | 5 014 234 |
| from 1 year to 5 years | 232 743 | 173 115 |
| over 5 years | 57 182 | 47 288 |
| Cash in transit | 34 386 | 26 623 |
| **Total** | **13 350 052** | **12 633 201** |
| Impairment allowance | (329) | (1 755) |
| **Total net** | **13 349 723** | **12 631 446** |

| **Effective interest rate - 31.12.2006** | **PLN** | **EUR** | **USD** | **GBP** | **CHF** |
|---|---|---|---|---|---|
| Inter-bank placements | 4.12 | 3.56 | 5.58 | 5.31 | 2.17 |

| **Effective interest rate - 31.12.2005** | **PLN** | **EUR** | **USD** | **GBP** | **CHF** |
|---|---|---|---|---|---|
| Inter-bank placements | 4.51 | 2.32 | 4.26 | 4.58 | 1.44 |

**22. Financial assets held for trading**

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| Debt securities | 389 682 | 839 726 |
| - issued by the State Treasury | 389 214 | 839 367 |
| - issued by local government bodies | 468 | 359 |
| Shares in other entities – listed on stock exchange | 1 495 | 2 188 |
| **Total financial assets held for trading** | **391 177** | **841 914** |

*for the year ended 31 December 2006* *(in PLN thousand)*

**Financial assets held for trading by maturity (carrying amount)**

| As at 31 December 2006 | 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 | Total |
|---|---|---|---|---|---|---|
| **Debt securities** | 3 821 | 88 616 | 134 645 | 38 987 | 123 613 | **389 682** |
| - issued by the State Treasury | 3 821 | 88 616 | 134 177 | 38 987 | 123 613 | **389 214** |
| - issued by local government bodies | - | - | 468 | - | - | **468** |
| **Shares in other entities – listed on stock exchange** | 1 495 | - | - | - | - | **1 495** |
| **Total** | **5 316** | **88 616** | **134 645** | **38 987** | **123 613** | **391 177** |
| **As at 31 December 2005** | **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** | **Total** |
| **Debt securities** | **26 055** | **72 234** | **88 700** | **633 304** | **19 433** | **839 726** |
| - issued by the State Treasury | 26 055 | 72 234 | 88 341 | 633 304 | 19 433 | **839 367** |
| - issued by local government bodies | - | - | 359 | - | - | **359** |
| **Shares in other entities – listed on stock exchange** | 2 188 | - | - | - | - | **2 188** |
| **Total** | **28 243** | **72 234** | **88 700** | **633 304** | **19 433** | **841 914** |

The average yield of debt securities issued by the State Treasury as at 31 December 2006 amounted to 4.47% for PLN, 4.03% for EUR and 4.71% for USD. The average yield on these securities as at 31 December 2005 was as follows: 4.93% for PLN, 3.02% for EUR and 3.00% for USD.

**Portfolio of securities held for trading (nominal value)**

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| **Treasury bills** | 46 610 | 33 790 |
| **Treasury bonds** | 230 558 | 624 467 |
| **USD bonds** | 14 553 | 326 |
| **EUR bonds** | 95 780 | 8 642 |

*for the year ended 31 December 2006* *(in PLN thousand)*

## 23. Derivative financial instruments

### Derivatives instruments used by the Bank

PKO BP SA uses various types of derivatives with a view to manage the risk involved in its business activities. Forward contracts accounts for the majority derivatives used by the Bank. As at 31 December 2006 and 31 December 2005, the Bank held the following derivative instruments (fair value):

| | 31.12.2006 | | 31.12.2005 | |
|---|---|---|---|---|
| **Type of contract** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| IRS | 644 580 | 773 572 | 705 544 | 1 076 599 |
| FRA | 68 646 | 76 228 | 87 934 | 86 395 |
| FX Swap | 104 133 | 32 737 | 111 121 | 38 704 |
| CIRS | 376 078 | 201 314 | 182 871 | 12 644 |
| Forward | 5 867 | 11 926 | 7 620 | 1 216 |
| Options | 45 | 2 019 | 42 007 | 41 376 |
| Other | 402 | 1 057 | 130 | 450 |
| **Total** | **1 199 751** | **1 098 853** | **1 137 227** | **1 257 384** |

### Derivatives instruments 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 cause that part of the cash flows from the compound instrument change 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, price of commodity, foreign exchange rate, price index or interest rate index, credit rating or credit index or other variable provided that the not financial variable is not specific for any part of the agreement.

Derivatives can also be embedded in loan and deposit agreements. The Bank has analysed the portfolio of loans and deposits agreements, and non financial agreements in order to determine whether the embedded derivative instruments should be separated and, based on the above, the Bank concluded that there are deposit agreements with embedded derivatives in its offer. 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. There are no loan agreements with embedded derivatives, where embedded derivatives should be separated and individually recognised. However there are non financial agreements within the Bank which include embedded derivatives being subject to separation and individual valuation on the similar principles as in the case of derivatives embedded in the deposits.

### Risk involved in derivative financial instruments

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

Derivative risk management objectives and policies and derivatives' exposure to credit risk are presented in note 3.

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

The following tables present notional amounts of derivative financial instruments and the fair values of such derivatives. 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.

*for the year ended 31 December 2006* *(in PLN thousand)*

**Derivative financial instruments as at 31 December 2006**

**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 | 4 356 008 | 2 032 835 | 1 100 723 | - | - | **7 489 566** | **32 737** | **104 133** |
| Purchase of currencies | 2 171 188 | 1 045 029 | 562 280 | - | - | **3 778 497** | | |
| Sale of currencies | 2 184 820 | 987 806 | 538 443 | - | - | **3 711 069** | | |
| Currency Forward | 409 346 | 439 806 | 868 158 | 263 963 | - | **1 981 273** | **11 926** | **5 867** |
| Purchase of currencies | 204 084 | 220 356 | 431 745 | 130 194 | - | **986 379** | | |
| Sale of currencies | 205 262 | 219 450 | 436 413 | 133 769 | - | **994 894** | | |
| Options | - | 7 819 | 29 575 | 3 952 | - | **41 346** | **98** | **25** |
| Purchase | - | 5 223 | 13 358 | 2 750 | - | **21 331** | | |
| Sale | - | 2 596 | 16 217 | 1 202 | - | **20 015** | | |
| Cross Currency IRS | 965 680 | 964 480 | - | 9 601 726 | 9 506 975 | **21 038 861** | **201 314** | **376 078** |
| Purchase | 488 840 | 487 640 | - | 4 832 050 | 4 789 709 | **10 598 239** | | |
| Sale | 476 840 | 476 840 | - | 4 769 676 | 4 717 266 | **10 440 622** | | |
| **Interest rate transactions** | | | | | | | | |
| Interest Rate Swap (IRS) | 5 800 000 | 7 468 000 | 32 812 100 | 98 978 454 | 6 554 960 | **151 613 514** | **773 572** | **644 580** |
| Purchase | 2 900 000 | 3 734 000 | 16 406 050 | 49 489 227 | 3 277 480 | **75 806 757** | | |
| Sale | 2 900 000 | 3 734 000 | 16 406 050 | 49 489 227 | 3 277 480 | **75 806 757** | | |
| Forward Rate Agreement (FRA) | 13 300 000 | 18 825 000 | 64 900 000 | 21 350 000 | - | **118 375 000** | **76 228** | **68 646** |
| Purchase | 6 300 000 | 9 375 000 | 34 050 000 | 12 350 000 | - | **62 075 000** | | |
| Sale | 7 000 000 | 9 450 000 | 30 850 000 | 9 000 000 | - | **56 300 000** | | |
| **Other transactions** | | | | | | | | |
| SELL BUY BACK | 752 619 | 44 345 | 3 032 | - | - | **799 996** | **1 057** | **402** |
| Purchase | 718 174 | 44 345 | 3 032 | - | - | **765 551** | | |
| Sale | 34 445 | - | - | - | - | **34 445** | | |
| Futures on WIG | - | 833 | - | - | - | **833** | | |
| Purchase | | 833 | | | | **833** | | |
| Equity instruments options | - | 119 | - | 68 701 | - | **68 820** | **1 921** | **20** |
| Purchase | | 35 | | | | **35** | | |
| Sale | | 84 | | 68 701 | | **68 785** | | |
| **Total derivative instruments** | **25 583 653** | **29 783 237** | **99 713 588** | **130 266 796** | **16 061 935** | **301 409 209** | **1 098 853** | **1 199 751** |

*for the year ended 31 December 2006* *(in PLN thousand)*

**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 | - | - | **438 942** | **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** | | |
| 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** | | |
| **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** | **86 395** | **87 934** |
| 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** | | |
| **Other transactions** | | | | | | | | |
| SELL BUY BACK | 1 098 934 | 3 012 | - | - | - | **1 101 946** | **450** | **130** |
| Purchase | 936 984 | 3 012 | - | - | - | **939 996** | | |
| Sale | 161 950 | - | - | - | - | **161 950** | | |
| Futures on bonds | - | 5 119 | 513 | - | - | **5 632** | | |
| Purchase | - | 5 119 | - | - | - | **5 119** | | |
| Sale | - | - | 513 | - | - | **513** | | |
| **Total derivative instruments** | **26 773 908** | **48 886 408** | **110 519 406** | **80 019 698** | **7 391 314** | **273 590 734** | **1 257 384** | **1 137 227** |

*for the year ended 31 December 2006* *(in PLN thousand)*

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

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| Debt securities | 11 214 660 | 20 034 160 |
| - issued by the State Treasury | 9 923 512 | 14 810 621 |
| - issued by central banks | - | 4 435 795 |
| - issued by other banks | 1 291 148 | 787 744 |
| **Total** | **11 214 660** | **20 034 160** |

**Portfolio of securities at fair value through profit or loss by nominal value**

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| **Treasury bonds** | 7 560 771 | 13 376 331 |
| **other bonds in PLN** | 200 000 | 2 449 820 |
| **Treasury bills** | - | 2 449 820 |
| **money bills** | - | 1 779 640 |
| **USD bonds** | 798 059 | 872 235 |
| **EUR bonds** | 2 471 124 | 1 254 435 |

As at 31 December 2006, 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 4.54% for PLN, 4.29% for EUR, 5.14% for USD. As at 31 December 2005, the average yield on such securities was as follows: 4.71% for PLN, 3.77% for EUR, 4.62% for USD.

*for the year ended 31 December 2006* *(in PLN thousand)*

**Other financial instruments at fair value through profit or loss, by maturity (carrying amount)**

| As at 31 December 2006 | up to 1 month | from 1 to 3 months | from 3 months to 1 year | from 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Debt securities** | **218 846** | **154 501** | **2 264 436** | **5 484 672** | **3 092 205** | **11 214 660** |
| - issued by other banks | 202 012 | - | 44 076 | 711 026 | 334 034 | 1 291 148 |
| - issued by the State Treasury | 16 834 | 154 501 | 2 220 360 | 4 773 646 | 2 758 171 | 9 923 512 |
| **Total** | **218 846** | **154 501** | **2 264 436** | **5 484 672** | **3 092 205** | **11 214 660** |

| As at 31 December 2005 | up to 1 month | from 1 to 3 months | from 3 months to 1 year | from 1 to 5 years | over 5 years | 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 the State Treasury | 196 660 | 1 030 895 | 5 094 257 | 6 738 899 | 1 749 910 | **14 810 621** |
| **Total** | **2 024 230** | **1 030 895** | **5 094 257** | **7 304 861** | **4 579 917** | **20 034 160** |

*for the year ended 31 December 2006* *(in PLN thousand)*

## 25. Loans and advances to customers

| **Loans and advances granted:** | **31.12.2006** | **31.12.2005** |
|---|---|---|
| Receivables valued using the individual method | 1 160 435 | 1 163 668 |
| Receivables valued using the portfolio methods | 1 440 737 | 1 922 797 |
| Receivables valued using the collective methods (IBNR) | 56 953 199 | 45 832 928 |
| **Loans and advances granted - gross** | **59 554 371** | **48 919 393** |
| Allowances against exposures with individual impairment | (569 899) | (586 957) |
| Allowances against exposures with portfolio impairment | (1 237 180) | (1 709 230) |
| Allowances against exposures with collective impairment (IBNR) | (526 312) | (571 359) |
| **Total allowances** | **(2 333 391)** | **(2 867 546)** |
| **Total net loans and advances** | **57 220 980** | **46 051 847** |

**Structure of loans and advances to customers by maturity**

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| | **Carrying amount** | **Carrying amount** |
| **Loans and advances granted - gross:** | | |
| to state budget entities | 6 061 924 | 6 749 221 |
| up to 1 month | 189 959 | 297 966 |
| from 1 to 3 months | 96 509 | 72 015 |
| from 3 months to 1 year | 2 461 667 | 702 399 |
| from 1 to 5 years | 2 195 941 | 4 790 243 |
| above 5 years | 1 117 848 | 886 598 |
| to financial entities other than banks | 847 559 | 809 674 |
| up to 1 month | 78 233 | 103 683 |
| from 1 to 3 months | 66 885 | 56 420 |
| from 3 months to 1 year | 259 478 | 242 346 |
| from 1 to 5 years | 385 852 | 350 811 |
| above 5 years | 57 111 | 56 414 |
| to non-financial entities | 52 644 888 | 41 360 498 |
| up to 1 month | 10 164 373 | 9 110 198 |
| from 1 to 3 months | 1 466 846 | 1 390 370 |
| from 3 months to 1 year | 6 049 700 | 5 457 510 |
| from 1 to 5 years | 16 714 577 | 10 693 106 |
| above 5 years | 18 249 392 | 14 709 314 |
| **Total** | **59 554 371** | **48 919 393** |

**Effective interest rate**

*As at 31 December 2006*

| **Loans** | **PLN** | **EUR** | **USD** | **CHF** |
|---|---|---|---|---|
| Housing loans | 6.15 | 7.39 | 9.20 | 4.56 |
| Corporate loans | 5.10 | 4.13 | 7.23 | 4.20 |
| Consumption loans | 11.06 | 8.69 | 14.12 | 10.14 |
| Loans for enterprises | 5.33 | 4.05 | 7.20 | 4.53 |

**Finance and operating leases**

**Finance lease**

The Bank does not have any material finance lease receivables or liabilities.

**Operating lease**

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.

*for the year ended 31 December 2006* *(in PLN thousand)*

Rental agreements concluded by the Bank as part of its normal business activities meet the criteria of operating lease.

The table below shows data concerning operating lease agreements concluded by the Bank (the table shows the amounts in the period of the last payments according to the lease agreement):

| **Total value of future lease payments under non-cancellable operating lease** | **31.12.2006** | **31.12.2005** |
|---|---|---|
| For the period: | | |
| up to 1 year | 171 | 364 |
| from 1 to 5 years | 14 070 | 11 686 |
| above 5 years | 512 997 | 419 097 |
| **Total** | **527 238** | **431 147** |

Lease and sub-lease payments recognised as an expense in the period from 1 January 2006 to 31 December 2006 amounted to PLN 145,300 thousand (in the period from 1 January 2005 to 31 December 2005: PLN 143,733 thousand).

### 26. Investment securities

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| **Available for sale** | **6 835 581** | **1 898 442** |
| - issued by central banks | 2 640 272 | - |
| - issued by other banks | 1 162 081 | - |
| - issued by other financial institutions | 134 783 | 7 762 |
| - issued by non-financial entities | 801 986 | 746 141 |
| - issued by the State Treasury | 1 170 431 | 354 347 |
| - issued by local government bodies | 926 028 | 790 192 |
| **Impairment allowances** | **(30 014)** | **(40 864)** |
| **Total net investment securities** | **6 805 567** | **1 857 578** |

Changes in investment securities

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| **Available for sale** | | |
| **Balance at the beginning of the period** | **1 857 578** | **1 652 176** |
| Foreign exchange differences | (249) | (576) |
| Increases | 20 609 788 | 4 451 248 |
| Decreases (redemption) | (15 672 312) | (4 311 013) |
| Change in the fair value | 10 762 | 65 743 |
| **Balance at the end of the period** | **6 805 567** | **1 857 578** |
| **Held to maturity** | | |
| **Balance at the beginning of the period** | - | **1 893 187** |
| Increases | - | 39 218 |
| Decreases (redemption) | - | (1 932 405) |
| **Balance at the end of the period** | - | **-** |

*for the year ended 31 December 2006* *(in PLN thousand)*

**Available for sale securities, by maturity (carrying amount)**

| As at 31 December 2006 | up to 1 month | from 1 to 3 months | from 3 months to 1 year | from 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Available for sale** | | | | | | |
| issued by central banks | - | - | - | - | 2 640 272 | **2 640 272** |
| issued by other banks | - | - | 1 101 852 | 57 987 | - | **1 159 839** |
| issued by other institutions | - | 129 146 | 117 | - | 320 | **129 583** |
| issued by non-financial entities | 826 | 189 335 | 2 022 | 584 315 | 2 916 | **779 414** |
| issued by the State Treasury | - | - | - | 1 170 431 | | **1 170 431** |
| issued by local government bodies | - | 1 143 | 71 599 | 581 958 | 271 328 | **926 028** |
| **Total** | **826** | **319 624** | **1 175 590** | **2 394 691** | **2 914 836** | **6 805 567** |

| As at 31 December 2006 | up to 1 month | from 1 to 3 months | from 3 months to 1 year | from 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Available for sale** | | | | | | |
| issued by other 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** | **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 2006 amounted to 4.93%, and as at 31 December 2005: 4.96%.

**Portfolio of debt securities by nominal value:**

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| **Commercial bills** | 166 000 | 271 500 |
| **Corporate bonds** | 1 807 792 | 426 247 |
| **Municipal bonds** | 917 990 | 780 562 |
| **Treasury bonds** | 1 106 000 | 330 000 |
| **NBP bonds** | 2 551 112 | - |

**Held to maturity securities**

As at 31 December 2006 and 31 December 2005, the Bank had no securities classified as held to maturity.

*for the year ended 31 December 2006* *(in PLN thousand)*

## 27. Investments in subsidiaries, associates and jointly controlled entities

As at 31 December 2006, the Bank's investments in subsidiaries, associates and jointly controlled entities are carried 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.

**31 December 2006**

| Entity name | Gross amount | Impairment | Carrying amount |
|---|---|---|---|
| **Subsidiaries** | | | |
| Powszechne Towarzystwo Emerytalne BANKOWY SA | 205 785 | - | 205 785 |
| KREDOBANK SA | 144 605 | - | 144 605 |
| Centrum Finansowe Puławska Sp. z o.o. | 128 288 | - | 128 288 |
| PKO Inwestycje Sp. z o.o. | 117 813 | - | 117 813 |
| Inteligo Financial Services SA | 59 602 | - | 59 602 |
| Centrum Elektronicznych Usług Płatniczych eService SA | 55 500 | - | 55 500 |
| Bankowy Fundusz Leasingowy SA | 30 000 | - | 30 000 |
| Bankowe Towarzystwo Kapitałowe SA | 18 566 | - | 18 566 |
| PKO Towarzystwo Funduszy Inwestycyjnych SA* (former PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA) | 69 054 | - | 69 054 |
| Przedsiębiorstwo Informatyki Bankowej "Elbank" Sp. z o.o. (in liquidation) | 33 | (33) | - |
| International Trade Center Sp. z o.o. (in liquidation) | 6 | (6) | - |
| **Jointly controlled entities** | | | |
| Centrum Obsługi Biznesu Sp. z o.o. | 17 498 | - | 17 498 |
| CENTRUM HAFFNERA Sp. z o.o. | 44 371 | - | 44 371 |
| **Associated entities** | | | |
| Bank Pocztowy SA | 146 500 | (33 500) | 113 000 |
| Kolej Gondolowa Jaworzyna Krynicka SA | 15 531 | (15 531) | - |
| Ekogips SA (in bankruptcy) | 5 400 | (5 400) | - |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 1 500 | - | 1 500 |
| Agencja Inwestycyjna „CORP” SA | 29 | - | 29 |
| **Total** | **1 060 081** | **(54 470)** | **1 005 611** |

* On 6 April 2006, the Company became a subsidiary of the Bank after the Bank purchased 25% additional shares package.

*for the year ended 31 December 2006* *(in PLN thousand)*

**31 December 2005**

| Entity name | Gross amount | Impairment | Carrying amount |
|---|---|---|---|
| **Subordinated entities** | | | |
| Powszechne Towarzystwo Emerytalne BANKOWY SA | 205 785 | - | 205 785 |
| KREDOBANK SA | 111 971 | - | 111 971 |
| Centrum Finansowe Puławska Sp. z o.o. | 128 288 | - | 128 288 |
| PKO Inwestycje Sp. z o.o. | 147 903 | - | 147 903 |
| Inteligo Financial Services SA | 59 602 | (16 449) | 43 153 |
| Centrum Elektronicznych Usług Płatniczych eService SA | 55 500 | - | 55 500 |
| Bankowy Fundusz Leasingowy SA | 30 000 | - | 30 000 |
| Bankowe Towarzystwo Kapitałowe SA | 18 566 | - | 18 566 |
| Przedsiębiorstwo Informatyki Bankowej "Elbank" Sp. z o.o. (in liquidation) | 33 | (33) | - |
| International Trade Center Sp. z o.o. (in liquidation) | 6 | (6) | - |
| **Jointly controlled entities** | | | |
| Wawel Hotel Development Sp. z o.o. | 13 865 | - | 13 865 |
| Centrum Obsługi Biznesu Sp. z o.o. | 17 498 | - | 17 498 |
| PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych S.A. | 14 000 | - | 14 000 |
| **Associated entities** | | | |
| Bank Pocztowy SA | 146 500 | (33 500) | 113 000 |
| Kolej Gondolowa Jaworzyna Krynicka SA | 15 531 | (15 531) | - |
| Ekogips SA (in bankruptcy) | 5 400 | (5 400) | - |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 1 500 | (1 126) | 374 |
| Hotel Jan III Sobieski Sp. z o.o. | 522 | (522) | - |
| Agencja Inwestycyjna „CORP” SA | 29 | - | 29 |
| **Total** | **972 499** | **(72 567)** | **899 932** |

Summary information about associated entities valued using the equity method:

| Entity name | Total assets | Total liabilities | Total revenues | Net profit (loss) | % share |
|---|---|---|---|---|---|
| **31.12.2006** | | | | | |
| Bank Pocztowy SA | 2 626 784 | 2 408 993 | 236 389 | 24 090 | 25.0001% |
| Kolej Gondolowa Jaworzyna Krynicka SA | 38 154 | 6 722 | 11 996 | 2 094 | 37.53% |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 11 056 | 6 238 | 177 | 149 | 33.33% |
| Agencja Inwestycyjna "CORP" SA | 3 856 | 2 061 | 7 180 | 295 | 22.31% |
| **Total** | **2 679 850** | **2 424 014** | **255 742** | **26 628** | **---** |
| **31.12.2005** | | | | | |
| Bank Pocztowy SA | 1 801 105 | 1 610 038 | 239 171 | 23 927 | 25.0001% |
| Kolej Gondolowa Jaworzyna Krynicka S.A. | 37 882 | 8 914 | 11 189 | 2 647 | 37.83% |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 6 701 | 2 026 | 135 | 70 | 33.33% |
| Hotel Jan III Sobieski Sp. z o.o. | 132 434 | 262 629 | 51 821 | 21 625 | 32.50% |
| Agencja Inwestycyjna "CORP" SA | 4 241 | 2 518 | 15 972 | 525 | 22.31% |
| **Total** | **1 982 363** | **1 886 125** | **318 288** | **48 794** | **---** |

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

As at 31 December 2006 and 31 December 2005, the Bank did not have any interest in the contingent liabilities of associates, acquired jointly with other investors.

On 24 January 2006, PKO BP SA concluded a conditional agreement with Credit Suisse Asset Management Holding Europe (Luxembourg) SA for the purchase by the Bank of 45,000 registered preferred shares (preference in voting rights), representing 25% of the total votes at the General Shareholders' Meeting of PKO Towarzystwo Funduszy Inwestycyjnych S.A. (former PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. - the change of the Company's name was registered with the National Court Register on 20 March 2006).

On 6 April 2006, upon the fulfillment of all of the conditions of this agreement (including the receipt of the consent of the President of the Consumer and Competition Protection Office [*Urząd Ochrony Konkurencji i Konsumentów*] for the concentration resulting from acquisition of control over the Company by PKO BP SA), the ownership of these shares was transferred to PKO BP SA. The cost of acquisition, including additional transaction costs, was PLN 55,055 thousand. Following this transaction, PKO BP SA holds 75% of the Company's share capital and total votes at the Company's General Shareholders' Meeting. PKO Towarzystwo Funduszy Inwestycyjnych S.A. became part of the PKO BP SA Group.

On 2 June 2006, PKO BP SA took up 88,741 shares in the increased share capital of CENTRUM HAFFNERA Sp. z o.o., with a total nominal value of PLN 44,370.5 thousand, for a price equal to the nominal value of the shares. As a result of this transaction, PKO BP SA holds 49.43% of shares in the Company's share capital, which give right to 49.43% of votes at the Shareholders' Meeting.

Under IAS 31, the shares in CENTRUM HAFFNERA Sp. z o.o. have been classified as an investment in a jointly controlled entity, and CENTRUM HAFFNERA Sp. z o.o. has been classified as a jointly controlled entity. In accordance with the Shareholders Agreement and the Company's Deed of Association, the decisions of the Supervisory Board and Shareholders' Meeting must be taken unanimously.

On 4 August 2006, an increase in the Company's share capital was registered with the National Court Register in the amount of PLN 335 thousand. The shares in the increased share capital were taken up by the Krynica Górska Municipality. Following this increase, the Company's share capital amounts to PLN 41,388 thousand and consists of 827,763 shares with a nominal value of PLN 50 each. As a result of the share capital increase, the Bank's share in the share capital decreased from 37.83% to 37.53%, and its share in the total votes at the Shareholders' Meeting decreased from 36.85% to 36.71%.

On 8 August 2006, PKO BP SA concluded an agreement for the sale of shares in Wawel Hotel Development Sp. z o.o. with its registered office in Kraków, a jointly controlled entity of the Bank. The Bank sold all of its 27,730 shares with a nominal value of PLN 500 each and the total nominal value of PLN 13,865 thousand, representing 35.4% of the Company's share capital and giving right to 35.4% of the total vote at the Shareholders' Meeting. The shares were sold to Quinn Property Holdings Limited with its registered office in Dublin. The final sales price was PLN 27,807.5 thousand.

On 14 August 2006, PKO BP SA took up 5,428,764,911 shares in the increased share capital of KREDOBANK S.A., with a total nominal value of UAH 54,287,649.11. As a result, PKO BP SA's share in the share capital of this Company and its share in the total vote at the General Shareholders' Meeting increased from 69.018% to 69.933%.

On 19 September 2006, PKO BP SA took up 145,361 shares in the increased share capital of its associate, Hotel Jan III Sobieski Sp. z o.o., with a total nominal value of PLN 78,494.9 thousand, for a price equal to their nominal value. As a result of this transaction, the Bank held 145,881 shares in the Company's share capital, which accounted for 50.4% of the share capital and gave right to 50.4% of the total vote at the Shareholders' Meeting.

On 31 October 2006, PKO BP SA concluded an agreement for the sale of shares in Hotel Jan III Sobieski Sp. z o.o. with its registered office in Warsaw. The Bank sold all of its 145,881 shares in this Company, with a total nominal value of PLN 78,776, to Europa Hawk S.a.r.l. with its registered office in Luxembourg, for a price of PLN 46,571.7 thousand. The sales price will be increased as a result of the adjustments to be made to the net working capital based on the Company's balance sheet as at the date of transaction.

On 27 November 2006, PKO Inwestycje Sp. z o.o. – the Bank's subsidiary – refunded the additional payment received from PKO BP SA for the implementation of the "Marina Mokotów' project, in the amount of PLN 30.09 million.

*for the year ended 31 December 2006* *(in PLN thousand)*

## 28. Intangible assets

| **Year ended 31 December 2006** | **Patents and licenses** | **Other including expenses** | **Total** |
|---|---|---|---|
| Purchase price as at 1 January 2006 including amortisation | 183 133 | 342 173 | **525 306** |
| Purchase | - | 287 977 | **287 977** |
| Impairment allowances | (29 424) | (2 257) | **(31 681)** |
| Amortisation | (49 875) | (2 497) | **(52 372)** |
| Transfers from expenses to intangible assets | 507 603 | (507 603) | **-** |
| Other changes* | - | (2 772) | **(2 772)** |
| **Net carrying amount** | **611 437** | **115 021** | **726 458** |
| *As at 1 January 2006* | | | |
| Purchase price (gross carrying amount) | 775 924 | 352 393 | **1 128 317** |
| Accumulated amortisation and impairment allowance | (592 791) | (10 220) | **(603 011)** |
| **Net carrying amount** | **183 133** | **342 173** | **525 306** |
| *As at 31 December 2005* | | | |
| Purchase price (gross carrying amount) | 1 276 516 | 128 640 | **1 405 156** |
| Accumulated amortisation and impairment allowance | (665 079) | (13 619) | **(678 698)** |
| **Net carrying amount** | **611 437** | **115 021** | **726 458** |

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

A significant item of intangible assets is represented by capital expenditures incurred for the integrated IT system (ZSI). As at 31 December 2006, cumulative capital expenditures incurred for the ZSI amounted to PLN 534,527 thousand (ass at 31 December 2005: PLN 339,817 thousand).

| **Year ended 31 December 2005** | **Patents and licenses** | **Other including expenses** | **Total** |
|---|---|---|---|
| Purchase price as at 1 January 2005 including amortisation | 124 069 | 259 976 | **384 045** |
| Purchase | - | 274 937 | **274 937** |
| Sale | (103) | (49) | **(152)** |
| Amortisation | (128 067) | (3 807) | **(131 874)** |
| Transfers from expenses to intangible assets | 187 234 | (187 234) | **-** |
| Other changes* | | (1 650) | **(1 650)** |
| **Net carrying amount** | **183 133** | **342 173** | **525 306** |
| *As at 1 January 2005* | | | |
| Purchase price (gross carrying amount) | 605 172 | 266 801 | **871 973** |
| Accumulated amortisation and impairment allowance | (481 103) | (6 825) | **(487 928)** |
| **Net carrying amount** | **124 069** | **259 976** | **384 045** |
| *As at 31 December 2005* | | | |
| Purchase price (gross carrying amount) | 775 924 | 352 393 | **1 128 317** |
| Accumulated amortisation and impairment allowance | (592 791) | (10 220) | **(603 011)** |
| **Net carrying amount** | **183 133** | **342 173** | **525 306** |

* “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 2006 to 31 December 2006, PKO BP SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 479,133 thousand (in the period from 1 January 2005 to 31 December 2005: PLN 569,119 thousand).

*for the year ended 31 December 2006* *(in PLN thousand)*

## 29. Tangible fixed assets

| Year ended 31 December 2006 | Land and buildings, including investment real estate | Plant and machinery | Means of transport | Assets under construction | Other | Total |
|---|---|---|---|---|---|---|
| **Gross amount at the beginning of the period** | **2 062 863** | **2 346 287** | **33 807** | **209 706** | **334 410** | **4 987 073** |
| **Increases, including;** | **16 580** | **118 773** | **-** | **193 446** | **20 479** | **349 278** |
| Purchases and other changes | - | - | - | 193 446 | | 193 446 |
| Transfers from expenses to tangible fixed assets | 16 580 | 118 773 | | - | 20 479 | 155 832 |
| **Decreases, including:** | **(11 752)** | **(93 107)** | **(9 848)** | **(161 201)** | **(6 173)** | **(282 081)** |
| Liquidation and sale | (11 752) | (89 496) | (9 848) | - | (6 106) | (117 202) |
| Other | - | (3 611) | - | (5 369) | (67) | (9 047) |
| Transfers from expenses to tangible fixed assets | - | - | - | (155 832) | - | (155 832) |
| **Gross amount at the end of the period** | **2 067 691** | **2 371 953** | **23 959** | **241 951** | **348 716** | **5 054 270** |
| **Accumulated depreciation at the beginning of the period** | **(486 171)** | **(1 926 967)** | **(29 131)** | **-** | **(293 420)** | **(2 735 689)** |
| **Increases, including;** | (65 294) | (139 938) | (2 484) | - | (14 358) | (222 074) |
| Amortisation for the period | (63 996) | (139 628) | (2 484) | - | (11 892) | (218 000) |
| Other | (1 298) | (310) | - | - | (2 466) | (4 074) |
| **Decreases, including:** | **3 293** | **93 115** | **9 636** | **-** | **6 051** | **112 095** |
| Liquidation and sale | 3 293 | 89 315 | 9 636 | - | 6 051 | 108 295 |
| Other | - | 3 800 | - | - | - | 3 800 |
| **Accumulated depreciation at the end of the period** | **(548 172)** | **(1 973 790)** | **(21 979)** | **-** | **(301 727)** | **(2 845 668)** |
| **Impairment allowance** | | | | | | |
| Opening balance | (50 221) | - | - | - | - | (50 221) |
| Increases | (185) | (79) | - | (700) | (35) | (999) |
| Closing balance | **(50 406)** | **(79)** | **-** | **(700)** | **(35)** | **(51 220)** |
| **Net book value** | **1 469 113** | **398 084** | **1 980** | **241 251** | **46 954** | **2 157 382** |
| **Opening balance** | **1 526 471** | **419 320** | **4 676** | **209 706** | **40 990** | **2 201 163** |
| **Closing balance** | **1 469 113** | **398 084** | **1 980** | **241 251** | **46 954** | **2 157 382** |

As at 31 December 2006, the carrying amount of machinery and equipment used based on the tenancy agreements with purchase options amounted to PLN 2,041 thousand (as at 31 December 2005 PLN 2,517 thousand).

*for the year ended 31 December 2006* *(in PLN thousand)*

| Year ended 31 December 2005 | Land and buildings, including investment real estate | Plant and machinery | Means of transport | Assets under construction | Other | Total |
|---|---|---|---|---|---|---|
| **Gross amount at the beginning of the period** | **2 057 943** | **2 185 312** | **40 009** | **239 018** | **321 226** | **4 843 508** |
| **Increases, including;** | **79 266** | **303 572** | **478** | **295 191** | **21 407** | **699 914** |
| Purchases and other changes | 58 335 | - | 478 | 295 191 | 21 407 | 375 411 |
| Transfers from expenses to tangible fixed assets | 20 931 | 303 572 | - | - | - | 324 503 |
| **Decreases, including:** | **(74 346)** | **(142 597)** | **(6 680)** | **(324 503)** | **(8 223)** | **(556 349)** |
| Liquidation and sale | (13 531) | (124 076) | (6 243) | - | (6 956) | (150 806) |
| Other | (60 815) | (18 521) | (437) | - | (1 267) | (81 040) |
| Transfers from expenses to tangible fixed assets | - | - | - | (324 503) | - | (324 503) |
| **Gross amount 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, including;** | **(84 652)** | **(206 587)** | **(4 321)** | **-** | **(20 313)** | **(315 873)** |
| Amortisation for the period | (74 831) | (188 997) | (3 721) | - | (19 864) | (287 413) |
| Other | (9 821) | (17 590) | (600) | - | (449) | (28 460) |
| **Decreases, including:** | **15 749** | **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 allowance** | | | | | | |
| Opening balance | (35 221) | - | - | - | - | (35 221) |
| Increases | (15 000) | - | - | - | - | (15 000) |
| 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** | **1 326 237** | **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** |

In 2006 and 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 respectively at 31 December 2006 and at 31 December 2005.

The item „Land and buildings, including investment real estate" includes land, which is not subject to depreciation. The largest item is the perpetual usufruct in Warsaw with the fair value estimated by an independent valuer, exceeding its carrying value amounting to PLN 27,234 thousand by approx. PLN 16,673 thousand. There are no restrictions relating to Bank's rights to sell these properties, there are also no contractual liabilities concerning them.

*for the year ended 31 December 2006* *(in PLN thousand)*

The amounts of income/cost connected with investment properties of the Bank are presented below.

| | 2006 | 2005 |
|---|---|---|
| Direct average operating costs concerning the investment properties (including maintenance and repair costs) that in the given period did not bring rental income | 1 339 | 1 434 |

## 30. Other assets

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| Settlements of transactions carried out using cards | 138 384 | 150 378 |
| Receivables from customers | 98 776 | 56 356 |
| Settlements of securities' trading transactions | 40 811 | - |
| Prepayments | 66 174 | 16 678 |
| Receivables from other banks and non-banking points of sale of treasury stamps | 14 332 | 15 041 |
| Stock relating to auxiliary activities | 12 778 | 9 709 |
| Receivables from budget due to distribution of treasury stamps by PKO BP SA | 10 850 | 15 402 |
| Receivables from fees and commissions | 5 509 | 5 451 |
| Settlements due to contribution to entities | 5 500 | 5 500 |
| Receivables relating to foreign exchange activity | 5 244 | 950 |
| Receivables due to cash collateral given | 3 202 | 9 115 |
| Inter-bank and inter- branch clearing accounts | 874 | 1 686 |
| Other* | 35 413 | 27 982 |
| **Total** | **437 847** | **314 248** |

* Included in "Other" item are, among others, settlement resulting from acquisition of assets for sale, operational settlements, settlements resulting from transfer of assets for activities of Dom Maklerski PKO BP SA, receivables relating to own operations conducted by the Bank.

## 31. Assets pledged as collateral/security for liabilities

PKO BP SA had the following assets pledged as collateral/security for its own liabilities and third party 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 Bank Guarantee Fund (*Bankowy Fundusz Gwarancyjny*) dated 14 December 1994.

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| Fund's value | 144 575 | 92 009 |
| Nominal value of collateral/ security | 146 000 | 93 000 |
| Type of collateral/ security | Treasury bonds | Treasury bonds |
| Maturity of collateral/ security | 24.03.2007 | 24.03.2007 |
| Carrying amount of collateral/ security | 146 215 | 92 669 |

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

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| Stock exchange guarantee fund | 5 487 | 2 479 |

*for the year ended 31 December 2006* *(in PLN thousand)*

## 32. Amounts due to the Central Bank

**Strucutre by maturity**

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| Amounts due with maturity period of: | | |
| Up to 1 month | 1 387 | 766 |
| **Total** | **1 387** | **766** |

## 33. Amounts due to other banks

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| Current accounts | 17 976 | 11 022 |
| Other banks' deposits | 3 680 162 | 1 920 269 |
| Other deposits from money market | 19 212 | 11 744 |
| **Total** | **3 717 350** | **1 943 035** |

**Structure by maturity**

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| Current accounts | 17 976 | 11 022 |
| Amounts due with maturity period of: | 3 699 374 | 1 932 013 |
| Up to 1 month | 1 741 674 | 1 071 754 |
| From 1 month to 3 months | 866 260 | 505 502 |
| From 3 months to 1 year | 913 000 | 179 722 |
| From 1 year to 5 years | 178 440 | 175 035 |
| **Total** | **3 717 350** | **1 943 035** |

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

As at 31 December 2006 and as at 31 December 2005 PKO BP SA, did not have other financial liabilities valued at fair value through profit or loss.

## 35. Amounts due to customers

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| **Amounts due to corporate entities** | **11 863 016** | **9 759 222** |
| Current accounts and overnight deposits | 5 369 265 | 4 305 934 |
| Term deposits | 6 453 102 | 5 426 877 |
| Other | 40 649 | 26 411 |
| **Amounts due to state budget entities** | **3 160 927** | **3 186 238** |
| Current accounts and overnight deposits | 2 235 107 | 2 552 753 |
| Term deposits | 798 259 | 496 354 |
| Other | 127 561 | 137 131 |
| **Amounts due to individuals** | **66 646 096** | **62 941 420** |
| Current accounts and overnight deposits | 24 565 199 | 20 633 998 |
| Term deposits | 42 062 758 | 42 288 819 |
| Other | 18 139 | 18 603 |
| **Total amounts due to customers** | **81 670 039** | **75 886 880** |

*for the year ended 31 December 2006* *(in PLN thousand)*

**Strucutre by maturity**

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| Current accounts and O/N deposits | 32 169 571 | 27 492 685 |
| Amounts due with maturity period of: | 49 500 468 | 48 394 195 |
| Up to 1 month | 21 688 920 | 18 823 445 |
| From 1 month to 3 months | 11 026 903 | 12 797 824 |
| From 3 months to 1 year | 15 315 312 | 15 361 153 |
| From 1 year to 5 years | 1 460 508 | 1 399 046 |
| Over 5 years | 8 825 | 12 727 |
| Total | **81 670 039** | **75 886 880** |

**Effective interest rate**

*as at 31 December 2006*

| Deposits | PLN | EUR | USD | CHF |
|---|---|---|---|---|
| Individuals’ deposits | 1.69 | 1.14 | 2.04 | 0.22 |
| Corporate deposits | 2.28 | 2.39 | 3.92 | 1.02 |
| Individuals’ current deposits | 0.18 | 0.30 | 0.15 | 0.10 |
| Individuals’ term deposits | 2.49 | 1.56 | 2.75 | 0.37 |
| Individual pension account investment deposits | 3.90 | - | - | - |
| Deposits of enterprises | 2.09 | 2.21 | 3.92 | 1.02 |

*as at 31 December 2005*

| Deposits | PLN | EUR | USD | CHF |
|---|---|---|---|---|
| Individuals’ deposits | 2.19 | 0.99 | 1.02 | 0.16 |
| Corporate deposits | 3.01 | 1.67 | 3.81 | 0.73 |
| Individuals’ current deposits | 0.25 | 0.30 | 0.15 | 0.10 |
| Individuals’ term deposits | 2.99 | 1.29 | 1.42 | 0.23 |
| Individual pension account investment deposits | 4.32 | - | - | - |
| Deposits of enterprises | 2.90 | 1.54 | 3.85 | 0.73 |

### 36. Liabilities arising from debt securities issued

As at 31 December 2006 and 31 December 2005, the Bank had no liabilities arising from debt securities issued.

*for the year ended 31 December 2006* *(in PLN thousand)*

## 37. Other liabilities

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| Accrued expenses | 188 140 | 182 662 |
| Income received in advance | 174 704 | 161 640 |
| Other liabilities, of which: | 1 562 729 | 1 321 878 |
| liabilities arising from inter-bank and inter-branch transactions | 571 812 | 291 827 |
| liabilities arising from settlements of transactions in securities | 230 586 | 414 556 |
| liabilities arising from social and legal transactions | 152 052 | 188 384 |
| settlements arising from purchase of machinery and equipment and raw materials and services concerning construction of tangible fixed assets | 114 656 | 82 374 |
| liabilities arising from non-financial operations | 93 591 | 42 739 |
| liabilities arising from other settlements | 85 909 | 5 665 |
| liabilities arising from foreign currency activities | 76 464 | 181 681 |
| liabilities arising from investment activity and own administration | 56 765 | 19 801 |
| liabilities due to suppliers | 36 852 | 13 238 |
| liabilities arising from the return of excess payments to borrowers due to debts forgiven by the state budget | 30 895 | 15 002 |
| settlement of customers funds for the purchase of participation units issued by investment fund | 34 511 | - |
| liabilities arising from sale of treasury stamps | 20 331 | 20 926 |
| liabilities due to UOKiK (Office of Competition and Consumer Protection) | 16 597 | |
| liabilities relating to payments of benefits | 9 989 | 6 967 |
| liabilities due to cash collateral taken | 7 267 | 9 767 |
| liabilities due to insurance companies | 6 133 | 468 |
| other* | 18 319 | 28 483 |
| **Total** | **1 925 573** | **1 666 180** |

* The item "others" comprises, among others, liabilities from payment cards, settlements related to the substitution service with *Poczta Polska*, liabilities form bank transfers, cash surplus and surplus in tangible fixed assets.

## 38. Provisions

| As at 31 December 2006 | Provision for disputes | Provisions for jubilee bonuses and retirement benefits | Provision for liabilities and guarantees granted | Other provisions | Total |
|---|---|---|---|---|---|
| **Balance at the beginning of the period** | **5 614** | **210 764** | **16 627** | **92 027** | **325 032** |
| Increase/revaluation | - | 110 526 | 4 539 | 41 981 | **157 046** |
| Release | (728) | (3 864) | (2 784) | (50 133) | **(57 509)** |
| **Balance as at 31 December 2006** | **4 886** | **317 426** | **18 382** | **83 875** | **424 569** |

| As at 31 December 2005 | Provision for disputes | Provisions for jubilee bonuses and retirement benefits | Provision for liabilities and guarantees granted | Other provisions | Total |
|---|---|---|---|---|---|
| **Balance at the beginning of the period** | **5 614** | **184 113** | **10 330** | **6 976** | **207 033** |
| Increase/revaluation | - | 26 651 | 57 063 | 85 051 | **168 765** |
| Release | - | - | (50 766) | - | **(50 766)** |
| **Balance as at 31 December 2005** | **5 614** | **210 764** | **16 627** | **92 027** | **325 032** |

Provision for disputes were created in the amount equal the expected outflow of economic benefits.

*for the year ended 31 December 2006* *(in PLN thousand)*

## 39. Employee benefits

On 10 November 2004 in accordance with the Act dated 30 August 1996 on commercialization and privatization and § 14.1 of the Decree of the Minister of State Treasury dated 29 January 2003 concerning detailed principles of dividing entitled employees into groups, determining the number shares falling to each of those groups and the course of acquiring shares by entitled employees, employee shares of the Bank have been granted to the employees. As a result, the employees received 105,000,000 shares, which account for 10.5% in the share capital of the Bank. These shares are allowed to public trading as of 6 November 2006.

## 40. Social Fund *[Zakładowy Fundusz Świadczeń Socjalnych]*

In the balance sheet, the Bank compensated the Fund's asset and liabilities due to the fact the assets of the Social Fund do not represent Bank's assets in the Bank's balance sheet as at 31 December 2006 and 31 December 2005. Therefore, the balance related to the Social Fund amounted to nil.

The following tables present types and carrying amounts of assets, liabilities and costs associated with the Fund:

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| Loans granted to employees | 96 284 | 90 692 |
| Amounts on the Social Fund account | 17 845 | 9 399 |

| | **2006** | **2005** |
|---|---|---|
| Contributions to Social Fund in the period | 29 306 | 29 439 |
| Non-refundable expenditure by the Fund in the period | 15 268 | 16 439 |

*for the year ended 31 December 2006* *(in PLN thousand)*

## 41. Contingent liabilities

As at 31 December 2006, 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 | 174 365 | 2011-11-30 | Bonds Issue Agreement* |
| **Company B** | Corporate bonds | 349 720 | 2009-12-31 | Bonds Issue Agreement |
| **Company C** | Corporate bonds | 50 000 | 2008-02-27 | Bonds Issue Agreement |
| **Company D** | Corporate bonds | 2 000 | 2010-12-30 | Bonds Issue Agreement |
| **Company E** | Corporate bonds | 21 000 | 2008-06-30 | Bonds Issue Agreement |
| **Company F**** | Corporate bonds | 22 911 | 2009-12-30 | Bonds Issue Agreement |
| **Entity C** | Commercial bills of exchange | 69 920 | 2009-12-30 | Commercial Bills Issue Agreement |
| **Entity A** | Municipal bonds | 2 200 | 2018-12-31 | Bonds Issue Agreement |
| **Entity B** | Municipal bonds | 9 100 | 2016-12-31 | Bonds Issue Agreement |
| **Entity C** | Municipal bonds | 3 000 | 2011-12-31 | Bonds Issue Agreement |
| **Entity D** | Municipal bonds | 2 800 | 2014-12-31 | Bonds Issue Agreement |
| **Entity E** | Municipal bonds | 40 500 | 2017-12-31 | Bonds Issue Agreement |
| **Entity F** | Municipal bonds | 7 650 | 2012-12-31 | Bonds Issue Agreement |
| **Entity G** | Municipal bonds | 11 500 | 2011-12-31 | Bonds Issue Agreement |
| **Entity H** | Municipal bonds | 2 750 | 2014-12-31 | Bonds Issue Agreement |
| **Entity I** | Municipal bonds | 2 100 | 2017-12-31 | Bonds Issue Agreement |
| **Entity K** | Municipal bonds | 10 000 | 2016-12-31 | Bonds Issue Agreement |
| **Entity L** | Municipal bonds | 3 400 | 2012-12-31 | Bonds Issue Agreement |
| **Entity M** | Municipal bonds | 2 240 | 2013-12-31 | Bonds Issue Agreement |
| **Entity N** | Municipal bonds | 2 500 | 2020-12-31 | Bonds Issue Agreement |
| **Entity O** | Municipal bonds | 6 670 | 2015-12-31 | Bonds Issue Agreement |
| **Entity P** | Municipal bonds | 2 550 | 2015-12-31 | Bonds Issue Agreement |
| **Entity R** | Municipal bonds | 6 240 | 2020-12-31 | Bonds Issue Agreement |
| **Other, with total value not exceeding PLN 2 million** | Municipal bonds | 4 800 | | Bonds Issue Agreement |
| **Total** | | **809 916** | | |

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

*for the year ended 31 December 2006* *(in PLN thousand)*

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 **** | Corporate bonds | **25 745** | 2009-12-30 | Bonds Issue Agreement |
| **Company F** | 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** | 2015-12-31 | 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 |
| **Other, with total value not exceeding PLN 2 million** | Municipal bonds | **8 750** | | Bonds Issue Agreement |
| **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

*for the year ended 31 December 2006* *(in PLN thousand)*

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

**Potential liabilities**

As at 31 December 2006, the total value of court proceedings in which the Bank is a defendant (inbound) was PLN 295,162 thousand (as at 31 December 2005: PLN 453,788 thousand), while the total value of court proceedings in which the Bank filed the claim (outbound) was PLN 84,886 thousand (as at 31 December 2005: PLN 63,017 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 (*Urząd Ochrony Konkurencji i Konsumentów* - UOKiK) upon request of the Polish Trade and Distribution Organization (*Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców*) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Mastercard/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange" fees for transactions made using Visa and Europay/ Eurocard/Mastercard cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the above practices did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO BP SA in the amount of PLN 16,597 thousand. As at 31 December 2006, the Bank recognized a liability for the above amount, which was presented it in the profit and loss account under “Other operating expenses”. On 19 January 2007, the Bank submitted an appeal from the decision of the President of UOKiK to the regional court.

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

As at the date of these financial statements, six administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank. These proceedings, in the event of an unfavourable outcome for the Bank, may result in re-privatisation claims being raised against the Bank. 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 six properties of the Bank claims were submitted by their former owners. Court proceedings are pending with respect to three properties. With respect to the other three properties, the Bank is still in the process of 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 proceeding mentioned above is remote.

**Financial liabilities granted**

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| **Total financial liabilities granted:** | **22 583 330** | **17 545 743** |
| to the financial sector | 1 807 501 | 1 575 793 |
| to the non-financial sector | 19 078 888 | 13 590 624 |
| to the State Budget | 1 696 941 | 2 379 326 |
| including irrevocable liabilities granted | 10 296 573 | 8 519 942 |

**Guarantee liabilities granted**

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| Amounts due to the financial sector: | 213 317 | 64 384 |
| guarantees | 213 317 | 64 384 |
| Amounts due to the non-financial sector: | 2 161 851 | 1 190 908 |
| guarantees | 2 161 851 | 1 190 908 |
| Amounts due to the State Budget: | 137 466 | 252 752 |
| guarantees | 137 466 | 252 752 |
| **Total guarantees granted** | **2 512 634** | **1 508 044** |

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

*for the year ended 31 December 2006* *(in PLN thousand)*

**Contingent liabilities granted as at 31 December 2006 (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 | 4 886 135 | 1 115 041 | 7 806 604 | 6 659 340 | 2 116 210 | 22 583 330 |
| Guarantees granted libilities | 614 486 | 93 537 | 501 669 | 1 221 633 | 81 309 | 2 512 634 |
| **Total** | **5 500 621** | **1 208 578** | **8 308 273** | **7 880 973** | **2 197 519** | **25 095 964** |

**Contingent liabilities granted as at 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** |

**Off-balance sheet liabilities received**

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| **Off-balance sheet received liabilities** | **5 066 028** | **4 665 423** |
| Financial | 808 541 | 447 742 |
| Guarantees | 4 257 487 | 4 217 681 |

**Assets pledged as collateral for contingent liabilities**

As at 31 December 2006 and 31 December 2005 the Bank did not posses any assets pledged as collateral for contingent liabilities.

## 42. Share capital

In the years ended 31 December 2006 and 31 December 2005 there were no changes in share capital.

As at 31 December 2006, the share capital of PKO BP SA amounted to PLN 1,000,000 thousand and consisted of 1,000,000 thousand shares with nominal value of PLN 1 each (as at 31 December 2005: PLN 1,000,000 thousand, 1,000,000 thousand shares with nominal value of PLN 1 each) – shares fully paid.

As at 31 December 2006, 490,000 thousand shares were subject to public trading (as at 31 December 2005 377,000 thousand shares).

As at 31 December 2006 and as at 31 December 2005, the subsidiaries, jointly controlled entities and associates of the Bank did not have any PKO BP SA shares.

Information on the shareholders of PKO BP SA is presented in note 1.

## 43. Other capital items and retained earnings

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| Reserve capital | 4 529 604 | 3 297 080 |
| other | 4 529 604 | 3 297 080 |
| Revaluation reserve - valuation of financial assets available for sale | 3 729 | (4 460) |
| General banking risk fund | 1 070 000 | 1 000 000 |
| Other reserves | 1 385 000 | 1 380 000 |
| Retained earnings | - | 430 976 |
| **Total** | **6 988 333** | **6 103 596** |

*for the year ended 31 December 2006* *(in PLN thousand)*

## 44. Notes to the cash flow statement

### Cash and cash equivalents

| | 31.12.2006 | 31.12.2005 |
|---|---|---|
| Cash and amounts in the Central Bank | 4 543 677 | 3 832 695 |
| Current receivables from financial institutions | 9 335 966 | 7 371 941 |
| **Total** | **13 879 643** | **11 204 636** |

### Cash flow from operating activities – other adjustments

| | 2006 | 2005 |
|---|---|---|
| Valuation, interest accrued, discount, premium on debt securities decreased by deferred tax | (63 107) | (75 027) |
| Impairment allowances and other non monetary changes in fixed assets and intangibles | 55 274 | 25 641 |
| Valuation, impairment allowances against investments in jointly controlled entities and associates | (18 096) | (27 829) |
| Financial assets impairment | - | 501 |
| Other | (250) | 2 292 |
| **Total other adjustments** | **(26 179)** | **(74 422)** |

### Reconciliation of differences between the balance sheet changes and the cash flow statement changes of items presented in the operating activities of the cash flow statement.

| **(Profit) loss from investing activities** | **2006** | **2005** |
|---|---|---|
| Income from sale and disposal of the tangible and intangible fixed assets | (15 115) | (11 026) |
| Sale and disposal costs of tangible and intangible fixed assets | 12 608 | 26 006 |
| Result on sale of assets held for sale in accordance with IFRS 5 | (21 296) | - |
| **(Profit) loss from investing activities - total** | **(23 803)** | **14 980** |

| **Interest and dividends** | **2006** | **2005** |
|---|---|---|
| Interests from securities classified to available for sale and held to maturity portfolio, presented in the investing activities. | (258 095) | (870 412) |
| Dividends presented in the investing activities | (18 308) | (28 856) |
| **Interest and dividends - total** | **(276 403)** | **(899 268)** |

| **Change in loans and advances to banks** | **2006** | **2005** |
|---|---|---|
| Balance sheet balances' change | (718 277) | 514 669 |
| Change in reserves for loans and advances to banks | 1 426 | 430 |
| Exclusion of the cash and cash equivalents change | 1 964 025 | (2 957 229) |
| **Change in loans and advances to banks - total** | **1 247 174** | **(2 442 130)** |

| **Change in financial assets held for trading and other financial instruments valued at fair value** | **2006** | **2005** |
|---|---|---|
| Balance sheet balances' change | 9 270 237 | (20 529 943) |
| Transfer of other financial instruments valued at fair value to the investment activities | - | 19 364 312 |
| Transfer of the securities classified to other financial instruments to "Other adjustments" | - | 589 428 |
| **Change in financial assets held for trading and other financial instruments valued at fair value - total** | **9 270 237** | **(576 203)** |

*for the year ended 31 December 2006* *(in PLN thousand)*

| **Change in loans and advances granted to customers** | **2006** | **2005** |
|---|---|---|
| Balance sheet balances’ change | (11 169 133) | (6 474 124) |
| Implementation of the assets valuation with amortised cost with the use of effective interest method net of deferred tax (upon conversion to IFRS) | - | (345 006) |
| Change in impairment allowances on loans and advances due from customers | 533 796 | (261 498) |
| **Change in loans and advances to customers - total** | **(10 635 337)** | **(7 080 628)** |

| **Change in amounts due to customers** | **2006** | **2005** |
|---|---|---|
| Balance sheet balances’ change | 5 783 159 | 3 310 607 |
| Implementation of the assets valuation with amortised cost with the use of effective interest method net of deferred tax (upon conversion to IFRS) | - | 6 512 |
| Transfer of the repayments/received long term advances due from other than banks financial institutions to financing activities | (54 000) | (50 312) |
| **Change in amounts due to customers - total** | **5 729 159** | **3 266 807** |

| **Change in provisions** | **2006** | **2005** |
|---|---|---|
| Balance sheet balances’ change | 44 462 | (434 003) |
| Implementation of the IFRS impairment of loans and advances due from customers | - | (477 235) |
| Impairment allowances on receivables due from banks | (1 426) | (430) |
| Impairment allowances on receivables due from customers | (533 796) | 261 498 |
| Change of the deferred tax liability on fair value change of the available for sale portfolio | (1 922) | 57 626 |
| **Change in provisions - total** | **(492 682)** | **(592 544)** |

| **Change in other liabilities** | **2006** | **2005** |
|---|---|---|
| Balance sheet balances’ change | 259 393 | 422 776 |
| Adjustment related to the conversion to IFRS 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 | 2 676 | 2 549 |
| **Change in other liabilities - total** | **262 069** | **599 681** |

*for the year ended 31 December 2006* *(in PLN thousand)*

## 45. Transactions with related parties

Repayment dates are from one month to ten years.
Transactions of PKO BP SA with entities related by capital at following days are presented below (only entities which concluded transactions with the Bank within the period covered by the financial statements are taken into account):

### 31 December 2006

| Entity | Relationship | Net receivables | including gross loans | Liabilities | Total revenues | including interest and fees and commission income | Total costs | including interest and fees and commission costs | Off – balance sheet liabilities granted |
|---|---|---|---|---|---|---|---|---|---|
| Powszechne Towarzystwo Emerytalne BANKOWY SA | Subsidiary | - | - | 2 125 | 774 | 760 | 688 | 688 | - |
| Centrum Finansowe Puławska SA | Subsidiary | 104 374 | 103 608 | 19 948 | 14 948 | 5 066 | 39 400 | 338 | - |
| KREDOBANK SA | Subsidiary | 196 890 | 132 405 | 587 | 8 087 | 147 | - | - | 65 075 |
| PKO Inwestycje Sp. z o.o. | Subsidiary | 8 905 | - | 4 347 | 38 | 36 | 837 | 324 | 3 285 |
| Inteligo Financial Services SA | Subsidiary | 314 | - | 61 875 | 1 444 | 14 | 63 925 | 1 953 | - |
| Centrum Elektronicznych Usług Płatniczych "eService" SA | Subsidiary | 228 | - | 8 589 | 2 011 | 1 077 | 23 402 | 312 | - |
| Bankowy Fundusz Leasingowy SA | Subsidiary | 613 617 | 502 137 | 15 169 | 25 861 | 24 762 | 1 638 | 13 | 274 048 |
| Bankowe Towarzystwo Kapitałowe SA | Subsidiary | - | - | 1 495 | 4 | 4 | 275 | 275 | - |
| PKO Towarzystwo Funduszy Inwestycyjnych SA | Subsidiary | - | - | 7 606 | 93 990 | 93 984 | 155 | 155 | 195 |
| Fort Mokotów Sp. z o.o. | Indirect subsidiary | - | - | 32 984 | 256 | 256 | 703 | 703 | - |
| POMERANKA Sp. z o.o. | Indirect subsidiary | 16 133 | 16 053 | 19 609 | 1 363 | 1 363 | 288 | 288 | 17 297 |
| Wilanów Investments Sp. z o.o. | Indirect subsidiary | 3 333 | 3 333 | 21 815 | 2 466 | 2 466 | 990 | 990 | 23 000 |
| Finanse - Agent Transferowy Sp. z o.o. | Indirect subsidiary | - | - | 1 146 | 4 | 4 | 58 | 58 | - |
| CENTRUM HAFFNERA Sp. z o.o. | Jointly controlled entity | - | - | 8 759 | 42 | 42 | 220 | 220 | 3 831 |
| Centrum Obsługi Biznesu Sp. z o.o. | Jointly controlled entity | 25 214 | 25 211 | 2 368 | 54 | 54 | 49 | 49 | 7 169 |
| Centrum Majkowskiego Sp. z o.o. | Indirect jointly controlled entity | 8 692 | 8 605 | 108 | 401 | 401 | 7 | 7 | 30 856 |
| Kamienica Morska Sp. z o.o. | Indirect jointly controlled entity | 537 | 534 | 22 | 16 | 16 | - | - | 2 926 |
| Sopot Zdrój Sp. z o.o. | Indirect jointly controlled entity | 2 059 | 2 055 | 234 | 1 941 | 1 941 | 39 | 39 | 191 038 |
| Promenada Sopocka Sp. z o.o. | Indirect jointly controlled entity | 6 224 | 6 156 | 885 | 461 | 461 | 12 | 12 | 39 436 |
| Bank Pocztowy SA | Associate | 3 | - | 8 602 | 14 | - | 63 | 63 | - |
| Kolej Gondolowa Jaworzyna Krynicka SA | Associate | 2 918 | 2 000 | 1 | 143 | 143 | 14 | - | 586 |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | Associate | - | - | 2 365 | 1 | 1 | 197 | 197 | - |
| Agencja Inwestycyjna „CORP" SA | Associate | 223 | - | - | 1 454 | - | 4 016 | 52 | - |
| INTER FINANCE Polska Sp. z o.o. | Associate | - | - | 468 | 1 | 1 | 13 | 13 | - |
| **TOTAL** | | **989 664** | **802 097** | **221 107** | **155 774** | **132 999** | **136 989** | **6 749** | **658 742** |

*for the year ended 31 December 2006* *(in PLN thousand)*

**31 December 2005**

| Entity | Relationship | Net receivables | including gross loans | Liabilities | Total revenues | including interest and fees and commission income | Total costs | including 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 | 49 863 | 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 | - | - | 48 718 | 161 | 157 | 88 844 | 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 |
| Finanse - Agent Transferowy Sp. z o.o. | Indirect subsidiary | - | - | 2 421 | 4 | 4 | 83 | 83 | - |
| 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 | - |
| Kolej Gondolowa Jaworzyna Krynicka SA | Associate | 3 750 | 3 750 | 50 | 1 729 | 1 728 | 27 | 4 | - |
| 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 | 1 930 | 85 | 4 | - |
| Agencja Inwestycyjna „CORP" SA | Associate | 181 | - | 26 | 516 | - | 2 209 | - | - |
| **TOTAL** | | **1 074 492** | **1 024 976** | **193 539** | **76 889** | **75 967** | **162 514** | **20 852** | **464 644** |

**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, 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 2006 the Bank recognised income in the amount of PLN 155,032 thousand (in 2005: PLN 194,400 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 135,236 thousand in cash (in the corresponding period of 2005: PLN 166,814 thousand) in respect of temporary redemption by the State budget of interest on housing loans from the "old" portfolio. The difference of PLN 19,796 thousand (in 2005: PLN 27,586 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 commission for settlements relating to the redemption of interest on housing loans. In 2006, PKO BP SA received a commission for the fourth quarter of 2005 amounting to PLN 1,456 thousand and for commission for the three quarters of 2006 amounting to PLN 3,163 thousand (in 2005, commission for the fourth quarter of 2004 amounting PLN 1,715 thousand and commission for the three quarters of 2005 amounting to 2,931 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 an arm's length.

Within the period from 1 January 1996 till 31 December 2006, the Bank was the general distributor of duty stamps. The amount received in this respect from the State budget in the year ended 31 December 2006 totalled PLN 61,198 thousand (in 2005: PLN 43,697 thousand) and was recognised in full in the Bank's income under "Fees and commission income".

In the year ended 31 December 2006, the Bank also recognised commission income of PLN 113 thousand (in 2005: PLN 629 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, in line with the guarantee term. In 2006 the value of guarantees of the State Treasury relating to the "old" portfolio amounted to PLN 3,940,540 thousand (PLN 4,166,564 thousand in 2005).

Based on the agreement concluded on 11 February 2003, between the Ministry of Finance as the Issuer and PKO BP SA, Dom Maklerski PKO BP SA serves as issue agent for Treasury retail bonds. In 2006, the Bank reported revenues from offering of securities amounting to PLN 58,336 thousand, including PLN 47,576 thousand with respect to its function as issue agent of Treasury retail bonds.

*for the year ended 31 December 2006* *(in PLN thousand)*

**Benefits for the key management of the Bank**

a) Short-term employee benefits

Remuneration received from PKO BP SA

| Name | Position | 2006 | 2005 |
|---|---|---|---|
| **Management Board** | | | |
| Sławomir Skrzypek | Deputy President, Acting President of the Management Board | 224 | 6 |
| Rafał Juszczak | Deputy President | 128 | - |
| Jacek Obłękowski | Deputy President | 268 | 248 |
| Zdzisław Sokal | Deputy President | 128 | - |
| Wojciech Kwiatkowski | Deputy President | 32 | - |
| Jarosław Myjak | Deputy President | 32 | - |
| Andrzej Podsiadło | Board President | 222 | 259 |
| Kazimierz Małecki | Deputy President, First Deputy President | 270 | 255 |
| Danuta Demianiuk | Deputy President | 237 | 227 |
| Piotr Kamiński | Member | 164 | 259 |
| Krystyna Szewczyk | Member | 143 | 214 |
| **Total of short-term benefits for Management Board members** | | **1 848** | **1 468** |
| **Supervisory Board** | | | |
| Marek Głuchowski | Chairman | 20 | - |
| Bazyl Samojlik | Chairman | 30 | 30 |
| Urszula Pałaszek | Deputy Chairman | 32 | 16 |
| Tomasz Siemiątkowski | Secretary | 20 | - |
| Krzysztof Zdanowski | Secretary | 16 | 16 |
| Arkadiusz Kamiński | Secretary | - | 13 |
| Adam Skowroński | Member | 20 | - |
| Jerzy Michałowski | Member | 20 | - |
| Agnieszka Winnik-Kalemba | Member | 20 | - |
| Ryszard Kokoszczyński | Member | 30 | 30 |
| Stanislaw Kasiewicz | Member | 30 | 30 |
| Andrzej Giryn | Member | 30 | 30 |
| Jerzy Osiatyński | Member | 32 | 30 |
| Czesława Siwek | Member | 16 | 16 |
| Władysław Szymański | Member | 30 | 30 |
| **Total of short-term benefits for Supervisory Board members** | | **346** | **241** |
| **Short-term benefits, total** | | **2 194** | **1 709** |

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

| Name | Position | 2006 | 2005 |
|---|---|---|---|
| **Management Board** | | | |
| Skrzypek Sławomir | Deputy President | 149 | - |
| Juszczak Rafał | Deputy President | 43 | - |
| Obłękowski Jacek | Member | - | - |
| Podsiadło Andrzej | Board President | 121 | 135 |
| Małecki Kazimierz | Deputy President, First Deputy President | 32 | - |
| Demianiuk Danuta | Deputy President | 56 | 30 |
| Kamiński Piotr | Member | - | 76 |
| Szewczyk Krystyna | Member | - | 76 |
| **Supervisory Board** | | | |
| Agnieszka Winnik-Kalemba | Member | 62 | - |
| **Short-term benefits, total** | | **463** | **317** |

*for the year ended 31 December 2006* *(in PLN thousand)*

b) Post-employment benefits

In the years ended 31 December 2006 and 31 December 2005, respectively, no post-employment benefis were paid.

c) Other long-term benefits

In the years ended 31 December 2006 and 31 December 2005, respectively, no “Other long-term benefits” were paid.

d) Benefits due to termination of employment

In the years ended 31 December 2006 and 31 December 2005, respectively, no benefits were paid due to termination of employment.

e) Share-based payments

In the years ended 31 December 2006 and 31 December 2005, respectively, no benefits were paid in the form of share-based payments.

**Loan, advances guarantees and other benefits provided by the Bank management and employees**

| | **31.12.2006** | **31.12.2005** |
|---|---|---|
| Employees | 612 301 | 517 854 |
| Members of the Bank's Management Board | 352 | 433 |
| Members of the Bank's Supervisory Board | 254 | 15 |
| **Total** | **612 907** | **518 302** |

## 46. Events after the balance sheet date

On 10 January 2007, Mr Sławomir Skrzypek resigned from the position of Deputy President of the Management Board of PKO BP SA due to his appointment as the President of the Central Bank of Poland.

The Supervisory Board of PKO BP SA, at the meeting held on 10 January 2007, delegated Mr Marek Głuchowski, PhD - Chairman of the Supervisory Board of PKO BP SA, to act temporarily as the President of the Management Board of PKO BP SA until 23 January 2007. In addition, in the event that, during the period from 24 January 2007 to 26 January 2007, no candidate is appointed by the Supervisory Board to be acting President of the Management Board, Mr Marek Głuchowski has been delegated to act temporarily as President of the Management Board of PKO BP SA, starting from 27 January 2007 until 10 April 2007 at the latest.

On 31 January 2007, Mr Jacek Obłękowski resigned from the position of the Deputy President of the Management Board of PKO BP SA, and Mr Jerzy Osiatyński resigned from the position of a member of the Supervisory Board of PKO BP SA.

On 22 February 2007 the Supervisory Board of the Bank appointed:

- Mr Robert Działak as the Deputy President of the Management Board of the Bank as of 23 February 2007,
- Mr Stefan Swiątkowski as the Deputy President the Management Board of the Bank as of 1 May 2007.

According to the resolutions passed, Mr Robert Działak and Mr Stefan Swiątkowski were appointed to acting in these functions in PKO BP SA for the common term of the Management Board that commenced on 19 May 2005.

On 13 March 2007 Mr Zdzisław Sokal resigned from the position of Deputy President of the Management Board of PKO BP SA.

On 13 March 2007, Commission for Banking Supervision passed resolutions on implementation of New Capital Accord regarding banks and a resolution on setting liquidity standards binding for banks.

The Extraordinary General Shareholders’ Meeting, which started proceedings on 6 March 2007 and continued it on 19 March 2007, appointed Mr Maciej Czapiewski as a member of the Supervisory Board of PKO BP SA.

*for the year ended 31 December 2006* *(in PLN thousand)*

Signatures of all Members of the Management Board

| | | | |
|---|---|---|---|
| 27 March 2007 | Marek Głuchowski | Acting President of the Board | ............................. (signature) |
| 27 March 2007 | Rafał Juszczak | Deputy President of the Board | ............................. (signature) |
| 27 March 2007 | Wojciech Kwiatkowski | Deputy President of the Board | ............................. (signature) |
| 27 March 2007 | Robert Działak | Deputy President of the Board | ............................. (signature) |

Signature of person responsible for keeping books of account

| | | | |
|---|---|---|---|
| 27 March 2007 | Danuta Szymańska | Chief Accountant of the Bank | ............................. (signature) |