

***POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SPÓŁKA AKCYJNA GROUP***

**LONG-FORM AUDITORS' REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

I. GENERAL NOTES

1. Background

The holding company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group (hereinafter: the "Group" or the "Capital Group") is Powszechna Kasa Oszczędności Bank Polski SA (the "holding company", the "Bank"). The holding company was incorporated on the basis of the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws of 28 January 2000, No 5, item 55) on the transformation of the state-owned bank, Powszechna Kasa Oszczędności bank państwowy, into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its registered office in Warsaw, at Puławska 15 Street.

The holding company is an issuer of securities as referred to in Art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of International Accounting Standards (EC Official Journal L243 of 11 September 2002, page 1, Polish special edition chapter 13, title 29, page 609) and, based on the Art. 55.6a of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No 76 with subsequent amendments – the "Accounting Act"), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU. This requirement relates to the consolidated financial statements beginning from the financial year 2005.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under No KRS 0000026438 on 12 July 2001.

The Bank was issued with tax identification number (NIP) 525-000-77-38 on 14 June 1993 and statistical number (REGON) 016298263 on 18 April 2000.

The list of the affiliated entities was presented in the note 1 of additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2006.

The holding company's main activities include, among others:

- accepting call (demand) or term deposits and keeping accounts for 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 warrants,
- issuing bank securities,
- issuing payment cards and performing operations using such cards,
- conducting forward transaction,
- purchase and disposal of debt.

Scope of activities of the subsidiaries, jointly controlled entities and associates was presented in note 1 of the additional notes and explanations to the audited consolidated financial statements.

As at 31 December 2006, the Bank's share capital amounted to 1,000,000 thousand zlotys and it comprised of 510,000,000 registered shares of the series A, 105,000,000 bearer shares of the series B and 385,000,000 bearer shares of the series C, with the nominal amount of 1 zloty each.

Group's equity as at this date amounted to 10,180,580 thousand zlotys.

According to the letter of the Investor Relations Bureau dated 20 March 2007 the Bank's shareholding structure as at 31 December 2006 was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	% of share capital
State Treasury	514,959,296	51.50%	514,959,296	51.50%
Other share holders	485,040,704	48.50%	495,040,704	48.50%
Total	1,000,000,000	100.00%	1,000,000,000	100.00%

On 6 November 2006 105,000,000 bearer shares of series B were assimilated with 385,000,000 ordinary shares. The above change did not have any impact on the Bank's share capital value.

As at 27 March 2007, the holding company's Management Board was composed of:

Marek Głuchowski	- acting President of the Management Board
Wojciech Kwiatkowski	- Deputy President of the Management Board
Rafał Juszcak	- Deputy President of the Management Board
Robert Działak	- Deputy President of the Management Board

During 2006 and up to 27 March 2007, there were the following changes in the composition of the Bank's Management Board:

- On 8 March 2006 the Bank's Supervisory Board accepted the resignation of Mr Piotr Kamiński from the position of the Member of the Bank's Management Board.
- On 26 June 2006 Mr Andrzej Podsiadło resigned from the position of the President of the Bank's Management Board. 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 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.
- Mrs Krystyna Szewczyk resigned from the function of the Member of the Bank's Management Board as of 26 June 2006.

- On 26 June 2006, the Bank's Supervisory Board appointed Mr Zdzisław Sokal and Mr Rafał Juszczyk to the positions of Members of the Bank's Management Board as of 1 July 2006.
- On 29 September 2006, the Bank's Supervisory Board appointed Mr Sławomir Skrzypek to the position of acting President of the Management Board of PKO BP SA until the date of the appointment of the President of the Bank's Management Board, however not longer than until 30 November 2006. On 30 November 2006, the Bank's Supervisory Board appointed Mr Sławomir Skrzypek to the position of acting President of the Bank's Management Board until the date of appointment of the new President of the Bank's Management Board. On 10 January 2007, Mr Sławomir Skrzypek resigned from the position of Deputy President, acting President of the Bank's Management Board.
- On 29 September 2006, 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.
- The Bank's Supervisory Board appointed Mr Rafał Juszczyk, Mr Jacek Obłąkowski and Mr Zdzisław Sokal, the former Management Board members, to the positions of Deputy Presidents of the Bank's Management Board as of 29 September 2006.
- On 30 November 2006, Mr Jarosław Myjak resigned from the position of Deputy President of the Bank's Management Board.
- On 19 December 2006, Mr Kazimierz Małecki resigned from the position of Deputy President, First Deputy President of the Bank's Management Board as of 31 December 2006.
- Mrs Danuta Demianiuk resigned from the position of Deputy President of the Management Board as of 31 December 2006.
- The Bank's Supervisory Board, at the meeting held on 10 January 2007, delegated Mr Marek Głuchowski, PhD - Chairman of the Bank's Supervisory Board, to act temporarily as the President of the Bank's Management Board until 23 January 2007. Due to the fact that during the period from 24 January 2007 to 26 January 2007, no candidate was appointed by the Bank's Supervisory Board to be acting President of the Management Board, Mr Marek was delegated to act temporarily as President of the Bank's Management Board, starting from 27 January 2007 until 10 April 2007 at the latest.
- On 31 January 2007, Mr Jacek Obłąkowski resigned from the position of the Deputy President of the Bank's Management Board.
- On 22 February 2007 the Bank's Supervisory Board passed resolutions appointing:
 - Mr Robert Działak as Deputy President of the Bank's Management Board as of 23 February 2007,

- Mr Stefan Świętkowski as Deputy President the Bank's Management Board as of 1 May 2007.
- On 13 March 2007 Mr Zdzisław Sokal resigned from the position of Deputy President of the Bank's Management Board as of 13 March 2007.

2. Group structure

As at 31 December 2006, the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group consisted of the following subsidiaries (direct or indirect):

Name	Consolidation metod	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Direct subsidiaries				
Powszechne Towarzystwo Emerytalne BANKOWY SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Centrum Finansowe Puławska Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
PKO Inwestycje Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Inteligo Financial Services SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Centrum Elektronicznych Usług Płatniczych „eService” SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Bankowy Fundusz Leasingowy SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Bankowe Towarzystwo Kapitałowe SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
PKO Towarzystwo Funduszy Inwestycyjnych SA	full	audit in progress	Pricewaterhouse Coopers sp. z o.o.	31.12.2006
KREDOBANK SA	full	audit in progress	Ernst & Young (Ukraine)	31.12.2006

Indirect subsidiaries				
Finanse Agent Transferowy Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
POMERANKA Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Wilanów Investments Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
UKRPOLINWESTYCJE Sp. z o.o.	full	-	not subject to audit	31.12.2006
Fort Mokotów Sp. z o.o.	full	with emphasis of matter	Ernst & Young Audit sp. z o.o.	31.12.2006

As at 31 December 2006 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

Entity name and registered office	Type of activity
Bank Pocztowy SA	Financial services
Kolej Gondolowa Jaworzyna Krynicka SA	Construction and operation of cable railway
Ekogips SA – in bankrupcy	Production of construction elements
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Sureties in accordance with civil law and bill of exchange law
Agencja Inwestycyjna CORP SA	Office space management
Associates of Bankowe Towarzystwo Kapitałowe S.A.	
FINDER Sp. z o.o.	Car location and fleet management
INTER FINANCE Sp. z o.o.	Investing in sector of intermediary financial services on the Ukrainian market

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year were presented in notes 1 and 31 of the additional notes and explanations to the consolidated financial statements of the Group for the year ended 31 December 2006.

3. Consolidated financial statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under No 130.

Ernst & Young Audit sp. z o.o. was appointed by the Bank's Supervisory Board on 7 April 2005 to audit the Group's consolidated financial statements for 2006.

Ernst & Young Audit sp. z o.o. and the certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the consolidated financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act.

Under the contract concluded on 8 August 2005 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2006.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole.

Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion dated 27 March 2007, stating the following:

“To the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

1. We have audited the attached consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group (the “Group”), for which the holding company is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the “Bank”) located in Warsaw at Puławska 15 Street, for the year ended 31 December 2006, containing:

- the consolidated profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit attributable to the holding company amounting to 2,149,052 thousand zlotys,
- the consolidated balance sheet as at 31 December 2006 with total assets amounting to 101,261,213 thousand zlotys,
- the consolidated statement of changes in shareholders' equity for the period from 1 January 2006 to 31 December 2006 with a net increase in shareholders' equity amounting to 1,405,590 thousand zlotys,
- the consolidated cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash inflow amounting to 2,772,550 thousand zlotys, and
- the additional notes and explanations

(the “attached consolidated financial statements”).

2. The truth and fairness¹ of the attached consolidated financial statements and the proper maintenance of consolidation documentation are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair².

3. We conducted our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:

- chapter 7 of the Accounting Act, dated 29 September 1994 (the "Accounting Act"),
- the auditing standards issued by the National Chamber of Auditors,

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used by the Group and significant estimates made by the Bank's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:

- present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2006 to 31 December 2006, as well as its financial position³ as at 31 December 2006;
- have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

5. We have read the Directors' Report of the Group for the period from 1 January 2006 to 31 December 2006 and the rules of preparation of annual consolidated financial statements (the "Directors' Report") and concluded that the information derived from the attached consolidated financial statements reconciles with the Director's Report. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Laws No 209, item 1744)."

We conducted the audit of the consolidated financial statements of the Group during the period from 20 November 2006 to 22 December 2006 and from 8 January 2007 to 27 March 2007. We were present at the Bank's head office from 27 November 2006 to 22 December 2006 and from 8 January 2007 to 27 March 2007 and in the Bank's branches from 20 November 2006 to 24 November 2006.

¹ Translation of the following expression in Polish: "rzetelność, prawidłowość i jasność"

² Translation of the following expression in Polish: "rzetelne, prawidłowe i jasne"

³ Translation of the following expression in Polish: "sytuacja majątkowa i finansowa"

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness⁴ of the consolidated financial statements and the correctness of consolidation documentation. The Management Board of the holding company stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 27 March 2007, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete,
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements,

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

3.4 Consolidated financial statements of the Group for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2005 were audited by Dominik Januszewski, certified auditor No 9707/7255, acting on behalf of Ernst & Young Audit sp. o.o. with its registered office in Warsaw at Rondo ONZ 1 an entity authorised to audit financial statements under No 130.

The certified auditor acting on behalf of the authorised entity issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2005. The consolidated financial statements for the year ended 31 December 2005 were approved by the General Shareholders' Meeting on 18 April 2006.

The consolidated financial statements of the Group for the financial year ended 31 December 2005, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report of the Group, were filed on 21 April 2006 with the National Court Register.

The introduction to the consolidated financial statements, the consolidated balance sheet as at 31 December 2005, the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2005, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No 1069 on 25 October 2006.

⁴ Translation of the following expression in Polish: "rzetelność, prawidłowość i jasność"

4. Analytical review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2005 – 2006, calculated in the basis of financial information included in the consolidated financial statements for the year ended 31 December 2006. The selected basic data and financial ratios for 2004 were not presented as the Group changed in 2005 the accounting policies to International Financial Reporting Standards as adopted by the EU and the data for earlier periods is not comparable in all respects.

	2006	2005*
Total assets	101,261,213	91,613,181
Shareholders' equity	10,180,580	8,774,990
Net profit attributable to the holding company	2,149,052	1,734,820
Gross profit	2,701,488	2,167,045
Capital adequacy ratio in accordance with NBP methodology	11.81%	13.90%
Profitability ratio	65.62%	52.08%
Gross profit		
General administrative expenses		
Costs to income ratio	60.35%	64.36%
General administrative expenses		
Operating income		
Return on Equity (ROE)	22.67%	19.68%**
Net profit attributable to the holding company		
Average shareholders' equity		
Return on Assets (ROA)	2.23%	1.95%**
Net profit attributable to the holding company		
Average assets		
Rate of inflation:		
yearly average	1.0%	2.1%
current year December to previous year December	1.4%	0.7%

* Comparable data

** Average value of assets and equity for 2005 was calculated based on the total value of assets or equity, respectively, as at 31 December 2004, the data are presented in the consolidated financial statements for the year ended 31 December 2005 prepared according to International Financial Reporting Standards

4.2 Comments

The following trends may be observed based on the above financial ratios:

- Net profit of the Group attributable to the holding company for 2006 amounted to 2,149,052 thousand zlotys in comparison to the net profit for 2005 amounting to 1,734,820 thousand zlotys.
- In 2006 there was an increase in the total assets compared to 2005. The total assets as at 31 December 2006 amounted to 101,216,213 thousand zlotys in comparison to 91,613,181 thousand zlotys as at 31 December 2005.
- The cost to income ratio decreased to 60.35% in 2006 comparing with 64.36% in 2005.
- The profitability ratio increased from 52.08% in 2005 to 65.60% in 2006.
- As at 31 December 2006 the return on equity and return on assets ratios amounted to 22.67% and 2.23%, respectively, compared to 19.68% and 1.95 % in 2005.
- Capital adequacy ratio amounted to 11.81% as at 31 December 2006 comparing to 13.90% as at the end of 2005.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2006 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In note 1 of the additional notes and explanations to the audited consolidated financial statements of the Group for the year ended 31 December 2006, the Management Board of the holding company has stated that the consolidated financial statements were prepared on the assumption that the holding company and the Group's companies will continue as a going concern for a period of at least twelve months subsequent to 31 December 2006 and that there are no circumstances that would indicate a threat to their continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 2 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2006.

3. Structure of consolidated assets, liabilities and equity

The structure of the Group's assets liabilities and equity is presented in the audited consolidated financial statements for the year period ended 31 December 2006.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in note 2 and 32 of additional notes and explanations to the audited consolidated financial statements.

3.2 Shareholders' equity including minority interest

The amount of shareholders' equity, including minority shareholders' interest, is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Minority shareholders' interest amounted to 102,274 thousand zlotys as at 31 December 2006. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' equity has been presented in note 46 and 47 of the additional notes and explanations to the audited consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2006 and include the financial data for the period from 1 January 2006 to 31 December 2006.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated entities reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated entities, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in subsidiaries and associates

The effects of the sale of shares in Wawel Hotel Development Sp. z o.o. and Hotel Jan III Sobieski were disclosed in the Group's consolidated financial statements in accordance with the appropriate legal documents and consolidation documentation.

6. Items which have an impact on the group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2006.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting.

8. Issues specific for the audit of the Bank

We have addressed the issue of complying the Bank with the regulatory norms mitigating banking risks and the correctness of calculation of capital adequacy ratio in our report dated 27 March 2007, supplementing the independent auditors' opinion on the financial statements of the Bank for the year ended 31 December 2006.

9. Work of experts

During our audit we have taken into account the results of the work of the independent experts:

- property valuers – value of collateral were taken into account while calculating impairment allowances for loan receivables; valuation was performed by the property valuers ordered by the Bank,
- actuary – actuarial calculation of provisions for jubilee bonuses and pension benefits.

(-)

Arkadiusz Krasowski
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on behalf of
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(-)

Dominik Januszewski
Certified Auditor No 9707/7255

Warsaw, 27 March 2007