



**PKO BANK POLSKI**  
**SPÓŁKA AKCYJNA**

**DIRECTORS' REPORT ON THE ACTIVITIES OF**  
**PKO BP SA GROUP**  
**IN 2006**

WARSAW, MARCH 2007



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## 1. INTRODUCTION

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO BP SA", "the Bank") is the holding company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group ("the Group", "the PKO BP SA Group").

The PKO BP SA Group reported in 2006 a positive net financial result of PLN 2,149 million, mainly due to the performance of PKO BP SA.

## 2. EXTERNAL FACTORS AND EVENTS WHICH ARE SIGNIFICANT TO THE GROUP'S PERFORMANCE

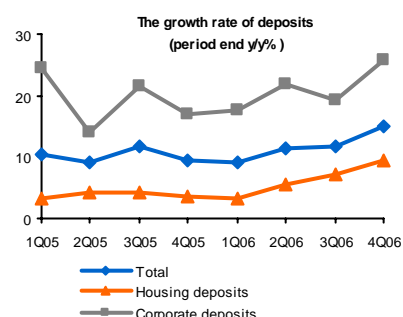
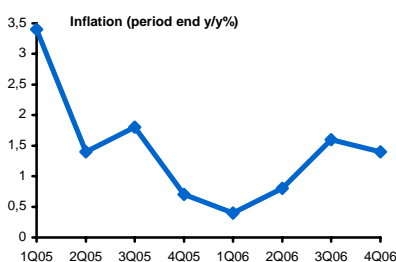
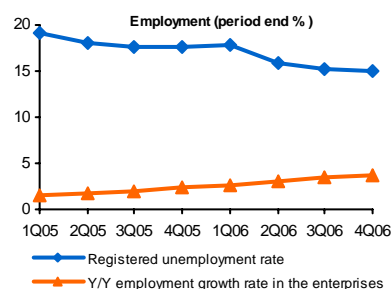
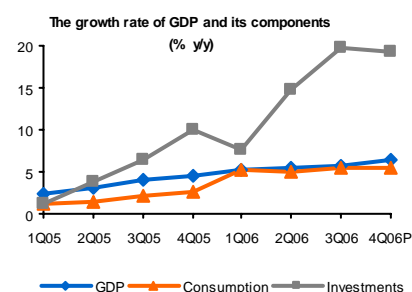
### 2.1 Macroeconomic factors

During the year 2006, the economic growth visibly accelerated. According to the preliminary data of the Central Statistical Office (GUS), growth dynamics of GDP in 2006 amounted to 5.8% year-to-year in comparison to 3.5% in 2005. The continued economic revival in real economy was stimulated by high dynamics in domestic consumption – especially in the area of investments that was stimulated by the increasing use of EU funds and an increasing number of foreign investments in Poland, good financial performance of enterprises and a boom in the housing construction industry. Private consumption continued to grow at a high rate due to an increase in household disposable incomes and an improvement in the situation on the labour market.

During the year 2006, official unemployment rate decreased by 2.7 percentage points to 14.9% in December 2006 (2.3 million of unemployed). The improvement on the labour market was due to positive influence of the economic revival, inflow of the EU funds to be used for active forms of fighting unemployment and the probable increase in the number of people travelling to work abroad, especially for short periods of time.

The average annual inflation rate decreased from 2.1% in 2005 to 1% in 2006. In the first half of 2006, inflation was below 1%, in the second half of the year it amounted on average to 1.4%, and increased to the highest level of 1.6% in August and September. The low level of inflation in 2006 was mainly due to the small pressure of demand on the level of prices, that was reflected in tiny movements in prices in the particular demand categories of the inflation basket. The appreciation of PLN was an additional factor working towards a decrease in the level of inflation, as well as low prices of food in the first half of the year. Increases in energy prices, and especially the double increase in the prices of natural gas (in January and April), contributed to the increase in the inflation rate.

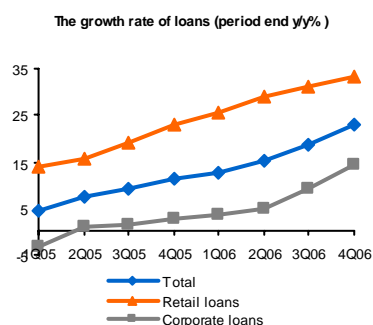
In 2006, household deposits tended to increase, among others due to an improvement in the levels of household income. However, due to the low level of interest rates (having an opposite impact on the level of bank deposits, the share of bank deposits in the structure of household savings further decreased. A growing proportion of household savings was kept in the form of investment fund units, shares or life insurance policies. Very good financial performance of enterprises contributed to a considerable increase in the level of corporate deposits. The value of





corporate deposits in December 2006 was almost 25% greater than in the corresponding period of 2005.

Household loans continued to grow during 2006, especially housing loans, that, among others, was due to the improved financial condition of households and greater willingness of banks to extend loans in the improved economic situation. A smaller increase was noted in the level of consumer loans. The factors that contributed to this increase were the decrease in borrowing costs and an increase in the credit capability of less affluent households. The year 2006 saw a gradual increase in the level of corporate loans, due to the increase in the level of investments in light of lower borrowing costs.

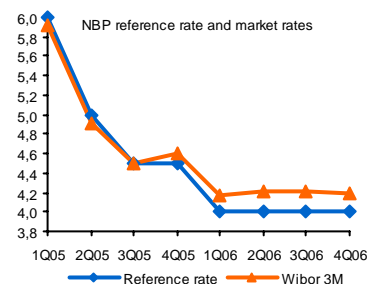


At the same time, the activities and the result of the Group were affected by the macroeconomic factors in Ukraine, where PKO BP SA's subsidiary, KREDOBANK SA, operates. The most important of such factors are as follows:

- improved rate of economic growth in Ukraine in 2006, from 2.6 y/y in 2005 to 7% y/y in 2006,
- decrease in the official unemployment rate from 3.1% in December 2005 to 2.7% at the end of 2006, - though,, according, to, estimates, of, international research centres, the real unemployment rate was significantly higher and amounted to approximately 7.5%,
- increase in the inflation rate to the level of 11.6% y/y, compared to 10.3% in December 2005 - this was due to significant increases in the prices of gas imported from Russia and price rises of energy, as well as due to continued strong internal demand (including that related to consumption),
- decrease in the growth rate of deposits to approximately 39% y/y in December 2006, compared to approximately 60% y/y at the end of 2005, as a result of a decrease in the growth rate of wages and salaries (stronger decrease in the growth rate in real terms compared to nominal) and a decrease in the average interest rate of deposits in commercial banks,
- increase in the growth rate of loans granted to approximately 71% y/y in December 2006, compared to 62% y/y at the end of 2005, due to high internal demand (including consumption demand) as well as changes taking place in the banking system – development of banking products and inflow of capital due to increased interest of foreign capital in the banking sector in Ukraine,
- concentration of monetary policy by the National Bank of Ukraine in 2006 on the exchange rate objective in 2006; after political uncertainty has disappeared, the National Bank of Ukraine made significant purchases of US dollars in order to maintain the UAH/USD exchange rate at a stable level of 5.00 – 5.06 UAH/USD, with the continued pressure on appreciation of hrvna,
- decrease (in June 2006) of the main NBU interest rate by 100 base points to 8.5%.

## 2.2 Monetary policy of the National Bank of Poland

Pursuant to the NBP's "Monetary Policy Assumptions for the Year 2006", maintaining the annualised inflation rate at 2.5%, with allowable fluctuations of +/-1 percentage point, continued to be its main objective in 2006. Due to the decrease in the inflation rate significantly below 1.5% at the end of 2005 and beginning of 2006 the NBP continued to apply soft monetary policy and, in January and February of 2006, decreased the basic NBP rates by a total of 50 base points, to 4.0% for the NBP reference rate. The NBP interest rates remained unchanged till the end of 2006.





## 2.3 Financial market

During the year 2006, a decrease was recorded in the profitability of the Polish Treasury securities with maturity up to 2 years by approximately 10 points and a simultaneous increase in the profitability of long-term bonds.

In the first half of the year, profitability was increasing due to the following reasons:

- expiration of investors' expectations for further softening of monetary policy after the termination of cyclical reductions in the NBP interest rates,
- political uncertainty due to lack of a stable majority coalition in the Polish Parliament and changes in government composition, as well as investors' concerns about possible fiscal expansion,
- continued increases in the interest rates in the United States and the Euro zone,
- periodic outflow of capital from emerging markets.

However, in the 2<sup>nd</sup> half of 2006, profitability tended to decrease due to the following factors:

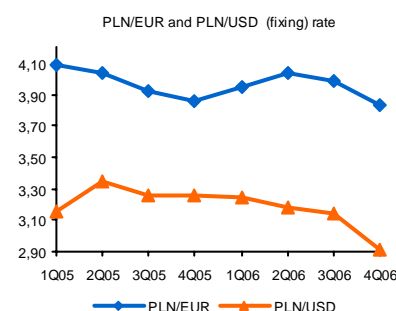
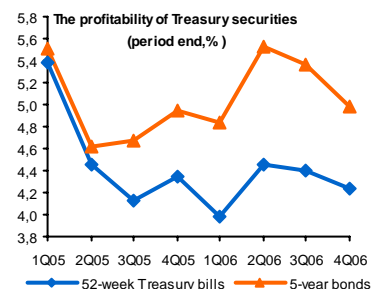
- stabilisation on the political scene,
- low level of current inflation rate, that limited expectations of investors for increases in the NBP interest rates,
- termination of the tightening of monetary policy in the United States and increased expectations for a decrease in interest rates within one year,
- good current condition of the state budget and improved fiscal perspectives.

In 2006, the Polish zloty appreciated in nominal terms by more than 10% against US dollar and by nearly 1% against the Euro (data at the year-end). The appreciation of the Polish zloty against the US dollar was due to a strong depreciation of the US dollar on the world markets in 2006. The appreciation of the PLN rate (weighted by the share of the particular currencies in the Polish exports) was due to the fact that the foundations of the Polish economy continued to be positive, as well as due to the positive influence of Poland's accession to the European Union and a high demand from investors for Central European currencies.

## 2.4 Regulatory environment

Major changes in the regulatory environment that had an influence on the activities of the Group in 2006 related to the following:

- changes in the method of transferring interest on obligatory reserve, that caused an increase in the income from interest on obligatory reserve kept by the banks in the National Bank of Poland. Starting from 1 January 2006, half of the interest income from the obligatory reserve of banks represents banks' income (in 2005, only 40% of such interest contributed to banks' income),
- increase as of 1 January 2006 of the rate of interest defining the balance of the fund for protection of guaranteed money, that is created by banks,
- implementation as of 20 February 2006 of the so-called anti-usury law (the Act dated 7 July 2005 on amendments to the Act - the Civil Law Code and certain other acts - Journal of Laws No 157, item 1316), that limited the interest rate of consumer loans and credits to four times the amount of the NBP lombard rate, and limited fees, commissions and other banking costs to 5% of the amount of the consumer loan granted, as well as imposed on banks certain additional information requirements towards clients,
- decrease as of 1 March 2006 of the fees for entering property in the Mortgage Register (by introducing a one-off lump-sum fees in the amount of PLN 200, instead of the earlier applied





property value-related fees), that resulted in the increased competition among banks to acquire new clients interested in re-financing their current housing loans,

- Recommendation "S" issued by the Commission for Banking Supervision and relating to good practices to be applied with regard to mortgage-secured loan exposures, that requires that the banks should tighten their criteria for extending foreign currency loans as of 1 July 2006, as well as the planned introduction by the General Banking Supervision Inspectorate (*Generalny Inspektorat Nadzoru Bankowego – GINB*) of quantitative norms in order to reduce the dynamics of foreign currency loans and the perspective of liquidation, starting from 2007, of the so-called interest tax relief (Personal Income Tax Act), increased the demand for housing loans. In addition, Recommendation "S" increased the amount of costs incurred by the banks due to the requirements of regular monitoring of changes on the real estate market,
- changes in legal regulations improving the conditions of the absorption of the EU structural funds and therefore increasing the level of loans granted by banks for implementation of projects co-financed from EU funds (among others, the amended Public Contracts Act, the Act on the National Development Plan, the Act on the EU Guarantee Fund, regulations relating to industry specific operational programs),
- amendments to the Banking Law effective as of 19 October 2006, that enabled division of banks, (and simultaneously enabling the consolidation of Pekao SA with the separated part of BPH SA), and that stimulated the banks to try to take over the clients of BPH SA,
- Preparation for implementation of new policies arising from the directives of the European Parliament and of the Council relating to capital adequacy rules based on the New Capital Accord (hereinafter: NCA; Directive 2006/48/EC and Directive 2006/49/EC), that has intensified after the publication of the draft resolutions of the Banking Supervisory Commission to be applied on the Polish banking market.

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

The Act on financial support for families acquiring own flats, that came into effect in the 4<sup>th</sup> quarter of 2006 and under that the interest charged on such borrowers is subsidized by the state budget, will affect the size of lending activities undertaken by banks in 2007.

The situation of the PKO BP SA Group was also affected by legislative changes in the Ukrainian banking system, including the following:

- amended, as of 1 February 2006, accounting principles concerning tangible fixed assets and intangible assets,
- implementation of the effective interest rate method to be used in the income statement as of 1 July 2006;
- amended, as of 1 October 2006, rules for recognizing statutory reserves (decrease in the norm-indicator for the statutory reserve to be created based on the funds obtained from clients in national currency and increase in the norm-indicator for the statutory reserve to be created based on the funds obtained in foreign currency).

## 2.5 Competition in the banking sector

### Banking sector

The favourable processes that occurred in the macroeconomic environment were reflected in the very good financial performance of the banking sector in 2006. Improving financial condition of households and enterprises, fast growth of individual consumption, improving absorption of EU funds and better perspectives for economic development have contributed to the growth of the banks' lending activities and increased sale of investment and insurance products. As a result, banks have recorded an increase in the value of deposits and a high increase in granted loans, mainly with regard to housing and consumer loans. A significant increase has also been noted in the efficiency of banks' operations.





The most important processes that affected the competitive environment of the PKO BP SA Group in 2006 were as follows:

- Commencement of the process of consolidation of the following banks: Pekao SA and BPH SA, that created opportunities for taking over the clients of those banks. Combined with continued demand for banking services from households and enterprises, consolidation of banks became an additional factor that increased market competition, that was reflected in, among others:
  - Improvement in the quality of banking products by adjusting them better to the needs of individual and corporate clients, especially with regard to mortgage loans, credit cards, structured products and bancassurance,
  - Development of packet services and cross-selling, including introduction of new services, e.g. mobile operator services, to penetrate various market niches,
  - Development of Internet banking services for individual and corporate clients,
- Development and modernisation of distribution network, accompanied by an increase in the number of employees. Banks continued to develop the network of their own outlets (among others, Bank Millennium, BRE, Lukas Bank), more and more often changed the model of their operations and introduced specialization, and increased the number of partner outlets (among others, BPH, ING BSK, Kredyt Bank). In addition, they extended their cooperation with finance intermediaries, insurance companies and supermarket chains and established mass payment points (for example, Raiffeisen Bank),
- Development of ATMs network. By increasing the number of own ATMs the banks continued mutual cooperation and concluded contracts with other independent operators, including Euronet and Cash4You,
- The continued development of banking products and the necessity to reach potential clients increased spending of banks for promotion and advertising,
- Improvement of the quality of banks loan portfolios due to sale of non-performing loans to – among others - securitization funds, a part of the sustained losses (up to the level of sale price) was counted as tax deductible expenses by the banks,
- Entrance of new competitors onto the Polish banking market. The following banks commenced their operating activities in Poland: the Greek bank EFG Eurobank – under the name Polbank EFG, Dexia Kommunalkredit Bank Polska, that belongs to Belgian financial group, Noble Bank, that was established based on the banking license of Wschodni Bank Cukrownictwa. Over 130 foreign lending institutions expressed their intention to undertake cross-border activities on the territory of Poland.

#### Non-banking sector

In 2006, the favourable trends in the activities of the non-banking financial sector continued. Improved financial condition of the society and increased awareness of the possibilities offered by that segment of the financial market, as well as improved financial condition of businesses, increased the demand for non-banking financial services, including those offered by investment fund companies (TFIs) and leasing companies. This had an effect on the operations of the Bank and its subsidiaries.

- The most dynamically developing segment of the financial market was the investment funds sector, that comprised an important element of the competitive environment of both PKO BP SA and its subsidiary, PKO TFI SA. The value of net assets managed by TFIs in Poland in 2006 rose by over 61% to the level of PLN 98.8 billion. This accounted for nearly 10% of the GDP, i.e. 3.5 pp. more than in 2005. The position of investment funds in case of absorption of individuals' savings has been strengthened. At the end of 2006, their share increased to over 17%. The development of investment funds was stimulated by the boom on the financial markets, including the stock market, rates of return exceeding market interest rates and an increasing awareness of the society of possibilities of investments on the financial market. On the Polish market, there were more than 260 domestic funds and subfunds and more than 300 foreign funds notified in Poland by foreign entities. In 2006, TFIs extended their product offer. In 2006, 32 new domestic investment funds were registered (including 4 safe investment funds, 3 securitisation funds, 3 SME funds and 2 real estate funds). In addition, TFIs developed structured products together with



banks and insurance companies. The role of financial intermediary companies in the distribution of fund units was increasing.

- The market of open-end pension funds (OFEs), that make up the competitive environment for PTE BANKOWY SA, showed a dynamic growth. At the end of 2006, the value of net assets managed by those funds rose by 35%, reaching the level of PLN 116.6 billion. This was the result of, among others, the economic revival that translated into an increase in the level of employment, the increase in the level of average wages and salaries and OFE's performance, as well as the transfer by ZUS (*Social Security Office*) in June and November 2006 of the outstanding contributions for the years 1999-2002 in the form of cash and bonds. The number of OFE members increased to almost 12.35 million (that means an annual increase of 5.4%). The announced mergers of OFE PZU and Skarbiec and of OFE Winterthur and DOM were not completed, and hence 15 open-end pension funds continued to operate on the market.
- The leasing services market, that makes up the competitive environment for both the Bank and its subsidiary, Bankowy Fundusz Leasingowy SA, was in 2006 the second most dynamically developing segment of the financial market, immediately after the market of mutual funds. In 2006, the value of investments financed by leasing companies amounted to PLN 21.5 billion, that accounts for c.a. 2% of the GDP. The annual growth in the entire leasing services market amounted to 132%, and in the lease of movables – 141%. The main items in the portfolio of lease agreements were vehicles, including passenger cars (61.9%) and plant and machinery (32.5%). A dynamic growth was noted in Car Fleet Management services. On the other hand, the number of transactions concerning the real estate leasing decreased by 17%. Lease companies closely collaborated with banks, especially from their own financial groups. A number of them mutually offered their products to clients and financed the investments of small and medium sized enterprises by both leasing and loans. In light of increasing competition and decreasing margins and profits, lease companies extended their activities to new business areas; for example, they participated in the distribution of insurance products.
- In 2006, the competitive position of SKOKs (*Spółdzielcza Kasa Oszczędnościowo-Kredytowa*) on the financial market increased. The assets of SKOKs increased by approximately 10% to almost PLN 6.0 billion, and 1.6 million SKOK members were serviced at almost 1,600 outlets. SKOKs collected c.a. PLN 5.5 billion deposits and granted over PLN 4 billion loans., Regulatory conditions have been created in order to extend their activities, including in the area of granting long-term housing loans.

### 3. THE PKO BP SA GROUP'S DEVELOPMENT STRATEGY

In 2006, the development of the PKO BP SA Group was subordinated to the implementation of the "Strategy of PKO BP SA for the years 2006-2008", that was approved by the Supervisory Board of the PKO BP SA on 8 December 2005. This strategy determines the development of an efficient Group. It is focused on strengthening the position of PKO BP as a modern, dynamically developing Bank, that is active in seeking and efficient in implementing innovative solutions to be able to serve and acquire clients in all market segments, to build lasting relationships with clients and to satisfy their widely defined financial needs while continuously increasing the quality of client service.

The Group companies support the Bank in the realization of strategic goals, including:

- maintaining market position,
- increase of the effectiveness of functioning.

The potential of each of the Group companies has been used to build synergy effects for the entire Group. The subsidiaries of PKO BP SA complemented the Bank's offer in the particular business areas and supported them in performing sale tasks while simultaneously pursuing their own business objectives.

The development of the PKO BP SA Group does not preclude Bank's investments in other entities from the financial sector operating on the Polish market or in the Central and Eastern Europe. The Bank believes that the potential equity investments are feasible. They will be adequate to the resources held.



#### 4. ORGANISATION OF THE PKO BP SA GROUP

As at 31 December 2006, the PKO BP SA Group was composed of the Bank as the holding company and 16 direct or indirect subsidiaries (including 2, which were not consolidated due to immateriality of data).

##### 4.1 Entities included in the consolidated financial statements

These consolidated financial statements include the Bank – that is the holding company of the PKO BP SA Group, and the Bank's subsidiaries, as defined in IAS 27 "Consolidated and separate financial statements".

Table 1. Entities comprising the PKO BP SA Group

| No  | Entity name   | Value of involvement at acquisition price | Percentage of share capital | Consolidation method |
|---|---|---|-----------------------------|----------------------|
|   |   | PLN thousand                              | %                           |                      |
| <b>Holding company</b>                    |   |   |                             |                      |
| 1   | Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna |   |                             |                      |
| <b>Direct subsidiaries</b>                |   |   |                             |                      |
| 2   | Powszechne Towarzystwo Emerytalne BANKOWY SA            | 205 786                                   | 100.00                      | Full                 |
| 3   | KREDOBANK SA  | 144 605                                   | 69.933                      | Full                 |
| 4   | Centrum Finansowe Puławska Sp. z o.o.                   | 128 288                                   | 100.00                      | Full                 |
| 5   | PKO Inwestycje Sp. z o.o.                               | 123 313*                                  | 100.00                      | Full                 |
| 6   | PKO Towarzystwo Funduszy Inwestycyjnych SA              | 69 055                                    | 75.00                       | Full                 |
| 7   | Inteligo Financial Services SA                          | 59 602                                    | 100.00                      | Full                 |
| 8   | Centrum Elektronicznych Usług Płatniczych eService SA   | 55 500                                    | 100.00                      | Full                 |
| 9   | Bankowy Fundusz Leasingowy SA                           | 30 000                                    | 100.00                      | Full                 |
| 10  | Bankowe Towarzystwo Kapitałowe SA                       | 18 566                                    | 100.00                      | Full                 |
| <b>Indirect subsidiaries</b>              |   |   |                             |                      |
| Subsidiaries of PKO Inwestycje Sp. z o.o. |   |   |                             |                      |
| 11  | Wilanów Investments Sp. z o.o.                          | 82 981                                    | 100.00                      | Full                 |
| 12  | POMERANKA Sp. z o.o.                                    | 19 000                                    | 100.00                      | Full                 |
| 13  | Fort Mokotów Sp. z o.o.                                 | 2 040                                     | 51.00                       | Full                 |
| 14  | UKRPOLINWESTYCJE Sp. z o.o.                             | 359                                       | 55.00                       | Full                 |
| Subsidiary of PTE BANKOWY SA              |   |   |                             |                      |
| 15  | Finanse Agent Transferowy Sp. z o.o.                    | 2 861**                                   | 100.00                      | Full                 |

\* Inclusive of a specific capital injection of PLN 5.5 million.

\*\* Inclusive of a specific capital injection of PLN 1.0 million.



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

| No   | Entity name                                       | Value of involvement at acquisition price | Percentage of share capital | Consolidation method |
|--|---|---|-----------------------------|----------------------|
|  |   | PLN thousand                              | %                           |                      |
| <b>Jointly controlled entities</b>                     |   |   |                             |                      |
| 1  | CENTRUM HAFFNERA Sp. z o.o.                       | 44 371                                    | 49.43                       | Equity method        |
| 2  | Centrum Obsługi Biznesu Sp. z o.o.                | 17 498                                    | 41.44                       | Equity method        |
| <b>Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.</b>     |   |   |                             |                      |
| 3  | Sopot Zdrój Sp. z o.o.                            | 58 923                                    | 100.00                      | Equity method        |
| 4  | Promenada Sopotcka Sp. z o.o.                     | 10 058                                    | 100.00                      | Equity method        |
| 5  | Centrum Majkowskiego Sp. z o.o.                   | 6 609                                     | 100.00                      | Equity method        |
| 6  | Kamienica Morska Sp. z o.o.                       | 976                                       | 100.00                      | Equity method        |
| <b>Associates</b>                                      |   |   |                             |                      |
| 7  | Bank Pocztowy SA                                  | 146 500                                   | 25.0001                     | Equity method        |
| 8  | Kolej Gondolowa Jaworzyna Krynicka SA             | 15 531                                    | 37.53                       | Equity method        |
| 9  | Ekogips SA – in bankructcy                        | 5 400                                     | 60.26                       | Equity method        |
| 10   | Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 1 500                                     | 33.33                       | Equity method        |
| 11   | Agencja Inwestycyjna CORP SA                      | 29  | 22.31                       | Equity method        |
| <b>Associates of Bankowe Towarzystwo Kapitałowe SA</b> |   |   |                             |                      |
| 12   | FINDER Sp. z o.o.                                 | 6 500                                     | 46.43                       | Equity method        |
| 13   | INTER FINANCE Polska Sp. z o.o.                   | 3 248                                     | 45.00                       | Equity method        |

#### 4.2 Changes in the organization of subsidiaries, associates and jointly controlled entities

In 2006, the following events had an impact on the structure of the PKO BP SA Group:

- Taking up shares in the increased share capital of FINDER Sp. z o.o.  
 On 9 January 2006, Bankowe Towarzystwo Kapitałowe SA – the Bank's subsidiary – acquired 351 shares in the increased share capital of FINDER Sp. z o.o. having a total nominal value of PLN 175.5 thousand. At present, Bankowe Towarzystwo Kapitałowe SA holds 46.43% shares in the share capital and in votes at the shareholders' meeting of FINDER Sp. z o.o.;  
 The increase in the Company's share capital was registered with the National Court Register on 20 February 2006.
- Acquisition of 25% shares in PKO Towarzystwo Funduszy Inwestycyjnych SA (formerly PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA)  
 On 24 January 2006, PKO BP SA concluded a conditional agreement with Credit Suisse Asset Management Holding Europe (Luxembourg) SA relating to purchase by the Bank of 45,000 of registered privileged (with respect to voting rights) shares, entitling to 25% of the total vote at the general meeting of PKO Towarzystwo Funduszy Inwestycyjnych SA (formerly PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA).  
 On 6 April 2006, upon the fulfilment all the agreement conditions (including the approval of the President of the Office of Competition and Consumer Protection to conclude the concentration by taking over the control of the Company by PKO BP SA), transfer of ownership right to PKO BP SA took place.  
 The expenses paid for the shares amounted to PLN 55 million and included all additional fees and commission, amounted to PLN 55,055 thousand.  
 After the purchase of the above shares, PKO BP SA became the owner of 75% shares in share capital of this Company and votes at the general shareholders' meeting.



PKO Towarzystwo Funduszy Inwestycyjnych SA became a part of the PKO BP SA Group.

- Taking up shares in the increased share capital of CENTRUM HAFFNERA Sp. z o.o.  
On 27 January 2006, PKO BP SA concluded a Partners' Agreement with the City of Sopot and NDI SA, with the participation of Centrum Haffnera Sp. z o.o., for an investment project relating to tidying up and revitalisation of the very tourist centre of Sopot.  
Financing of the Company by the Bank is based on equity involvement and granting loans.  
On 2 June 2006, in accordance with the above mentioned agreement, the Bank acquired 88,741 shares in the increased share capital of CENTRUM HAFFNERA Sp. z o.o. having a total nominal value of PLN 44,370.5 thousand, acquisition price was equal as nominal value of the shares.  
As a result of the above transaction, PKO BP SA has 49.43% shares in the share capital of the Company, that give right to 49.43% shares at the shareholders' meeting.  
CENTRUM HAFFNERA Sp. z o.o. holds 100% shares (that give right to 100% shares at the shareholders' meeting) in the following entities: Centrum Majkowskiego Sp. z o.o., Kamienica Morska Sp. z o.o., Promenada Sopocka Sp. z o.o. and Sopot Zdrój Sp. z o.o.
- Change of the Company name of PKO Towarzystwo Funduszy Inwestycyjnych SA  
On 20 March 2006, a change was registered in the National Court Register of the Company name into PKO Towarzystwo Funduszy Inwestycyjnych SA – former PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA
- Taking up shares in the increased share capital of INTER FINANCE Polska Sp. z o.o.  
On 11 May 2006, Bankowe Towarzystwo Kapitałowe SA – the Bank's subsidiary – acquired 409 shares in the increased share capital of INTER FINANCE Polska Sp. z o.o. having a total nominal value of PLN 409 thousand for PLN 3,247.7 thousand purchase price.  
As a result of the above transaction, Bankowe Towarzystwo Kapitałowe SA holds 45.0% shares in the share capital of this Company and 45.0% votes at its general shareholders' meeting.
- Increase in the value of investment of PKO Inwestycje Sp. z o.o. in UKRPOLINWESTYCJE Sp. z o.o.  
In June 2006, Peczersk Regional State Administration in Kiev (Ukraine) registered an increase in share capital of UKRPOLINWESTYCJE Sp. z o.o. with registered office in Kiev, through an increase in the nominal value of shares. Following this increase, the Company's share capital amounts to UAH 1,020 thousand (USD 200 thousand) and consists of 100 equal shares.  
After the registration of changes in share capital, PKO Inwestycje Sp. z o.o. - the Bank's subsidiary – holds 55 shares in UKRPOLINWESTYCJE Sp. z o.o., having a total nominal value of UAH 561 thousand (USD 110 thousand), entitling to 55 votes at the general shareholders' meeting.
- Disposal of shares held by the Bank in Wawel Hotel Development Sp. z o.o.  
On 8 August 2006, PKO BP SA concluded sale agreement of shares in Wawel Hotel Development Sp. z o.o. with registered office in Cracow, jointly controlled entity of the Bank. The Bank sold all 27,730 shares with a nominal value of PLN 500 each and having a total nominal value of PLN 13,865 thousand, representing 35.4% of the share capital of that company and entitling to 35.4% of the total vote at the general shareholders' meeting. Shares were sold to Quinn Property Holdings Limited with registered office in Dublin. The ultimate acquisition price amounted to PLN 27,807.5 thousand.
- Registration of share capital increase of Kolej Gondolowa Jaworzyna Krynicka SA.  
On 4 August 2006, an increase in the Company's share capital was registered with the National Court Register, amounting to PLN 335 thousand. The shares in the increased share capital were taken up by the City of Krynica Gorska. Following this increase, the Company's share capital amounts to PLN 41,388,150 and consists of 827,763 shares with a nominal value of PLN 50 each.  
As a result of the increase in the Company's share capital, the Bank's share in its share capital decreased from 37.83% to 37.53%, and the Bank's share in votes at the general shareholders' Meeting decreased from 36.85% to 36.71%.
- Taking up shares in the increased share capital of KREDOBANK SA



On 14 August 2006, PKO BP SA acquired 5,428,764,911 shares in the increased share capital of KREDOBANK SA having a total nominal value of UAH 54,287,649.11.

As a result of the above transaction, the Bank's share in the Company's share capital and in votes at the general shareholders' meeting increased from 69.018% to 69.933%;

- Disposal of shares held by the Bank in Hotel Jan III Sobieski Sp. z o. o., of which those acquired in September 2006.

On 19 September 2006, PKO BP SA acquired 145,361 shares in the increased share capital of associate Hotel Jan III Sobieski Sp. z o.o. having a total nominal value of PLN 78,494,940, acquisition price was equal to nominal value of the shares.

As a result of the above transaction, the Bank had 145,881 shares in the share capital of the Company, that represent 50.4% of the share capital of that Company and entitle to 50.4% of the total vote at the shareholders' meeting.

On 31 October 2006, PKO BP SA concluded the sale agreement of shares in Hotel Jan III Sobieski Sp. z o.o. with its registered office in Warsaw. The Bank sold all 145,881 of shares, with nominal value of PLN 540 each, to Europa Hawk S.a.r.l. with its registered office in Luxembourg for the total price of EUR 11,966 thousand (i.e. PLN 46,571.7 thousand). The price will be increased or decreased as a result of adjustments that will be concluded on the basis of the Company's balance sheet as at the date of transaction, in terms of net working capital;

- Refund by Fort Mokotów Sp. z o.o. of the additional payment received from PKO Inwestycje Sp. z o.o.

On 10 August 2006 and 31 October 2006, Fort Mokotów Sp. z o.o. refunded the additional payment received from PKO Inwestycje Sp. z o.o. in the amount of PLN 30.09 million;

- Refund by PKO Inwestycje Sp. z o.o. of the additional payment received from PKO BP SA;

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 purpose of carrying out the "Marina Mokotów" project in the amount as of PLN 30.09 million;

## **5. MAJOR EVENTS THAT HAD AN INFLUENCE ON THE ACTIVITIES AND RESULTS OF THE PKO BP SA GROUP IN 2006**

The main events that influenced the activities and results of the PKO BP SA Group in 2006 were connected with the business activities carried out by the Group companies and results achieved by the particular entities of the Group and have been described in the following sections of this Directors' Report.

## **6. PERFORMANCE OF THE PKO BP SA GROUP<sup>1</sup>**

### **6.1 PKO BP SA activity — the holding company of PKO BP SA Group**

PKO BP SA is a universal bank that deals with individual persons and legal entities and other domestic and foreign entities. PKO BP SA may possess foreign currency as well as make foreign currency transactions and open and hold bank accounts in foreign banks and put funds into these accounts.

As at 31 December 2006:

- the Bank's gross interest-bearing assets amounted to PLN 91.6 billion and increased by PLN 7.1 billion (i.e. 8.4%) compared to 31 December 2005, of that gross loans of PKO BP SA amounted to PLN 59.5 billion and since the beginning of the year increased by PLN 10.8 billion (i.e. 22.2%). Loans accounted for 65% of the total amount of interest-bearing assets and, compared to the end of 2005, this share increased by 7.4 pp. due to high dynamics in the balance of loans,
- the Bank's interest-bearing liabilities amounted to PLN 85.7 billion and increased by PLN 7.6 billion (i.e. 9.8%) since the beginning of the year. Retail banking deposits accounted for 65.0% of the

<sup>1</sup> The financial data of the PKO BP SA Group companies has been presented according to these companies' IAS/IFRS financial statements.



total amount of deposits and, compared to the balance at the end of 2005, this share decreased by 3.6 pp., for the benefit of the inter-bank deposits. In relation to 2005, retail banking deposits increased by 4.1%, housing deposits increased by 15.0%, SMEs deposits increased by 22.6%, corporate deposits increased by 8.3% and other deposits increased by 112.5%,

- the biggest part in the territorial structure of the deposit base had the following regions (excluding inter-bank deposits and deposits on Internet accounts): Mazowiecki (24.9%), Śląsko-Opolski (12.7%) and Wielkopolski (10.8%); their total share in all Bank's deposits amounted to 48.4% and in comparison to the end of the year 2005 decreased by 0.9 pp.,
- the number of savings-giro (ROR) accounts and Inteligo accounts increased by the total of 167 thousand and amounted to 6,070 thousand,
- the number of cards issued by PKO BP SA increased by 884 thousand and at the year end it amounted to 6,960 thousands, of which 410 thousand accounted for an increase in the number credit cards.

#### Retail banking

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

- new deposit products, among others, investment deposit, under which the investment part of the deposit may be allocated for the purchase of participation units issued by investment funds,
- intensification of sales of loan products, including Szybki Serwis Kredytowy (SSK) and introduction of possibility for the client to purchase an insurance policy to increase the client's security,
- intensification of sales through distribution channels, among others, offering new services to the users of the PKO Inteligo service line, that were previously offered for the holders of the Inteligo accounts and purchase of participation units issued by the, PKO/ CREDIT SUISSE investment funds, managed by PKO TFI SA, via the Internet.

#### Small and medium sized enterprises (SMEs)

The Bank's activities in the segment of small and medium sized enterprises focused on increasing the attractiveness of products offered by introduction of a new product (SUPER PAKIET, "Consolidation Programme" - „Program konsolidacyjny”), modification of the "Quick Credit Limit" ("Szybki Limit Kredytowy - SLK) product, simplification of lending procedure (relating to current account Partner). Moreover, the Bank supported entrepreneurs - beneficiaries of the EU structural funds and continued extending of cooperation with BGK SA and other local and regional guarantee funds.

#### Corporate banking

During the year 2006, the Bank continued to develop and modify its product offer and to tailor its proposed solutions to client needs. In doing so, the Bank, among others: implemented a package of services called Cash Management, that is addressed to corporate clients interested in the streamlining of cash management, introduced a service under which the bank's clients are provided with on-line access to their accounts via the PKO Inteligo Internet banking system, issued new banking cards: MasterCard Corporate Executive, MasterCard Corporate and MasterCard Corporate Municipium. Moreover, the Bank intensified sales of the Electronic Money Instrument (Instrument Pieniądza Elektronicznego – IPE) that is used to make payments to entitled persons using a banking card.

With respect to the corporate activity, in 2006 the Bank concluded 49 agreements for the issuance of municipal bonds and 6 agreements for the issuance of corporate bonds and organised 13 syndicated loans. The Bank also participated in bank syndicates organised on the European market in five loans granted to the foreign banks.

#### Real estate financing

In the area of housing loans, in 2006 the Bank in terms of housing market products (mortgage products and investor loans) focused its activities on maintaining its leading market position and maintaining high profitability of the products offered.



Activities undertaken in terms of the activation of sales resulted in reaching by the Bank the record sales level of mortgage products and investor loans of PLN 11 billion.

In order to increase product offer attractiveness and to tailor them further to client needs, the Bank carried out the following activities:

- implemented the 'Negocjator' application that enables the Bank to link the price of a given product with the client's use of other products and services offered by the Bank, including the loss of work insurance;
- introduced a loan with the functionality of account balancing, a loan with fixed interest rate, the Mix mortgage loan (that can be used by the client to finance three different purposes, i.e. housing needs, any purpose and repayment of other liabilities);
- extended its insurance product offer to include a loss of work insurance and insurance for low own contribution, and additionally, re-negotiated insurance premiums for other types of insurance products already offered by the Bank, what made these products more favourable for the customers;
- prepared for the introduction of a preferential housing loan with interest subsidized by BGK – to be included in the Bank's offer as of 24 January 2007.

#### Activities on the money market

Treasury activities, due to the value of transactions undertaken in this area and the value of funds engaged in such transactions, comprise one of business segments of the Bank. The Bank's activities are focused primarily on the following areas: investment securities portfolio management, financial risk management, trade activities carried out on the inter-bank market and with non-banking clients from the corporate, SME and private and personal banking segment.

In 2006, the Bank's activities were focused on the following:

- maintaining the desired effectiveness of the investment portfolio by adjusting the Bank's policy to current market conditions and diversifying the Bank's portfolio;
- managing financial risk by entering into transactions hedging against the interest rate, currency and liquidity risk;
- active participation in interest rate and interest rate derivative transactions on the inter-bank market and in currency market transactions.

In 2006, the Bank intensified activities aimed at increasing the sales of Treasury products to non-banking clients, and currency options, IRS and CIRS, became the standard element of the Bank's offer.

#### Financial results

As at 31 December 2006, the relation of the total assets of PKO BP SA to the Group amounted to 97.8% and the share of net profit of PKO BP SA in the consolidated net result of the Group amounted to 95.3% in 2006. The Bank as a holding company has major impact on the balance sheet and the profit and loss account of the PKO BP SA Group. Thus, the presented consolidated financial results in point 8 reflect also the results for PKO BP SA.

The activities of PKO BP SA - the Group's holding company, including its business activity as well as financial performance for the year 2006 have been presented in the *Directors' Report on the activities of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna in 2006*, that is an integral part of the annual report of PKO BP SA.

## **6.2 Activity of other entities of PKO BP SA Group**

### Bankowy Fundusz Leasingowy SA

The Company offers operating and finance lease services in respect of vehicles, machinery, equipment and real estate as well as other financial agency services. Special services of the Company include: BanCar Leasing, representing lease of passenger cars and trucks and Bankowy Wynajem - a long-term lease of vehicles.





- The value of the Company's equity at the end of 2006 amounted to PLN 28,146 thousand.
- The Company closed the year 2006 with a net profit of PLN 4,745 thousand.
- In 2006, the Company carried out lease agreements for a total amount of PLN 761.4 million. As regards the net value of the leased fixed assets, the Company ranked 11<sup>th</sup> at the end of 2006 (according to data published by *Rzeczpospolita* on 10 January 2007). Total value of net leased assets amounted to PLN 941 million.
- In June 2006 the Company signed with PKO BP SA an Agreement for Organisation, Conducting and Servicing of a Bond Issuance Program for the amount of PLN 100 million.
- In December 2006, the Company signed with PKO BP SA an Agreement for Organisation, Conducting and Servicing of a Bond Issuance Program, for an amount up to PLN 500 million, with the proviso that until 30 June 2007 the Company has the right to issue bonds for an amount not exceeding PLN 350 million. On the date of signing the above agreement, the previous agreement dated June 2006 was terminated.

#### Centrum Elektronicznych Usług Płatniczych eService SA

The main activities of eService SA include: the acquisition (to the Bank's order) of retail points, the so-called acceptors, that execute transactions with the use of cards, the management of POS terminals' network, processing of data relating to card transactions performed at POS terminals, and servicing of cash withdrawals at POS terminals installed, among other places, in PKO BP SA agencies and branches.

- The value of the Company's equity as at 31 December 2006 amounted to PLN 20,809 thousand.
- The Company closed the year 2006 with a net profit of PLN 15,516 thousand.
- The Company's share in the card acceptance market as regards the number of eService terminals reached the level of 33.1% at the end of 2006. The number of eService terminals at the end of 2006 amounted to 36,046, which means an annual increase by 21.95% in relation to December 2005.
- In 2006, 75.8 million transactions for a total amount of PLN 11.7 billion were conducted using the eService terminals. As regards the value of generated card transactions, the estimated Company's share in the market at the end of 2006 amounted to 27.9%

#### Centrum Finansowe Puławska Sp. z o.o.

The Company manages the building, "Centrum Finansowe Puławska", located at 15 Puławska Street in Warsaw.

- The value of the Company's equity at the end of 2006 amounted to PLN 207,203 thousand.
- The Company closed the year 2006 with a net profit of PLN 8,824 thousand.
- The rented office space and commercial area in the CFP building was changing slightly and amounted to 98.5% at the end of 2006.

#### Inteligo Financial Services SA

The main area of the business activities of Inteligo Financial Services SA is the provision of Internet banking services. The Company provides a platform for the development of electronic services of PKO BP SA in the field of keeping accounts and selling other banking products using interactive distribution channels.

- The value of the Company's equity at the end of 2006 amounted to PLN 75,177 thousand.
- The Company closed the year 2006 with a net profit of PLN 31,763 thousand.
- The value of deposits held by PKO BP SA customers using the Inteligo accounts increased in 2006 by PLN 310 million in relation to the end of 2005, and amounted to PLN 1,833 million at the end of 2006.
- At the end of 2006, the Company provided access to Internet banking systems to over 1,430 thousand PKO BP SA clients using the PKO Inteligo service line and provided services to over 530 thousand clients under the Inteligo account service offer.



- In April 2006 the Company started to provide access to the individual accounts held with the OFE Bankowy pension fund for the PKO BP SA clients holding the SUPERKONTO and PARTNER accounts and the holders of the Inteligo account. This access is provided through electronic channels [www.inteligo.pl](http://www.inteligo.pl) and [www.pkointeligo.pl](http://www.pkointeligo.pl).
- In November 2006, the Company signed an agreement with KREDOBANK SA for the provision of data transmission services to the bank in order to enable KREDOBANK SA to keep and maintain electronic access to the bank accounts held by its clients.
- At the end of 2006, the Inteligo account with a 9% market share ranks 4<sup>th</sup> on the Internet banking market in terms of the number of clients (estimates made by the Company on the basis of data in *Rzeczpospolita*).

#### Powszechne Towarzystwo Emerytalne BANKOWY SA

The main area of the activities of Powszechne Towarzystwo Emerytalne BANKOWY SA ("PTE") is the management of an open-end pension fund. Since 2003, the Bank holds 100% of PTE's shares.

- The value of equity of the PTE BANKOWY SA Group (PTE BANKOWY SA and its subsidiary, Finanse Agent Transferowy Sp. z o.o.) amounted to PLN 92,157 thousand as at 31 December 2006.
- The PTE BANKOWY SA Group closed the year 2006 with a net profit of PLN 20,001 thousand.
- In 2006, PTE reported a dynamic growth in the value of managed assets (collected in Bankowy Otwarty Fundusz Emerytalny - the open-end pension fund - "BOFE"). At the end of 2006, the value of BOFE assets amounted to PLN 3,706 million, which means an annual increase by 34.8% in relation to the end of 2005.
- At the end of 2006, the number of accounts kept for BOFE members amounted to 466,498.
- At the end of 2006, BOFE was ranked 8<sup>th</sup> on the market of pension funds, both as regards the value of assets and the number of accounts.
- In the ranking of the rates of return published by the Insurance and Pension Funds Supervisory Commission (KNUiFE) in October 2006, BOFE was ranked 12<sup>th</sup> on the listing of rates of return for the period from 30 September 2003 to 29 September 2006 with the result of 43.783%, while the weighted average was 45.833%.

#### PKO Inwestycje Sp. z o.o.

The Company's main activity is construction and development. PKO Inwestycje Sp. z o.o. specializes in the management of big development projects.

Development projects are carried out by PKO Inwestycje Sp. z o. o. itself or by its subsidiaries.

- The value of equity of the PKO Inwestycje Sp. z o. o. Group (PKO Inwestycje Sp. z o. o. and its subsidiaries) amounted to PLN 209,995 thousand at the end of 2006.
- The PKO Inwestycje Sp. z o.o. Group closed the year 2006 with a net profit of PLN 37,068 thousand.

In 2006, the Company's activities focused on the following development projects:

- Project "Marina Mokotów"

The project is carried out by the Company's special purpose vehicle, Fort Mokotow Sp. z o.o., in which PKO Inwestycje Sp. z o.o. holds 51% of shares. The project includes construction and sale of private lodgings and business premises located in Warsaw, at 107 Raclawicka Street.

The project is progressing according to the plan.

- Project „Nowy Wilanów"

The project is carried out by a special purpose vehicle, Wilanów Investments Sp. z o.o., that was set up in March 2004 and in which PKO Inwestycje Sp. z o.o. holds 100% of shares. The project includes construction and sale of private lodgings and business premises located in the prestigious Warsaw district, Wilanów.



The project shows little delay in terms of the completion of the first stage (hand-over of the buildings). The second stage is being accomplished in accordance with the schedule.

- Project „Trzy Gracje”

The project includes construction and sale of a housing and commercial complex in Sopot, and it has been carried out directly by PKO Inwestycje Sp. z o.o. All premises were sold in 2006.

- Project "Neptun Park"

The project is realized by a company, that was set up under the name of POMERANKA Sp. z o. o. in March 2005 and in which PKO Inwestycje Sp. z o. o. holds 100% of shares. The project includes construction and sale of private lodgings in Gdańsk Jelitkowo. The Company continues its work connected to the realization of Task I - construction of 5 buildings with 119 lodgings.

- Project "Kuzmińska"

The project is being carried out by UKRPOLINWESTYCJE Sp. z o.o., a company that was incorporated in August 2005 and in which PKO Inwestycje Sp. z o.o. holds 55% of shares. This project is being carried with a Ukrainian partner, IK Komfort Sp. z o.o., and involves the construction of 5 terraced 2-storey residential buildings in Kiev (Ukraine).

#### Bankowe Towarzystwo Kapitałowe SA

In 2006, the Company carried out work relating to commencement of its activities in the field of venture capital.

- The value of the Company's equity at the end of 2006 amounted to PLN 13,919 thousand.
- The Company closed the year 2006 with a net loss of PLN 4,414 thousand.
- At the end of December 2006, the Company managed an investment portfolio with a value of PLN 9.8 million, including investments in FINDER Sp. z o.o. and INTER FINANCE Polska Sp. z o.o.
- INTER FINANCE Polska Sp. z o.o. – a new company in the portfolio of BTK SA – does not carry out operations in Poland. This company is the sole shareholder of INTER FINANCE UKRAINA Sp. z o.o., that operates in the financial intermediary sector and cooperates with banks, insurance companies and other financial operators in Ukraine, whose lending and insurance services offer is directed to natural persons.
- In December 2006, BTK SA concluded an agreement for taking up 25,500 shares in the increased share capital of P.L. ENERGIA SA, with a nominal value of PLN 100 per share. The price paid for the acquisition of these shares amounted to PLN 4,999,785. Following the registration of share capital increase, that took place on 17 January 2007, BTK SA holds 33.77% of shares in the share capital of P.L. ENERGIA SA, which give right to 32.08% of the total vote at its general shareholders' meeting. Principal activities of P.L. ENERGIA SA include provision of services in the area of oil and gas exploitation and distribution.

#### KREDOBANK SA

KREDOBANK SA in Lviv conducts banking activities in Ukraine.

- The value of equity of KREDOBANK SA as at 31 December 2006 amounted to UAH 237,366 thousand.
- KREDOBANK SA closed the year 2006 with a net profit of UAH 27,231 thousand.
- The loan portfolio (gross) of KREDOBANK SA increased by UAH 883.2 million i.e. 54.7% since the beginning of the year 2006 and amounted to UAH 2,496.8 million at the end of December 2006.
- "A vista" deposits increased by UAH 109.6 million i.e. 24.0% during the year 2006 and amounted to UAH 565.8 million at the end of 2006.
- Clients' term deposits increased by UAH 723.8 million i.e. 68.9% since the beginning of the year and amounted to UAH 1,773.9 million at the end of 2006.
- In 2006, KREDOBANK SA concluded loan agreements with PKO BP SA, under which KREDOBANK SA was granted a revolving working capital loans in the total amount of USD 34.5 million.



- As at 31 December 2006, KREDOBANK SA had 20 branches and 106 local offices in 15 (out of 24) Ukrainian provinces and the Autonomous Republic of Crimea.
- In 2006, KREDOBANK SA continued to be classified in Group II of the Ukrainian banks – “big banks”, i.e. group of banks with the value of assets exceeding UAH 1,800 million.
- In accordance with the Ukrainian law, in 2006 KREDOBANK SA received again the status of a universal bank.
- In September 2006, KREDOBANK SA signed a loan agreement with a related party of PKO BP SA – UKRPOLINWESTYCJE Sp. z o.o., under which it granted an investment loan of USD 2,895 thousand to this Company.

#### PKO Towarzystwo Funduszy Inwestycyjnych SA

The business activities of PKO Towarzystwo Funduszy Inwestycyjnych SA include setting up and management of investment funds.

- On 6 April 2006, PKO BP SA acquired 25% shares of the Company and became the owner of 75% shares of PKO Towarzystwo Funduszy Inwestycyjnych SA.
- As at 31 December 2006, the value of the Company's equity amounted to PLN 90,300 thousand.
- The Company closed the year 2006 with a net profit of PLN 65,483 thousand. It should be indicated that the financial result achieved by the Company more than doubled comparing to the result achieved by PKO TFI SA at the end of 2005 (PLN 30,154 thousand).
- The value of assets of the funds managed by the Company amounted to PLN 8.5 billion at the end of 2006, which gave the Company an 8.65% share in the investment fund market and ranked it 4<sup>th</sup> among such companies.
- In 2006, PKO TFI SA extended its offer to include the following funds: PKO/CREDIT SUISSE Bezpieczna Lokata I (safe deposit fund), PKO/CREDIT SUISSE Akcji Małych i Średnich Spółek (SME shares equity fund), PKO/CREDIT SUISSE Europejskiego Rynku Akcji (European equity fund), PKO/CREDIT SUISSE Amerykańskiego Rynku Akcji (American equity fund) and PKO/CREDIT SUISSE Japońskiego Rynku Akcji (Japanese equity fund).
- In 2006, the Company paid out to the shareholders a dividend from the profit for the year 2005 amounting in total to PLN 29.8 million (gross).

## **7. OTHER SIGNIFICANT SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES <sup>2</sup>**

### CENTRUM HAFFNERA Sp. z o.o.

CENTRUM HAFFNERA Sp. z o.o. together with its subsidiaries carries out an investment project relating to re-vitalisation of Sopot's tourist centre.

- The value of equity of CENTRUM HAFFNERA Sp. z o.o. Group (CENTRUM HAFFNERA Sp. z o.o. and its subsidiaries) at the end of 2006 amounted to PLN 90,916 thousand.
- The Group closed the year 2006 with a net profit of PLN 1,169 thousand.

### Centrum Obsługi Biznesu Sp. z o.o.

The Company's activity is construction of office and hotel complex in Poznań. In January 2007 the Company put into operation the Sheraton Poznań Hotel.

- The value of equity of the Company amounted to PLN 34,260 thousand at the end of 2006.
- The Company closed the year 2006 with a loss of PLN 7,376 thousand.

### Bank Pocztowy SA

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<sup>2</sup> Financial results of subsidiaries, associates and jointly controlled entities are presented according to Polish Accounting Standards - unaudited.



Bank Pocztowy SA conducts banking activity.

- The value of equity of the Company amounted to PLN 205,930 thousand at the end of 2006.
- The Company closed the year 2006 with a net profit of PLN 24,090 thousand.

#### Kolej Gondolowa Jaworzyna Krynicka SA

The Company was set up mainly for the purpose of construction and operation of cable railway from Krynica to Jaworzyna Krynicka and carrying people on ski lifts.

- The value of the Company's equity amounted to PLN 31,284 thousand at the end of 2006.
- The Company closed the year 2006 with a net profit of PLN 2,094 thousand.

#### Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.

The Company's activity is granting of sureties and guarantees which secure the repayment of loans and advances, granted to small and medium sized enterprises (SMEs) by financial institutions.

- The value of the Company's equity of amounted to PLN 4,786 thousand at the end of 2006.
- The Company closed the year 2006 with a net profit of PLN 149 thousand.

#### Agencja Inwestycyjna CORP SA

The Company's activity is business premises management in Warsaw.

- The value of the Company's equity amounted to PLN 1,180 thousand at the end of 2006.
- The Company closed the year 2006 with a net profit of PLN 374 thousand.

## **8. FINANCIAL PERFORMANCE OF THE PKO BP SA GROUP**

Neither the Bank nor any other company from the PKO BP SA Group published any forecasts relating to the financial results for the year 2006.

### **8.1 Consolidated balance sheet**

The balance sheet of the holding company has the most significant influence on the balance sheet of the Group. It determines both the value and the structure of the Group's assets and liabilities. As at 31 December 2006, total assets of PKO BP SA accounted for 97.8% of total assets of the Group.

As at 31 December 2006, total assets of the Group amounted to PLN 101,261 million and increased by PLN 9,648 million, i.e. by 10.5%, compared to the end of 2005.

#### **8.1.1 Assets**

Table 3. Main asset categories of the PKO BP SA Group (in PLN thousands)



| Specification  | As at:             |                   | Change:          |              |
|--|--------------------|-------------------|------------------|--------------|
|  | 31.12.2006         | 31.12.2005        | in PLN thousands | %            |
| <i>1</i>   | <i>2</i>           | <i>3</i>          | <i>4</i>         | <i>5</i>     |
| 1. Cash and balances with the Central Bank                                 | 4 628 134          | 3 895 331         | 732 803          | 18.8%        |
| 2. Amounts due from banks  | 13 430 590         | 12 663 295        | 767 295          | 6.1%         |
| 3. Financial assets  | 392 380            | 851 003           | (458 623)        | (53.9)%      |
| 4. Derivative financial instruments  | 1 199 556          | 1 137 227         | 62 329           | 5.5%         |
| 5. Other financial instruments valued at fair value through profit or loss | 11 360 064         | 20 059 683        | (8 699 619)      | (43.4)%      |
| 6. Loans and advances to customers   | 58 906 607         | 46 874 629        | 12 031 978       | 25.7%        |
| 7. Investment securities   | 6 763 188          | 1 881 378         | 4 881 810        | 259.5%       |
| 8. Tangible fixed assets   | 2 655 041          | 2 643 551         | 11 490           | 0.4%         |
| 9. Other assets  | 1 925 653          | 1 607 084         | 318 569          | 19.8%        |
| <b>Total assets</b>  | <b>101 261 213</b> | <b>91 613 181</b> | <b>9 648 032</b> | <b>10.5%</b> |

Compared to the balance as at 31 December 2005, the balance sheet of the Group showed the following main changes in the assets' structure:

- increase in the share of "Loans and advances to customers" by 7.0 pp. to 58.2% thanks to high dynamics of this item resulting from increased sale activeness of the Bank in the area of lending,
- a decrease in "Other financial instruments at fair value through profit or loss" (comprising a portfolio of securities classified into the ALPL<sup>3</sup> portfolio), by 10.7 pp. to 11.2% and an increase in the share of loans and advances and of "Investment securities", comprising a portfolio of securities classified as available for sale, by 4.6 pp. to 6.7%. The change resulted from the activities undertaken in order to build an optimum relation between assets' profitability and variability of the result realized on the portfolio of debt securities.

Table 4. Loans and advances granted to the customers of the PKO BP SA Group (in PLN thousands)

| Specification  | As at:            |                   | Change:           |              |
|--|-------------------|-------------------|-------------------|--------------|
|  | 31.12.2006        | 31.12.2005        | in PLN thousands  | %            |
| <i>1</i>   | <i>2</i>          | <i>3</i>          | <i>4</i>          | <i>5</i>     |
| I. Net loans and advances to customers                                 | 57 964 043        | 46 283 983        | 11 680 060        | 25.2%        |
| 1. Gross loans and advances granted to customers, of which granted to: | 60 367 865        | 49 226 992        | 11 140 873        | 22.6%        |
| - public sector  | 6 061 924         | 6 749 221         | (687 297)         | (10.2)%      |
| - financial sector (except for banks)                                  | 369 998           | 332 727           | 37 271            | 11.2%        |
| - non-financial sector   | 53 935 943        | 42 145 044        | 11 790 899        | 28.0%        |
| 2. Allowances for loans showing indicators of impairment               | (2 403 822)       | (2 943 009)       | 539 187           | (18.3)%      |
| II. Net receivables due to financial leasing                           | 942 564           | 590 646           | 351 918           | 59.6%        |
| <b>Loans and advances to customers</b>                                 | <b>58 906 607</b> | <b>46 874 629</b> | <b>12 031 978</b> | <b>25.7%</b> |

Receivables from customers with maturities over 1 year had a predominant role in the term structure of gross loans and advances as at the end of 2006 and 2005. Their total share in the Group's loan portfolio increased from 64.2% at the end of 2005 to 64.8% at the end of 2006 mainly due to high dynamics of long-term housing loans. At the same time, the share of loans and advances with maturity up to 3 months decreased by 2.4 pp. and amounted to 20.2%.

<sup>3</sup> Assets and liabilities at fair value through profit or loss.



Further information concerning the maturity terms of loans and advances given to clients of the Group contains the Note 28 of Additional Information to the Consolidated Financial Statements.

### 8.1.2 Equity and Liabilities

#### Liabilities

Table 5. Main items of liabilities and equity of the PKO BP SA Group (in PLN thousands)

| Specification                       | As at:             |                   | Change:          |              |
|-------------------------------------|--------------------|-------------------|------------------|--------------|
|                                     | 31.12.2006         | 31.12.2005        | in PLN thousands | %            |
| <i>1</i>                            | <i>2</i>           | <i>3</i>          | <i>4</i>         | <i>5</i>     |
| 1. Liabilities, of which:           | 91 080 633         | 82 838 191        | 8 242 442        | 10.0%        |
| - Amounts due to the Central Bank   | 1 387              | 766               | 621              | 81.1%        |
| - Amounts due to other banks        | 4 193 090          | 2 083 346         | 2 109 744        | 101.3%       |
| - Derivative financial instruments  | 1 098 863          | 1 257 384         | (158 521)        | (12.6)%      |
| - Amounts due to customers          | 82 900 142         | 76 747 563        | 6 152 579        | 8.0%         |
| - Other liabilities                 | 2 887 151          | 2 749 132         | 138 019          | 5.0%         |
| 2. Total equity                     | 10 180 580         | 8 774 990         | 1 405 590        | 16.0%        |
| <b>Total liabilities and equity</b> | <b>101 261 213</b> | <b>91 613 181</b> | <b>9 648 032</b> | <b>10.5%</b> |

The most significant item of the Group's liabilities and equity (81.9%) consists of amounts due to customers, which amounted to PLN 82,900 million as at 31 December 2006 and increased by 8.0% compared to the balance at the end of 2005. It was the main source of financing of the Group.

As at 31 December 2006, the main item in the Group's amounts due to customers (accounting for 81.4% of the total balance) consisted of amounts due to private customers, which amounted to PLN 67,500 million. The most significant item in this category consisted of term deposits, which amounted to PLN 42,787 million at the end of 2006 and decreased by 0.1% compared to the end of 2005.

The following changes took place in amounts due to customers compared to the end of 2005:

- amounts due to private customers increased by PLN 3,960 million, i.e. by 6.2% (of which current deposits increased by PLN 3,987 million, i.e. by 19.3%)
- amounts due to corporate entities increased by PLN 2,216 million, i.e. by 22.1%, and this almost to the same extent related to current and overnight deposits, which jointly increased by PLN 1,040 million, i.e. by 23.2% and term deposits, which increased by PLN 1,112 million, i.e. by 20.2%.
- amounts due to public sector entities decreased by PLN 24 million (i.e. by 0.7%).

In the amounts due to the customers of the Group by maturity, compared to the end of 2005, an increase was observed in amounts due to customers within up to 1 month (including current accounts and overnight deposits), that increased by 16.4% compared to the end of 2005, while the balance of deposits with maturities over 1 month decreased by 4.9%. This had an impact on the term structure of amounts due to customers, in which the percentage of short-term amounts due to customers (up to 1 month) increased from 60.7% to 65.3%, with a corresponding decrease in the percentage of liabilities with longer maturity periods.

As at 31 December 2006 the share of amounts due over one year accounted for 2.0% of the total amounts due to customers and compared to the state at the end of 2005 their share remained at the same level.



## 8.2 Consolidated profit and loss account

Table 6. Main items of profit and loss account of PKO BP SA Group (in PLN thousands)

| Specification   | 2006             | 2005             | Dynamics      |
|---|------------------|------------------|---------------|
| 1   | 2                | 3                | 4             |
| 1. Net interest income  | 3 808 745        | 3 544 475        | 107.5%        |
| 2. Net fees and commission income   | 1 722 561        | 1 217 882        | 141.4%        |
| 3. Dividend income  | 3 604            | 16 112           | 22.4%         |
| 4. Result from financial instruments at fair value through profit or loss | (90 849)         | 31 706           | x             |
| 5. Result from investment securities                                      | 50 356           | 276 856          | 18.2%         |
| 6. Foreign exchange result  | 544 493          | 612 101          | 89.0%         |
| 7. Net other operating income   | 784 112          | 766 523          | 102.3%        |
| <b>8. Total income items (1-7)</b>  | <b>6 823 022</b> | <b>6 465 655</b> | <b>105.5%</b> |
| 9. Impairment losses  | (651)            | (161 090)        | 0.4%          |
| 10. General administrative expenses                                       | (4 117 178)      | (4 161 051)      | 98.9%         |
| 11. Share in the profits (losses) of associates                           | (3 705)          | 23 531           | x             |
| <b>12. Profit before taxation</b>   | <b>2 701 488</b> | <b>2 167 045</b> | <b>124.7%</b> |
| 13. Income tax expense  | (494 039)        | (411 424)        | 120.1%        |
| 14. Profits (losses) of minority shareholders                             | 58 397           | 20 801           | 280.7%        |
| <b>15. Net profit</b>   | <b>2 149 052</b> | <b>1 734 820</b> | <b>123.9%</b> |

### 8.2.1 Income items

In the profit and loss account of the Group for the year 2006, the total of income items amounted to PLN 6,823 million and was by PLN 357 million (i.e. by 5.5%) higher than in 2005. The main items comprising this amount were net interest income and net fees and commission income.

#### Net interest income

Table 7. Interest income and expense of the PKO BP SA Group (in PLN thousands)

| Specification  | 2006               | 2005               | Dynamics      |
|--|--------------------|--------------------|---------------|
| 1  | 2                  | 3                  | 4             |
| <b>Interest income, of which:</b>                      | <b>5 571 159</b>   | <b>5 662 012</b>   | <b>98.4%</b>  |
| - from loans and advances granted to customers         | 3 918 884          | 3 573 404          | 109.7%        |
| - from securities at fair value through profit or loss | 762 133            | 1 256 445          | 60.7%         |
| - from placements with other banks                     | 547 016            | 601 248            | 91.0%         |
| - from investment securities                           | 259 710            | 139 506            | 186.2%        |
| - other  | 83 416             | 91 409             | 91.3%         |
| <b>Total interest expense, of which:</b>               | <b>(1 762 414)</b> | <b>(2 117 537)</b> | <b>83.2%</b>  |
| - relating to amounts due to customers                 | (1 557 248)        | (1 924 327)        | 80.9%         |
| - relating to deposits from other banks                | (90 353)           | (71 969)           | 125.5%        |
| - other  | (114 813)          | (121 241)          | 94.7%         |
| <b>Net interest income</b>                             | <b>3 808 745</b>   | <b>3 544 475</b>   | <b>107.5%</b> |

The increase in the net interest income of the Group by 7.5% took place when the PLN interest rates were significantly lower (e.g. in 2006, the average 1M WIBOR was 121 base points lower than in 2005), following efforts made to move the interest result from the deposit to the credit side.

The most significant item in the Group's interest income in 2006 was income from loans and advances granted to customers, that accounted for 70.3% of total interest income (7.2 pp. increase in relation

to 2005), and then interest income from securities at fair value through profit or loss (13.7%) and interest income from inter-bank deposits (9.8%).

In the structure of interest expense in 2006, the most significant item was the expense related to amounts due to customers, that accounted for 88.4% of total interest expense and decreased by 2.5 pp. in relation to 2005 while the share of interest expense on inter-bank deposits increased.

In 2006 the average interest rate of loans in PKO BP SA was 6.9%<sup>4</sup> while the average interest rate of deposits was 1.9%<sup>5</sup>. Compared to 2005, these rates were by 0.8 pp. and 0.7 pp. lower, respectively.

#### Net fees and commission income

Table 8. Fees and commission income and expense of the PKO BP SA Group (in PLN thousands)

| Specification  | 2006             | 2005             | Dynamics      |
|--|------------------|------------------|---------------|
| <i>1</i>   | <i>2</i>         | <i>3</i>         | <i>4</i>      |
| <b>Fees and commission income, of which:</b>   | <b>2 088 600</b> | <b>1 537 579</b> | <b>135.8%</b> |
| - on running of bank accounts  | 740 073          | 593 520          | 124.7%        |
| - on servicing of payment cards  | 533 736          | 433 728          | 123.1%        |
| - on loans and advances granted  | 224 204          | 96 080           | 233.4%        |
| - on cash operations   | 208 612          | 205 438          | 101.5%        |
| - on activities relating to servicing of investment funds and operations with securities | 124 431          | 57 940           | 214.8%        |
| - other  | 257 544          | 150 873          | 170.7%        |
| <b>Fees and commission expense, of which:</b>  | <b>(366 039)</b> | <b>(319 697)</b> | <b>114.5%</b> |
| - on payment cards   | (203 476)        | (156 211)        | 130.3%        |
| - on acquisition services  | (121 053)        | (116 438)        | 104.0%        |
| - other  | (41 510)         | (47 048)         | 88.2%         |
| <b>Net fees and commission income</b>  | <b>1 722 561</b> | <b>1 217 882</b> | <b>141.4%</b> |

Net fees and commission income achieved in 2006 was by PLN 505 million higher compared to that achieved in the prior year, thanks to higher fees and commission income by PLN 551 million, with an increase in fees and commission expense by PLN 46 million.

The increase in fees and commission income in 2006 was the effect of, among others:

- the launching of new investment products, which generate additional commission income,
- increase in the number of banking cards and the number of transactions made with the use of these cards,
- high dynamics of the sales of loans,
- changes in the level of commission and fees and introduction of new items to the Tariff of banking fees and commission of PKO BP SA as of 1 January 2006.

The increase of fees and commission expense in 2006 was mainly due to increase in expense on payment cards by PLN 47 million.

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<sup>4</sup> The average interest rate for loans was calculated as the relation of interest income from loans to the average balance of loans in the reporting period.

<sup>5</sup> The average interest rate for deposits was calculated as the relation of interest expense relating to deposits to the average balance of deposits in the reporting period.

### Other income items

In 2006, total other income items (other than net interest income and net fees and commission income) amounted to PLN 1,292 million and decreased by 24.2% in comparison to 2005. This was due to the following:

- the result on financial instruments at fair value for 2006 amounted to PLN (-) 91 million and was PLN 123 million lower than the result recorded in the prior year; such result was mainly due to the situation on the financial market during the year 2006, including in particular the uncertainty on the domestic financial market and the risk margins of Polish Treasury securities denominated in EUR. Additionally, another factor that had an impact on the level of this result was the decrease, during the 2<sup>nd</sup> half of 2006, of the balance of securities classified under the ALPL portfolio and an increase in the balance of investment securities,
- the result from investment securities for the year 2006 amounted to PLN 50 million, whereas the result for the year 2005 was by PLN 227 million higher due to the gains realized by PKO BP SA during that year from the sale of packages of shares in companies listed on the WSE,
- foreign exchange result for the year 2006 amounted to PLN 544 million and was by PLN 68 million lower than the result for the year 2005; the decrease in the foreign exchange result was due to the decrease in the result on swap transaction (swap points) as a result of narrowing spreads between Polish and foreign interest rates after the successive decreases of Polish interest rates with simultaneous increases in interest rates abroad,
- net other operating income for the year 2006 amounted to PLN 784 million (an increase of 2.3%) and consisted of: operating income of PLN 1,022 million and operating expense of PLN 238 million, 17.7% and 133.5% - respectively – higher than in 2005; the increase of both other operating income and other operating expense was due to the full consolidation of PKO TFI in 2006 in accordance to the increased share in the share capital to 75%.
- dividend income amounted to PLN 4 million (decrease by 77.6%); the decrease in the dividend income results from high dividends received from companies listed on the WSE in 2005, whose shares were sold by PKO BP SA in 2005.

#### **8.2.2 Result on impairment allowances**

Impairment losses for the year 2006 amounted to PLN (-) 0.7 million and improved by PLN 160 million compared to the result for the year 2005, mainly due to:

- the improvement of the quality of loan portfolio,
- the improvement in the economic and financial standing of business customers,
- the improvement in debt collection and as a result the increase of recovery rates assumed in the calculation of impairment losses.

#### **8.2.3 General administrative expenses**

Table 9. General administrative expenses

| Specification                    | 2006               | 2005               | Dynamics     |
|----------------------------------|--------------------|--------------------|--------------|
| <i>1</i>                         | <i>2</i>           | <i>3</i>           | <i>4</i>     |
| 1. Employee costs                | (2 255 255)        | (2 052 735)        | 109.9%       |
| 2. Non-personnel costs           | (1 468 381)        | (1 566 865)        | 93.7%        |
| 3. Depreciation and amortization | (317 911)          | (466 540)          | 68.1%        |
| 4. Other                         | (75 631)           | (74 911)           | 101.0%       |
| <b>Total</b>                     | <b>(4 117 178)</b> | <b>(4 161 051)</b> | <b>98.9%</b> |

In 2006, general administrative expenses of the Bank were 1.1% lower than in 2005. The individual expense items were as follows:

- Employee costs increased by PLN 203 million comparing to 2005. The main reasons for the increase were:

- updating of provisions for future liabilities towards employees relating to jubilee and retirement benefits and provisions for indemnification benefits for PKO BP SA employees whose employment contracts will be terminated in 2007 for reasons independent of the employee, which caused an increase in the costs by a total of PLN 144 million,
- the increase in the costs of salaries as a result of the Bank's strategy aimed at gradual adjusting the salaries level in the Bank to the average salaries level in the banking sector in Poland,
- Non-personnel costs decreased by PLN 98 million compared to 2005 mainly due to restructuring processes,
- Depreciation of tangible fixed assets and amortization of intangible assets decreased by PLN 149 million, mainly due to reassessment of useful lives of tangible fixed assets and intangible assets recognized before 1 January 2006,
- Other administrative expenses in 2006 increased by PLN 0.7 million. The main items are: taxes and charges and contribution to the Banking Guarantee Fund, calculated as a specific percentage of risk assets weighted (determined separately for each year) in 2005.

#### 8.2.4 Key financial ratios

The financial results of the PKO BP SA Group for 2006 translated in the following levels of the key financial ratios:

Table 10. Financial ratios

| Specification  | 2006     | 2005     |
|--|----------|----------|
| <i>1</i>   | <i>2</i> | <i>3</i> |
| 1. Profit (loss) before taxation / average assets (ROA <sup>6</sup> <sub>gross</sub> ) | 2.8%     | 2.4%     |
| 2. Net profit (loss) / average assets (ROA <sub>net</sub> )                            | 2.2%     | 2.0%     |
| 3. Profit (loss) before taxation / average equity (ROE <sup>7</sup> <sub>gross</sub> ) | 28.5%    | 24.6%    |
| 4. Net profit (loss) / average equity (ROE <sub>net</sub> )                            | 22.7%    | 19.7%    |
| 5. General administrative expenses / total income items (C/I)                          | 60.3%    | 64.4%    |

#### 8.3 Equity and Capital Adequacy Ratio

Table 11. Equity of the PKO BP SA Group (in PLN thousands)

| Specification   | As at:            |                  | Change:           |              |
|---|-------------------|------------------|-------------------|--------------|
|   | 31.12.2006        | 31.12.2005       | in PLN thousands  | %            |
| <i>1</i>  | <i>2</i>          | <i>3</i>         | <i>4</i>          | <i>5</i>     |
| 1. Share capital  | 1 000 000         | 1 000 000        | 0                 | 0.0%         |
| 2. Other capital items  | 7 165 597         | 5 850 063        | 1 315 534         | 22.5%        |
| 3. Differences from foreign operations                            | (13 672)          | (4 082)          | (9 590)           | 234.9%       |
| 4. Retained earnings  | (222 671)         | 150 405          | (373 076)         | x            |
| 5. Net profit for the period                                      | 2 149 052         | 1 734 820        | 414 232           | 23.9%        |
| 6. Equity attributable to the shareholders of the holding company | 10 078 306        | 8 731 206        | 1 347 100         | 15.4%        |
| 7. Minority interest  | 102 274           | 43 784           | 58 490            | 133.6%       |
| <b>Total equity</b>   | <b>10 180 580</b> | <b>8 774 990</b> | <b>1 405 590</b>  | <b>16.0%</b> |
| <b>Capital adequacy ratio</b>                                     | <b>11.81%</b>     | <b>13.90%</b>    | <b>(2.09) pp.</b> |              |

<sup>6</sup> The ROA gross and ROA net ratios are calculated as the relation of, respectively, gross profit (loss) and net profit (loss) to the arithmetical mean of the balances of assets at the beginning and end of the reporting period.

<sup>7</sup> The ROE gross and ROE net ratios are calculated as the relation of, respectively, gross profit (loss) and net profit (loss) to the arithmetical mean of the balances of shareholders' equity (including accumulated profits from previous years and net profit for the period) at the beginning and end of the reporting period.



An increase of the total capital requirement by 32.6% - mainly due to the increase of assets with a risk weighting of 100% as a result of growth of the Bank's loan portfolio growth contributed to the decrease of the capital adequacy ratio.

## 9. RISK MANAGEMENT POLICY

The risk management system is one of the most important internal processes both in the Bank and other companies of the PKO BP SA Group, particularly in KREDOBANK SA and in Bankowy Fundusz Leasingowy SA (BFL SA). The aim of risk management is to ensure an appropriate level of security and profitability of the business activity in the changing legal and economic environment. Risk management covers both credit risk management and market risk and operating risk management.

### 9.1 Credit risk

The aim of effective management of credit risk is to increase the level of security and profitability of offered services. In credit risk management, the Bank and other companies of the PKO BP SA Group follow the following rules:

- each loan transaction is subject to comprehensive credit risk assessment, that 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,
- after preparation, credit risk assessment is subject to additional verification by credit risk assessment forces independent of the business forces,
- credit risk is diversified by geographic regions, industry, products and clients,
- loan decisions can only be taken by authorized persons,
- the Bank and other PKO BP SA Group companies, hedge against credit risk by recognizing impairment write-downs for the impairment of loan exposures.

Credit risk management system is subject to on-going improvement and adjustment to new sources and factors of banking risk.

In 2006, the Bank's internal regulations relating to the assessment of credit capacity of clients applying for foreign currency loans and setting up limits for the structure of the portfolio of loans to be used for the financing of real estate by individual clients, were adjusted to the requirements set out in Recommendation "S" (relating to best practices in the area of loan exposures secured by mortgage), that was issued by the Commission for Banking Supervision. Moreover the Bank has developed methodology and started to perform regular stress tests on the portfolio of housing loans, taking into consideration unfavourable changes in interest rates, foreign exchange rates and possible decrease in the prices of the properties representing collateral for granted loans.

In 2006, the Bank continued its work connected to the development of portfolio credit risk measurement methodology and the widening of the extent of estimated portfolio credit risk measures. The methods of portfolio credit risk measurement allow the Bank to, among others, account for credit risk in the price of its services, measure profitability adjusted for the risk factor, manage collateral policy and determine the level of impairment rates based on internal models. Portfolio credit risk analysis also includes other companies from the PKO BP SA Group which are exposed to significant credit risk (KREDOBANK SA, Bankowy Fundusz Leasingowy SA).

In the beginning of 2006, the Bank finalized the project relating to the development of a detailed timetable of activities to be taken in order to achieve full compliance with the requirements of the NCA and the CRD directive by the end of 2007. At the same time, the Bank decided to implement the standardized approach with respect to credit risk, in accordance with the directive on capital requirements. In 2006, the Bank carried out intense activities in order to implement appropriate solutions with regard to internal processes, information systems and the required internal regulations.

In 2006, BFL SA, in accordance with the loan agreement signed with the European Bank for Reconstruction and Development, implemented new procedures for the assessment of ecological risk,





and thus increased the range of risk factors the assessment of which is regulated in its internal regulations.

In 2006, KREDOBANK SA amended its internal regulations regarding lending policies, assessment of borrowers, acceptance and monitoring of collateral and taking loan granting decisions. In addition, it introduced a new regulation concerning identification of relationships existing between borrowers.

## 9.2 Financial risk

The structure of the balance sheet and off-balance sheet liabilities of the PKO BP SA Group does not expose the Group to the risk of loss of liquidity understood as the ability to meet current and future obligations. The holding company of the Group has a coherent, developed liquidity risk management system. The Bank has the stable deposit base and a portfolio of liquid securities, that have an influence on the fact that it is the bank of high financial liquidity. High level of liquid assets in the balance sheet of the Bank and stable financing sources cause that the Bank's liquidity is not threatened.

Because of the Group's structure, the risk is generated mainly by PKO BP SA - the holding company of the Group.

In 2006 the Bank has concluded works on including the risk generated in other companies of the Group in the rules of the interest rate risk, liquidity risk, foreign exchange risk and derivatives risk management system. The companies generating the substantial market risk in their activity, such as KREDOBANK SA and Bankowy Fundusz Leasingowy SA have their own risk management rules.

In 2006, the Bank continued to carry out development work on the specialized IT system supporting financial risk management, that improves the operating efficiency and IT security of the financial risk management process and increases the level of automation of computations and allows for their centralization. The Bank is now in the process of adjusting this IT system to its existing requirements and to the changes in the macroeconomic environment in which the Bank operates.

### Financial risk profile of the Group in 2006

The interest rate risk, foreign exchange risk, liquidity risk and derivatives risk in the PKO BP SA Group was influenced mainly by the risk generated by the Bank.

The indicators of the above mentioned risks remained at all times at the level which did not represent a threat for the Group. In 2006 in the companies of the Group the works on the update of management rules of respective risk types were carried out.

In 2006, the Group's companies did not conduct the activity classified to the trading portfolio, thus they generated capital requirements only due to the credit risk and foreign exchange risk in the banking portfolio.

## 9.3 Operational risk

Operational risk is defined as the risk of a loss arising from non-compliance or weakness of internal processes, people and systems or from external events. The objective of operational risk management is to optimise operational efficiency by reducing operating losses, rationalization of costs and increasing the speed and adequacy of the Bank's and other Group companies' response to events that are beyond their control.

In the field of operational risk management, the Bank follows the following rules:

- operational risk management principles and procedures cover the full scope of the Bank's activities,
- the Bank has defined specific responsibilities and reporting lines in the area of operational risk management at different decision-taking levels,
- the Bank's internal regulations define the process of identification and assessment of threats relating to operational risks for all significant areas of the Bank's activity,
- the Bank regularly monitors operational events with financial impact, exceeding the amount specified in its internal regulations and communicates them to the Bank's Management Board,



- operational risk management is performed at the level of comprehensive system solutions and day-to-day risk management activities,
- comprehensive operational risk management is delegated to selected head office units and specialized organisational units, that are responsible for setting detailed objectives,
- the process of operational risk management is coordinated by the Bank's Credit and Operational Risk Department,
- the Bank gives its opinion on selected operational risk management solutions applied by the PKO BP SA Group companies.

Operational risk management regulations were extended in 2006 to include provisions regulating cooperation between the PKO BP SA Group companies in the area of operational risk management. On that basis, Group companies started to cooperate in the area of operational risk identification, measurement, monitoring and reporting.

As part of preparations for the implementation of the provisions of the New Capital Accord, the Bank developed a methodology for the calculation of capital requirements relating to operational risk. In accordance with this methodology, capital requirement for operational risk will be calculated using the basic indicator approach.

The operational risk management policies and methods in KREDOBANK SA are set out in the bank's Operational Risk Management Regulation, the procedure for identification of operational risk in the process of designing and reviewing internal regulations, and the procedure for classification of operational events. These policies and procedures are consistent with the policies of PKO BP SA, with appropriate consideration given to the specific nature of the organization and activities of KREDOBANK SA.

BFL SA is currently in the process of organizing its operational risk management system. It is developing internal regulations on operational risk management, that are subject to Bank's review

Other Group companies are in the process of designing internal regulations on operational risk management, that are subject to Bank's review.

The operational risk management policies designed in the Group companies are consistent with the policies of PKO BP SA, while the scope of responsibilities of the particular organizational units and the scope of information collected on operational events gives consideration to the structure and specific nature of the activities carried out by these companies.

## 10. MAJOR EQUITY INVESTMENTS

Major equity investments of PKO BP SA and its subsidiaries relating to purchase and sale of shares in other subsidiaries, associates and jointly controlled entities are presented in point 4.2 of this Report.

In addition, in accordance with the agreement signed with the National Fund for Environmental Protection and Water Management (*Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej*) in 2006, the Bank purchased 644,297 shares in Bank Ochrony Środowiska SA in Warsaw, that represented 4.88% of the issued share capital of that Company and entitled to 4.88% of the total vote at its general shareholders' meeting. Consideration paid for these shares amounted to PLN 59.3 million.

## 11. RELATED PARTY TRANSACTIONS

In 2006, PKO BP SA provided the following services to related entities (subsidiaries, associates and jointly controlled entities):

- keeping bank accounts,
- accepting deposits,
- granting loans and advances,
- issuing debt securities,
- granting bank guarantees and conducting spot foreign exchange operations.



In addition, to fulfil agreement conditions under the lease agreement with Centrum Finansowe Puławska Sp. z o.o., in 2006 the Bank made payments to the Company for a total amount of PLN 42.8 million; these payments were mainly related to rent and operating fees.

All significant PKO BP SA transactions with its subsidiaries, associates and jointly controlled entities, including loan exposure of the Bank from these companies as at 31 December 2006, have been presented in the consolidated financial statements of PKO BP SA Group for the year 2006.

#### Granted off-balance sheet liabilities

Off-balance sheet liabilities of a financial and guarantee nature granted to related entities as at the end of 2006 amounted to PLN 275.8 million, and increased by PLN 194.6 million in comparison to the end of 2005.

In the total amount of granted off-balance sheet liabilities, the biggest balances relate to the following entities:

- Sopot Zdrój Sp. z o.o. – PLN 191.0 million relating to opened credit lines,
- Promenada Sopocka Sp. z o. o. – PLN 39.4 million relating to opened credit lines,
- Centrum Majkowskiego Sp. z o.o. - PLN 30.9 million relating to opened credit lines.

All related party transactions were made at an arm's length. Maturity dates range from 1 month to 10 years.

Detailed information on transactions with parties is described in Note 49 of Additional Information to the Consolidated Financial Statements.

## **12. INTERNATIONAL COOPERATION**

### Cooperation with the European Bank For Reconstruction and Development

- PKO BP SA participates in the "Loan Window" programme being a part of the "UE/EBRD SME Finance Facility" (on the basis of the Loan Agreement of 21 February 2003 concluded by PKO BP SA and the European Bank for Reconstruction and Development for the financing of small and medium-sized enterprises). Until 31 December 2006, the Bank had signed 2,493 loan agreements for a total amount of EUR 46.5 million.
- In 2006 Bankowy Fundusz Leasingowy SA used the first instalment of PLN 20 million out of the loan of PLN 60 million granted by EBRD in 2005. Money transferred in terms of the "The EU/EBRD SME Finance Facility", of which the source is among others – the European Commission, are dedicated to the development of small and medium-sized enterprises.

### Cooperation with other foreign institutions

- In 2006, PKO BP SA:
  - entered into seven ISDA Master Agreements with foreign banks and two Credit Support Annexes to previous ISDA agreements, and participated in five syndicated loans organized on the European market for foreign banks, with a total value of EUR 56 million,
  - completed the process of launching the Global Loan from the European Investment Bank. Funds from the first tranche of this loan will be allocated for the financing of investment projects carried out by local self-government authorities and municipal entities,
  - opened five *loro* accounts and one *nostro* account, closed two *nostro* accounts. As at 31 December 2006 the Bank holds 28 *nostro* accounts at correspondent banks, denominated in 3 currencies, and keeps 38 *loro* accounts denominated in three currencies,
- In December 2006, Bankowy Fundusz Leasingowy SA entered into a loan agreement with the European Investment Bank for an amount of EUR 50 million, for the financing of small and medium-sized enterprises,
- Thanks to co-operation with its shareholders, i.e. PKO BP SA and EBRD, as well as the main correspondent banks, KREDOBANK SA provides its clients with a wide range of services in the area of international transactions. KREDOBANK SA participates in the system of international

settlements with financial institutions from 19 countries. It holds 36 *nostro* accounts and keeps 73 *loro* accounts.

#### Cooperation with rating agencies

Ratings are currently assigned to the Bank by four rating agencies: Moody's, Standard & Poor's, Capital Intelligence and Fitch Ratings. These ratings are granted free of charge on the basis of generally available information, in particular interim and annual reports, and on the basis of information provided by the Bank directly to the representatives of the above agencies.

In 2006, the domestic strength rating assigned to PKO BP SA by Capital Intelligence increased from BB+ to BBB-.

Increases in the Bank's ratings are constrained by Poland's *country ceiling*, i.e. the level of ratings assigned by the agencies to the Polish economy.

Table 12. PKO BP SA ratings as at 31 December 2006

|  |                        |
|--|------------------------|
| <b>1. FITCH RATINGS</b>                        |                        |
| Support rating                                 | 2                      |
| <b>2. STANDARD AND POOR'S</b>                  |                        |
| Long-term local currency liabilities rating    | BBBpi                  |
| <b>3. MOODY'S INVESTORS SERVICE LTD.</b>       |                        |
| Long-term deposit rating                       | A2 stable outlook      |
| Short-term deposit rating                      | Prime-1 stable outlook |
| Financial strength                             | C stable outlook       |
| <b>4. CAPITAL INTELLIGENCE</b>                 |                        |
| Long-term foreign currency liabilities rating  | BBB+                   |
| Short-term foreign currency liabilities rating | A2                     |
| Domestic strength                              | BBB-                   |
| Support rating                                 | 2                      |
| Outlook  | Stable                 |

As at 31 December 2006, international rating agency Standard & Poor's assigned to KREDOBANK SA the following ratings:

- international long-term credit rating – "B",
- outlook – "Stable",
- international short-term credit rating, – "B",
- local Ukrainian rating, - "uaBBB".

## **13. INVESTOR RELATIONS**

### **13.1 Shareholders holding, directly or indirectly through subsidiaries, at least 5% of total votes at the general shareholders' meeting of the Issuer.**

According to the Bank's knowledge, the State Treasury is a shareholder that holds, directly or indirectly through subsidiaries, at least 5% of total votes at the Bank's general shareholders' meeting.

According to the Bank's knowledge, the State Treasury had the following number of PKO BP SA shares as at 31 December 2006:

Table 13. Shares held by the State Treasury as at 31 December 2006

| Shareholder    | Number of shares held | Percentage of Bank's share capital | Number of votes at general shareholders' meeting resulting from shares held | Percentage of votes held at general shareholders' meeting |
|----------------|-----------------------|------------------------------------|---|---|
| State Treasury | 514 959 296           | 51.50%                             | 514 959 296   | 51.50%  |

### 13.2 Changes in the Bank's Articles of Association

The Bank's Articles of Association were amended on 18 April 2006 on the basis of Resolution No 29/2006 of the ordinary general shareholders' meeting of PKO BP SA concerning amendments to the Articles of Association of PKO BP SA – by adopting the consolidated text of these Articles.

The Articles of Association were amended as a result of the following laws coming into effect:

- the Act of 1 April 2004 on amendments to the Banking Law and other laws, that set out the requirements that should be met by the bank's articles of association. In accordance with Art. 16 of this Act, within 2 years of its effective date all banks should adjust their articles of association to the requirements set out in Art. 31.3 of the Banking Law, by 1 May 2006,
- the Act of 29 July 2005 on trading in financial instruments (Journal of Laws No 183, item 1538), that has amended the terminology used in the previous articles of association,

The amendments made to the Bank's Articles of Association related, among others, to the following matters:

- indicating those members of Management Board whose appointment is subject to consent of the Commission for Banking Supervision;
- defining the rules for submitting declarations of intent on behalf of the Bank;
- defining the rules for taking decisions in the Bank;
- defining the basic organisational structure of the Bank as required by the Banking Law and adjusting the Bank's Articles of Association to the organisational changes made in the Bank;
- defining the principles of functioning of internal control by indicating the subject and objective of the internal control system;
- adjusting the Bank's Articles of Association to the provisions of the Banking Law defining banking and other activities that may be performed by the Bank;
- implementation of the principle No 14 of the best practices in public companies 2005 that aims to guarantee that the shareholders who applied for including a given issue on the general shareholders' meeting's agenda will participate in deciding that the issue will be deleted from the agenda or will not be considered by the general shareholders' meeting;
- specifying the entities subject to regulations on granting loans, advances, bank guarantees or suretyships;
- adjusting the provisions of the Articles of Association to the rule set out in the Code of Commercial Companies according to which the Management Board shall conduct the company's affairs and represent the company, while other governing bodies are not entitled to issue to the Management Board any binding orders with regard to conducting the company's affairs. These bodies may, however, in accordance with the scope of competences defined in the Code of Commercial Companies, recommend appropriate activities to the Management Board or approve these activities;
- transfer of the responsibility for determining the rules for signing the Bank's documents into the scope of responsibilities of the Bank's Management Board.

The consolidated text of the Bank's Articles of Association is included on the website of PKO BP SA.



### 13.3 Issues of securities

PKO BP SA did not issue any own securities in the period covered by this Report.

### 13.4 Re-acquisition of own shares

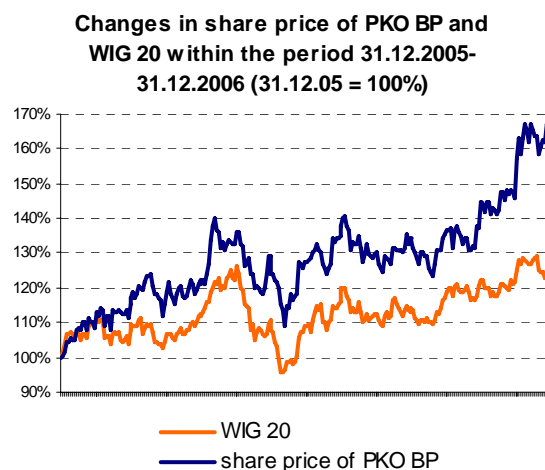
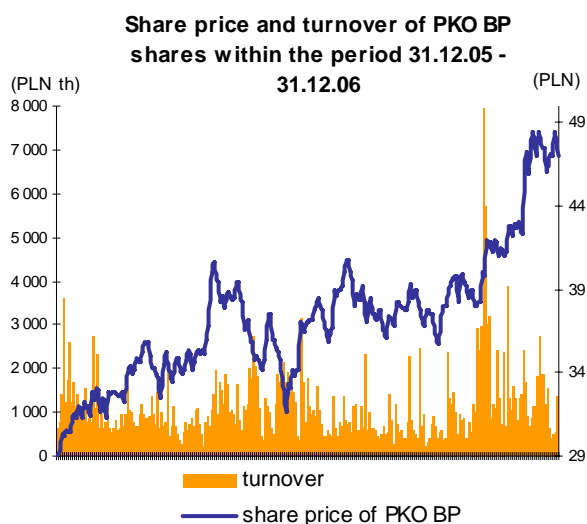
During the period covered by this Report, PKO BP SA did not re-acquire its shares on its own account.

### 13.5 Listed price of the Bank's shares

During the year 2006, the price of the PKO BP SA shares demonstrated a stable growth tendency and reached its peak level of PLN 48.50 on 13 and 27 December 2006. The prices of the Bank's shares were affected by trends prevailing on the Warsaw Stock Exchange and the Bank's financial performance.

Average daily turnover in the Bank's shares in 2006 amounted to 1,150 thousand with the highest turnover (7,953 thousand) recorded on 6 November 2006, i.e. the date on which employee shares were admitted to public trading (see point 13.7 below).

|   | 2005        | 2006         |
|---|-------------|--------------|
| PKO BP share price at the beginning of the year (PLN) | 27.80       | 29.00        |
| PKO BP share price at the end of the year (PLN)       | 29.00       | 47.00        |
| Dividend per 1 share (PLN)                            | 1.00        | 0.80         |
| <b>Return for the shareholder</b>                     | <b>7.9%</b> | <b>64.8%</b> |



### 13.6 Compliance with corporate governance rules

PKO BP SA complies with all corporate governance rules enacted by Resolution No 44/1062/2004 of the Stock Exchange Board dated 15 December 2004 on adopting corporate governance rules for joint stock companies being the issuers of shares, convertible bonds or bonds with priority right admitted to trading on the official market, except for the following rules: Rule 5 (relating to the requirement to document the participation of a shareholder's representative at general shareholders' meeting), Rule





24 (relating to the details of personal, factual or organisational relations between members of the Supervisory Board and the given shareholder), Rule 28 (relating to the activities of the Supervisory Board, including appointment of Audit and Remuneration Committees), Rule 38 (relating to the salaries of Management Board members), Rule 43 (relating to selection of the auditors), with which the Bank complies only partially, and Rule 20 (relating to independent members of the Supervisory Board), that the Bank does not comply with.

### **13.7 Employee shares**

In accordance with the Act of 30 August 1996 on Commercialisation and Privatisation (Journal of Laws of 2002, No 171, item 1397 with subsequent amendments), the biannual period in which the PKO BP shares that had been acquired free of charge by the entitled employees were not allowed for trading expired on 4 November 2006.

At the request of the PKO BP SA Management Board, as of 6 November 2006, 105,000,000 ordinary bearer "B" series shares that were registered with the National Depository of Securities under symbol PLPKO0000032 (employee shares) were assimilated with ordinary bearer shares registered under symbol PLPKO0000016, in the number of 385,000,000 shares.

Simultaneously, as of 6 November 2006, the Management Board of the Warsaw Stock Exchange admitted the assimilated shares to trading on the main stock exchange market.

### **13.8 Holders of any type of securities giving special control rights with regard to the issuer**

PKO BP SA does not issue any securities that give special control rights with regard to the Bank. However, the State Treasury holds a package of 514,959,296 shares that give right to 51.50% of votes at the general shareholders' meeting.

### **13.9 Restrictions for the transfer of ownership of securities of the Issuer, any restrictions for exercising voting rights**

In accordance with the provisions of the Article 6.2 of the Bank's Articles of Association, the conversion of registered series "A" shares of notional amount of PLN 510,000,000 into bearer shares and transfer of these shares requires an approval of the Polish Council of Ministers in the form of a resolution. The transfer of "A" series shares after acquiring such consent results in the expiry of the above restrictions to the extent to which the consent was given.

## **14. SERVICE PROMOTION AND IMAGE BUILDING**

In 2006, promotional activities of the Bank were mainly focused on the following:

- Strengthening the image of the Bank among shareholders and clients as a leader in the area of banking services in Poland – a modern organisation with an established reputation, safe, friendly (close to the clients) and open to clients needs in each market segment
- Increasing attractiveness of the Bank's image – demonstrating the developments taking place in the Bank - PKO BP SA as a friendly and modern bank: universal, efficient and dynamically developing bank with Polish character, leader in banking services,
- Increasing the aspirations and prestige of the PKO BP brand
- Intensifying promotional activities covering the strategic and other important from the Bank's interest point of view products and services of the Bank.

The above objectives were realised through activities carried out using various promotional instruments, in particular advertising and public relations as well as communication activities.

As part of advertising activities, the Bank carried out an intense multi-media campaign addressed to the business sector: both small and medium-sized enterprises as well as large corporations, which promoted the Bank as a business advisor, expert and partner and market leader in corporate banking services.



The Bank carried out the following activities to promote its products and services:

- For the Retail Market Area:
  - promotional campaigns for: SUPERKONTO (communicating modern access channels), "SZYBKI SERWIS KREDYTOWY" ("Quick Credit Service" - communicating the most easily available credit on the banking market), structural deposits, credit cards, including in particular PKO Mastercard 2006 FIFA World Cup - linked to the Football World Championships (campaigns supporting sales and the use of credit cards) and PKO Visa TURYN, promotion of Visa Infinite cards, a program dedicated to PLATINIUM private banking clients, promotion of VISA banking cards (campaigns supporting the use of banking cards),
  - promotion of SME products and services, including in particular two new credit products, SZYBKI LIMIT KREDYTOWY ("Quick Credit Limit") and "Program Konsolidacyjny" ("Consolidation Programme"),
  - promotion of subscribed deposits,
  - promotion of leading housing market products: housing loan WŁASNY KĄT MIX, products for housing cooperatives and housing communes as well as housing plan passbooks,
  - promotional and communication activities connected with sale of Treasury bonds as part of the Bank's obligations as bonds issuance agent,
  - promotion of products and services for housing cooperatives and developers.
  
- For the Corporate Market Area:
  - activities creating the Bank's image as a competent advisor on the financial services market, through an effective use of selected business events (seminars, conferences, meetings, business competitions), especially of a local nature,
  - Promotion of the following financial services: banking cards (MC Executive, MC Corporate, MC Municipium, Electronic Money Instrument), the European Program, municipal bonds, Foreign Trade Transactions.

Public relations activities were carried out especially through the sponsorship and charity activities of the Bank aimed at supporting culture, life saving and health care. During the year 2006, the Bank continued the long-term program "*PKO Bank Polski Kulturze Narodowej*" (PKO BP for the National Culture), under which the Bank provided support to a number of theatres and philharmonics all over Poland. Among others, the Bank was the patron of the exhibition "Jan Bułhak. Photographer" in the National Museum in Warsaw and an exhibition of manuscripts accompanying the 10<sup>th</sup> Easter Ludwig van Beethoven Festival. The Bank continued to cooperate with the Great Theatre – National Opera, the National Philharmonic, the National Library and the Cracow cabaret "*Piwnica pod Baranami*", that celebrated in 2006 the 50<sup>th</sup> anniversary of its artistic activities. The Bank was the patron of a special issue of classical music collection "Great Composers" on CDs prepared by Agora SA

As part of the "*PKO Bank Polski Blisko Ciebie*" (PKO BP Close to You) program, the Bank sponsored, among others, the multi-media exhibition "Communico Ergo Sum". As each year, the Bank was present at the Stage-play Song Competition (*Przegląd Piosenki Aktorskiej*) in Wrocław, the "Rawa Blues" Festival and the international cross-country skiing event "*Bieg Piastów*". In addition, the Bank was the main sponsor of the Arab Horse Days (*Dni Konia Arabskiego*) and the Polish Junior and Young Rider Championships in hurdle jumping on horseback.

As part of the "*PKO Bank Polski Reprezentacji Olimpijskiej*" (PKO BP for the Olympic Team) program, in 2006 the Bank continued its cooperation with the Polish Olympic Foundation (*Polska Fundacja Olimpijska*). The Bank was a sponsor of the Polish women's foil team and the title sponsor of the Word Cup in women's foil "*Dwór Artusa PKO BP*".

As part of its charity activities, the Bank supported the organisation of the Pilgrimage of Pope Benedict XVI to Poland, provided financial assistance to the families of the miners who lost their lives in the accident in the "Halemba" mine, subsidized the summer and winter holidays of children and youth from poor families, provided assistance in modernization and development of schools. As in the past, the Bank provided support to a number of family group homes. As part of its health care and health promotion activities, the Bank provided financial support for the Polish artificial heart program and for



the purchase of specialist medical equipment for a number of clinics and hospitals. In addition, the Bank cooperated with a number of foundations and associations involved in the treatment and rehabilitation of children.

Along with ongoing promotional activities, in 2006 the Bank continued to modernize its external and internal communication systems. With respect to external communication, these activities involved in particular a continued increase of utilization of electronic and interactive communication tools as well as direct marketing tools in the Bank's operations. With respect to internal communication, the Bank carried out activities in order to increase the utilisation of electronic information exchange, especially via the Intranet, i.e. electronic mail and the new Intranet portal.

KREDOBANK SA, apart from its activities on the financial market, supports cultural and artistic projects, and assists in solving current social problems. The main directions of its activity in this area include providing assistance to children-orphans and supporting Ukrainian arts, culture and sports., The President of the Management Board of KREDOBANK SA is one of the founders of the King Daniłko artistic fund, that was established in December 2006 in order to support and carry out artistic projects important for the Ukrainian culture.

Promotional activities carried out in 2006 by other Group companies were particularly focused on the following:

- ensuring advertising support for the sale of products, including in particular new products and services, and building positive company image (KREDOBANK SA),
- promotion of constructed housing estates: "Neptun Park" in Gdańsk, "Marina Mokotów" and "Nowy Wilanów" in Warsaw (PKO Inwestycje Sp. z o.o. and its subsidiaries),
- sponsoring of socially important cultural events (including events organized in the Centrum Finansowe Puławska building), sports events, educational events and healthcare and charity events, mainly for children in need (Centrum Finansowe Puławska Sp. z o.o.),
- activities supporting the image of Bankowy Fundusz Leasingowy SA, including the sponsoring of the ranking "Gazeta Biznesu 2006", a series of regatta organized by the Polish scouts (ZHP) in Olsztyn and a speedway tournament in Rzeszów, as well as carrying out advertising campaigns in nationwide economic and business dailies,
- promotional campaigns and competitions addressed to the clients of Inteligo Financial Services SA and Centrum Elektronicznych Usług Płatniczych eService SA,
- promotion of services provided to members of the pension fund managed by PTE BANKOWY SA, among others, through advertising campaigns held on specialized Internet portals, organization of an event for university graduates ("Laurealia") and the sponsoring of the 14<sup>th</sup> Country-wide Children and Youth Song Festival "Chodzież 2006",
- strengthening the position of PKO Towarzystwo Funduszy Inwestycyjnych SA on the investment funds market, among others, by carrying out advertising campaigns of new investment funds and promotional campaigns and competitions for the funds' clients, as well as the sponsoring of a horse-riding competition for the PKO TFI SA Cup and the "Horse-riding Children's Day at Kozielska 7".

#### Awards and Distinctions

- In 2006, PKO BP SA received a number of awards and distinctions. The most important are listed below:
  - Promotional Golden Branch ("Złoty Oddział") emblems for 14 branches and a special distinction – Platinum Statuette – for 4 branches granted in a competition for the "Business Friendly Bank" ("Bank Przyjazny Przedsiębiorstwu") organized by the Polish Chamber of Commerce, Polish-American Foundation for Counselling Small Business and the Warsaw Institute of Banking (January 2006),
  - a distinction for the SIZ-RAJD central reporting system granted in a competition for The Best IT Product in banks and financial institutions organized by "Gazeta Bankowa" (January 2006),
  - Trusted Brand 2006 – PKO Bank Polski received a Golden Trusted Brand Statuette in the annual consumer survey organised by Reader's Digest (February 2006),



- ALICJA 2005 – an award for the Electronic Money Instrument in a competition organised by, the magazine TWÓJ STYL; this award has been granted to the Bank for the most innovative and user-friendly financial service (February 2006),
  - Employer of the Year 2005 – the Bank was ranked 3<sup>rd</sup> in a ranking organised by a students' organization, AIESEC; this was the highest position among financial institutions (March 2006),
  - European Medal – an award granted to the Bank for the Electronic Money Instrument in the 12<sup>th</sup> edition of a prestigious competition organized by Business Centre Club and the European Integration Committee (March 2006),
  - The Most Valuable Company in Poland in 2005 in the banking industry – title granted to PKO BP for the 3<sup>rd</sup> place in the ranking of 100 Most Valuable Companies in Poland in 2005, organized by Newsweek Polska and A.T. Kearney Sp. z o.o. (April 2006),
  - 1<sup>st</sup> place in *Rzeczpospolita's* ranking of the best financial institutions (June 2006),
  - Premium Brand in the category of financial institutions - a title awarded for the first time on the Polish market in a ranking of most reputable brands organised under the patronage of the monthly "Forbes" in cooperation with Midwest ITSE and Maison Reasearch Consulting. In addition, the Bank received a special award from "Forbes" (June 2006),
  - 4<sup>th</sup> Diamond to the Golden Statuette of the Polish Business Leader awarded by the Business Centre Club to companies that were previously awarded the Polish Business Leader statuette (June 2006),
  - STUDENTS' PRODUCT OF THE YEAR 2006 for SUPERKONTO STUDENT (a bank account for students) in a competition organized by Platforma Mediowa Point Group, the owner of the "Dlaczego" magazine and the Korba.pl portal (June 2006),
  - 1<sup>st</sup> place for PKO Bank Polski in the ranking of "50 biggest banks in Poland" organised by the financial monthly "Bank" (June 2006),
  - Golden Medal in the category "Bank - Business Partner" ("Bank - Partner Przedsiębiorców"), awarded during the Financial Services Olympics accompanying the 12<sup>th</sup> edition of the "Your Money" Fairs (Targi Twoje Pieniądze) (October 2006),
  - 2<sup>nd</sup> place for SUPERKONTO STUDENT in a ranking of the best bank accounts for students organised by the magazine "Dlaczego" (October 2006),
  - 2<sup>nd</sup> place in *Rzeczpospolita's* ranking of "The biggest issuers of credit cards" (October 2006),
  - the EUROPRODUCT – a title granted to the Bank in the services category for: "Quick Credit Limit for Businesses" ("Szybki Limit Kredytowy dla firm") and "Electronic Money Instrument" ("Instrument Pieniądza Elektronicznego") (October 2006),
  - PRODUCT OF THE YEAR 2006 – a certificate granted in a competition organised by Reader's Digest, in category "Finance", sub-category "Banking Deposit" (October 2006),
  - 5<sup>th</sup> place in *Rzeczpospolita's* MARQA ranking of "The Strongest Polish Brands" and the 1<sup>st</sup> place in the category of financial brands in that ranking (November 2006),
  - Promotional Golden Branch ("Złoty Oddział") emblems for 13 branches and a special distinction – Platinum Statuette – for 2 branches granted in a competition for the "Business Friendly Bank" ("Bank Przyjazny Przedsiębiorstwu") organized by the Polish Chamber of Commerce, Polish-American Foundation for Counselling Small and Medium Business and the Warsaw Institute of Banking (November 2006),
  - 1<sup>st</sup> place in Forbes's ranking of "The most prestigious credit cards" for the PKO Visa Infinite card (November 2006).
- Awards and distinctions granted in 2006 to Centrum Elektronicznych Usług Płatniczych eService SA:
    - Rock Awards 2005 – silver prize granted by MasterCard Europe for the greatest achievements in the development of banking card acceptance network,
    - European Medal awarded for the "telePOMPKA" service by the European Integration Committee and Business Centre Club,



- Awards and distinctions granted in 2006 to KREDOBANK SA:
  - The Bank was included in the ranking of "TOP 100. The best Ukrainian companies" organised by the Ukrainian economic weekly "Inwest-gazeta",
  - golden medal and title of "Provider of the best Ukrainian products 2006" in the category of banking services, granted in the Ukrainian nationwide competition for "The best Ukrainian product of 2006",
  - *Złoty Krzyż Zasługi* (Golden Services Cross) – a distinction granted to Mr Stepan Kubiw, President of the Management Board of KREDOBANK SA, by the President of the Republic of Poland, for his contribution in the development of cooperation between Poland and Ukraine,
  - diplomas for participation in the following projects: International Tourist Forum „Tourism and Recreation 2006”, 3<sup>rd</sup> International Forum of Investments and Innovation, 5<sup>th</sup> International Industrial Forum, 6<sup>th</sup> International Economic Forum and the "Ukraine – European Union" investment and real estate fairs.
- Awards and distinctions granted in 2006 to Bankowy Fundusz Leasingowy SA:
  - the title of "*Mecenas Gazel Biznesu*" ("Patron of Business Gazelles") granted by the organizer of the ranking of the most dynamically developing firms.

## 15. SIGNIFICANT AGREEMENTS AND IMPORTANT AGREEMENTS WITH THE CENTRAL BANK OR SUPERVISOR INSTITUTIONS

In 2006, the Bank disclosed in its current reports all agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in Art. 2.2 of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information provided by issuers of securities (Journal of Laws No 209, item 1744).

In addition, the following agreements were signed with respect to the Bank's receivables:

- On 9 June 2006, Stalexport SA (STX) and the Bank (represented by ING BSK SA on the basis of a power of attorney) signed an "Agreement for the Taking Up of New Shares". Under this agreement, part of the Bank's receivables from Walcownia Rur "Jedność" Sp. z o.o. (WRJ), guaranteed by STX, was converted to shares in the increased share capital of STX. The value of receivables subject to conversion amounted to PLN 6,800 thousand. The above "Agreement" results from the Agreement concluded between STX and the banks participating in the consortium providing funds to WRJ, led by ING BSK SA, that regulates matters connected with STX's guarantee for the repayment of loans granted to WRJ by the banking consortium.
- On 29 August 2006, the Bank signed an Agreement for the sale of receivables that covered part of the portfolio of debts due to PKO BP SA from corporate clients and individuals related to these clients. These receivables were sold in a package to a securitisation fund. The Bank sold 1,009 receivables, with a total value of PLN 754.5 million, including: 773 balance sheet receivables with a value of PLN 490.7 million and 236 off-balance sheet receivables with a value of PLN 263.8 million.
- On 17 October 2006 the Bank signed the agreement for sale of receivables that covered part of the portfolio due to PKO BP SA from retail clients. These receivables were sold to a securitisation fund. The Bank sold 63,058 debts, with a total value of ca. PLN 582.0 million, including 50,693 balance sheet receivables with a value of PLN 489.1 million and 12,365 off-balance sheet receivables with a value of PLN 92.9 million.
- Agreement for sale of receivables and shares of the company Hotel Jan III Sobieski Sp. z o.o.:
  - On 13 April 2006, a Pre-final Agreement was signed resulting in a conversion of debt for the shares of the Company:
    - PKO BP took up shares in the increased share capital of the Company, with the nominal value equalled the Company's debt towards PKO BP (ca. PLN 78.5 million) for a price equal to their nominal value,
    - Shares, that were taken up, were paid by cash by PKO BP and transferred to the blocked account of the Company – the funds from this account were used for repayment of 100% of the Company's debt towards PKO BP SA



On 31 October 2006, PKO BP SA concluded a Final Agreement for the sale of shares in Hotel Jan III Sobieski Sp. z o.o. for a total amount of EUR 11,966 thousand (the funds were transferred into PKO BP's account). Moreover, the Agreement states that sales price will be adjusted by net working capital as at the day of closing the transaction, i.e. 31 October 2006. It was agreed that the net working capital would be calculated by KPMG on the basis of the audited financial statements of the Company within 90 working days from the day of conclusion of the transaction.

In 2006, the Bank did not conclude any important agreements neither with the Central bank nor with supervision institutions.

In 2006, other PKO BP S.A Group's companies did not conclude any significant agreements. These companies did not conclude important agreements with the Central Bank or supervision institutions, neither.

At the day of preparation of the Bank's financial statements, the Bank is not aware of any agreements that might cause changes in proportions of shares owned by current shareholders.

## 16. FINANCIAL AND GUARANTEE LIABILITIES GRANTED

Table 14. Financial and guarantee liabilities granted (in PLN thousands)

| Item                             | As At:            |                   | Change:          |              |
|----------------------------------|-------------------|-------------------|------------------|--------------|
|                                  | 31.12.2006        | 31.12.2005        | in PLN thousands | %            |
| <i>1</i>                         | <i>2</i>          | <i>3</i>          | <i>4</i>         | <i>5</i>     |
| 1. Financial liabilities granted | 22 552 006        | 17 312 241        | 5 239 765        | 30.3%        |
| including: irrevocable           | 10 298 419        | 8 519 942         | 1 778 477        | 20.9%        |
| 2. Guarantee liabilities granted | 2 347 682         | 1 476 250         | 871 432          | 59.0%        |
| <b>TOTAL</b>                     | <b>24 899 688</b> | <b>18 788 491</b> | <b>6 111 197</b> | <b>32.5%</b> |

As at 31 December 2006, 85.7% of total off-balance sheet liabilities granted by the PKO BP SA Group related to the liabilities granted to the non-financial entities and compared to 2005 this share was increased by 6.7 pp.

## 17. LOANS TAKEN AND LOAN, GUARANTEE AND SURETYSHIP AGREEMENTS

During the year 2006, PKO BP SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

During the year 2006, KREDOBNK SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

## 18. SUB-UNDERWRITING AGREEMENTS AND GUARANTEES GRANTED TO SUBSIDIARIES

On 20 June 2006, PKO BP SA signed an Agreement for Organisation, Conducting and Servicing of a Bond Issuance Program with its subsidiary, Bankowy Fundusz Leasingowy SA, for an amount of PLN 100 million.

On 14 December 2006, PKO BP SA signed an Agreement for Organisation, Conducting and Servicing of a Bond Issuance Program with its subsidiary, Bankowy Fundusz Leasingowy SA, for an amount up to PLN 500 million, with the proviso that until 30 June 2007 the Company may issue bonds for an amount not exceeding PLN 350 million. On the date of signing this agreement, BFL SA terminated the previous agreement dated 20 June 2006.

As at 31 December 2006:

- Bankowy Fundusz Leasingowy SA issued bonds for a total amount of PLN 175 million, including bonds amounting to PLN 20 million under the agreement dated 20 June 2006 and bonds amounting to PLN 155 million under the agreement dated 14 December 2006,





- The total value of PKO BP SA's commitments to take up bonds under the underwriting agreements (in order to close the issue of bonds) amounted to PLN 175 million.

In August 2006, PKO BP SA extended the guarantee granted to its subsidiary, PKO Towarzystwo Funduszy Inwestycyjnych SA, for an amount up to USD 67 thousand, in respect of timely settlement of liabilities arising from the rental agreement signed with Centrum Finansowe Puławska Sp. z o.o.

In November 2006, PKO BP SA granted a guarantee for Bankowy Fundusz Leasingowy SA for an amount up to PLN 9,724 thousand, for the benefit of ABB Sp. z o.o. This guarantee expired on 14 December 2006 as a result of repayment of the liability by the Company.

#### **19. ENFORCEABLE TITLES ISSUED BY THE BANK**

During the year 2006, PKO BP SA issued 33,909 banking enforceable titles for a total amount of PLN 423,429.6 thousand.

In case of KREDOBANK SA, the Ukrainian law does not allow to issue enforceable titles as stated in the Polish Banking Law.

## 20. MANAGEMENT AND SUPERVISORY BOARDS OF PKO BP SA IN THE REPORTING PERIOD

### Members of the Management Board in the reporting period

Table 15. Members of the Management Board in the reporting period

| No   | Name and surname       | Function                                       | Date of appointment  |
|--|------------------------|--|--|
| <b>Members of the Management Board as at 31.12. 2006</b>                 |                        |  |  |
| 1.   | Sławomir Skrzypek      | Deputy President of the Management Board       | <ul style="list-style-type: none"> <li>▪ 20.12.2005 – appointed for the common term of Management Board that commenced on 19.05.2005</li> </ul>  |
|  |                        | Acting President of the Management Board       | <ul style="list-style-type: none"> <li>▪ 29.09.2006</li> <li>▪ resigned from these positions as of 10.01.2007</li> </ul>   |
| 2.   | Kazimierz Małecki      | First Deputy President of the Management Board | <ul style="list-style-type: none"> <li>▪ 04.07.2002</li> <li>▪ 19.05.2005 – re-appointed to another term starting from this day</li> <li>▪ resigned from this position as of 31.12.2006</li> </ul>                             |
| 3.   | Danuta Demianiuk       | Deputy President of the Management Board       | <ul style="list-style-type: none"> <li>▪ 02.01.2003</li> <li>▪ 16.09.2005 re-appointed to another term of the Management Board that commenced on 19.05.2005</li> <li>▪ resigned from this position as of 31.12.2006</li> </ul> |
| 4.   | Rafał Juszczak*        | Member of the Management Board                 | <ul style="list-style-type: none"> <li>▪ as of 01.07.2006 appointed to the common term of the Management Board that commenced on 19.05.2005</li> </ul>   |
|  |                        | Deputy President of the Management Board       | <ul style="list-style-type: none"> <li>▪ 29.09.2006</li> </ul>   |
| 5.   | Wojciech Kwiatkowski** | Deputy President of the Management Board       | <ul style="list-style-type: none"> <li>▪ as of 01.11.2006 appointed to the common term of the Management Board that commenced on 19.05.2005</li> </ul>   |
| 6.   | Jacek Obłękowski       | Member of the Management Board                 | <ul style="list-style-type: none"> <li>▪ 20.06.2002</li> <li>▪ 19.05.2005 – re-appointed to another term starting from this day</li> </ul>   |
|  |                        | Deputy President of the Management Board       | <ul style="list-style-type: none"> <li>▪ 29.09.2006,</li> <li>▪ resigned from this position as of 31.01.2007</li> </ul>  |
| 7.   | Zdzisław Sokal*        | Member of the Management Board                 | <ul style="list-style-type: none"> <li>▪ as of 01.07.2006 appointed for the common term of the Management Board that commenced on 19.05.2005</li> </ul>  |
|  |                        | Deputy President of the Management Board       | <ul style="list-style-type: none"> <li>▪ 29.09.2006</li> <li>▪ resigned from this position as of 13.03.2007</li> </ul>   |
| <b>Board Members who resigned from their positions before 31.12.2006</b> |                        |  |  |
| 8.   | Andrzej Podsiadło      | President of the Management Board              | <ul style="list-style-type: none"> <li>▪ 20.06.2002</li> <li>▪ 19.05.2005 re-appointed to another term starting from this day</li> <li>▪ resigned from this position as of 29.09.2006</li> </ul>                               |
| 9.   | Krystyna Szewczyk      | Member of the Management Board                 | <ul style="list-style-type: none"> <li>▪ 14.05.2004</li> <li>▪ 16.09.2005 re-appointed to another term that commenced on 19.05.2005</li> <li>▪ resigned from this position as of 26.06.2006</li> </ul>                         |
| 10.  | Piotr Kamiński         | Member of the Management Board                 | <ul style="list-style-type: none"> <li>▪ 10.03.2003</li> <li>▪ 16.09.2005 re-appointed to another term that commenced on 19.05.2005</li> <li>▪ resigned from this position as of 9.03.2006</li> </ul>                          |
| 11.  | Jarosław Myjak**       | Deputy President of the Management Board       | <ul style="list-style-type: none"> <li>▪ as of 02.10.2006 appointed to the common term of the Management Board that commenced on 19.05.2005,</li> <li>▪ resigned from this position as of 30.11.2006</li> </ul>                |

\* Appointed by the Supervisory Board of the Bank with the Resolution dated 26 June 2006

\*\* Appointed by the Supervisory Board of the Bank with the Resolution dated 29 September 2006



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 National Bank of Poland. On the same day, the Supervisory Board of PKO BP SA delegated Mr Marek Głuchowski, PhD, the Chairman of the Supervisory Board of PKO BP SA, to temporarily act as the President of the Management Board until 23 January 2007. Due to the fact that in the period from 24 January 2007 to 26 January 2007, no person has been appointed by the Supervisory Board to act as President of the Management Board, Mr Marek Głuchowski has been delegated to temporarily act as President of the Management Board of PKO BP SA as of 27 January 2007, for a period not longer than by 10 April 2007.

Table 16. Other functions performed by Board Members during the reporting period

| No   | Name and surname  | Function   |
|--|-------------------|--|
| <b>Board Members holding specific functions as at 31 December 2006</b>   |                   |  |
| 1.   | Kazimierz Małecki | <ul style="list-style-type: none"> <li>▪ Chairman of the Asset and Liability Committee</li> <li>▪ Chairman of the Integrated Information System Steering Committee</li> </ul>  |
| 2.   | Danuta Demianiuk  | <ul style="list-style-type: none"> <li>▪ Deputy Chairperson of the Asset and Liability Committee</li> <li>▪ Chairperson of the Bank's Credit Committee</li> <li>▪ Member of the Integrated Information System Steering Committee</li> </ul>  |
| 3.   | Sławomir Skrzypek | <ul style="list-style-type: none"> <li>▪ Deputy Chairman of the Bank's Credit Committee (from 14.03.2006 to 25.10.2006)</li> <li>▪ Deputy Chairman of the Steering Committee for Implementation of Branch Modernisation Program</li> <li>▪ Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006)</li> </ul>   |
| 4.   | Rafał Juszczyk    | <ul style="list-style-type: none"> <li>▪ Deputy Chairman of the Integrated Information System Steering Committee (since 10.07.2006)</li> <li>▪ Member of the Steering Committee for Implementation of Branch Modernisation Program (since 17.07.2006)</li> <li>▪ Chairman of the IIS Project Committee (since 01.07.2006)</li> </ul>   |
| 5.   | Jacek Obłękowski  | <ul style="list-style-type: none"> <li>▪ Chairman of the Steering Committee for Implementation of Branch Modernisation Program</li> <li>▪ Deputy Chairman of the Integrated Information System Steering Committee</li> <li>▪ Deputy Chairman of the IIS Project Committee</li> </ul>   |
| 6.   | Zdzisław Sokal    | <ul style="list-style-type: none"> <li>▪ Member of the Asset and Liability Committee (since 10.07.2006),</li> <li>▪ Member of the Integrated Information System Steering Committee (since 10.07.2006)</li> <li>▪ Deputy Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006)</li> </ul>  |
| <b>Board Members who resigned from their functions before 31.12.2006</b> |                   |  |
| 7.   | Piotr Kamiński    | <ul style="list-style-type: none"> <li>▪ Deputy Chairman of the Bank's Credit Committee of the Bank (until 8.03.2006)</li> </ul>   |
| 8.   | Krystyna Szewczyk | <ul style="list-style-type: none"> <li>▪ Member of the Asset and Liability Committee (until 26.06.2006)</li> <li>▪ Deputy Chairperson of the Integrated Information System Steering Committee (until 26.06.2006)</li> <li>▪ Chairperson of the IIS Project Committee (until 26.06.2006)</li> <li>▪ Member of the Steering Committee for Implementation of Branch Modernisation Program (until 26.06.2006)</li> </ul> |

## Members of Supervisory Board

Table 17. Supervisory Board of the Bank in the reporting period

| No  | Name and surname         | Function      | Date of appointment / Dismissal   |
|-----|--------------------------|---------------|---|
| 1.  | Bazyl Samojlik           | Chairman      | Dismissed as of 18.04.2006  |
| 2.  | Krzysztof Zdanowski      | Secretary     | Dismissed as of 18.04.2006  |
| 3.  | Andrzej Giryn            | Member        | Dismissed as of 18.04.2006  |
| 4.  | Stanisław Kasiewicz      | Member        | Dismissed as of 18.04.2006  |
| 5.  | Ryszard Kokoszcyński     | Member        | Dismissed as of 18.04.2006  |
| 6.  | Czesława Siwek           | Member        | Dismissed as of 18.04.2006  |
| 7.  | Władysław Szymański      | Member        | Dismissed as of 18.04.2006  |
| 8.  | Marek Głuchowski         | Chairman      | 18.04.2006, delegated to act temporarily as the President of the Management Board from 10.01 to 23.01.2007 and since 27.01.2007 not later than until 10.04.2007 |
| 9.  | Urszula Pałaszek         | Member        | Appointed 19.05.2005  |
|     |                          | Vice-chairman | Since 20.05.2005  |
| 10. | Tomasz Siemiątkowski     | Member        | Appointed 18.04.2006  |
|     |                          | Secretary     | Since 26.06.2006  |
| 11. | Jerzy Michałowski        | Member        | Appointed 18.04.2006  |
| 12. | Jerzy Osiatyński         | Member        | Appointed 25.03.2002  |
|     |                          | Member        | Appointed 19.05.2005, resigned from this position as of 31.01.2007  |
| 13. | Adam Skowroński          | Member        | Appointed 18.04.2006  |
| 14. | Agnieszka Winnik-Kalemba | Member        | Appointed 18.04.2006  |

In 2006, the Bank's Supervisory Board established Audit Committee and the Bank's IT Infrastructure Development Committee and adopted the rules and regulations for these committees.

### Holders of commercial powers of attorney. Board meetings and implementation of resolutions of general shareholders' meetings and recommendations of the State Treasury Minister

- As at 1 January 2006, there were 18 holders of commercial powers of attorney in PKO BP SA. During the year 2006, 4 holders of commercial powers of attorney were appointed and 7 holders of commercial powers of attorney were dismissed. As at 31 December 2006, there were 15 holders of commercial powers of attorney.
- During the year 2006, the Management Board held 59 minuted meetings and took 422 resolutions.
- The most important activities and decisions taken by the Management Board, that had an influence on the economic and financial position and activity of the Bank, have been presented in the relevant parts of the Directors' Report.
- The Ordinary General Meeting of PKO BP SA was held on 18 April 2006 and the resolutions passed during the general shareholders' meeting, which assumed certain activities of the Management Board to be undertaken, were implemented.
- On 27 March 2006 the Supervisory Board of the Bank accepted the recommendation of the Ministry of State Treasury to include information on implementation of Integrated IT System in the quarterly information on the Company, that is sent to the Ministry. This information is passed on to the Ministry of State Treasury periodically with effect from the Quarterly information on the Company as at 31 March 2006.



#### Rules for appointing and dismissing members of the Management Board

In accordance with § 19 Section 1 of the Bank's Articles of Association, Management Board members are appointed by the Supervisory Board for a common three-year term. Board members may only be dismissed for important reasons.

#### Authorisations granted to members Management Board

In accordance with § 20 Section 1 of the Bank's Articles of Association, the scope of Management Board responsibilities includes all matters related to the conducting of Bank's affairs that have not been reserved by law or Articles of Association for the general shareholders' meeting or Supervisory Board, including purchase and disposal of property, property interests or perpetual usufruct, that do not require consent of the General Meeting in accordance with § 9 section 1 point 5 of the Bank's Articles of Association.

According to § 20 Section 2 of the Articles of Association, making decisions on incurring liabilities or disposing of assets the total value of which exceeds 5% of the Bank's equity in a transaction with a single entity shall fall within the scope of competence of the Management Board, with the proviso for the scope of competence of the general shareholders' meeting set out in § 9 or the scope of competence of the Supervisory Board set out in § 15 of the Articles of Association.

#### Contracts concluded between the issuer and persons performing management functions

In accordance with the definition contained in § 2 Section 1 point 35 letter a) of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information provided by the issuers of securities (Journal of Laws No 209 item 1744), members of the Management Board are the persons who manage the Bank.

With each member of the Management Board, the Bank concluded two contracts binding in 2006, that provide for compensation in the event of resignation or dismissal without an important reason:

- employment contract, that provides for a severance payment amounting to a 3-month basic salary recently received by the Board member
- anti-competition contract, that provides compensation for complying with competition ban over a 6-month period after termination of the employment contract. This compensation amounts to 100% of the monthly basic salary received by the Board member prior to termination of the employment contract and is to be paid in arrears over the period of the ban.

The monthly basic salary is the equivalent of six times the average remuneration determined in the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Journal of Laws No 26, item 306 with subsequent changes), the so called "chimney" act.

#### Emoluments and other benefits provided to members of management and supervisory boards

Full information on emoluments and other benefits provided to members of the Bank's Management and Supervisory Boards in the reporting period has been presented in Note 49 of Additional Information to the Consolidated Financial Statements.

#### Bank's shares held by members of Management and Supervisory Boards

The table below presents Bank's shares held by members of Management and Supervisory Boards as at 31 December 2006. The nominal value is PLN 1 per share.

Table 18. Shares held by members of Management and Supervisory Boards of PKO BP SA as at 31 December 2006:

| No                           | Name and surname         | Number of shares held by members of Management and Supervisory Boards |
|------------------------------|--------------------------|---|
| <b>I. Management Board</b>   |                          |   |
| 1.                           | Sławomir Skrzypek        | -----   |
| 2.                           | Kazimierz Małecki        | 2 627   |
| 3.                           | Danuta Demianiuk         | -----   |
| 4.                           | Rafał Juszcak            | -----   |
| 5.                           | Wojciech Kwiatkowski     | -----   |
| 6.                           | Jacek Obłękowski         | 512   |
| 7.                           | Zdzisław Sokal           | -----   |
| <b>II. Supervisory Board</b> |                          |   |
| 1.                           | Marek Głuchowski         | -----   |
| 2.                           | Urszula Pałaszek         | -----   |
| 3.                           | Jerzy Michałowski        | -----   |
| 4.                           | Jerzy Osiałyński         | -----   |
| 5.                           | Tomasz Siemiątkowski     | -----   |
| 6.                           | Adam Skowroński          | -----   |
| 7.                           | Agnieszka Winnik-Kalemba | -----   |

The Bank's Management and Supervisory Boards' members did not hold any shares of companies related with the Bank as at 31 December 2006.

## 21. SIGNIFICANT POST-BALANCE SHEET EVENTS

- 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 National Bank of Poland.
- The Supervisory Board of PKO BP SA, at its meeting on 10 January 2007 delegated Mr Marek Głuchowski, PhD – Chairman of the Supervisory Board of PKO BP SA to act temporarily as 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 the 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 from 27 January 2007 until 10 April 2007 at the latest.
- On 30 January 2007 PKO BP SA signed an agreement with KREDOBANK S.A resulting in granting a USD 7.5 million subordinate loan to the Company.
- On 31 January 2007, the Supervisory Board of PKO BP SA suspended the qualification procedure for the positions of President and two Deputy Presidents of the Management Board of PKO BP due to the resignation of Professor Jerzy Osiałyński from the position of member of Supervisory Board.
- Mr Jacek Obłękowski resigned from the position of Deputy President of PKO BP SA's Management Board as of 31 January 2007.
- On 1 February 2007, the Management Board of PKO BP SA convened an extraordinary general shareholders' meeting to be held on 6 March 2007; the agenda included the adoption of the resolutions on changes in the composition of the Supervisory Board.
- 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 Świątkowski as the Deputy President of the Management Board of the Bank as of 1 May 2007.





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

- On 24 February 2007 Moody's Investors Service rating agency assigned to the Bank two new ratings: Aaa – long-term rating of domestic currency deposit with the stable outlook and P-1 – short-term rating of domestic currency deposits with the stable outlook. New ratings have been assigned due to the implementation of the new JDA methodology (gaining the external support) and update of the BFSR methodology (internal financial strength of the Bank).
- On 8 March 2007 the report of the Capital Intelligence rating agency was sent to the Bank, informing about the increased rating of the financial strength of PKO BP SA from BBB- to BBB with the stable outlook. The report was dated February 2007. The agency justified the change of the rating with the systematic increase of the profitability. Additionally, it was emphasized by the improving quality of the loan portfolio and the reporting transparency.
- On 13 March 2007 Mr Zdzislaw Sokal resigned from the position of Deputy President of the Management Board of PKO BP SA.
- The extraordinary general shareholders' meeting of PKO BP SA that was convened preliminary for 6 March 2007 and the continued meeting on 19 March 2007, appointed Mr Maciej Czapiewski the Member of the Supervisory Board as of 19 March 2007.
- On 19 March 2006 the Management Board informed in the current report about the adopted resolution and about the decision to submit to the general shareholders' meeting the recommendation of the dividend payments for 2006 in the amount of PLN 980 million (PLN 0.98 per share).

## **22. INFORMATION REGARDING THE CONTRACT WITH THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS**

On 8 August 2005, the Bank entered into a contract with Ernst & Young Audit Sp. z o.o., an entity authorised to audit financial statements, for an audit of standalone financial statements and consolidated financial statements for the years ended 31 December 2005, 2006 and 2007 and a review of standalone financial statements and consolidated financial statements for 6-month periods ended 30 June 2005, 2006 and 2007.

Total fees for Ernst & Young Audit Sp. z o.o. under the contracts related to reviews and audits of standalone and consolidated financial statements of the Bank and subsidiaries amounted to PLN 1,899.5 thousand (net of VAT) for the year 2006 and PLN 2,247.0 thousand (net of VAT) for the year 2005.

The total amount of fees arising from contracts concluded between the PKO BP SA Group and Ernst & Young Audit Sp. z o.o. for remaining services other than reviews and audits of financial statements was as follows: PLN 3,699.5 thousand (net of VAT) for the year 2006 and PLN 2,319.4 thousand (net of VAT) for the year 2005.

The significant part of remuneration arising from contracts other than reviews and audits of financial statement concluded between the Group and Ernst & Young Audit Sp. z o.o. was associated with projects connected with the Bank's capital investments, consulting and advisory services and translation of interim reports.

## **23. MANAGEMENT BOARD REPRESENTATIONS**

The Management Board of PKO BP SA hereby represents that according to its best knowledge:

- the annual financial statements and comparative data were prepared in accordance with the accounting principles in force and give a true and fair view of the Bank's financial position and results;
- the annual Directors' Report on the activities of the Bank gives a true view of the Bank's development, achievements and standing, including a description of the main risks and threats.



The Management Board of PKO BP SA hereby represents that the entity authorised to audit financial statements that performed an audit of the annual financial statements of PKO BP SA was selected in accordance with law, and that both this entity and the certified auditors who performed this audit met the conditions required to issue an impartial and independent audit opinion, in accordance with the relevant national laws.

This *Directors' Report on the activities of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group for the year 2006* consists of 46 consecutively numbered pages.

-----  
Acting as President of Management Board  
Marek Głuchowski

-----  
Deputy President  
Robert Działak

-----  
Deputy President  
Rafał Juszcak

-----  
Deputy President  
Wojciech Kwiatkowski